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### **Part III Statement of Program Service Accomplishments**

Check if Schedule O contains a response or note to any line in this Part III . . . . .

**1** Briefly describe the organization's mission

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

**2** Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☒ No  
If "Yes," describe these new services on Schedule O

**3** Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No

If "Yes," describe these changes on Schedule O

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

4a (Code) (Expenses) \$ 256,247,314 including grants of \$ 482,374 ) (Revenue) \$ 334,184,721

The mission, vision and values of the Meritus Medical Center (MMC) are summarized in MMC's pledge Responsiveness to need Excellence in Caring Respect for All The pledge says that MMC strives to meet the healthcare needs of the citizens of the tri-state region, is dedicated to providing quality patient care in a safe and caring environment and that MMC esteems the personal dignity of patients and staff Every day, the hospital's employees live out MMC's values by treating others as they would like to be treated MMC participates in a variety of activities that focus on the well-being of the patients, including committees and teams that evaluate the progress in the areas of quality patient care, patient safety and professional development Many staff members provide outreach to the community through educational offerings which have been identified by a survey of community health education needs As a tax exempt hospital, MMC contributes funds to help many people who might not be able to afford their healthcare These dollars are used to provide free, reduced-cost or subsidized services to many individuals in the community It's a collaborative effort involving numerous areas of the health system in activities such as health education and outreach, screenings, programs and events, as well as helping individuals obtain prescription medications, access to needed services, and even transportation to healthcare appointments MMC is governed by a local board of directors made up entirely of volunteers In addition to attending quarterly meetings to determine the direction that MMC will take, the board members, who are community and business leaders as well as physicians, serve on various committees, including quality, finance and capital, audit and business integrity, compensation, and governance The board and its committees ensure that MMC complies with state and federal requirements, while keeping the organization's mission of providing quality care front and center By working together toward this goal, the board members create policies and procedures that help deliver results MMC, an acute care hospital, has 272 single-patient rooms, along with the most advanced technologies available MMC offers a variety of specialized services to meet the healthcare needs of the tri-state region The Cardiac Catheterization Lab has focused on bringing the very best in cardiac services to the community Services in cardiac screening, diagnosis, intervention, and rehabilitation are offered MMC has invested in the most up-to-date technologies to assist physicians in diagnosing and treating heart disease The board certified cardiologists and interventional cardiologists offer patients a highly specialized experience in structural heart disease and electrical heart malfunctions They are supported by a team of highly-trained nurses and technicians The Center for Clinical Research is a growing program that manages from fifteen to twenty active research studies at any given time The researchers are certified by the Association of Clinical Research Professionals Physicians serve as the principal investigators for the research studies performed by the center The Center for Joint Replacement offers a comprehensive program that includes pre- and postoperative therapy as well as the actual surgery The program has clearly demonstrated a decreased length of hospital stay and improved recovery rates The Family Birthing Center is a special place where single-room maternity care provides privacy and family bonding The room is equipped for labor, delivery, postpartum, and newborn care The special care nursery allows babies born as early as 32 weeks gestation to be treated at MMC The Home Health Care Services cover the full spectrum of care, ranging from skilled nursing to assistance with the activities of daily living They also can help with medication management issues The John R Marsh Cancer Center offers chemotherapy, intensity modulated radiation therapy, and image guided radiation therapy The center also offers MammoSite which delivers partial irradiation treatment for breast cancer patients in just five days Total Rehab Care is a comprehensive service providing a full range of rehabilitation programs, including pediatric services, traumatic brain injury rehab, outpatient therapies, inpatient joint replacement, occupational rehabilitation, and support groups Skilled physicians, nurses, and therapists develop individualized treatment plans for every patient As a level III trauma service, MMC offers twenty four hour a day, seven days a week access to trauma surgeons, neurosurgeons, and orthopedic surgeons, as well as a specialized trauma team and consulting physicians The Weight Loss Clinic offers bariatric surgery which includes the most common procedures of gastric bypass and adjustable gastric banding This can be a treatment for the lifelong condition of morbid obesity The Wound Center care is customized to each patient's unique situation to promote the healing process The Wound Center team specializes in diabetic foot and leg ulcers, bone infections, preparation and preservation of skin grafts, crash injuries, and thermal burns The vision of the Nursing Department at MMC is to be a dynamic force in the advancement of nursing practice and an advocate for the promotion of quality healthcare for all Their mission is to foster the development and advancement of nursing practice and to work to achieve quality healthcare for all They believe that the excellence of care for patients and families matters the most and that superior customer service and constant innovation sustains excellence MEI is a leading provider in ambulatory health care services in the tri-state region Its mission is to engage in ambulatory health activities that complement the goals and objectives of MMC MEI vigorously recruits physicians and other healthcare providers to the region, to assure an adequate supply of physicians in many medical specialties MEI has a very successful record of joint-venture relationships with physicians that has greatly benefited the wellbeing of tri-state area residents MEI includes a number of medical practices an urgent care clinic, medical laboratories, surgery center and diagnostic imaging services MHF is a private, not-for-profit, tax-exempt organization managed by a volunteer board of community leaders whose mission is to support hospital programs and services, scientific research, equipment, technology, medical training and community education The foundation is an integral part of the overall health system organization, and contributions have a direct impact on the quality of care MMC is able to provide The Foundation Board of Directors works closely with the MMC boards and leadership to match resources with MMC needs, enabling caregivers to provide the very best care possible every single day Care delivery is undergoing unprecedented change and new, more coordinated models of care delivery have arrived Ultimately enacted as part of healthcare reform, accountable care organizations (ACOs) link physicians and hospitals together with the goal of keeping patients healthy and helping patients manage their conditions Many view ACOs as a way to overcome fragmentation in care delivery, eliminate fee-for-service incentives and promote health and wellness In 1995, MMC began the work of clinical integration by creating Tri-State Health Partners (THP), a physician-hospital partnership that offers patient and disease management services As validation of its unique approach to patient care, THP received approval from the Federal Trade Commission for its clinical integration program MMC was one of the first Maryland hospitals to participate in the Total Patient Revenue (TPR) system where hospitals are paid on effectively treating patient illnesses versus fee for service These initiatives, rooted in comprehensive patient care and physician engagement, laid the groundwork for MMC to become an ACO in participation with the Medicare Shared Savings Program We also became a member of Premiers Partnership for Care Transformation (PACT), a collaboration of health systems that share knowledge and best practices while measuring and benchmarking care to improve population health and contain costs The goal of an ACO is to keep patients healthy, prevent them from having chronic conditions or prevent the conditions from worsening The THP-Meritus ACO is a partnership between Medicare beneficiaries, physicians and Meritus Medical Center The patient-centered health care model bridges 16,000 area Medicare patients and 150 physicians with the intent of improving care coordination, patient outcomes and the overall health of our community MMC's innovative efforts will pave the way for bridging primary, specialty and hospital care to provide patients with the right care, at the right place, at the right time
























[illegible][illegible]

**4d** Other program services (Describe in Schedule O )  
(Expenses \$ including grants of \$ ) (Revenue \$ )

<b>4e</b>	<b>Total program service expenses</b>	<b>256,247,314</b>
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Part IV

Checklist of Required Schedules

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

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21	Yes	
22	Did the organization report more than \$5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22	Yes	
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a</i> . . . . .	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .	24b		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	24c		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .	24d		No
25a	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If so, complete Schedule L, Part II</i> . . . . .	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . .	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i> . . . . .	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	Yes	
b	If 'Yes' to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	38	Yes	

Part V

Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response or note to any line in this Part V

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		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	208	
1b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	0	
1c Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?		Yes	
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	2,987	
2b If at least one is reported on line 2a, did the organization file all required federal employment tax returns? <b>Note.</b> If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).		Yes	
3a Did the organization have unrelated business gross income of \$1,000 or more during the year?		Yes	
3b If "Yes," has it filed a Form 990-T for this year? If "No" to line 3b, provide an explanation in Schedule O.			
4a At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?			No
4b If "Yes," enter the name of the foreign country: See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.			
5a Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?			No
5b Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?			No
5c If "Yes," to line 5a or 5b, did the organization file Form 8886-T?			
6a Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?			No
6b If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?			
7 Organizations that may receive deductible contributions under section 170(c).			
7a Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?			No
7b If "Yes," did the organization notify the donor of the value of the goods or services provided?			
7c Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			No
7d If "Yes," indicate the number of Forms 8282 filed during the year.		0	
7e Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?			No
7f Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?			No
7g If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?			No
7h If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?			No
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?			No
9 Sponsoring organizations maintaining donor advised funds.			
9a Did the organization make any taxable distributions under section 4966?			No
9b Did the organization make a distribution to a donor, donor advisor, or related person?			No
10 Section 501(c)(7) organizations. Enter			
10a Initiation fees and capital contributions included on Part VIII, line 12.			
10b Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.			
11 Section 501(c)(12) organizations. Enter			
11a Gross income from members or shareholders.			
11b Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).			
12a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?			No
12b If "Yes," enter the amount of tax-exempt interest received or accrued during the year.			
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
13a Is the organization licensed to issue qualified health plans in more than one state? <b>Note.</b> See the instructions for additional information the organization must report on Schedule O.			No
13b Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.			
13c Enter the amount of reserves on hand.			
14a Did the organization receive any payments for indoor tanning services during the tax year?			No
14b If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.			

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response or note to any line in this Part VI

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year . . . . .	19	
If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent . . . . .	12	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? . . . . .	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? . . . . .	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? . . . . .	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . .	5	No
6	Did the organization have members or stockholders? . . . . .	6	No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? . . . . .	7a	Yes
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . . . .	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body? . . . . .	8a	Yes
b	Each committee with authority to act on behalf of the governing body? . . . . .	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O . . . . .	9	No

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

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

Section C. Disclosure

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

Check if Schedule O contains a response or note to any line in this Part VII ☒

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

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

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

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

[illegible]



## Part VII

<b>1b</b>	<b>Sub-Total . . . . .</b>	▼			
<b>c</b>	<b>Total from continuation sheets to Part VII, Section A . . . . .</b>	▼			
<b>d</b>	<b>Total (add lines 1b and 1c) . . . . .</b>	▼	5,711,783		640,028

**2** Total number of individuals (including but not limited to those listed in Item 1) who received more than \$100,000 of reportable compensation from the organization. 127

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

## Section B. Independent Contractors

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

(A) Name and business address	(B) Description of services	(C) Compensation
Hospital Medicine Associates LLC P O Box 634850 Cincinnati OH 45263	Medical	2,299,858
Incontext LLC P O Box 921 New Market MD 21774	Consulting	1,527,639
Shock Trauma Associates PA 11 S Paca St Ste 500 Baltimore MD 21201	Medical	1,343,000
Berkeley Research Group LLC 2200 Powell St Ste 1200 Emeryville CA 94608	Consulting	1,092,725
Parkway Neuroscience & Spine Institute 17 Western MD Parkway Ste 100 Hagerstown MD 21740	Medical	825,717

**2** Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶46

Part VIII

Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . . . . . 1a				
	b	Membership dues . . . . . 1b				
	c	Fundraising events . . . . . 1c				
	d	Related organizations . . . . . 1d	1,295,372			
	e	Government grants (contributions) 1e				
	f	All other contributions, gifts, grants, and similar amounts not included above 1f	16,150			
	g	Noncash contributions included in lines 1a-1f \$				
	h	Total. Add lines 1a-1f . . . . .	1,311,522			
Program Service Revenue	2a	Cafetera sales	Business Code 900099	1,533,103	1,533,103	
	b	Meaningful use-EHR	900099	2,040,210	2,040,210	
	c	Patient revenue	900099	324,414,764	324,414,764	
	d	Retrospective premium	900099	1,209,939	1,209,939	
	e	School Nursing Program	900099	2,679,497	2,679,497	
	f	All other program service revenue		2,307,208	2,319,005	-11,797
	g	Total. Add lines 2a-2f . . . . .	334,184,721			
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) . . . . .	3,355,054			3,355,054
	4	Income from investment of tax-exempt bond proceeds . . . . .	0			
	5	Royalties . . . . .	0			
	6a	Gross rents	(i) Real 3,399,779	(ii) Personal		
	b	Less rental expenses	2,313,724			
	c	Rental income or (loss)	1,086,055			
	d	Net rental income or (loss) . . . . .	1,086,055			1,086,055
	7a	Gross amount from sales of assets other than inventory	(i) Securities 19,536,656	(ii) Other 14,628		
	b	Less cost or other basis and sales expenses	17,119,277			
	c	Gain or (loss)	2,417,379	14,628		
	d	Net gain or (loss) . . . . .	2,432,007			2,432,007
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 . . . . .	a			
	b	Less direct expenses . . . . .	b			
	c	Net income or (loss) from fundraising events . . . . .	0			
	9a	Gross income from gaming activities See Part IV, line 19 . . . . .	a			
	b	Less direct expenses . . . . .	b			
	c	Net income or (loss) from gaming activities . . . . .	0			
	10a	Gross sales of inventory, less returns and allowances . . . . .	a			
	b	Less cost of goods sold . . . . .	b			
	c	Net income or (loss) from sales of inventory . . . . .	0			
		Miscellaneous Revenue	Business Code			
	11a	Clinical Trials	541700	487,587	487,587	
	b	Lab Revenue	621500	3,122,648	3,122,648	
	c	Robinwood Food Service	722210	312,109	312,109	
	d	All other revenue . . . . .				
	e	Total. Add lines 11a-11d . . . . .	3,922,344			
	12	Total revenue. See Instructions . . . . .	346,291,703	334,196,518	3,910,547	6,873,116

