GARRETT REGIONAL MEDICAL CENTER

A PROUD AFFILIATE OF WVU Medicine

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2022 and 2021

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FORVIS

Independent Auditor's Report

Board of Governors
Garrett County Memorial Hospital
Oakland, MD

Opinion

We have audited the accompanying consolidated financial statements of Garrett County Memorial Hospital and subsidiaries, d/b/a Garrett Regional Medical Center (collectively, the System), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and other changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2022 and 2021, and the results of its operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

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

FORVIS, LLP

Charleston, WV
September 30, 2022

Garrett Regional Medical Center
Consolidated Balance Sheets
June 30, 2022 and 2021

		2022		2021
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**18,189,451**	$	24,393,859
Short-term investments -- Note 3		**1,696,065**		15,664,158
Patient accounts receivable		**8,529,086**		7,806,379
Other amounts receivable		**4,162,086**		1,325,335
Assets whose use is limited by donors and others -- Note 3		**274,470**		160,165
Inventories		**1,978,333**		1,917,942
Prepaid expenses		**907,150**		788,004
Total current assets		**35,736,641**		52,055,842
Noncurrent assets:				
Property and equipment, net -- Note 5		**35,873,014**		37,341,341
Operating lease right-of-use asset		**74,072**		-
Insurance recoverable -- Note 11		**590,138**		647,016
Long-term investments -- Note 3		**7,936,727**		8,933,834
Investments in affiliates -- Note 4		**299,534**		360,811
Assets whose use is limited by donors and others, less current portion -- Note 3		**133,374**		225,725
Assets whose use is limited by Board of Governors -- Note 3		**2,500,000**		698,000
Total noncurrent assets		**47,406,859**		48,206,727
Total assets	**$**	**83,143,500**	$	100,262,569

		2022		2021
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	**$**	**1,343,970**	$	1,701,776
Accrued salaries and wages		**3,445,922**		3,865,923
Advances from third parties		**543,972**		1,363,112
Medicare advance contract liability, current -- Note 1		**2,354,075**		5,168,635
Current portion of long-term debt -- Note 6		**833,333**		1,206,317
Current portion of operating lease obligations		**66,242**		-
Current portion of finance lease obligations		**16,004**		-
Other current liabilities -- Note 11		**599,980**		714,915
Total current liabilities		**9,203,498**		14,020,678
Long-term debt, net of $75,000 and $34,085 of unamortized debt issuance costs at June 30, 2022 and 2021, respectively, less current portion -- Note 6		**11,591,667**		10,502,532
Medicare advance contract liability, less current portion -- Note 1		**-**		4,876,888
Long-term operating lease obligations		**8,784**		-
Long-term finance lease obligations		**83,898**		-
Pension obligation -- Note 8		**16,595,398**		31,644,327
Other long-term liabilities -- Note 11		**1,298,093**		1,292,457
Total liabilities		**38,781,338**		62,336,882
Net assets:				
Without donor restrictions		**43,672,232**		37,197,730
With donor restrictions -- Notes 7 and 16		**689,930**		727,957
Total net assets		**44,362,162**		37,925,687
Total liabilities and net assets	**$**	**83,143,500**	$	100,262,569

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Operations and Other Changes in Net Assets Without Donor Restrictions
Years Ended June 30, 2022 and 2021

	2022	2021
Revenue:		
Net patient service revenue	**$ 67,558,052**	$ 61,860,231
CARES Act Provider Relief Funds -- Note 17	**3,038,700**	5,365,039
Other revenue	**1,432,486**	925,605
Net assets released from restriction for use in operations -- Note 7	**573,159**	102,940
Total revenue	**72,602,397**	68,253,815
Expenses -- Note 13:		
Salaries and wages	**32,741,998**	28,843,186
Employee benefits -- Note 8	**8,901,768**	8,131,211
Supplies	**14,417,136**	12,504,801
Utilities	**971,593**	859,728
Purchased services	**13,705,127**	10,065,726
Depreciation and amortization -- Note 5	**4,562,104**	4,631,109
Interest -- Note 6	**430,812**	456,696
Other expenses	**1,778,403**	1,611,868
Total operating expenses	**77,508,941**	67,104,325
(Loss) income from operations, net	**(4,906,544)**	1,149,490
Other (loss) income:		
Investment (loss) income -- Note 3	**(978,369)**	1,882,808
Equity in (losses) earnings of affiliates -- Note 4	**(69,610)**	35,692
Other components of net periodic pension cost	**(241,446)**	(963,854)
Other	**(344,657)**	32,560
Total other (loss) income	**(1,634,082)**	987,206
(Deficit) excess of revenue over expenses	**(6,540,626)**	2,136,696
Net assets released from restriction for the purchase of property and equipment -- Note 7	**486,814**	393,803
Pension-related changes other than net periodic pension cost -- Note 8	**12,528,314**	6,845,187
Increase in net assets without donor restrictions	**$ 6,474,502**	$ 9,375,686

