UNIVERSAL HEALTH REALTY INCOME TRUST
Form 10-Q
August 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-9321

UNIVERSAL HEALTH REALTY INCOME TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	23-6858580
(State or other jurisdiction of	(I. R. S. Employer
incorporation or organization)	Identification No.)
UNIVERSAL CORPORATE CENTER	
367 SOUTH GULPH ROAD	
KING OF PRUSSIA, PENNSYLVANIA	19406

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (610) 265-0688

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated Filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of common shares of beneficial interest outstanding at July 31, 2018—13,745,138

HEALTH REALTY INCOME TRUST

INDEX

This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2018. In this Quarterly Report, "we," "us," "our" and the "Trust" refer to Universal Health Realty Income Trust and its subsidiaries.

As disclosed in this Quarterly Report, including in Note 2 to the Condensed Consolidated Financial Statements—Relationship with Universal Health Services, Inc. ("UHS") and Related Party Transactions, a wholly-owned subsidiary of UHS (UHS of Delaware, Inc.) serves as our Advisor pursuant to the terms of an annually renewable Advisory Agreement dated December 24, 1986. Our officers are all employees of UHS through its wholly-owned subsidiary, UHS of Delaware, Inc. In addition, three of our hospital facilities are leased to subsidiaries of UHS, and subsidiaries of UHS are tenants of seventeen medical office buildings or free-standing emergency departments, that are either wholly or jointly-owned by us. Any reference to "UHS" or "UHS facilities" in this report is referring to Universal Health Services, Inc.'s subsidiaries, including UHS of Delaware, Inc.

In this Quarterly Report, the term "revenues" does not include the revenues of the four unconsolidated limited liability companies ("LLCs") in which we have various non-controlling equity interests ranging from 33% to 95%. We currently account for our share of the income/loss from these investments by the equity method (see Note 5 to the Condensed Consolidated Financial Statements included herein).

Part I. Financial Information

Item I. Financial Statements

Universal Health Realty Income Trust

Condensed Consolidated Statements of Income

For the Three and Six Months Ended June 30, 2018 and 2017

(amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Base rental - UHS facilities	$4,187	$4,303	$8,363	$8,383
Base rental - Non-related parties	10,217	10,116	20,544	20,086
Bonus rental - UHS facilities	1,204	1,242	2,530	2,530
Tenant reimbursements and other - Non-related parties	4,200	2,239	6,615	4,432
Tenant reimbursements and other - UHS facilities	303	245	598	464
	20,111	18,145	38,650	35,895
Expenses:				
Depreciation and amortization	6,111	6,295	12,398	12,440
Advisory fees to UHS	948	874	1,852	1,740
Other operating expenses	5,445	4,923	10,653	9,628
Transaction costs	-	56	-	126
	12,504	12,148	24,903	23,934
Income before equity in income of unconsolidated limited liability companies ("LLCs"), interest expense, hurricane insurance recovery proceeds and gain	7,607	5,997	13,747	11,961
Equity in income of unconsolidated LLCs	425	498	854	1,575
Hurricane insurance recovery proceeds in excess of damaged property write-downs	-	-	4,535	-
Hurricane business interruption insurance recovery proceeds	194	-	1,162	-
Gain on Arlington transaction	-	-	-	27,196
Interest expense, net	(2,421)	(2,462)	(4,889)	(5,137)
Net income	$5,805	$4,033	$15,409	$35,595
Basic earnings per share	$0.42	$0.30	$1.12	$2.62
Diluted earnings per share	$0.42	$0.30	$1.12	$2.62
Weighted average number of shares outstanding - Basic and Diluted	13,720	13,583	13,719	13,581

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust

Condensed Consolidated Statements of Comprehensive Income

For the Three and Six Months Ended June 30, 2018 and 2017

(dollar amounts in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$5,805	$4,033	$15,409	$35,595
Other comprehensive income/(loss):				
Unrealized derivative gain/(loss) on interest rate caps	6	(75)	154	(93)
Total other comprehensive income/(loss):	6	(75)	154	(93)
Total comprehensive income	$5,811	$3,958	$15,563	$35,502

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust

Condensed Consolidated Balance Sheets

(dollar amounts in thousands)

(unaudited)