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States. See Part IV, line 21.	250,000	250,000		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	232,374	232,374		
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.	0			
4	Benefits paid to or for members.	0			
5	Compensation of current officers, directors, trustees, and key employees.	4,019,071		4,019,071	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).	0			
7	Other salaries and wages.	112,898,678	90,318,942	22,579,736	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	4,374,307	3,499,446	874,861	
9	Other employee benefits.	19,986,911	15,989,529	3,997,382	
10	Payroll taxes.	10,602,764	8,482,211	2,120,553	
11	Fees for services (non-employees):				
a	Management.	3,674,847	2,939,878	734,969	
b	Legal.	833,379	666,703	166,676	
c	Accounting.	507,870	406,296	101,574	
d	Lobbying.	13,553		13,553	
e	Professional fundraising services. See Part IV, line 17.	0			
f	Investment management fees.	268,877	215,102	53,775	
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	25,461,114	20,368,891	5,092,223	
12	Advertising and promotion.	1,102,760	882,208	220,552	
13	Office expenses.	711,462	569,170	142,292	
14	Information technology.	2,989,972	2,391,978	597,994	
15	Royalties.	0			
16	Occupancy.	4,008,784	3,207,027	801,757	
17	Travel.	681,940	545,552	136,388	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.	0			
19	Conferences, conventions, and meetings.	291,272	233,018	58,254	
20	Interest.	14,408,464	8,645,078	5,763,386	
21	Payments to affiliates.	0			
22	Depreciation, depletion, and amortization.	20,151,638	12,090,982	8,060,656	
23	Insurance.	1,639,474	1,311,579	327,895	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.):				
a	Medical supplies.	30,149,977	24,119,982	6,029,995	
b	Drugs & pharmaceuticals.	25,440,516	20,352,413	5,088,103	
c	Bad debt expense.	15,222,793	12,178,234	3,044,559	
d	Purchased lab services.	12,532,051	10,025,641	2,506,410	
e	All other expenses.	20,406,350	16,325,080	4,081,270	
25	<b>Total functional expenses.</b> Add lines 1 through 24e.	332,861,198	256,247,314	76,613,884	0
26	<b>Joint costs.</b> Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			1	0
	2	Savings and temporary cash investments		25,478,321	2	37,278,542
	3	Pledges and grants receivable, net			3	0
	4	Accounts receivable, net		61,180,000	4	59,145,256
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	0
	6	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L			6	0
	7	Notes and loans receivable, net		6,069,547	7	6,951,190
	8	Inventories for sale or use		5,930,034	8	6,322,281
	9	Prepaid expenses and deferred charges		5,920,790	9	5,416,037
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	403,965,005		
	b	Less accumulated depreciation	10b	155,869,677	261,815,243	10c 248,095,328
	11	Investments—publicly traded securities		90,322,129	11	114,979,339
	12	Investments—other securities See Part IV, line 11			12	0
	13	Investments—program-related See Part IV, line 11			13	0
	14	Intangible assets			14	0
	15	Other assets See Part IV, line 11		74,756,321	15	76,268,226
	16	Total assets. Add lines 1 through 15 (must equal line 34)		531,472,385	16	554,456,199
Liabilities	17	Accounts payable and accrued expenses		41,358,810	17	41,546,473
	18	Grants payable			18	
	19	Deferred revenue			19	
	20	Tax-exempt bond liabilities		256,309,718	20	252,712,036
	21	Escrow or custodial account liability Complete Part IV of Schedule D			21	
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L			22	
	23	Secured mortgages and notes payable to unrelated third parties		1,248,877	23	1,425,649
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D		1,264,799	25	1,499,986
	26	Total liabilities. Add lines 17 through 25		300,182,204	26	297,184,144
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.					
	27	Unrestricted net assets		227,300,418	27	248,085,478
	28	Temporarily restricted net assets		2,961,145	28	8,157,959
	29	Permanently restricted net assets		1,028,618	29	1,028,618
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.					
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		231,290,181	33	257,272,055
	34	Total liabilities and net assets/fund balances		531,472,385	34	554,456,199

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	346,291,703
2	Total expenses (must equal Part IX, column (A), line 25)	2	332,861,198
3	Revenue less expenses Subtract line 2 from line 1	3	13,430,505
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	231,290,181
5	Net unrealized gains (losses) on investments	5	8,807,804
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	3,743,565
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	257,272,055

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII

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





SCHEDULE A

(Form 990 or 990EZ)

Department of the  
Treasury  
Internal Revenue Service

Public Charity Status and Public Support

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

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**  
▶ **Information about Schedule A (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

<b>Name of the organization</b> Mentus Medical Center Inc	<b>Employer identification number</b> 52-0607949
--------------------------------------------------------------	-----------------------------------------------------

Part I

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

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

1	<input type="checkbox"/>	A church, convention of churches, or association of churches described in <b>section 170(b)(1)(A)(i).</b>
2	<input type="checkbox"/>	A school described in <b>section 170(b)(1)(A)(ii).</b> (Attach Schedule E )
3	<input checked="" type="checkbox"/>	A hospital or a cooperative hospital service organization described in <b>section 170(b)(1)(A)(iii).</b>
4	<input type="checkbox"/>	A medical research organization operated in conjunction with a hospital described in <b>section 170(b)(1)(A)(iii).</b> Enter the hospital's name, city, and state _____
5	<input type="checkbox"/>	An organization operated for the benefit of a college or university owned or operated by a governmental unit described in <b>section 170(b)(1)(A)(iv).</b> (Complete Part II )
6	<input type="checkbox"/>	A federal, state, or local government or governmental unit described in <b>section 170(b)(1)(A)(v).</b>
7	<input type="checkbox"/>	An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in <b>section 170(b)(1)(A)(vi).</b> (Complete Part II )
8	<input type="checkbox"/>	A community trust described in <b>section 170(b)(1)(A)(vi)</b> (Complete Part II )
9	<input type="checkbox"/>	An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See <b>section 509(a)(2).</b> (Complete Part III )
10	<input type="checkbox"/>	An organization organized and operated exclusively to test for public safety See <b>section 509(a)(4).</b>
11	<input type="checkbox"/>	An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See <b>section 509(a)(3).</b> Check the box that describes the type of supporting organization and complete lines 11e through 11h <b>a</b> <input type="checkbox"/> Type I <b>b</b> <input type="checkbox"/> Type II <b>c</b> <input type="checkbox"/> Type III - Functionally integrated <b>d</b> <input type="checkbox"/> Type III - Non-functionally integrated
e	<input type="checkbox"/>	By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
f	<input type="checkbox"/>	If the organization received a written determination from the IRS that it is a Type I, Type II, or Type III supporting organization, check this box
g	<input type="checkbox"/>	Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons? <b>(i)</b> A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization? <b>(ii)</b> A family member of a person described in (i) above? <b>(iii)</b> A 35% controlled entity of a person described in (i) or (ii) above?
h	<input type="checkbox"/>	Provide the following information about the supported organization(s)

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

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



Part II

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV )						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here . . . . . ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2013 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2012 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2013. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization						▶
b 33 1/3% support test—2012. If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization						▶
17a 10%-facts-and-circumstances test—2013. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization						▶
b 10%-facts-and-circumstances test—2012. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization						▶
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions						▶

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public support (Subtract line 7c from line 6.)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support. (Add lines 9, 10c, 11, and 12.)						
14 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2013 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2012 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2013. If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support tests—2012. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
20 Private foundation. If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ▶		

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

Facts And Circumstances Test		
Return Reference	Explanation	

SCHEDULE C

(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527  
▶ **Complete if the organization is described below.** ▶ **Attach to Form 990 or Form 990-EZ.**  
▶ **See separate instructions.** ▶ **Information about Schedule C (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

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

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

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

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

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

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

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

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

1	Provide a description of the organization's direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

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

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

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

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

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

Part II-A

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

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

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

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

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2010	(b) 2011	(c) 2012	(d) 2013	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

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

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities?	Yes		13,553
j	Total. Add lines 1c through 1i.			13,553
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?		No	

Part III-A

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

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

Part III-B

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

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

Part IV

Supplemental Information

Provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Return Reference	Explanation

[illegible]

SCHEDULE D  
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2013

Open to Public Inspection

Department of the Treasury  
Internal Revenue Service

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b

▶ Attach to Form 990. ▶ See separate instructions. ▶ Information about Schedule D (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

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

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

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

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

1

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

☐ Preservation of land for public use (e g , recreation or education) ☐ Preservation of an historically important land area

☐ Protection of natural habitat ☐ Preservation of a certified historic structure

☐ Preservation of open space

2

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

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ▶ \_\_\_\_\_

4

Number of states where property subject to conservation easement is located ▶ \_\_\_\_\_

5

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

☐ Yes ☐ No

6

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

7

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

8

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

☐ Yes ☐ No

9

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

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

1a

If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

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

▶ \$ \_\_\_\_\_

(ii) Assets included in Form 990, Part X

▶ \$ \_\_\_\_\_

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ \_\_\_\_\_

b

Assets included in Form 990, Part X

▶ \$ \_\_\_\_\_

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2013



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

- 3

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

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other
- 4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIII
- 5

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

☐ Yes

☐ No

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

- 1a

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

☐ Yes

☐ No
- b

If "Yes," explain the arrangement in Part XIII and complete the following table
- c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance
- |    |        |
|----|--------|
|    | Amount |
| 1c |        |
| 1d |        |
| 1e |        |
| 1f |        |
- 2a

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

☐ Yes

☐ No
- b

If "Yes," explain the arrangement in Part XIII Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance . . . . .	1,037,683	1,048,319	1,046,226	1,044,234	
b Contributions . . . . .					23,318
c Net investment earnings, gains, and losses	3,020	4,958	26,365	24,155	
d Grants or scholarships . . . . .					35,126
e Other expenditures for facilities and programs . . . . .	8,669	15,594	24,272	22,163	
f Administrative expenses . . . . .					1,044,234
g End of year balance . . . . .	1,032,034	1,037,683	1,048,319	1,046,226	1,044,234

- 2

Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as
- a

Board designated or quasi-endowment
- b

Permanent endowment 100 000 %
- c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%
- 3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by
- (i) unrelated organizations

3a(i)

No

(ii) related organizations

3a(ii)

No
- b

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

3b

No
- 4

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

**Part VI Land, Buildings, and Equipment.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land . . . . .		6,680,317		6,680,317
b Buildings . . . . .		197,726,430	40,395,355	157,331,075
c Leasehold improvements . . . . .		19,085,276	6,869,354	12,215,922
d Equipment . . . . .		180,055,012	108,604,968	71,450,044
e Other . . . . .		417,970		417,970
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				248,095,328



**Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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

**Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

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

**Part XIII Supplemental Information**

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

Return Reference	Explanation
Part V, Line 4 Intended uses of the endowment fund	The purpose of the Endowment Funds is to pay the outstanding balances for those patients who meet certain criteria. In order to qualify, individuals must have made 10 consecutive payments, have not been turned over to collections, and have never applied for financial assistance.
Part X FIN48 Footnote	MMC follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. MMC does not believe its consolidated financial statements include any material uncertain tax positions. As of June 30, 2014, the Meritus tax years ended June 30, 2011 through June 30, 2014 for federal tax jurisdiction remain open to examination.

[illegible]

SCHEDULE F  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Statement of Activities Outside the United States

► Complete if the organization answered "Yes" to Form 990,  
Part IV, line 14b, 15, or 16.  
► Attach to Form 990. ► See separate instructions.  
► Information about Schedule F (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public  
Inspection

Name of the organization  
Meritus Medical Center Inc

Employer identification number  
52-0607949

Part I General Information on Activities Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 14b.

- 1 For grantmakers. Does the organization maintain records to substantiate the amount of its grants and other assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☐ Yes ☐ No
- 2 For grantmakers. Describe in Part V the organization's procedures for monitoring the use of its grants and other assistance outside the United States.
- 3 Activities per Region (The following Part I, line 3 table can be duplicated if additional space is needed )

(a) Region	(b) Number of offices in the region	(c) Number of employees, agents, and independent contractors in region	(d) Activities conducted in region (by type) (e g , fundraising, program services, investments, grants to recipients located in the region)	(e) If activity listed in (d) is a program service, describe specific type of service(s) in region	(f) Total expenditures for and investments in region
( 1 ) Cen Ame and the Caribbean	0	0	Program services	Insurance	846,565
( 2 )					
( 3 )					
( 4 )					
( 5 )					
3a Sub-total					846,565
b Total from continuation sheets to Part I					
c Totals (add lines 3a and 3b)					846,565

Part II

Grants and Other Assistance to Organizations or Entities Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 15, for any recipient who received more than \$5,000. Part II can be duplicated if additional space is needed.

1	(a) Name of organization	(b) IRS code section and EIN (if applicable)	(c) Region	(d) Purpose of grant	(e) Amount of cash grant	(f) Manner of cash disbursement	(g) Amount of non-cash assistance	(h) Description of non-cash assistance	(i) Method of valuation (book, FMV, appraisal, other)
( 1 )									
( 2 )									
( 3 )									
( 4 )									

- 2 Enter total number of recipient organizations listed above that are recognized as charities by the foreign country, recognized as tax-exempt by the IRS, or for which the grantee or counsel has provided a section 501(c)(3) equivalency letter . . . . ▶
- 3 Enter total number of other organizations or entities . . . . . ▶

Part III

Grants and Other Assistance to Individuals Outside the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 16.  
Part III can be duplicated if additional space is needed.

(a) Type of grant or assistance	(b) Region	(c) Number of recipients	(d) Amount of cash grant	(e) Manner of cash disbursement	(f) Amount of non-cash assistance	(g) Description of non-cash assistance	(h) Method of valuation (book, FMV, appraisal, other)
( 1 )							
( 2 )							
( 3 )							
( 4 )							
( 5 )							
( 6 )							
( 7 )							
( 8 )							
( 9 )							
( 10 )							
( 11 )							
( 12 )							
( 13 )							
( 14 )							
( 15 )							
( 16 )							
( 17 )							
( 18 )							

**Part IV Foreign Forms**

- 1

Was the organization a U S transferor of property to a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation (see Instructions for Form 926)*

☒ Yes ☐ No
- 2

Did the organization have an interest in a foreign trust during the tax year? *If "Yes," the organization may be required to file Form 3520, Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts, and/or Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner (see Instructions for Forms 3520 and 3520-A)*

☐ Yes ☒ No
- 3

Did the organization have an ownership interest in a foreign corporation during the tax year? *If "Yes," the organization may be required to file Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations. (see Instructions for Form 5471)*

☒ Yes ☐ No
- 4

Was the organization a direct or indirect shareholder of a passive foreign investment company or a qualified electing fund during the tax year? *If "Yes," the organization may be required to file Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. (see Instructions for Form 8621)*

☐ Yes ☒ No
- 5

Did the organization have an ownership interest in a foreign partnership during the tax year? *If "Yes," the organization may be required to file Form 8865, Return of U.S. Persons with Respect to Certain Foreign Partnerships. (see Instructions for Form 8865)*

☐ Yes ☒ No
- 6

Did the organization have any operations in or related to any boycotting countries during the tax year? *If "Yes," the organization may be required to file Form 5713, International Boycott Report (see Instructions for Form 5713).*

☐ Yes ☒ No



## Additional Data

**Software ID:** 13000170

**Software Version:** 2013v4.0

**EIN:** 52-0607949

**Name:** Meritus Medical Center Inc

### **Part V** Supplemental Information

Provide the information required by Part I, line 2 (monitoring of funds); Part I, line 3, column (f) (accounting method; amounts of investments vs. expenditures per region); Part II, line 1 (accounting method); Part III (accounting method); and Part III, column (c) (estimated number of recipients), as applicable. Also complete this part to provide any additional information (see instructions).

SCHEDULE H  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Hospitals

► Complete if the organization answered "Yes" to Form 990, Part IV, question 20.  
► Attach to Form 990. ► See separate instructions.  
► Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
Mentus Medical Center Inc

Employer identification number  
52-0607949

Part I

Financial Assistance and Certain Other Community Benefits at Cost

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1) . . . .		2,742	6,239,802		6,239,802	1 960 %
b Medicaid (from Worksheet 3, column a) . . . . .			1,086,375		1,086,375	0 340 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . .						
d <b>Total</b> Financial Assistance and Means-Tested Government Programs . .		2,742	7,326,177		7,326,177	2 300 %
<b>Other Benefits</b>						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . .		24,773	1,141,952		1,141,952	0 360 %
f Health professions education (from Worksheet 5) . . . .		6,085	284,036		284,036	0 090 %
g Subsidized health services (from Worksheet 6) . . . .		18,803	15,466,324	2,562,483	12,903,841	4 060 %
h Research (from Worksheet 7) . . . . .		482	721,522	487,587	233,935	0 070 %
i Cash and in-kind contributions for community benefit (from Worksheet 8)		4,721	360,640	260,385	100,255	0 030 %
j <b>Total</b> Other Benefits . . . .		54,864	17,974,474	3,310,455	14,664,019	4 610 %
k <b>Total</b> . Add lines 7d and 7j . .		57,606	25,300,651	3,310,455	21,990,196	6 910 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1Physical improvements and housing						
2Economic development						
3Community support		2	124,179		124,179	0.040 %
4Environmental improvements						
5Leadership development and training for community members		241	9,537		9,537	
6Coalition building						
7Community health improvement advocacy		1	2,026		2,026	
8Workforce development						
9Other		25	951		951	
10Total		269	136,693		136,693	0.040 %

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?

1

Yes

2Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

15,222,793

3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

2,283,419

4Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5Enter total revenue received from Medicare (including DSH and IME).

5

292,347,127

6Enter Medicare allowable costs of care relating to payments on line 5.

6

251,378,512

7Subtract line 6 from line 5. This is the surplus (or shortfall).

7

40,968,615

8Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.

☐ Cost accounting system

☒ Cost to charge ratio

☐ Other

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?

9a

Yes

bIf "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.

9b

Yes

Part IVManagement Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1Maryland Care Inc	healthcare	20.000 %		
2Tri-State Health Part Inc	PHO	50.000 %		50.000 %
3THP-Meritus ACO LLC	ACO	1.000 %		
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V

Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)  
How many hospital facilities did the organization operate during the tax year?  
1

Name, address, primary website address, and state license number

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
	See Additional Data Table										

Part V Facility Information (continued)

Section B. Facility Policies and Practices

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

Meritus Medical Center Inc

Name of hospital facility or facility reporting group

If reporting on Part V, Section B for a single hospital facility only: line number of hospital facility (from Schedule H, Part V, Section A )1

	Yes	No
<b>Community Health Needs Assessment</b> (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
<b>1</b> During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 . . . . . If "Yes," indicate what the CHNA report describes (check all that apply)	<b>1</b> Yes	
<b>a</b> <input checked="" type="checkbox"/> A definition of the community served by the hospital facility		
<b>b</b> <input checked="" type="checkbox"/> Demographics of the community		
<b>c</b> <input checked="" type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
<b>d</b> <input checked="" type="checkbox"/> How data was obtained		
<b>e</b> <input checked="" type="checkbox"/> The health needs of the community		
<b>f</b> <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
<b>g</b> <input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
<b>h</b> <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests		
<b>i</b> <input checked="" type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
<b>j</b> <input checked="" type="checkbox"/> Other (describe in Part VI)		
<b>2</b> Indicate the tax year the hospital facility last conducted a CHNA 20 <u>13</u>		
<b>3</b> In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted . . . . .	<b>3</b> Yes	
<b>4</b> Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	<b>4</b>	No
<b>5</b> Did the hospital facility make its CHNA report widely available to the public? . . . . . If "Yes," indicate how the CHNA report was made widely available (check all that apply)	<b>5</b> Yes	
<b>a</b> <input checked="" type="checkbox"/> Hospital facility's website (list url) <u>www.meritushealth.com</u>		
<b>b</b> <input type="checkbox"/> Other website (list url) _____		
<b>c</b> <input checked="" type="checkbox"/> Available upon request from the hospital facility		
<b>d</b> <input type="checkbox"/> Other (describe in Part VI)		
<b>6</b> If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply as of the end of the tax year)		
<b>a</b> <input checked="" type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
<b>b</b> <input checked="" type="checkbox"/> Execution of the implementation strategy		
<b>c</b> <input checked="" type="checkbox"/> Participation in the development of a community-wide plan		
<b>d</b> <input checked="" type="checkbox"/> Participation in the execution of a community-wide plan		
<b>e</b> <input checked="" type="checkbox"/> Inclusion of a community benefit section in operational plans		
<b>f</b> <input checked="" type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
<b>g</b> <input checked="" type="checkbox"/> Prioritization of health needs in its community		
<b>h</b> <input checked="" type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
<b>i</b> <input type="checkbox"/> Other (describe in Part VI)		
<b>7</b> Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs . . . . .	<b>7</b>	No
<b>8a</b> Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)? . . . . .	<b>8a</b>	No
<b>b</b> If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax? . . . . .	<b>8b</b>	No
<b>c</b> If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$ _____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9	Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	9	Yes
10	Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care 150 0000% If "No," explain in Part VI the criteria the hospital facility used	10	Yes
11	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care 300 0000% If "No," explain in Part VI the criteria the hospital facility used	11	Yes
12	Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply)	12	Yes
a	<input checked="" type="checkbox"/> Income level		
b	<input checked="" type="checkbox"/> Asset level		
c	<input checked="" type="checkbox"/> Medical indigency		
d	<input checked="" type="checkbox"/> Insurance status		
e	<input checked="" type="checkbox"/> Uninsured discount		
f	<input checked="" type="checkbox"/> Medicaid/Medicare		
g	<input checked="" type="checkbox"/> State regulation		
h	<input type="checkbox"/> Residency		
i	<input type="checkbox"/> Other (describe in Part VI)		
13	Explained the method for applying for financial assistance? . . . . .	13	Yes
14	Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply)	14	Yes
a	<input checked="" type="checkbox"/> The policy was posted on the hospital facility's website		
b	<input checked="" type="checkbox"/> The policy was attached to billing invoices		
c	<input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms		
d	<input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices		
e	<input checked="" type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility		
f	<input checked="" type="checkbox"/> The policy was available upon request		
g	<input checked="" type="checkbox"/> Other (describe in Part VI)		
Billing and Collections			
15	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	15	Yes
16	Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP		
a	<input type="checkbox"/> Reporting to credit agency		
b	<input type="checkbox"/> Lawsuits		
c	<input type="checkbox"/> Liens on residences		
d	<input type="checkbox"/> Body attachments		
e	<input type="checkbox"/> Other similar actions (describe in Section C)		
17	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged	17	No
a	<input type="checkbox"/> Reporting to credit agency		
b	<input type="checkbox"/> Lawsuits		
c	<input type="checkbox"/> Liens on residences		
d	<input type="checkbox"/> Body attachments		
e	<input type="checkbox"/> Other similar actions (describe in Section C)		

**Part V**

**Facility Information** *(continued)*

- 18** Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a**

☒

Notified individuals of the financial assistance policy on admission
- b**

☒

Notified individuals of the financial assistance policy prior to discharge
- c**

☒

Notified individuals of the financial assistance policy in communications with the individuals regarding the individuals' bills
- d**

☒

Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
- e**

☐

Other (describe in Section C)

**Policy Relating to Emergency Medical Care**

		Yes	No
<b>19</b>	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
<b>a</b>	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
<b>b</b>	<input type="checkbox"/> The hospital facility's policy was not in writing		
<b>c</b>	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
<b>d</b>	<input type="checkbox"/> Other (describe in Part VI)		

**Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)**

<b>20</b>	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
<b>a</b>	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
<b>b</b>	<input type="checkbox"/> The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
<b>c</b>	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
<b>d</b>	<input checked="" type="checkbox"/> Other (describe in Part VI)		
<b>21</b>	During the tax year, did the hospital facility charge any FAP-eligible individual to whom the hospital facility provided emergency or other medically necessary services more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI		No
<b>22</b>	During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual? . . . . . If "Yes," explain in Part VI		No

**Part V Facility Information** *(continued)*

**Section C. Supplemental Information for Part V, Section B.** Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

[illegible]



**Part V**

**Facility Information** *(continued)*

**Section D. Other Health Care Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**  
(list in order of size, from largest to smallest)

How many non-hospital health care facilities did the organization operate during the tax year? \_\_\_\_\_

Name and address	Type of Facility (describe)
<b>1</b> _____	
<b>2</b> _____	
<b>3</b> _____	
<b>4</b> _____	
<b>5</b> _____	
<b>6</b> _____	
<b>7</b> _____	
<b>8</b> _____	
<b>9</b> _____	
<b>10</b> _____	

Part VI

Supplemental Information

Provide the following information

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

Form and Line Reference	Explanation
Part I, Line 6a - Related Organization Community Benefit Report	Meritus Medical Center (MMC) prepares a community benefits report through the Maryland Health Services Cost Review Commission (HSCRC), and it is available via their website. This is in addition to the Community Health Needs Assessment report prepared by MMC in accordance with IRC Section 501(r)

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

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

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

Form and Line Reference	Explanation
Part III, Line 2 - Methodology Used To Estimate Bad Debt Expense	MMC uses historical reimbursement trends in determining bad debt expense and adjusts the accounting based on known variances or adjustments MMC utilizes HFMA statement #15 to report bad debt expense

Form and Line Reference	Explanation
Part III, Line 3 - Methodology of Estimated Amount & Rationale for Including in Community Benefit	MMC is using the number of denied charity care applications as a percentage of total charity care applications to determine the percentage applied against bad debt expense to obtain the estimated bad debt attributable to the charity care policy

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



Form and Line Reference	Explanation
Part III, Line 9b - Provisions On Collection Practices For Qualified Patients	<p>Meritus Medical Center is committed to providing quality health care for all patients regardless of their inability to meet the associated financial obligation and without discrimination on the grounds of race, color, national origin or creed. Financial assistance can be offered during, or after services are rendered. The financial assistance procedures are designed to assist individuals who qualify for less than full coverage under available federal, state and local medical assistance programs, but whom residual "self-pay" balances exceed their own ability to pay. Meritus Medical Center informs patients and/or their families of the hospital's financial assistance policy by providing a copy of the policy and contact information as part of the intake process. The financial assistance policy and contact information is posted in the admitting area, emergency room and other areas throughout the facility where eligible patients are likely to present. When applicable, a representative of the hospital discusses the availability of financial assistance as well as Medicaid and other governmental benefits with patients or their families. The hospital makes every effort to inform patients of this policy throughout their visit. A financial application that has been approved for financial assistance will remain eligible for a period of six months. Patients or guarantors incurring accounts after the six month period will be required to reapply, so that any changes in their financial status can be reassessed. Accounts receivable accounts approved for financial assistance will be reconciled by the Finance Department at fiscal year end and reported annually to the Health Services Cost Review Commission of the State of Maryland. If financial assistance is denied, a payment arrangement will be obtained on any balance due by the patient or the guarantor by a Patient Financial Services Representative. It is important to note that MMC's policies and practices governing financial assistance, limitation of health service charges, billing as well as bill collection are consistent with the requirements of the Affordable Care Act and Internal Revenue Service new finalized treasury regulations related to IRC Section 501r and are being updated to be compliant with the IRS.</p>