	June 30, 2018	December 31, 2017
Assets:		
Real Estate Investments:		
Buildings and improvements and construction in progress	$553,970	$ 546,634
Accumulated depreciation	(163,434)	(153,379)
	390,536	393,255
Land	53,396	53,142
Net Real Estate Investments	443,932	446,397
Investments in limited liability companies ("LLCs")	4,655	4,671
Other Assets:		
Cash and cash equivalents	5,732	3,387
Base and bonus rent and other receivables from UHS	2,610	2,680
Rent receivable - other	6,829	6,422
Intangible assets (net of accumulated amortization of $25.7 million and $28.7 million at June 30, 2018 and December 31, 2017, respectively)	19,253	20,559
Deferred charges and other assets, net	7,991	5,892
Total Assets	$491,002	$ 490,008
Liabilities:		
Line of credit borrowings	$197,250	$ 181,050
Mortgage notes payable, non-recourse to us, net	52,806	75,359
Accrued interest	504	540
Accrued expenses and other liabilities	12,193	12,188
Dividends payable	9,156	-
Tenant reserves, deposits and deferred and prepaid rents	11,103	10,310
Total Liabilities	283,012	279,447
Equity:		
Preferred shares of beneficial interest, $.01 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common shares, $.01 par value; 95,000,000 shares authorized; issued and outstanding: 2018 - 13,744,229; 2017 - 13,735,369	137	137
Capital in excess of par value	265,544	265,335

Cumulative net income	633,529	618,120
Cumulative dividends	(691,518)	(673,175)
Accumulated other comprehensive income	298	144
Total Equity	207,990	210,561
Total Liabilities and Equity	$491,002	$ 490,008

See accompanying notes to these condensed consolidated financial statements.

Universal Health Realty Income Trust

Condensed Consolidated Statement of Cash Flows

(dollar amounts in thousands)

(unaudited)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$15,409	$35,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,288	12,476
Amortization of debt premium	(23)	(100)
Stock-based compensation expense	254	252
Hurricane insurance recovery proceeds in excess of damaged property write-downs	(4,535)	—
Gain on Arlington transaction	—	(27,196)
Changes in assets and liabilities:		
Rent receivable	(337)	(683)
Accrued expenses and other liabilities	(445)	(398)
Tenant reserves, deposits and deferred and prepaid rents	713	79
Accrued interest	(36)	(62)
Leasing costs paid	(597)	(403)
Other, net	517	783
Net cash provided by operating activities	23,208	20,343
Cash flows from investing activities:		
Investments in LLCs	(369)	(532)
Repayments of advances made to LLC	—	216
Cash distributions in excess of income from LLCs	501	734
Additions to real estate investments, net	(4,246)	(6,537)
Cash proceeds received from divestiture of property, net of restricted cash	—	53,967
Restricted cash proceeds from divestiture of property	—	11,253
Hurricane insurance recovery proceeds in excess of damaged property write-downs	4,535	—
Hurricane remediation payments	(192)	—
Deposits on real estate	—	(150)
Net cash paid for acquisition of property	(4,053)	—
Cash paid to acquire minority interests in majority-owned LLCs	—	(7,890)
Net cash (used in)/provided by investing activities	(3,824)	51,061
Cash flows from financing activities:		
Net borrowings/(repayments) on line of credit	16,200	(18,650)
Repayments of mortgage notes payable	(22,585)	(36,473)
Proceeds from mortgage notes payable	—	13,200
Financing costs paid	(1,527)	(284)
Dividends paid	(9,187)	(17,887)
Issuance of shares of beneficial interest, net	60	122

Net cash used in financing activities	(17,039)	(59,972)
Increase in cash, cash equivalents and restricted cash	2,345	11,432
Cash, cash equivalents and restricted cash, beginning of period	3,387	3,930
Cash, cash equivalents and restricted cash, end of period	$5,732	$15,362
Supplemental disclosures of cash flow information:		
Interest paid	$4,711	$5,039

See accompanying notes to these condensed consolidated financial statements.

UNIVERSAL HEALTH REALTY INCOME TRUST

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(unaudited)

(1) General

This Quarterly Report on Form 10-Q is for the quarter ended June 30, 2018. In this Quarterly Report, "we," "us," "our" and the "Trust" refer to Universal Health Realty Income Trust and its subsidiaries.