Form and Line Reference	Explanation
Part VI - Needs Assessment	<p>Community Health Needs Assessment Plan and Implementation as requested by IRC Section 501 (r) Meritus Medical Center conducted a Community Health Needs Assessment that conforms to the IRS definition. This report includes a comprehensive review and analysis of the data regarding health issues and needs of Washington County, MD. This study was conducted to identify the health needs and issues of the region and to provide useful information to health care providers, policy makers, collaborative groups, social service agencies, community groups and organizations, churches, businesses, and consumers who are interested in improving the health status of the community and region. The results enable the health system and other providers to more strategically establish priorities, develop interventions and commit resources to improve the health status of the region. Improving the health of the community is foundational to the mission of Meritus Medical Center and should be an important focus for everyone in the county, individually and collectively. In addition to the education, patient care and program interventions provided through the health system, hopefully the information in this study will encourage additional activities and collaborative efforts to improve the health status of the community.</p> <p>The Community Needs Health Assessment (CHNA) data collection occurred between July 1, 2012 November 15, 2012 (FY2013). Meritus Medical Center (MMC) conducted a behavioral risk factor surveillance survey and community questionnaire from a random sample of adult residents living in the service region to learn about their health and health needs. Individual focused interviews were conducted at the local Hispanic Festival, and a provider focus group was conducted with MMC Care Management staff. A broad coalition of community leaders and providers joined together to design the data gathering process and analyze the results. The Meritus Medical Center Board of Directors reviewed the CHNA findings and approved a plan of action on March 28, 2013 (FY2013). A public press conference was conducted on November 29, 2012 to present the CHNA findings and answer questions. Following approval by the Meritus Medical Center Board of Directors, the FY2013 CHNA was publically posted on the organization website and can be publically viewed online at <a href="http://www.meritushealth.com/About-Meritus-Health/Serving-Our-Community/Community-Health-Needs-Assessment.aspx">http://www.meritushealth.com/About-Meritus-Health/Serving-Our-Community/Community-Health-Needs-Assessment.aspx</a>. A direct link to the FY2013 CHNA is <a href="http://www.meritushealth.com/documents/MERITUS-MASTER-REPORT-5-3-13.pdf">http://www.meritushealth.com/documents/MERITUS-MASTER-REPORT-5-3-13.pdf</a>. The CHNA results identified forty-two community health needs. The CHNA steering committee invited members of Meritus Senior Leadership team and all community leaders to review the data, needs and issues on October 24, 2012. The group used four criteria to prioritize the needs, 1 Magnitude of the problem, 2 Variance against benchmarks, 3 Impact on other health outcomes, and 4 Capacity to address. The prioritization criterion narrowed and identified the issues that when addressed will have the greatest potential impact on improving the community's health. The six prioritized FY2013 CHNA needs are 1 Reduce obesity and increase physical activity 2 Improve the management of diabetes and reduce mortality 3 Reduce heart disease mortality and promote smoking cessation 4 Reduce cancer mortality by expanding access to care and research 5 Improve mental health treatment access and reduce ED visits 6 Reduce teen pregnancy.</p> <p>Completing the CHNA process provided the opportunity to increase awareness and rally community providers. In September 2011, the Office of Population Health Improvement introduced the Maryland States Health Improvement Process (SHIP) to provide constantly updated data, resources and tools for localities to work collaboratively to identify needs and improve population health. At the local level, these concepts lead to an alignment of community health improvement efforts between Meritus CHNA and the states SHIP. A sustained outcome of the CHNA process was the development of a local Washington County Health Improvement Coalition (WCHIC) which MMC helped lead and continues to co-facilitate with the local department of health. At the conclusion of the CHNA data assessment it was recognized that many more needs were identified and exist than can be successfully met by the hospital alone due to limited, finite resources. Some of the health needs not made a priority for MMC at this time include access to dental care, lack of insurance coverage, child abuse, geriatric mental health and healthy environments. Other community providers and organizations are using the results of the CHNA to help target these other unmet needs based on strengths, expertise and resources. For example the Walnut Street Clinic, an FQHC, is expanding access to dental care to persons in Washington County. The local Washington County Health Improvement Coalition Meritus Medical is using the CHNA to address access to health care.</p>

Form and Line Reference	Explanation
Part VI - Needs Assessment	<p>althcare issues and a lack of health insurance by providing locations for the MD Health Ex change Navigators to reach uninsured persons Other identified CHNA health needs are being addressed by the Strategic Community Impact Council (SCIP), a collaboration of diverse co mmunity providers, leaders and volunteers who are targeting needs through eleven different work committees, Education, Arts, Culture and Tourism, Jobs and Economic Development, Hea lth and Well-Being, Family Safety, Older Adults, Transportation, Public Safety, Disability , Self Sufficiency and Civic Engagement SCIP is leading a new initiative to help meet the health and well-being needs of children in this community Meritus Medical Center continue s to provide leadership, guidance and active participation on achieving the initiatives an d goals of all these population health improvement efforts The initial CHNA Action Plan was approved by the Meritus Medical Center Board of Directors on March 28, 2013 as part of the CHNA requirement Since that date the action plan has been expanded to include specifi c, measurable, attainable, relevant, time-bound goals that align with the prioritized need s Meritus Medical Center has established a Community Health Team that routinely meets to assess how the organization is making progress on the goals and meeting CHNA needs The Ac tion Plan includes collaborative efforts between Meritus Medical Center and the local Wash ington County Health Improvement Coalition to guide county wide community health initiativ es to meet needs and improve the overall health of people living in the region The plan i s being reviewed periodically to measure progress towards goal achievement and modify acti on steps as needed As resources become available and can be allocated the action plan wil l incorporate additional needs and goals The CHNA process has been included in Meritus Me dical Centers strategic planning process As we reach the FY 2016 planning period, a compr ehensive review of the progress that has been made towards meeting these prioritized healt h needs will be taken into account as we prepare to conduct the next community health need s assessment</p>

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

Form and Line Reference	Explanation
Part VI - Community Information	MMC is the largest healthcare provider in Western MD, located at the crossroads of western MD, southern PA, and the eastern panhandle of WV MMC is an acute care hospital with 272 single-patient rooms providing services including a special care nursery, a designated trauma center, a primary stroke center, a wound center, and a designated cardiac interventional center As the leading provider of health care services in the tri-state region, MMC's primary service area is Washington County, MD including primary service area zip codes 21740, 21742, 21795, 21713 and 21783 - with residents of that county making up the majority of the hospital's customers - while also serving residents of Frederick County, MD, Franklin County, PA, Fulton County, PA, Morgan County, WV, Jefferson County, WV, and Berkeley County, WV Within MMC's community service benefit area, the total population is 149,180 with 51.1% male residents and 48.9% female residents, median age is 39.5, median household income is \$52,028, percentage of households with incomes below the federal poverty guidelines is 11.2%, the percentage of uninsured people by county is 12%, percentage of Medicaid recipients by County is 9.7%, and the life expectancy by county is 78.2

Form and Line Reference	Explanation
Part VI - Community Building Activities	MMC participates in several community building activities MMC nutrition center staff are used for the coordination and support of the weekly Farmer's Market held at MMC The Care Managment staff spend time attending the outreach social planning meeting MMC staff spend time in coordinating and distributing materials for the annual United Way campaign Several other activities MMC has participated in include the following American Heart Walk, Cancer Survivor's Picnic, Frederick Rescue Mission event, Children's Health event, volunteer EMT, Habitat for Humanity event and assistance with the Community Free Clinic

Form and Line Reference	Explanation
Part VI - Explanation Of How Organization Furthers Its Exempt Purpose	See Schedule O for explanation under Program Service Accomplishments

Form and Line Reference	Explanation
Part VI - Affiliated Health Care System Roles and Promotion	Meritus Healthcare Foundation - 501(c)(3) - provides fund development, financial & other assistance to MMC MHF is operated exclusively for the charitable & educational purpose of supporting quality health care & related services of MMC Meritus Enterprises - C corp - provider of ambulatory health care services MEI insures an adequate supply of physicians in many medical specialties are available in this region



Form and Line Reference	Explanation
Part VI - States Where Community Benefit Report Filed	MD

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



Additional Data

Software ID: 13000170  
Software Version: 2013v4.0  
EIN: 52-0607949  
Name: Meritus Medical Center Inc

990 Schedule H, Supplemental Information

**Section C. Supplemental Information for Part V, Section B.**Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

Form and Line Reference	Explanation
Part V, Line 1j - Description of Other Needs Assessment	There has been no other needs assessment conducted other than the CHNA performed in 2013 (See disclosure for Part VI - Needs Assessment)
Part V, Line 3 - Account Input from Person Who Represent the Community	See discussion regarding performance of 2013 CHNA - Schedule H, Part VI
Part V, Line 7 - Explanation of Needs Not Addressed and Reasons Why	Due to limited resources, some of the health needs not being addressed by MMC at this time include access to dental care, lack of insurance coverage, child abuse, geriatric mental health and healthy environments Other community providers and organizations are using the results of the CHNA to help target these other unmet needs based on strengths, expertise and resources The plan is being reviewed periodically to measure progress towards goal achievement and modify action steps as needed As resources become available and can be allocated the action plan will incorporate additional needs and goals
Part V, Line 14g - Other Means Hospital Facility Publicized the Policy	Meritus Medical Center's (MMC) patient acceptance policy is based upon its mission statement and its charitable purposes This policy results in MMC's assumption of higher-than-normal credit risk from its patients To the extent that MMC realizes additional losses resulting from such higher credit risks and clients are not identified or do not meet MMC's defined charity care policy, such additional losses are included in the provision for bad debt
Part V, Line 20d - Other Billing Determination of Individuals Without Insurance	MMC is a part of Maryland's regulatory system that differs from the rest of the nation Maryland's Health Services Cost Review Commission (HSCRC) has a rate-setting process whereas all rates charged for emergency or other medically necessary care are the same for all persons at the hospital for the same services delivered Therefore all patients are billed on a (cost) basis, not on a (gross charge) basis

Schedule I  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Name of the organization  
Meritus Medical Center Inc

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

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

▶ Information about Schedule I (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public  
Inspection

Employer identification number  
52-0607949

Part I

General Information on Grants and Assistance

- 1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☒ Yes ☐ No
- 2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II

Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than \$5,000. Part II can be duplicated if additional space is needed.

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) Meritus Healthcare Foundation 11116 Medical Campus Road Hagerstown, MD 21742	52-0607949	501(c)(3)	250,000	0			Support for quality healthcare

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

3 Enter total number of other organizations listed in the line 1 table . . . . . 0

**Part III**

**Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22.  
Part III can be duplicated if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) HSCRC Nursing Grant	13	232,374		N/A	N/A

**Part IV**

**Supplemental Information.** Provide the information required in Part I, line 2, Part III, column (b), and any other additional information.

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

Schedule J  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Compensation Information

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

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 23.  
▶ Attach to Form 990. ▶ See separate instructions.

▶ Information about Schedule J (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
Mentus Medical Center Inc

Employer identification number  
52-0607949

Part I

Questions Regarding Compensation

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

**Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

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

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

(A) Name and Title		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								



Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Return Reference	Explanation
Part I, Line 7 Non-Fixed payments not listed above	Incentive based compensation is determined by agreed upon individual and corporate goals by the Compensation Committee of the MMC Board
Part III, Additional Information	Joseph Ross is a participant in a 457F plan that was approved by the Compensation Committee of the MMC Board of Directors. For the current year, \$211,306 was deferred by Meritus Medical Center and is not substantially vested. Kelli Corbi was paid severance in the amount of \$124,615.

**Additional Data**

**Software ID:** 13000170  
**Software Version:** 2013v4.0  
**EIN:** 52-0607949  
**Name:** Meritus Medical Center Inc

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Adriana Maldonado-Brem MD Physician	(i) (ii)	198,624			3,185	17,375	219,184	
Carolyn Simonsen VP/Secretary	(i) (ii)	212,681	40,600		13,880	10,179	277,340	
Dale Bushey Vice President	(i) (ii)	159,894	22,834		10,459	20,308	213,495	
Dawn Crumel Vice President	(i) (ii)	165,680	19,475		5,840	9,116	200,111	
Deborah Addo-Samuels Senior Vice President	(i) (ii)	252,924	49,000		12,803	13,918	328,645	
Garry Seligman MD Physician	(i) (ii)	204,416	10,269		9,722	25,000	249,407	
Gaylen Johnson MD Physician	(i) (ii)	220,090			10,028	12,186	242,304	
Heather Lorenzo Vice President	(i) (ii)	287,702	57,000		15,750	19,797	380,249	
Jake Dorst Vice President	(i) (ii)	192,662	28,868		7,853	18,741	248,124	
Jayantilal Kadiwar MD Physician	(i) (ii)	282,000	35,895	3,734	10,538	14,685	346,852	
Jesus Cepero Vice President	(i) (ii)	206,379	28,543	1,713	9,726	2,009	248,370	
Joseph Ross President & CEO	(i) (ii)	520,564	110,121	12,248	218,142	28,109	889,184	
Kelly Corbi Vice President	(i) (ii)	115,381		149,252	9,229	14,027	287,889	
Lee Shaver Vice President	(i) (ii)	154,529	25,327	1,053	8,093	1,669	190,671	
Marc Kross Former officer	(i) (ii)			480,918			480,918	
Matthew Wagner MD Physician	(i) (ii)	276,471	30,000		11,475	13,327	331,273	
Raymond Grahe VP/Treasurer	(i) (ii)	363,436	64,260		17,250	17,091	462,037	
Thomas Gilbert MD Director	(i) (ii)	468,000	82,438	50,560	11,475	17,043	629,516	

Schedule K  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Name of the organization  
Meritus Medical Center Inc

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Part VI.  
▶ Attach to Form 990. ▶ See separate instructions.  
▶ Information about Schedule K (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public Inspection

Employer identification number

52-0607949

Part I

Bond Issues

(a) Issuer name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A MD Hlth & Hig Ed Fac Aut	52-0936091	574217T21	02-12-2008	264,300,000	Construction-new hospital		X		X		X

Part II

Proceeds

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

Part III

Private Business Use

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

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use of bond-financed property?		X						
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X						
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶	0 800 %							
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶								
6	Total of lines 4 and 5	0 800 %							
7	Does the bond issue meet the private security or payment test?	X							
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X						
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of								
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?								
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?	X							

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?	X							
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?								
b	Exception to rebate?								
c	No rebate due?								
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?								
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X						
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was the hedge terminated?								

Part IV

Arbitrage (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
6	Were any gross proceeds invested beyond an available temporary period?		X						
7	Has the organization established written procedures to monitor the requirements of section 148?	X							

Part V

Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
	Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations?	X							

Part VI

Supplemental Information. Provide additional information for responses to questions on Schedule K (see instructions).

Schedule L  
(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Transactions with Interested Persons  
▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.  
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.  
▶ Information about Schedule L (Form 990 or 990-EZ) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047  
**2013**  
Open to Public Inspection

Name of the organization  
Meritus Medical Center Inc

Employer identification number  
52-0607949

Part I Excess Benefit Transactions (section 501(c)(3) and section 501(c)(4) organizations only).  
Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1	(a) Name of disqualified person	(b) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected?	
				Yes	No

2 Enter the amount of tax incurred by organization managers or disqualified persons during the year under section 4958 . . . . . ▶ \$

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . . . ▶ \$

Part II Loans to and/or From Interested Persons.  
Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

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

Part III Grants or Assistance Benefitting Interested Persons.  
Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of assistance	(d) Type of assistance	(e) Purpose of assistance

**Part IV Business Transactions Involving Interested Persons.**

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

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Greg Snook	Director	105,865	See suppl info below		No
(2) William Reuter	Director	25,659	See supp info below		No
(3) David Solberg MD	Director	254,992	See supp info below		No

**Part V Supplemental Information**

Provide additional information for responses to questions on Schedule L (see instructions)

Return Reference	Explanation
Schedule L, Part V Supplemental Information	Greg Snook owns space in which an entity under MMC leases space and a family member owns a storage company in which MMC leases space Bill Reuter's family member is an employee of MMC David Solberg, MD is part owner in property leased by an entity under MMC These are all arms' length transactions disclosed in accordance with the conflict of interest policy All interested persons have recused themselves from any decision-making surrounding the disclosure

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on  
Form 990 or to provide any additional information.  
▶ Attach to Form 990 or 990-EZ.  
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at  
[www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public  
Inspection

Name of the organization  
Meritus Medical Center Inc

Employer identification number

52-0607949

Return Reference	Explanation
Form 990, Part VI, Line 7a How Members or Shareholders Elect Governing Body	MMC nominates candidates for their board through the board designated Governance Committee Final election occurs through the MMC Board



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

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

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

Return Reference	Explanation
Form 990, Part VI, Line 15b Compensation Review and Approval Process for Officers and Key Employees	<p>Annually in September, the Compensation Committee of the MMC Board meets and reviews the following as it relates to compensation of the CEO and other key employees</p> <p>Market Data - Presented by an independent third party compensation consultant</p> <p>Performance Evaluation - Provided by the CEO</p> <p>Overall Financials- used for Bonus Current Salary Along with Merit Guidelines</p> <p>The independent third party compensation consultant then makes recommendations to the compensation committee and the committee deliberates, discusses, and approves the recommendation as is or makes amendments to it before approval</p> <p>The report and resulting decision is then reported to the MMC Board</p> <p>The positions reviewed in September of 2013 were as follows</p> <p>President &amp; CEO, Senior VP-Chief Financial Officer, Senior VP-Chief Operating Officer, VP-Chief Information Officer, VP for Financial Services, VP for Support Services, VP-Chief Medical Officer, VP-Chief Compliance Officer, VP-Chief Administrative Officer, and VP-Chief Nursing Officer</p>

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

Return Reference	Explanation
Other Changes In Net Assets Or Fund Balances - Other Decreases	Change in partnership interest = -\$646813

Return Reference	Explanation
Other Changes In Net Assets Or Fund Balances - Other Increases	Net assets held by Meritus Healthcare Foundation = \$4390378

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



Return Reference	Explanation
Part VI, Line 16a	<p>Meritus Medical Center holds a 20% equity interest in Maryland Care, Inc. Maryland Care, Inc. d/b/a Maryland Physicians Care is a managed care organization ("MCO") that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO. Meritus Medical Center holds a 50% equity interest in Tri-State Health Partners ("THP"). THP is an innovative physician-hospital organization ("PHO") established to organize, assemble and facilitate the provision of cost effective health care services. The partnership consists of more than 200 local physicians and the Hospital. THP is involved in the medical management of more than 6,000 covered lives through regional self-insured businesses. MMC holds a 1% interest in the THP-Meritus ACO, LLC ("ACO"). The ACO is a group of doctors, MMC and other health care providers who came together to give coordinated high quality care to their Medicare patients. The goal of the coordinated care is to ensure that patients, especially the chronically ill, get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors.</p>

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

Return Reference	Explanation
Part VII, Section A, Line 2	The salary & benefits that Dr Gilbert received are for his services as a physician Compensation provided to this person was for services provided in his capacity as an officer/employee of MMC and affiliates, not in his capacity as a director

Return Reference	Explanation
Part XII, Line 2b	Mertus Medical Center received consolidated audited financial statements prepared in accordance with GAAP from an independent accounting firm

SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.  
▶ Attach to Form 990. ▶ See separate instructions.  
▶ Information about Schedule R (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
Mentus Medical Center Inc

Employer identification number  
52-0607949

Part I

Identification of Disregarded Entities

Complete if the organization answered "Yes" on Form 990, Part IV, line 33.

(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Mentus Holdings LLC 11116 Medical Campus Road Hagerstown, MD 21742 45-2382196	Health services	MD			MMC
(2) Mentus Urgent Care LLC 11116 Medical Campus Road Hagerstown, MD 21742 71-1050982	Health services	MD	-462,838	4,474,915	MMC
(3) Mentus Medical Lab LLC 11116 Medical Campus Road Hagerstown, MD 21742 80-0728035	Health services	MD	2,386,264	26,656,294	MMC
(4) Health Work LLC 11116 Medical Campus Road Hagerstown, MD 21742 34-2014438	Health services	MD	29,260	839,860	MMC
(5) Medical Practices of Antietam LLC 11116 Medical Campus Road Hagerstown, MD 21742 52-2315129	Health services	MD	-4,490,359	1,001,571	MEI
(6) Downtown Urgent Care LLC 11116 Medical Campus Road Hagerstown, MD 21742 27-3483086	Health services	MD			MMC

Part II

Identification of Related Tax-Exempt Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
(1) Mentus Healthcare Foundation Inc  11116 Medical Campus Road  Hagerstown, MD 21742 01-0639265	Fundraising	MD	501(c)(3)	11c	MMC	Yes	

Part III

Identification of Related Organizations Taxable as a Partnership

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end- of-year assets	(h) Disproporionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) Robinwood Surgery Center LLC  11116 Medical Campus Road Hagerstown, MD 21742 52-1770185	Health services	MD	N/A		-923,590	1,891,900		No			No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of- year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) Mentus Enterprises Inc  11116 Medical Campus Road Hagerstown, MD 21742 52-1393624	Health serv	MD	MMC	C corp	2,123,107	37,872,033	100 000 %	Yes	
(2) Mentus Insurance Company Ltd  P O Box 1109GT Grand Cayman CJ 98-0162257	Captive insurance	CJ	MMC			13,641,382	100 000 %	Yes	

Part V

Transactions With Related Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

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

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

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

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

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

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

e Loans or loan guarantees by related organization(s)

f Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

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

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

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

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

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

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

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

1s

No

No

Yes

No

No

No

No

No

No

No

No

No

No

No

No

No

No

No

No

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

(a) Name of related organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
(1) Mertus Healthcare Foundation Inc	c	1,295,371	Cost

Schedule R (Form 990) 2013

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

[illegible]



Part VII

Supplemental Information

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation
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Additional Data

Software ID: 13000170  
Software Version: 2013v4.0  
EIN: 52-0607949  
Name: Meritus Medical Center Inc

Form 990, Schedule R, Part I - Identification of Disregarded Entities

(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Total income	(e) End-of-year assets	(f) Direct Controlling Entity
(1) Meritus Holdings LLC 11116 Medical Campus Road Hagerstown, MD 21742 45-2382196	Health services	MD			MMC
(1) Meritus Urgent Care LLC 11116 Medical Campus Road Hagerstown, MD 21742 71-1050982	Health services	MD	-462,838	4,474,915	MMC
(2) Meritus Medical Lab LLC 11116 Medical Campus Road Hagerstown, MD 21742 80-0728035	Health services	MD	2,386,264	26,656,294	MMC
(3) Health Work LLC 11116 Medical Campus Road Hagerstown, MD 21742 34-2014438	Health services	MD	29,260	839,860	MMC
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(5) Downtown Urgent Care LLC 11116 Medical Campus Road Hagerstown, MD 21742 27-3483086	Health services	MD			MMC



Grant Thornton

Consolidated Financial Statements,  
Supplementary Information, and Report of  
Independent Certified Public Accountants

**Meritus Medical Center, Inc.**

June 30, 2014 and 2013

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## **Report of Independent Certified Public Accountants**

Board of Directors  
Meritus Medical Center, Inc

Grant Thornton LLP  
Two Commerce Square  
2001 Market St., Suite 700  
Philadelphia, PA 19103  
T 215 561 4200  
F 215 561 1066  
[www.GrantThornton.com](http://www.GrantThornton.com)

We have audited the accompanying consolidated financial statements of Meritus Medical Center, Inc ("Meritus"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and change 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 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

### **Auditor's 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 audit 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 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 Meritus Medical Center, Inc. as of June 30, 2014 and 2013, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Supplementary Information

The accompanying consolidating balance sheet as of June 30, 2014 and consolidating statement of operations and changes in net assets for the years then ended is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Baltimore, Maryland  
October 7, 2014

## **CONSOLIDATED FINANCIAL STATEMENTS**

**Meritus Medical Center, Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
**June 30,**

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 23,028,552	\$ 18,808,563
Restricted cash	3,334,609	2,747,487
Short-term investments	13,546,738	10,259,473
Current portion of assets whose use is limited	10,269,752	11,648,408
Accounts receivable, net	60,374,652	63,030,783
Supplies	7,140,311	9,165,678
Prepaid and other current assets	<u>7,837,111</u>	<u>6,969,973</u>
Total current assets	125,531,725	122,630,365
 <b>EQUITY INVESTMENTS IN AFFILIATES</b>	 22,296,346	 22,551,905
 <b>ASSETS WHOSE USE IS LIMITED</b>		
Board designated funds	119,276,606	94,196,257
Supplemental retirement benefit investments	4,502,797	4,094,548
Temporarily and permanently restricted donor funds	<u>1,165,290</u>	<u>1,159,895</u>
	124,944,693	99,450,700
Assets held by trustee under bond indenture agreement	18,431,372	18,346,435
Funds designated for insurance purposes	<u>11,122,821</u>	<u>9,460,701</u>
	154,498,886	127,257,836
 <b>PROPERTY, PLANT AND EQUIPMENT, net</b>	 254,417,012	 269,270,634
 <b>PLEDGES RECEIVABLE, net</b>	 904,833	 2,862,307
 <b>DEFERRED FINANCING COSTS, net</b>	 2,390,299	 2,515,084
 <b>OTHER ASSETS</b>	 <u>2,149,163</u>	 <u>2,971,783</u>
Total assets	<u>\$562,188,264</u>	<u>\$550,059,914</u>

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



<b>LIABILITIES AND NET ASSETS</b>		<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$	13,966,990	\$ 13,761,319
Accrued salaries, wages and withholdings		8,785,577	8,138,663
Accrued compensation benefit		11,286,870	12,092,642
Advances from third-party payors		6,741,663	7,510,014
Accrued interest payable		7,267,031	7,642,631
Current portion of long-term debt		<u>4,802,704</u>	<u>6,444,712</u>
Total current liabilities		52,850,835	55,589,981
<b>LONG-TERM DEBT</b> , net of current portion		250,014,108	254,747,107
<b>ACCRUED RETIREMENT BENEFITS</b>		5,006,646	4,480,453
<b>OTHER LONG-TERM LIABILITIES</b>		<u>7,184,860</u>	<u>6,733,140</u>
Total liabilities		315,056,449	321,550,681
<b>NET ASSETS</b>			
Unrestricted			
Meritus		240,478,231	220,287,217
Non-controlling interest		<u>532,145</u>	<u>901,526</u>
Total unrestricted net assets		241,010,376	221,188,743
Temporarily restricted		5,092,821	6,291,872
Permanently restricted		<u>1,028,618</u>	<u>1,028,618</u>
Total net assets		<u>247,131,815</u>	<u>228,509,233</u>
Total liabilities and net assets		<u>\$562,188,264</u>	<u>\$550,059,914</u>

# Meritus Medical Center, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30,

	<u>2014</u>	<u>2013</u>
<b>Unrestricted revenue, gains and other support</b>		
Net patient service revenue	\$361,575,439	\$370,863,385
Less provision for bad debts	<u>(14,554,244)</u>	<u>(14,416,252)</u>
Net patient service revenue less provision for bad debts	347,021,195	356,447,133
Other revenue	10,415,853	13,001,011
Equity earnings in affiliates	1,692,686	2,911,678
Net assets released from restriction used for operations	<u>1,309,061</u>	<u>2,174,772</u>
	360,438,795	374,534,594
<b>Expenses</b>		
Salaries and wages	142,181,627	145,051,579
Employee benefits	39,280,455	38,101,662
Professional fees	11,196,748	8,862,757
Supplies and other	129,462,523	131,933,187
Interest	14,435,032	14,959,202
Depreciation and amortization	<u>21,876,123</u>	<u>24,171,012</u>
	<u>358,432,508</u>	<u>363,079,399</u>
Operating income before other items	2,006,287	11,455,195
<b>Other items</b>		
Pension settlement costs	<u>-</u>	<u>(11,291,050)</u>
	<u>-</u>	<u>(11,291,050)</u>
Operating income	2,006,287	164,145
<b>Non-operating gains (losses), net</b>		
Investment returns, net	15,736,822	10,380,915
Other, net	(48,605)	(2,596,927)
Income tax benefit	<u>1,497,360</u>	<u>1,116,333</u>
Excess of revenue over expenses	19,191,864	9,064,466
<b>Deficiency in revenue over expenses attributable to non-controlling interest</b>	<u>369,381</u>	<u>128,065</u>
Excess of revenue over expenses attributable to Meritus	19,561,245	9,192,531