In this Quarterly Report on Form 10-Q, the term "revenues" does not include the revenues of the unconsolidated LLCs in which we have various non-controlling equity interests ranging from 33% to 95%. As of June 30, 2018, we had investments in four jointly-owned LLCs/LPs which own medical office buildings, all of which are accounted for by the equity method (see Note 5). These LLCs are included in our financial statements for all periods presented on an unconsolidated basis since they are not variable interest entities for which we are the primary beneficiary, nor do we hold a controlling voting interest.

The financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the SEC and reflect all normal and recurring adjustments which, in our opinion, are necessary to fairly present results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the accompanying disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the financial statements, the notes thereto and accounting policies included in our Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. Certain prior period amounts on our statement of cash flows have been reclassified to conform to the current period presentation in connection with our adoption of ASU No. 2016-18, Restricted Cash.

(2) Relationship with Universal Health Services, Inc. ("UHS") and Related Party Transactions

Leases: We commenced operations in 1986 by purchasing properties of certain subsidiaries from UHS and immediately leasing the properties back to the respective subsidiaries. Most of the leases were entered into at the time we commenced operations and provided for initial terms of 13 to 15 years with up to six additional 5-year renewal terms. The current base rentals and lease and rental terms for each of the three hospital facilities leased to subsidiaries of UHS are provided below. The base rents are paid monthly and each lease also provides for additional or bonus rents which are computed and paid on a quarterly basis based upon a computation that compares current quarter revenue to a corresponding quarter in the base year. The three hospital leases with subsidiaries of UHS are unconditionally guaranteed by UHS and are cross-defaulted with one another.

The combined revenues generated from the leases on the UHS hospital facilities accounted for approximately 20% and 22% of our consolidated revenues for the three months ended June 30, 2018 and 2017, respectively, and approximately 21% and 23% of our consolidated revenues for the six months ended June 30, 2018 and 2017, respectively. In addition, we have seventeen medical office buildings ("MOBs"), or free-standing emergency departments ("FEDs"), that are either wholly or jointly-owned by us, that include tenants which are subsidiaries of UHS. The aggregate revenues generated from UHS-related tenants comprised approximately 28% and 32% of our consolidated revenues during the three-month periods ended June 30, 2018 and 2017, respectively, and approximately 30% and 32% of our consolidated revenues during the six-month periods ended June 30, 2018 and 2017, respectively.

Pursuant to the Master Lease Document by and among us and certain subsidiaries of UHS, dated December 24, 1986 (the "Master Lease"), which governs the leases of all hospital properties with subsidiaries of UHS, UHS has the option to renew the leases at the lease terms described below by providing notice to us at least 90 days prior to the termination of the then current term. UHS also has the right to purchase the respective leased facilities at the end of the lease terms or any renewal terms at the appraised fair market value. In addition, the Master Lease, as amended during 2006, includes a change of control provision whereby UHS has the right, upon one month's notice should a change of control of the Trust occur, to purchase any or all of the three leased hospital properties listed below at their appraised fair market value. Additionally, UHS has rights of first refusal to: (i) purchase the respective leased facilities during and for 180 days after the lease terms at the same price, terms and conditions of any third-party offer, or; (ii) renew the lease on the respective leased facility at the end of, and for 180 days after, the lease term at the same terms and conditions pursuant to any third-party offer.

In June, 2018, McAllen Medical Center, a wholly-owned subsidiary of UHS, provided notice to us, exercising the 5-year renewal option on their lease. The renewal extended the lease term on this facility, at the existing lease rate, to December, 2026.

7

The table below details the existing lease terms and renewal options for our three acute care hospitals operated by wholly-owned subsidiaries of UHS:

Hospital Name	Annual Minimum Rent	End of Lease Term	Renewal Term (years)	
McAllen Medical Center	$5,485,000	December, 2026	5	(a)
Wellington Regional Medical Center	$3,030,000	December, 2021	10	(b)
Southwest Healthcare System, Inland Valley Campus	$2,648,000	December, 2021	10	(b)

(a) UHS has one 5-year renewal option at the existing lease rate (through 2031).
(b) UHS has two 5-year renewal options at fair market value lease rates (2022 through 2031).

Management cannot predict whether the leases with subsidiaries of UHS, which have renewal options at existing lease rates or fair market value lease rates, or any of our other leases, will be renewed at the end of their lease term. If the leases are not renewed at their current rates or the fair market value lease rates, we would be required to find other operators for those facilities and/or enter into leases on terms potentially less favorable to us than the current leases. In addition, if subsidiaries of UHS exercise their options to purchase the respective leased hospital or FED facilities upon expiration of the lease terms, our future revenues could decrease if we were unable to earn a favorable rate of return on the sale proceeds received, as compared to the rental revenue currently earned pursuant to the these leases.