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

---

	<u>2014</u>	<u>2013</u>
<b>Other changes in unrestricted net assets</b>		
Change in retirement benefit obligation	-	11,291,050
Change in non-controlling interests	(369,381)	(1,708,065)
Net assets released from restriction for property, plant, and equipment	<u>629,769</u>	<u>1,722,373</u>
Increase in unrestricted net assets	19,821,633	20,497,889
<b>Temporarily restricted net assets</b>		
Contributions	739,679	959,301
Net assets released from restriction for property, plant, and equipment	(629,769)	(1,722,373)
Net assets released from restrictions for operations	<u>(1,308,961)</u>	<u>(2,174,772)</u>
Decrease in temporarily restricted net assets	<u>(1,199,051)</u>	<u>(2,937,844)</u>
INCREASE IN NET ASSETS	18,622,582	17,560,045
<b>Net assets</b>		
Beginning of year	<u>228,509,233</u>	<u>210,949,188</u>
End of year	<u>\$247,131,815</u>	<u>\$228,509,233</u>

# Meritus Medical Center, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 18,622,582	\$17,560,045
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	21,876,123	24,171,012
Provision for bad debts	14,554,244	14,416,252
Change in retirement benefit obligation	-	(11,291,050)
Change in non-controlling interest	369,381	1,708,065
Net realized and unrealized gains on investments	(12,617,505)	(7,632,673)
Loss on disposal of assets	(17,628)	(673,041)
Equity earnings in affiliates	(1,692,686)	(2,911,678)
Changes in assets and liabilities		
Accounts receivable	(11,898,113)	(26,337,141)
Supplies, prepaid, and other current assets	1,158,229	(761,038)
Other assets	2,780,094	292,391
Accounts payable, accrued expenses and long-term liabilities	1,141,312	(2,075,838)
Accrued salaries, wages and withholdings	646,914	3,178,738
Accrued compensation benefit	(805,772)	6,632,664
Advances from third-party payors	(768,351)	(110,616)
Interest payable	(375,600)	(121,388)
Accrued retirement benefits	<u>(526,193)</u>	<u>269,759</u>
Net cash provided by operating activities	32,447,031	16,314,463
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(8,508,707)	(9,638,965)
Proceeds from the disposal of assets	1,628,620	3,110,516
Purchase of restricted cash, short-term investments, and assets whose use is limited	(147,918,420)	(38,547,804)
Sale of restricted cash, short-term investments, and assets whose use is limited	130,799,144	23,689,907
Equity distributions from affiliates, net	<u>2,317,626</u>	<u>4,531,871</u>
Net cash used in investing activities	(21,681,737)	(16,854,475)

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

	<u>2014</u>	<u>2013</u>
<b>Cash flows from financing activities</b>		
Payments on long-term debt	<u>(6,595,525)</u>	<u>(7,905,368)</u>
Net cash used in financing activities	<u>(6,595,525)</u>	<u>(7,905,368)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,219,989	(8,445,380)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>18,808,563</u>	<u>27,253,943</u>
End of year	<u>\$ 23,028,552</u>	<u>\$18,808,563</u>
<b><u>Supplemental disclosure of cash flow information:</u></b>		
Cash paid for income taxes	\$ -	\$ 928,028
Cash paid for interest	14,810,632	15,080,590
<b><u>Supplemental disclosure of non-cash investing and financing activities:</u></b>		
Assets acquired under capital leases	\$ 50,220	\$ -
Decrease in accrual for the purchase of property, plant and equipment	-	(183,885)

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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### 1. DESCRIPTION OF ORGANIZATION

#### Organization

Until January 31, 2013, Meritus Health, Inc. was the parent corporation of the Meritus Medical Center, Inc., Meritus Enterprises, the Meritus Medical Center Endowment Fund, Inc., the Meritus Healthcare Foundation, Inc., and the Meritus Insurance Company, Ltd.

Effective February 1, 2013, Meritus Health, Inc. completed a corporate reorganization. The goal of the reorganization was to facilitate an improved governance structure. The Meritus Medical Center Endowment Development Company, Inc., the Meritus Medical Center Endowment Fund and Meritus Health, Inc. all merged into Meritus Medical Center, Inc. The surviving organization, Meritus Medical Center, Inc. ("Hospital") is the parent corporation of the Meritus Healthcare Foundation, Inc. ("Foundation"), the Meritus Insurance Company, Ltd. ("MIC") and Meritus Holdings, LLC ("Holdings"), which owns Meritus Enterprises ("MEI"). These entities are collectively referred to as "Meritus".

The Hospital is a not-for-profit acute care hospital located in Hagerstown, Maryland and serves the residents of western Maryland, southern Pennsylvania, and the panhandle of West Virginia. The Hospital currently offers acute general hospital inpatient services including adult medical/surgical care, obstetrics and newborn care, including a family birthing center, cardiac catheterizations, comprehensive inpatient rehabilitation, radiology and diagnostic services, inpatient and outpatient mental health services, a regional Level III Trauma Center, an intensive care unit, a progressive care unit, a coronary care unit, and a pediatric unit. The Hospital also manages gifts, donations or bequests given for the benefit of Meritus and acquires real estate properties for rental to medical provider entities and development opportunities.

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

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

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

MEI is a for-profit corporation that operates retail pharmacies, physician practices, and other health services. During the year ended June 30, 2014, MEI disposed of the retail pharmacies. In addition, MEI holds a 60% interest in Robinwood Surgery Center which provides ambulatory surgery services and a 50% interest in Diagnostic Imaging Services which provides outpatient imaging services.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Hospital, Holdings, MEI, the Foundation, and MIC. MEI owns a 60% interest in Robinwood Surgery Center, LLC, at June 30, 2014 and 2013, which is included in the consolidated financial statements with the related non-controlling interest reported as a component of net assets. All material inter-company balances and transactions have been eliminated in consolidation.

#### **Use of Estimates**

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

#### **Fair Value Measurements**

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

- Level I -** Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level II -** Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level III -** Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Fair Value Measurements - continued**

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

#### **Patient Accounts Receivable/Allowance for Doubtful Accounts**

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

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

#### **Assets Whose Use is Limited**

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

#### **Investments and Investment Income**

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

Investment income, which includes interest and dividends, on proceeds of borrowings that are held by a trustee are reported as other revenue. Other investment income, which includes interest, dividends and realized and unrealized gains and losses on assets limited as to use by Board of Directors and funds designated for insurance purposes are recorded as non-operating gains (losses), net, unless the income or loss is restricted by donor or law.



# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Investments and Investment Income - continued**

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

#### **Supplies**

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

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

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

	<u>2014</u>	<u>2013</u>
<b>Hospital:</b>		
Surgical and medical supplies	\$5,009,480	\$4,351,832
Other supplies	<u>881,403</u>	<u>855,238</u>
	5,890,883	5,207,070
<b>Holdings and MEI:</b>		
Durable medical equipment	403,379	470,604
Surgical and medical supplies	414,652	507,531
Pharmacy and home care infusion	-	2,257,508
Medical laboratory	<u>431,398</u>	<u>722,962</u>
	<u>1,249,429</u>	<u>3,958,605</u>
	<u>\$7,140,312</u>	<u>\$9,165,675</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Property, Plant and Equipment**

Property, plant and equipment acquisitions are recorded at cost. Those assets acquired by gift are carried at amounts established as fair value at the time of acquisition. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease is amortized by the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during the years ended June 30, 2014 and 2013. Durable medical equipment held for resale is included in supplies. The remainder of durable medical equipment is rented to patients and is included in property, plant and equipment. Assets are retired or disposed of at book value and related gains or losses are recorded for assets sold. Useful lives range as follows:

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

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

Meritus continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets is appropriate, or whether the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Meritus uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based upon market prices, where available, or discounted cash flows. Management believes that no revision to the remaining useful lives or write-down of long-lived assets is required at June 30, 2014.

#### **Deferred Financing Costs**

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

#### **Advertising Costs**

Advertising costs for the years ended June 30, 2014 and 2013 were \$1,254,536 and \$1,073,028, respectively, and are recorded within supplies and other expenses.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Compensated Absences**

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

#### **Temporarily and Permanently Restricted Net Assets**

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

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

#### **Excess of Revenue over Expenses**

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

#### **Net Patient Service Revenue**

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

The Hospital's charges are subject to review and approval by the HSCRC. The Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with HSCRC requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the HSCRC. Management believes that this program will remain in effect at least through June 30, 2015. The Hospital has an agreement with the HSCRC under a rate regulation concept called Total Patient Revenue ("TPR") which was renewed until June 30, 2016. TPR is a revenue constraint methodology which provides for inflation, bad debt, payor differential and adjustments for population growth, but excludes case mix and volume changes. For the years ended June 30, 2014 and 2013, the regulated revenue cap was \$304,582,766 and \$299,989,323 respectively. For the year ending June 30, 2015, the regulated revenue cap is \$309,246,715.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Net Patient Service Revenue - continued**

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

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

Net revenues from the Medicare and Medicaid programs collectively constitute approximately 48% of Meritus' net patient service revenue for the years ended June 30, 2014 and 2013. Laws and regulations governing the HSCRC, Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Meritus believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Accounts receivable are reduced by an allowance for doubtful accounts. Meritus' allowance for doubtful accounts totaled \$9,337,133 and \$7,267,702 at June 30, 2014 and 2013, respectively. In evaluating the collectibility of accounts receivable, Meritus analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Meritus analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, Meritus records a significant provision for bad debts on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. For the year ended June 30, 2014, there was a positive change in estimate related to certain self-pay patient receivables that are on structured payment plans, which provided an increase to net patient service revenue less provision for bad debts of approximately \$875,000. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Meritus has not experienced significant changes in write-off trends and has not changed its charity care policy for the year ended June 30, 2014.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Net Patient Service Revenue - continued

Patient service revenue as a percentage for the year ended June 30, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total all Payors</u>
<b>2014:</b>			
Patient service revenue, net of contractual allowances and discounts	\$ <u>93</u> <sup>0</sup> °	\$ <u>7</u> <sup>0</sup> °	\$ <u>100</u> <sup>0</sup> °
<b>2013:</b>			
Patient service revenue, net of contractual allowances and discounts	\$ <u>91</u> <sup>0</sup> °	\$ <u>9</u> <sup>0</sup> °	\$ <u>100</u> <sup>0</sup> °

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

#### Charity Care

Meritus provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Meritus does not pursue collection on amounts deemed to qualify as charity. Meritus also estimates that the direct and indirect cost of services and supplies furnished to patients eligible for charity care using a ratio of cost to gross charges based on internal data is \$18,893,415 and \$19,582,829 for the years ended June 30, 2014 and 2013, respectively.

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

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

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

#### **Other Revenue**

Other revenue is comprised of rental income, gains and losses on disposal of assets, incentive payments related to the implementation and meaningful use of certified electronic health records and other miscellaneous items

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (“EHR”) technology. For Medicare and Medicaid EHR incentive payments, Meritus utilizes a grant accounting model to recognize these revenues. Under this accounting policy, EHR incentive payments were recognized as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, Meritus recognized \$2,040,210 and \$1,063,113 of EHR revenues for the years ended June 30, 2014 and 2013. These amounts are included in other revenue in the consolidated statements of operations and changes in net assets. Meritus’ attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

#### **Income Taxes**

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

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

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

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

Meritus follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. Meritus does not believe its consolidated financial statements include any material uncertain tax positions. As of June 30, 2014, the Meritus tax years ended June 30, 2011 through June 30, 2014 for federal tax jurisdiction remain open to examination.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Concentration of Credit Risk

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

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

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

	<u>2014</u>	<u>2013</u>
Health maintenance organizations	4% <sup>0</sup>	2% <sup>0</sup>
Medical assistance HMO	20% <sup>0</sup>	14% <sup>0</sup>
Medicare	26% <sup>0</sup>	27% <sup>0</sup>
Commercial insurance and other	22% <sup>0</sup>	23% <sup>0</sup>
Blue Cross/Blue Shield	13% <sup>0</sup>	15% <sup>0</sup>
Self-pay	<u>15%<sup>0</sup></u>	<u>19%<sup>0</sup></u>
	<u>100%<sup>0</sup></u>	<u>100%<sup>0</sup></u>

#### 457(b) Deferred Compensation Plan

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

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 3. INVESTMENTS AND INVESTMENT INCOME

Investments at June 30 consisted of the following

	2014	2013
<b>Short-Term Investments:</b>		
Fixed income	\$ <u>13,546,738</u>	\$ <u>10,259,473</u>
<b>Asset whose use is limited:</b>		
Cash and cash equivalents	\$ 3,223,154	\$ 1,284,750
Fixed income	46,113,177	39,303,969
Common stock	72,623,671	55,845,158
Cash surrender value of life insurance	<u>2,984,691</u>	<u>3,016,823</u>
	<u>\$124,944,693</u>	<u>\$99,450,700</u>
<b>Assets held by trustee under debt agreement:</b>		
U S government securities	\$ <u>28,701,124</u>	\$ <u>29,044,843</u>
<b>Funds designated for insurance:</b>		
Fixed income	\$ <u>11,122,821</u>	\$ <u>9,460,701</u>

Meritus had restricted cash of \$3,334,609 and \$2,747,487 as of June 30, 2014 and 2013, respectively, for unemployment insurance collateral and workers' compensation collateral, in compliance with the self-insurance requirement under the regulations of the State of Maryland Employment Security Administration and Workers' Compensation Administration

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

	2014	2013
<b>Investment returns, net:</b>		
Interest and dividends, net of investment fees of \$309,001 and \$221,088 in 2014 and 2013, respectively	\$ 3,119,317	\$ 2,748,241
Net realized gains on investments	2,527,373	2,013,469
Change in unrealized gains and losses on investments	<u>10,090,132</u>	<u>5,619,205</u>
	<u>\$15,736,822</u>	<u>\$10,380,915</u>



# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 4. FAIR VALUE MEASUREMENTS