In April, 2017, the recently constructed Henderson Medical Plaza MOB received its certificate of occupancy. Henderson Medical Plaza is located on the campus of the Henderson Hospital Medical Center, a newly constructed acute care hospital that is owned and operated by a subsidiary of UHS and was completed and opened during the fourth quarter of 2016. A ground lease has been executed between the limited liability company that owns the MOB and a subsidiary of UHS, the terms of which include a seventy-five year lease term with two, ten-year renewal options at the lessee’s option at an adjusting lease rate. We have invested net cash of approximately $13.0 million on the development and construction of this MOB as of June 30, 2018.

Advisory Agreement: UHS of Delaware, Inc. (the “Advisor”), a wholly-owned subsidiary of UHS, serves as Advisor to us under an Advisory Agreement (the “Advisory Agreement”) dated December 24, 1986. Pursuant to the Advisory Agreement, the Advisor is obligated to present an investment program to us, to use its best efforts to obtain investments suitable for such program (although it is not obligated to present any particular investment opportunity to us), to provide administrative services to us and to conduct our day-to-day affairs. All transactions between us and UHS must be approved by the Trustees who are unaffiliated with UHS (the “Independent Trustees”). In performing its services under the Advisory Agreement, the Advisor may utilize independent professional services, including accounting, legal, tax and other services, for which the Advisor is reimbursed directly by us. The Advisory Agreement may be terminated for any reason upon sixty days written notice by us or the Advisor. The Advisory Agreement expires on December 31 of each year; however, it is renewable by us, subject to a determination by the Independent Trustees, that the Advisor’s performance has been satisfactory. Our advisory fee is 0.70% of our average invested real estate assets, as derived from our consolidated balance sheet. In December of 2017, based upon a review of our advisory fee and other general and administrative expenses as compared to an industry peer group, the Advisory Agreement was renewed for 2018 pursuant to the same terms as the Advisory Agreement in place since 2013.

The average real estate assets for advisory fee calculation purposes exclude certain items from our consolidated balance sheet such as, among other things, accumulated depreciation, cash and cash equivalents, base and bonus rent receivables, deferred charges and other assets. The advisory fee is payable quarterly, subject to adjustment at year-end based upon our audited financial statements. In addition, the Advisor is entitled to an annual incentive fee equal to 20% of the amount by which cash available for distribution to shareholders for each year, as defined in the Advisory Agreement, exceeds 15% of our equity as shown on our consolidated balance sheet, determined in accordance with generally accepted accounting principles without reduction for return of capital dividends. The Advisory Agreement defines cash available for distribution to shareholders as net cash flow from operations less deductions for, among other things, amounts required to discharge our debt and liabilities and reserves for replacement and capital improvements to our properties and investments. No incentive fees were paid at any time since our inception since the incentive fee requirements were not achieved. Advisory fees incurred and paid (or payable) to UHS amounted to $948,000 and $874,000 for the three months ended June 30, 2018 and 2017, respectively, and were based upon average invested real estate assets of $542 million and $499 million for the three-month periods ended June 30, 2018 and 2017, respectively. Advisory fees incurred and paid (or payable) to UHS amounted to $1.9 million and $1.7 million for the six months ended June 30, 2018 and 2017, respectively, and were based upon average invested real estate assets of $529 million and $497 million for the six-month periods ended June 30, 2018 and 2017, respectively

Officers and Employees: Our officers are all employees of a wholly-owned subsidiary of UHS and although as of June 30, 2018 we had no salaried employees, our officers do typically receive annual stock-based compensation awards in the form of restricted stock.

In special circumstances, if warranted and deemed appropriate by the Compensation Committee of the Board of Trustees, our officers may also receive one-time special compensation awards in the form of restricted stock and/or cash bonuses.

Share Ownership: At each of June 30, 2018 and December 31, 2017, UHS owned 5.7%, of our outstanding shares of beneficial interest.