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

	Level 1	Level 2	Level 3	Total
<b>2014:</b>				
Cash and cash equivalents	\$ 19,972,594	\$ -	\$ -	\$ 19,972,594
Restricted cash	3,334,609	-	-	3,334,609
Short-term investments		-	-	
Fixed income	13,546,738	-	-	13,546,738
Assets whose use is limited				
Cash and cash equivalents	6,557,764	-	-	6,557,764
Fixed income	53,642,912	3,593,086	-	57,235,998
Common stock	72,623,671	-	-	72,623,671
Cash surrender value of life insurance	-	2,984,691	-	2,984,691
U S government securities	-	28,701,124	-	28,701,124
<b>Total assets</b>	<b>\$169,678,288</b>	<b>\$35,278,901</b>	<b>\$ -</b>	<b>\$204,957,189</b>
<b>2013:</b>				
Cash and cash equivalents	\$ 18,808,563	\$ -	\$ -	\$ 18,808,563
Restricted cash	2,747,487	-	-	2,747,487
Short-term investments	10,259,473	-	-	10,259,473
Assets whose use is limited	105,001,595	33,904,649	-	138,906,244
<b>Total assets</b>	<b>\$136,817,118</b>	<b>\$33,904,649</b>	<b>\$ -</b>	<b>\$170,721,767</b>

Meritus does not have any Level 3 financial instruments as of June 30, 2014 and 2013

Investments are valued using a market approach as follows

Cash and cash equivalents - Cash and cash equivalents are classified as Level 1 inputs and represent short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less

Common stock - Common stock are Level 1 inputs and consist of stock of U S companies and are valued based upon unadjusted quoted prices in the market

Fixed income - Valued at the closing price reported in the active market in which the bond is traded

Cash surrender value of life insurance - Cash surrender value of life insurance represents the face value of the contract discounted at a specified rate of interest according to the insured's life expectancy

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 4. FAIR VALUE MEASUREMENTS - Continued

U.S. government securities - Government obligations are classified as Level 2 inputs and represent bonds issued by the government and are valued based upon unadjusted quoted prices in a non-active market

### 5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consist of the following

	2014	2013
Patient accounts receivable	\$ 73,605,713	\$73,236,076
Less		
Contractual allowance	(10,816,631)	(7,873,344)
Allowance for doubtful accounts	<u>(9,337,133)</u>	<u>(7,267,702)</u>
	53,451,949	58,095,030
Other receivables	<u>6,922,703</u>	<u>4,935,753</u>
	<u>\$ 60,374,652</u>	<u>\$63,030,783</u>

Pledges receivable at June 30 consist of the following

	2014	2013
Capital campaign	\$2,673,949	\$4,799,317
Other	<u>2,473,641</u>	<u>1,125,426</u>
Total unconditional promises to give	<u>\$5,147,590</u>	<u>\$5,924,743</u>
Receivable in less than one year	\$3,740,065	2,423,117
Receivable in one to five years	1,313,268	2,843,601
Receivable in more than five years	<u>94,257</u>	<u>658,026</u>
Total unconditional promises to give	5,147,590	5,924,744
Less		
Discounts to net present value	(192,983)	(449,019)
Allowance for uncollectible promises	<u>(692,970)</u>	<u>(653,932)</u>
Net unconditional promises to give	<u>\$4,261,637</u>	<u>\$4,821,793</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 5. ACCOUNTS RECEIVABLE - Continued

	2014	2013
Pledges receivable, current portion included in other receivables	\$3,356,804	\$1,959,486
Pledges receivable, net of current portion	<u>904,833</u>	<u>2,862,307</u>
	<u>\$4,261,637</u>	<u>\$4,821,793</u>

Discount rates utilized were derived utilizing the unsecured borrowing rate and ranged from 3.98% to 5.52%.

### 6. PROPERTY, PLANT AND EQUIPMENT

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

	2014	2013
Land	\$ 25,755,594	\$ 25,667,355
Buildings, and improvements	206,079,978	204,587,148
Equipment	<u>190,781,808</u>	<u>185,792,343</u>
	422,617,380	416,046,846
Less accumulated depreciation and amortization	<u>(168,301,998)</u>	<u>(147,400,204)</u>
	254,315,382	268,646,642
Construction in progress	<u>101,630</u>	<u>623,992</u>
Property, plant and equipment, net	<u>\$ 254,417,012</u>	<u>\$ 269,270,634</u>

Total depreciation and amortization expense for property, plant and equipment for the years ended June 30, 2014 and 2013 was \$21,694,019 and \$23,795,988, respectively.

### 7. EQUITY INVESTMENTS IN AFFILIATES

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

The Hospital holds a 20% equity interest in Maryland Care, Inc. Maryland Care, Inc. is a managed care organization ("MCO") that was established to serve Maryland's Medicaid population as a result of the State's requirement for Medicaid patients to be a member of an MCO.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 7. EQUITY INVESTMENTS IN AFFILIATES - Continued

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

MEI has a 50% interest in Diagnostic Imaging, which provides radiology imaging services, and has a 33.33% interest in Western Maryland Supply, LLC, which provides durable medical equipment for rental or purchase. During the year ended June 30, 2013, RSC sold its 50% share in Endoscopy Real Estate for \$384,000 resulting in a gain of \$422,309. GI Real Estate provides rental property to a group of healthcare practitioners and is 50% owned by MEI.

Summary financial information as of June 30, 2014 and 2013 and for the years then ended appears below for the significant equity investments:

	Hospital Maryland Care, Inc.		Hospital Tri-State Health Partners	
	2014	2013	2014	2013
Assets	\$283,277,561	\$190,761,317	\$2,804,577	\$2,943,756
Liabilities	<u>200,799,676</u>	<u>118,154,824</u>	<u>39,010</u>	<u>120,909</u>
Equity	<u>\$ 82,477,885</u>	<u>\$ 72,606,493</u>	<u>\$2,765,567</u>	<u>\$2,822,847</u>
Net (loss) income	<u>\$ (460,631)</u>	<u>\$ 2,007,880</u>	<u>\$ (213,900)</u>	<u>\$ (300,910)</u>
	MEI Diagnostic Imaging Services, LLC		MEI General Surgery Real Estate, LLC	
	2014	2013	2014	2013
Assets	\$ 10,559,194	\$ 9,879,708	\$ 566,334	\$ 571,285
Liabilities	<u>3,560,322</u>	<u>3,113,840</u>	<u>457,424</u>	<u>479,301</u>
Equity	<u>\$ 6,998,872</u>	<u>\$ 6,765,868</u>	<u>\$ 108,910</u>	<u>\$ 91,984</u>
Net income	<u>\$ 2,632,875</u>	<u>\$ 3,131,721</u>	<u>\$ 16,925</u>	<u>\$ 14,302</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 7. EQUITY INVESTMENTS IN AFFILIATES - Continued

	MEI GI Real Estate		MEI - Western Maryland Medical Supply, LLC	
	2014	2013	2014	2013
Assets	\$ 527,769	\$ 545,139	\$ 953,172	\$1,301,660
Liabilities	<u>239,377</u>	<u>300,562</u>	<u>833,090</u>	<u>1,200,403</u>
Equity	<u>\$ 288,392</u>	<u>\$ 244,577</u>	<u>\$ 120,082</u>	<u>\$ 101,257</u>
Net income (loss)	<u>\$ 53,815</u>	<u>\$ 43,794</u>	<u>\$ 18,833</u>	<u>\$ (77,117)</u>

### 8. LONG-TERM DEBT

Long-term debt at June 30 consists of the following

	2014	2013
<b>MHHEFA Revenue Bonds:</b>		
Series 2008 4.00% - 6.00% serial bonds, net of original issue discounts \$1,214,539 and \$1,273,796, respectively	\$252,712,036	\$256,309,718
2001 Taxable Note B to Bank of America	-	537,947
City of Hagerstown note	121,826	140,748
2011 Bank of America Note - 2.04% interest rate	-	386,667
Mortgages and equipment loans with banks, with interest rates ranging from 2.3% to 7.75%	1,021,847	1,792,014
Capital lease obligations, with interest rates ranging from 2.9% to 5.0%	<u>961,103</u>	<u>2,024,725</u>
	254,816,812	261,191,819
Less current portion of long-term debt	<u>(4,802,704)</u>	<u>(6,444,712)</u>
	<u>\$250,014,108</u>	<u>\$254,747,107</u>

Meritus uses current market prices in determining the fair value of its Revenue Bonds. The carrying value of other long-term debt approximates fair value. The fair value of total long-term debt, excluding capital lease obligations, was approximately \$263,802,000 and \$270,967,000 at June 30, 2014 and 2013, respectively.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 8. LONG-TERM DEBT - Continued

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

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

All bonds are collateralized by a first lien and claims on all receipts of Meritus, except restricted donations and contributions. In connection with the Series 2008 Bonds, MHHEFA has a security interest in existing facilities of Meritus. All bonds require the Hospital to maintain certain financial ratios and stipulated insurance coverage as defined. Meritus was in compliance with these covenants at June 30, 2014 and 2013.

The 2001 Taxable Note B to Bank of America was issued for the construction of the Robinwood Medical Center III. The taxable portion of the debt required monthly principal payments of \$82,701 through February 1, 2014 with remaining principal due at that time. The interest was calculated and payable monthly based upon the outstanding principal balance at the time. The variable interest rates was 1.19% as of June 30, 2013. The bond note has been paid-in full as of June 30, 2014.

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

	Long-term Debt	Capital Lease Obligations
2015	\$ 4,101,051	\$722,823
2016	4,184,101	259,911
2017	4,237,654	5,648
2018	4,444,015	-
2019	4,660,407	-
Thereafter	<u>233,443,021</u>	<u>-</u>
	<u>\$255,070,249</u>	988,381
Less amount representing interest		<u>(27,279)</u>
		<u>\$961,103</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 8. LONG-TERM DEBT - Continued

The Hospital maintains a line of credit with a financial institution which is automatically renewed annually in the amount of \$1,000,000, bearing interest on the drawn portion at the bank's prime interest rate. The line was not in use at June 30, 2014 and 2013.

MEI maintains a line of credit with a financial institution which is automatically renewed annually in the amount of \$500,000, bearing interest on the drawn portion at the bank's prime interest rate plus 2%. The line was not in use at June 30, 2014 and 2013.

### 9. INCOME TAXES

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

	2014	2013
<b>Current:</b>		
Federal	\$1,191,661	\$1,212,298
State	<u>389,169</u>	<u>273,284</u>
	1,580,830	1,485,582
<b>Deferred:</b>		
Federal	(71,903)	(332,424)
State	<u>(11,567)</u>	<u>(36,746)</u>
	<u>(83,470)</u>	<u>(369,170)</u>
	<u>\$1,497,360</u>	<u>\$1,116,412</u>

On July 1, 2011, MEI completed a structural realignment to include the formation of Holdings. The realignment included the conversion of taxable subsidiaries of MEI resulting in a net federal and state conversion tax of \$4,000,000. The above conversion tax was repeated for both book and tax for the years ended June 30, 2014 and 2013.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 9. INCOME TAXES - Continued

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

	2014	2013
<b>Deferred tax asset:</b>		
Accrued vacation	\$ 504,897	\$ 650,109
Deferred compensation	1,379,792	1,264,490
Allowance for bad debts	437,229	222,888
Captive insurance premiums	-	17,775
Other	<u>183,241</u>	<u>247,100</u>
	2,505,159	2,402,362
<b>Deferred tax liabilities:</b>		
Fixed assets and intangible assets	(1,301,325)	(1,191,089)
Captive insurance premiums	(48,760)	-
Partnership basis	<u>(45,872)</u>	<u>(18,604)</u>
	<u>(1,395,957)</u>	<u>(1,209,693)</u>
	<u>\$ 1,109,202</u>	<u>\$ 1,192,669</u>

### 10. POST RETIREMENT BENEFIT PLANS

#### Defined Contribution Plans

Meritus has a 401(k) Savings Plan. The plan is available to all Meritus employees. Meritus matches employee contributions for an amount up to 6% of each employee's base salary, subject to limitations. During 2014, the plan was amended as a safe harbor 401(k) plan.

Amounts charged to expense for the years ended June 30, 2014 and 2013 were \$5,691,638 and \$5,933,171, respectively.

The Hospital has frozen a 403(b) plan. Effective July 1, 2011, the plan was frozen to future contributions.

The Hospital and MEI each maintain an employee funded supplemental non-qualified retirement plan for certain employees. The plan requires the benefits be paid upon termination, retirement or death. The related liability is \$4,502,797 and \$4,094,548 at June 30, 2014 and 2013, respectively. Management has designated investments for the intended purpose of funding the liability when payable. Amounts charged to expense for the years ended June 30, 2014 and 2013 were \$0 and \$29,321, respectively.



# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 10. POST RETIREMENT BENEFIT PLANS - Continued

#### Defined Contribution Plans - continued

Meritus maintained a cash balance pension plan ("Plan") that was terminated for all participants effective June 30, 2011 and was fully liquidated as of January 31, 2013. The Plan covered substantially all current Hospital employees and maintained the balance for MEI employees previously employed by the Hospital. Benefits under the plan were generally based on the participant's age, years of service and compensation levels. Annual contributions were made to the plan in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") regulations. Employees were fully vested after three years of service.

The change in benefit obligation, plan assets, and funded status of the Plan for the year ended June 30, 2013 is shown below:

	<u>2013</u>
<b>Change in benefit obligation:</b>	
Benefit obligation at beginning of year	\$ 43,103,556
Interest cost	427,799
Actuarial gain	(86,261)
Benefits paid	<u>(43,445,094)</u>
Benefit obligation at end of year	\$ <u>-</u>
<b>Change in plan assets:</b>	
Fair value of plan assets at beginning of year	\$ 39,794,100
Actual return on plan assets	(33,208)
Contributions	3,684,202
Benefits paid	<u>(43,445,094)</u>
Fair value of plan assets at end of year	\$ <u>-</u>
Net amount recognized - accrued compensation benefit	\$ <u>-</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 10. POST RETIREMENT BENEFIT PLANS - Continued

#### Defined Contribution Plans - continued

The accumulated benefit obligation is \$0 at June 30, 2013

	2013
<b>Net periodic benefit cost</b>	
Interest cost	\$ 427,799
Expected return on plan assets	(29,041)
Prior service cost	12,203
Actuarial loss	<u>(36,215)</u>
	374,746
Settlement loss	<u>11,291,050</u>
	11,665,796
<b>Change in amounts recognized in unrestricted net assets</b>	<u>(11,291,050)</u>
	<u>\$ 374,746</u>

#### Assumptions

	2013
<b>Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30:</b>	
Discount rate	3.430%
Expected return on plan assets	0.800%
Rate of compensation increase	N/A

### 11. INSURANCE COVERAGE

Meritus has a wholly-owned insurance captive, MIC, to provide primary limits of insurance of \$1,000,000 per occurrence/\$3,000,000 aggregate for professional and general liability. The professional liability coverage is provided on a claims-made basis. In addition, MIC purchased reinsurance from an A rated reinsurer in the amount of \$15,000,000 to cover any potential liabilities above the \$1,000,000/\$3,000,000 primary limits, which were covered by MIC. The self-insured liabilities determined by an actuary for professional and general are discounted at 4%, and are included in other long-term liabilities in the consolidated balance sheets.