SEC reporting requirements of UHS: UHS is subject to the reporting requirements of the SEC and is required to file annual reports containing audited financial information and quarterly reports containing unaudited financial information. Since the aggregate revenues generated from the UHS-related tenants comprised 28% and 32% of our consolidated revenues during the three-month periods ended June 30, 2018 and 2017, respectively, and 30% and 32% of our consolidated revenues during the six-month periods ended June 30, 2018 and 2017, respectively, and since a subsidiary of UHS is our Advisor, you are encouraged to obtain the publicly available filings for Universal Health Services, Inc. from the SEC's website. These filings are the sole responsibility of UHS and are not incorporated by reference herein.

(3) Dividends

Dividends:

We declared dividends of $9.2 million, or $.67 per share, during the second quarter of 2018, which were paid on July 3, 2018. We declared and paid dividends of $9.0 million, or $.66 per share, during the second quarter of 2017. During the six-month period ended June 30, 2018, we declared dividends of $18.3 million, or $1.335 per share, $9.2 million of which was paid on July 3, 2018. We declared and paid dividends of $17.9 million, or $1.315 per share, during the six-month period ended June 30, 2017.

(4) Acquisitions and Dispositions

Six Months Ended June 30, 2018:

Acquisitions:

In June, 2018, we acquired the Beaumont Medical Sleep Center Building located in Southfield, Michigan for a purchase price of approximately $4.0 million. This building is 100% leased under the terms of a triple net lease with a remaining initial lease term of approximately 9.5 years at the time of purchase, with two, five year renewal options.

Dispositions:

There were no dispositions during the first six months of 2018.

Six Months Ended June 30, 2017:

Acquisitions:

There were no acquisitions during the first six months of 2017.

Disposition:

During March, 2017, Arlington Medical Properties, LLC, a formerly jointly-owned limited liability company in which we held an 85% noncontrolling ownership interest, sold the real estate assets of St. Mary's Professional Office Building ("St. Mary's") as part of a series of planned tax deferred like-kind exchange transactions pursuant to Section 1031 of the Internal Revenue Code. St. Mary's is a multi-tenant medical office building located in Reno, Nevada. A third party member owned the remaining 15% of Arlington Medical Properties LLC, which we acquired prior to the divestiture of St. Mary's for a purchase price of $7.9 million. The divestiture of St. Mary's generated an aggregate of approximately $57.3 million of net cash proceeds to us (approximately $11.3 million of which was held as restricted cash by a qualified 1031 exchange intermediary until the third quarter of 2017). These proceeds, which were net of closing costs and the purchase price paid for the minority member's ownership interest in the LLC, include repayment to us of a $21.4 million member loan. Our results of operations for the six-month period ended June 30, 2017 included a net gain of $27.2 million (net of related transaction costs) recorded in connection with this transaction.

(5) Summarized Financial Information of Equity Affiliates

In accordance with the Financial Accounting Standards Board's ("FASB") standards and guidance relating to accounting for investments and real estate ventures, we account for our unconsolidated investments in LLCs/LPs which we do not control using the equity method. The third-party members in these investments have equal voting rights with regards to issues such as, but not limited to: (i) divestiture of property; (ii) annual budget approval, and; (iii) financing commitments. These investments, which represent 33% to 95% non-controlling ownership interests, are recorded initially at our cost and subsequently adjusted for our net equity in the net income, cash contributions to, and distributions from, the investments. Pursuant to certain agreements, allocations of sales proceeds and profits and losses of some of the LLC investments may be allocated disproportionately as compared to ownership interests after specified preferred return rate thresholds have been satisfied.

In the Condensed Consolidated Statements of Cash Flows, distributions and equity in net income are presented net as cash flows from operating activities. Cumulative distributions received exceeding cumulative equity in earnings represent returns of investments and are classified as cash flows from investing activities in the Condensed Consolidated Statements of Cash Flows.

At June 30, 2018, we have non-controlling equity investments or commitments in four jointly-owned LLCs/LPs which own MOBs. As of June 30, 2018, we accounted for these LLCs/LPs on an unconsolidated basis pursuant to the equity method since they are not variable interest entities and we do not have a controlling voting interest. The majority of these entities are joint-ventures between us and non-related parties that hold minority ownership interests in the entities. Each entity is generally self-sustained from a cash flow perspective and generates sufficient cash flow to meet its operating cash flow requirements and service the third-party debt (if applicable) that is non-recourse to us. Although there is typically no ongoing financial support required from us to these entities since they are cash-flow sufficient, we may, from time to time, provide funding for certain purposes such as, but not limited to, significant capital expenditures, leasehold improvements and debt financing. Although we are not obligated to do so, if approved by us at our sole discretion, additional cash fundings are typically advanced as equity or member loans. These entities maintain property insurance on the properties.