In addition, MIC provides stop loss health insurance coverage to Meritus for the medical expenses of its employees. Coverage is for expenses in excess of the deductible amount of 300,000 per individual. MIC purchased reinsurance for amounts in excess of \$600,000 per individual to fully reinsure this exposure. The reimbursement maximum under this reimbursement is \$400,000 per individual with no lifetime maximum per individual.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 11. INSURANCE COVERAGE - Continued

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

	2014	2013
Reserves for losses and loss adjustment expenses at beginning of year	\$ 5,545,046	\$ 5,734,653
Less reinsurance recoverable on unpaid claims	<u>(1,075,976)</u>	<u>(1,229,261)</u>
Net provision for losses and loss adjustment expenses at beginning of year	4,469,070	4,505,392
Incurred related to		
Current fiscal year	1,635,601	1,293,856
Prior fiscal years - change in estimates	<u>(607,520)</u>	<u>(251,755)</u>
Total losses and loss adjustment expenses incurred, net of reinsurance recoverable	1,028,081	1,042,101
Paid related to		
Current fiscal year	(69,332)	(5,184)
Prior fiscal years	<u>(992,919)</u>	<u>(1,073,239)</u>
Total losses and loss adjustment expenses paid, net of reinsurance recoverable	<u>(1,062,251)</u>	<u>(1,078,423)</u>
Net provision for losses and loss adjustment expenses at end of year	4,434,900	4,469,070
Add reinsurance recoverable on unpaid claims	<u>942,639</u>	<u>1,075,976</u>
Reserves for losses and loss adjustment expenses at end of year	<u>\$ 5,377,539</u>	<u>\$ 5,545,046</u>

### 12. COMMITMENTS AND CONTINGENCIES

#### Operating Lease Obligations

Meritus leases equipment under non-cancelable lease arrangements. In addition, Meritus leases office space in several locations under operating leases. Some of the leases provide for renewal options. Rent expense under all operating leases was \$5,031,558 and \$5,491,473 for the years ended June 30, 2014 and 2013, respectively.

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

### 12. COMMITMENTS AND CONTINGENCIES - Continued

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

2015	\$3,762,295
2016	2,560,964
2017	1,464,310
2018	954,853
2019	747,265

#### Litigation

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

### 13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Temporarily restricted for financial support of patients and hospital programs	\$2,081,136	\$1,656,395
Capital campaign	<u>3,011,685</u>	<u>4,635,477</u>
	<u>\$5,092,821</u>	<u>\$6,291,872</u>
Permanently restricted investments are to be held in perpetuity, the income of which is expendable to support charity care and health care education	<u>\$1,028,618</u>	<u>\$1,028,618</u>

# Meritus Medical Center, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014 and 2013

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### 14. FUNCTIONAL EXPENSES

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

	<u>2014</u>	<u>2013</u>
Health care services	\$336,942,301	\$341,402,901
Fundraising	674,382	719,503
Administration	<u>20,815,825</u>	<u>20,956,995</u>
	<u>\$358,432,508</u>	<u>\$363,079,399</u>

### 15. SUBSEQUENT EVENTS

Meritus evaluated subsequent events through October 7, 2014, the date these consolidated financial statements were available to be issued. All material matters are disclosed in the footnotes to the consolidated financial statements.

## **SUPPLEMENTARY INFORMATION**

# Meritus Medical Center, Inc.

## CONSOLIDATING BALANCE SHEET

June 30, 2014

ASSETS	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 15,118,502	\$ 7,418,690	\$ 311,797	\$ 179,563	\$ 23,028,552	\$ -	\$ 23,028,552
Restricted cash	3,334,609	-	-	-	3,334,609	-	3,334,609
Investments, short term	13,546,738	-	-	-	13,546,738	-	13,546,738
Current portion of assets held by trustee	9,319,752	-	950,000	-	10,269,752	-	10,269,752
Accounts receivable, net	66,143,454	17,566,572	52,225	3,463,682	87,225,933	(6,697,517)	80,528,416
Allowance for uncollectibles	(9,904,525)	(10,249,239)	-	-	(20,153,764)	-	(20,153,764)
Net patient accounts receivable	56,238,929	7,317,333	52,225	3,463,682	67,072,169	(6,697,517)	60,374,652
Supplies	5,890,883	1,249,428	-	-	7,140,311	-	7,140,311
Prepaid and other current assets	5,738,060	4,884,563	261,900	(112,812)	10,771,711	(2,934,600)	7,837,111
Total current assets	109,187,474	20,870,014	1,575,922	3,530,433	135,163,842	(9,632,117)	125,531,725
<b>EQUITY INVESTMENTS IN AFFILIATES</b>	42,023,558	3,624,567	-	-	45,648,125	(23,351,779)	22,296,346
<b>ASSETS LIMITED AS TO USE</b>							
Board designated investments	112,314,063	-	-	6,962,543	119,276,606	-	119,276,606
Supplemental retirement benefit invest	1,499,986	3,002,811	-	-	4,502,797	-	4,502,797
Temp & perm restricted donor funds	1,165,290	-	-	-	1,165,290	-	1,165,290
	114,979,339	3,002,811	-	6,962,543	124,944,693	-	124,944,693
Trusteed assets	18,431,372	-	-	-	18,431,372	-	18,431,372
Funds designated for insurance purposes	-	-	11,122,821	-	11,122,821	-	11,122,821
Total assets limited as to use	133,410,711	3,002,811	11,122,821	6,962,543	154,498,886	-	154,498,886
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	245,897,181	8,508,396	-	11,435	254,417,012	-	254,417,012
<b>PLEDGES RECEIVABLE, NET</b>	-	-	-	904,833	904,833	-	904,833
<b>DEFERRED FINANCING, NET</b>	2,390,299	-	-	-	2,390,299	-	2,390,299
<b>OTHER ASSETS</b>	6,951,601	1,494,666	942,640	-	9,388,907	(7,239,744)	2,149,163
Total assets	\$ 539,860,824	\$ 37,500,454	\$ 13,641,383	\$ 11,409,244	\$ 602,411,905	\$ (40,223,641)	\$ 562,188,264

**Meritus Medical Center, Inc.**  
**CONSOLIDATING BALANCE SHEET - CONTINUED**  
**June 30, 2014**

	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
<b>CURRENT LIABILITIES</b>							
Accounts payable and accrued expenses	\$ 11,096,781	\$ 4,473,553	\$ 989,702	\$ 59,472	\$ 16,619,508	\$ (2,652,518)	\$ 13,966,990
Accrued salaries, wages and withholdings	7,449,744	1,335,833	-	-	8,785,577	-	8,785,577
Accrued compensation benefit	8,653,929	2,622,827	-	10,114	11,286,870	-	11,286,870
Advances from third party payors	6,592,612	149,052	-	-	6,741,664	-	6,741,663
Accrued interest payable	7,267,031	-	-	-	7,267,031	-	7,267,031
Current maturity of long-term debt	4,556,890	245,814	-	-	4,802,704	-	4,802,704
Total current liabilities	45,616,987	8,827,079	989,702	69,586	55,503,354	(2,652,518)	52,850,835
<b>LONG TERM DEBT, NET OF CURRENT PORTION</b>	249,564,968	449,140	-	-	250,014,108	-	250,014,108
<b>ACCRUED RETIREMENT BENEFITS</b>	1,499,986	3,506,660	-	-	5,006,646	-	5,006,646
<b>OTHER LONG TERM LIABILITIES</b>	-	1,395,958	12,380,620	-	13,776,578	(6,591,718)	7,184,860
Total liabilities	296,681,941	14,178,837	13,370,322	69,586	324,300,686	(9,244,236)	315,056,449
<b>STOCKHOLDER'S EQUITY</b>							
Common stock	-	700,000	120,000	-	820,000	(820,000)	-
Paid-in capital	-	1,150,080	-	-	1,150,080	(1,150,080)	-
Retained earnings	-	21,921,408	151,061	-	22,072,469	(22,072,469)	-
Total stockholders' equity	-	23,771,488	271,061	-	24,042,549	(24,042,549)	-
<b>NET ASSETS</b>							
Unrestricted							
Meritus	233,992,306	(1,351,397)	-	3,787,436	236,428,345	4,049,886	240,478,231
Non-controlling interest	-	532,145	-	-	532,145	-	532,145
Total unrestricted net assets	233,992,306	(819,252)	-	3,787,436	236,960,490	4,049,886	241,010,376
Restricted net assets - temporary	8,157,959	369,381	-	7,552,222	16,079,562	(10,986,741)	5,092,821
Restricted net assets - permanent	1,028,618	-	-	-	1,028,618	-	1,028,618
Total net assets	243,178,883	(449,871)	-	11,339,658	254,068,670	(6,936,855)	247,131,815
Total liabilities and net assets	\$ 539,860,824	\$ 37,500,454	\$ 13,641,383	\$ 11,409,244	\$ 602,411,905	\$ (40,223,641)	\$ 562,188,264



# Meritus Medical Center, Inc.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS

Year end June 30, 2014

	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
<b>Unrestricted revenue, gains and other support</b>							
Net patient revenue	\$ 299,020,505	\$ 74,816,909	\$ -	\$ -	\$ 373,837,414	\$ (12,261,976)	\$ 361,575,439
Less (provisions) recoveries for bad debts	(15,222,793)	668,549	-	-	(14,554,244)	-	(14,554,244)
Net patient revenue less provisions for bad debts	283,797,712	75,485,458	-	-	359,283,170	(12,261,976)	347,021,195
Other revenue	12,880,060	1,351,949	1,425,359	389,517	16,046,885	(5,631,032)	10,415,853
Equity earnings in affiliates	(475,962)	1,473,732	-	-	997,770	694,916	1,692,686
Net assets released from restrictions for operations	642,196	-	-	1,280,179	1,922,375	(613,314)	1,309,061
	296,844,006	78,311,140	1,425,359	1,669,696	378,250,201	(17,811,405)	360,438,795
<b>Operating expenses</b>							
Salaries and wages	106,980,695	34,921,880	-	279,052	142,181,627	-	142,181,627
Benefits	32,236,471	8,288,930	-	104,854	40,630,255	(1,349,800)	39,280,455
Professional fees	11,196,748	-	-	-	11,196,748	-	11,196,748
Supplies and other	106,970,540	37,153,523	1,870,484	286,484	146,281,031	(16,818,509)	129,462,523
Interest	14,407,267	30,384	-	-	14,437,651	(2,619)	14,435,032
Depreciation and amortization	20,555,406	1,309,914	-	10,804	21,876,123	-	21,876,123
	292,347,127	81,704,631	1,870,484	681,194	376,603,435	(18,170,928)	358,432,508
Operating income	4,496,880	(3,393,491)	(445,125)	988,5020	1,646,766	359,523	2,006,287
<b>Non-operating gains (losses), net</b>							
Investment returns, net	13,433,011	544,735	445,125	1,313,951	15,736,822	-	15,736,822
Other, net	1,052,974	-	-	(1,464,897)	(411,923)	363,318	(48,605)
Income tax benefit	-	1,497,360	-	-	1,497,360	-	1,497,360
Excess of revenue over expenses	18,982,865	(1,351,396)	-	837,556	18,469,025	722,841	19,191,864
<b>Deficiency in revenue over expenses attributable to non-controlling interest</b>	-	369,381	-	-	369,381	-	369,381
Excess of revenue over expenses attributable to Meritus	18,982,865	(982,014)	-	837,556	18,838,406	722,841	19,561,245

# Meritus Medical Center, Inc.

## CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGE IN NET ASSETS - CONTINUED

Year end June 30, 2014

	Meritus Medical Center	Meritus Holdings Consolidated	Meritus Insurance Company	Meritus Healthcare Foundation	Consolidating Total	Consolidating Entries	Consolidated Total
<b>Other changes in unrestricted net assets</b>							
Change in non-controlling interest	-	(369,381)	-	-	(369,381)	-	(369,381)
Net assets released from restriction for property, plant and equipment	629,769	-	-	-	629,769	-	629,769
Increase in unrestricted net assets	19,612,634	(1,351,395)	-	837,556	19,098,794	722,841	19,821,633
<b>Temporarily restricted net assets</b>							
Contributions	1,311,522	-	-	723,528	2,035,050	(1,295,371)	739,679
Net assets released from restriction for property, plant and equipment	(629,769)	-	-	-	(629,769)	-	(629,769)
Net assets held by MHF	4,390,378	-	-	-	4,390,378	(4,390,378)	-
Net assets released from restriction for operations	(642,096)	-	-	(1,280,179)	(1,922,275)	613,314	(1,308,961)
Increase (decrease) in temporary restricted net assets	4,430,035	-	-	(556,650)	3,873,384	(5,072,436)	(1,199,051)
INCREASE (DECREASE) IN NET ASSETS	24,042,669	(1,351,397)	-	280,905	22,972,177	(4,349,595)	18,622,582
<b>Net assets</b>							
Beginning of year	219,136,214	24,673,014	271,061	11,058,753	255,139,042	(26,629,809)	228,509,233
End of year	<u>\$ 243,178,883</u>	<u>\$ 23,321,617</u>	<u>\$ 271,061</u>	<u>\$ 11,339,658</u>	<u>\$ 278,111,219</u>	<u>\$ (30,979,404)</u>	<u>\$ 247,131,815</u>



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