The following property table represents the four LLCs in which we own a noncontrolling interest and were accounted for under the equity method as of June 30, 2018:

Name of LLC/LP	Ownership		Property Owned by LLC/LP
Suburban Properties	33	%	St. Matthews Medical Plaza II
Brunswick Associates (a.)	74	%	Mid Coast Hospital MOB
Grayson Properties (b.)	95	%	Texoma Medical Plaza
FTX MOB Phase II (c.)	95	%	Forney Medical Plaza II

(a.) This LLC has a third-party term loan, which is non-recourse to us, of $8.4 million outstanding as of June 30, 2018.
(b.) This building is on the campus of a UHS hospital and has tenants that include subsidiaries of UHS. This LP has a third-party term loan, which is non-recourse to us, of $14.1 million outstanding as of June 30, 2018.
(c.) We have committed to invest up to $2.5 million in equity and debt financing, of which $2.1 million has been funded as of June 30, 2018. This LP has a third-party term loan, which is non-recourse to us, of $5.1 million outstanding as of June 30, 2018.

Below are the condensed combined statements of income (unaudited) for the LLCs/LPs accounted for under the equity method during the three and six months ended June 30, 2018 and 2017. The six months ended June 30, 2017 include the financial results of Arlington Medical Properties, LLC, through the March 13, 2017 divestiture date.

	Three Months Ended	Six Months Ended
	June 30,	June 30,

	2018	2017	2018	2017
	(amounts in thousands)		(amounts in thousands)	
Revenues	$2,451	$2,410	$4,913	$5,993
Operating expenses	977	939	1,935	2,189
Depreciation and amortization	438	421	895	1,064
Interest, net	328	337	656	899
Net income	$708	$713	$1,427	$1,841
Our share of net income (a.)	$425	$498	$854	$1,575

(a.) Our share of net income for the six months ended June 30, 2017 includes approximately $284,000 of interest income earned by us on an advance made to Arlington Medical Properties, LLC. This advance was repaid to us effective with the previously mentioned Arlington Medical Properties, LLC transaction during March, 2017, therefore there was no interest income earned by us on this advance subsequent to March, 2017.

Below are the condensed combined balance sheets (unaudited) for the four above-mentioned LLCs that were accounted for under the equity method as of June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
	(amounts in thousands)	
Net property, including construction in progress	$32,345	$ 33,111
Other assets	3,659	3,560
Total assets	$36,004	$ 36,671
Other liabilities	$2,654	$ 3,067
Mortgage notes payable, non-recourse to us	27,548	27,839
Equity	5,802	5,765
Total liabilities and equity	$36,004	$ 36,671
Investments in LLCs before amounts included in accrued expenses and other liabilities	$4,655	$ 4,671
Amounts included in accrued expenses and other liabilities	(2,011)	(1,895)
Our share of equity in LLCs, net	$2,644	$ 2,776

As of June 30, 2018, and December 31, 2017, aggregate principal amounts due on mortgage notes payable by unconsolidated LLCs, which are accounted for under the equity method and are non-recourse to us, are as follows (amounts in thousands):

Name of LLC/LP	Mortgage Loan Balance (a.) 6/30/2018	12/31/2017	Maturity Date
FTX MOB Phase II (5.00% fixed rate mortgage loan)	$5,134	$ 5,202	October, 2020
Grayson Properties (5.034% fixed rate mortgage loan)	14,060	14,191	September, 2021
Brunswick Associates (3.64% fixed rate mortgage loan)	8,354	8,446	December, 2024
	$27,548	$ 27,839	

(a.) All mortgage loans require monthly principal payments through maturity and include a balloon principal payment upon maturity.

Pursuant to the operating and/or partnership agreements of the four LLCs/LPs in which we continue to hold non-controlling ownership interests, the third-party member and/or the Trust, at any time, potentially subject to certain conditions, have the right to make an offer (“Offering Member”) to the other member(s) (“Non-Offering Member”) in which it either agrees to: (i) sell the entire ownership interest of the Offering Member to the Non-Offering Member (“Offer to Sell”) at a price as determined by the Offering Member (“Transfer Price”), or; (ii) purchase the entire ownership interest of the Non-Offering Member (“Offer to Purchase”) at the equivalent proportionate Transfer Price. The Non-Offering Member has 60 to 90 days to either: (i) purchase the entire ownership interest of the Offering Member at the Transfer Price, or; (ii) sell its entire ownership interest to the Offering Member at the equivalent proportionate Transfer Price. The closing of the transfer must occur within 60 to 90 days of the acceptance by the Non-Offering Member.

(6) Recent Accounting Pronouncements

On January 1, 2018, we adopted ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which adds or clarifies guidance of the classification of certain cash receipts and payments in the statement of cash flows, and ASU 2016-18, Restricted Cash, which requires an entity to show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted these ASUs by applying a retrospective transition method which requires a reclassification of our Consolidated Statement of Cash Flows for the period ending June 30, 2017. The following table provides a reconciliation of cash, cash equivalents and restricted cash in our Consolidated Balance Sheets to the total amount shown in our Consolidated Statements of Cash Flows:

(In thousands)	June 30, 2018	June 30, 2017
Cash and cash equivalents	$5,732	$4,109
Restricted cash	-	11,253
Total Cash, Cash Equivalents and Restricted Cash	$5,732	$15,362

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current Generally Accepted Accounting Principles in the United States of America “GAAP”) for an entity to use bright-line tests in determining lease classification. The FASB also issued an Exposure Draft on January 5, 2018 proposing to amend ASU 2016-02, which would provide lessors with a practical expedient, by class of underlying assets, to not separate non-lease components from the related lease components and, instead, to account for those components as a single lease component, if certain criteria are met. ASU 2016-02 and the related Exposure Draft are not effective for us until January 1, 2019, with early adoption permitted. We are continuing to evaluate this guidance and the impact to us, as both lessor and lessee, on our Consolidated Financial Statements.

On January 1, 2018, we adopted ASU 2014-09, Revenue From Contracts With Customers (“ASU 2014-09”), which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted the standard on January 1, 2018, using the modified retrospective approach, which requires a cumulative-effect adjustment to equity as of the date of adoption. ASU 2014-09 states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. The adoption of this standard did not have a significant impact on our consolidated financial statements and no cumulative adjustment was recorded upon adoption, as a substantial portion of our revenue consists of rental income from leasing arrangements, which is specifically excluded from ASU 2014-09.

Our revenues consist primarily of rentals received from tenants, which are comprised of minimum rent (base rentals) and bonus rentals and reimbursements from tenants for their pro-rata share of expenses such as common area maintenance costs, real estate taxes and utilities. We apply FASB ASC Topic 606, “Revenue from Contracts with Customers” with respect to tenant reimbursement and other property income, which totaled $2.8 million and $2.5 million for the three months ended June 30, 2018 and 2017, respectively, and $5.5 million and $4.9 million for the six months ended June 30, 2018 and 2017, respectively. The 2018 three and six month tenant reimbursement and other property income amounts also include a $1.7 million early lease termination fee recorded during the three months ended June 30, 2018. Tenant reimbursements for operating expenses are accrued as revenue and generally due monthly from tenants. Since payments with respect to tenant reimbursement income are generally due monthly, no contract assets or liabilities have been recognized. Revenue consisting of rental income from leasing arrangements are specifically excluded from FASB ASC Topic 606.

(7) Debt and Financial Instruments

Debt:

Management routinely monitors and analyzes the Trust’s capital structure in an effort to maintain the targeted balance among capital resources including the level of borrowings pursuant to our $300 million revolving credit agreement, the level of borrowings pursuant to non-recourse mortgage debt secured by the real property of our properties and our level of equity including consideration of additional equity issuances. This ongoing analysis considers factors such as the current debt market and interest rate environment, the current/projected occupancy and financial performance of our properties, the current loan-to-value ratio of our properties, the Trust’s current stock price, the capital resources required for anticipated acquisitions and the expected capital to be generated by anticipated divestitures. This analysis, together with consideration of the Trust’s current balance of revolving credit agreement borrowings, non-recourse mortgage borrowings and equity, assists management in deciding which capital resource to utilize when events such as refinancing of specific debt components occur or additional funds are required to finance the Trust's growth.

On March 27, 2018, we entered into a revolving credit agreement ("Credit Agreement") which, among other things, increased our borrowing capacity by $50 million to $300 million and extended the maturity date from our previously existing facility. The replacement Credit Agreement, which is scheduled to mature in March, 2022, includes a $40 mi