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Balance, June 30, 2020	$ 27,822,044	$ 655,324	$ 28,477,368
Excess of revenue over expenses	2,136,696	-	2,136,696
Net assets released from restriction for the purchase of property and equipment -- Note 7	393,803	(393,803)	-
Pension-related changes other than net periodic pension cost -- Note 8	6,845,187	-	6,845,187
Contributions	-	569,376	569,376
Net assets released from restriction for use in operations -- Note 7	-	(102,940)	(102,940)
Increase in net assets	9,375,686	72,633	9,448,319
Balance, June 30, 2021	37,197,730	727,957	37,925,687
Deficit of revenue over expenses	**(6,540,626)**	**-**	**(6,540,626)**
Net assets released from restriction for the purchase of property and equipment -- Note 7	**486,814**	**(486,814)**	**-**
Pension changes other than net periodic pension cost -- Note 8	**12,528,314**	**-**	**12,528,314**
Contributions	**-**	**1,021,946**	**1,021,946**
Net assets released from restriction for use in operations -- Note 7	**-**	**(573,159)**	**(573,159)**
Increase (decrease) in net assets	**6,474,502**	**(38,027)**	**6,436,475**
Balance, June 30, 2022	**$ 43,672,232**	**$ 689,930**	**$ 44,362,162**

Garrett Regional Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Increase in net assets	$ 6,436,475	$ 9,448,319
Adjustments to reconcile increase in net assets to net cash, cash equivalents, and restricted cash used in operating activities:		
Realized and unrealized losses (gains) on investments	1,067,140	(1,611,340)
Restricted contributions	(1,021,946)	(569,376)
Depreciation and amortization	4,562,104	4,631,109
Non-cash operating lease expense	59,442	-
Amortization of debt issuance costs	3,755	3,755
Loss (earnings) of affiliate investments	69,610	(35,692)
Loss (gain) on disposal of property and equipment	309,881	(26,928)
Pension-related changes other than net periodic pension cost	(12,528,314)	(6,845,187)
Change in:		
Patient accounts receivable	(722,707)	(1,946,154)
Inventories	(60,391)	(184,526)
Investments in trading securities	13,970,744	656,488
Prepaid expenses	(119,146)	62,827
Insurance recoverable	56,878	33,284
Other amounts receivable	(2,836,751)	(62,219)
Accounts payable	(357,806)	(218,429)
Accrued salaries and wages	(420,001)	314,733
Advances from third parties	(819,140)	850,567
Medicare advance contract liability	(7,691,448)	(1,220,871)
Provider relief funds liability	-	(5,620,155)
Payments on operating lease obligations	(64,580)	-
Pension obligation	(2,520,615)	245,422
Other liabilities	(109,299)	(1,243)
Net cash, cash equivalents, and restricted cash used in operating activities	(2,736,115)	(2,095,616)
Cash flows from investing activities:		
Purchases of property and equipment	(3,270,951)	(3,733,619)
Contribution to investment in affiliate	(8,333)	(5,000)
Net cash, cash equivalents, and restricted cash used in investing activities	(3,279,284)	(3,738,619)
Cash flows from financing activities:		
Repayment of long-term debt	(11,712,604)	(1,205,410)
Proceeds from borrowings on long-term debt	12,500,000	-
Payments on finance lease obligations	(26,713)	-
Debt issuance costs	(75,000)	-
Proceeds from restricted contributions	1,021,946	569,376
Net cash, cash equivalents, and restricted cash provided by (used in) financing activities	1,707,629	(636,034)
Net decrease in cash, cash equivalents, and restricted cash	(4,307,770)	(6,470,269)
Cash, cash equivalents, and restricted cash, beginning of year	25,427,671	31,897,940
Cash, cash equivalents, and restricted cash, end of year	$ 21,119,901	$ 25,427,671
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 442,973	$ 456,436

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Principles

Organization

Garrett County Memorial Hospital (the Hospital), doing business as Garrett Regional Medical Center, is an instrumentality of Garrett County, Maryland. The Hospital was organized for charitable purposes and is exempt from income taxes as an instrumentality of Garrett County. In 2003, the Hospital formed and became the sole member of Professional Emergency Physician Services, LLC (PEPS), which is a limited liability company. The purpose of PEPS is to provide professional emergency services solely to the Hospital. In 2017, the Hospital formed and became sole member of Garrett Anesthesia Services, LLC (GAS) and Specialty Physicians of Garrett County, LLC (SPE). GAS was created to provide anesthesia services to patients undergoing surgical procedures at the Hospital. SPE is designed to facilitate the recruitment of physicians to provide specialty services for the benefit of patients served by the Hospital. PEPS, GAS and SPE are subsidiaries of the Hospital (collectively, the subsidiaries).

In August 2015, the Hospital entered into a clinical program affiliation with West Virginia University Hospitals, Inc., doing business as WVU Medicine (collectively referred to as the Affiliation). Under the Affiliation, the Hospital remains an independent organization in terms of governance and financial responsibility. Given their proximity and their shared common goals and objectives focused on the delivery of high-quality, accessible, affordable healthcare for their communities and patient populations, the Affiliation was adopted to establish and recognize the collaborative relationship. Through the collaborative relationship, the Affiliation aims to achieve coordination in education, research and patient care to enhance the health and wellness of the communities served by the Affiliation. The Affiliation looks to explore, develop and implement opportunities for clinical and operational collaboration deemed to be in the mutual best interest of the organizations and the populations they serve, along with striving to reduce the total cost of care.

The first, and cornerstone, programmatic clinical service was launched in early 2016 as the Affiliation collaboratively added Cancer Care and Infusion Services at the Hospital. This service has been well received by the community and has continued to grow.

In spring 2016, the initial operational collaborative effort transitioned reference laboratory services to a subsidiary of WVU Medicine, University Medical Labs, to care for Hospital patients most efficiently and achieve related effective operational service cost efficiencies.

In further recognition of their collaborative efforts, the Hospital entered into a Management Agreement with WVU Medicine effective January 1, 2018. This effort was focused on creating a combined oversight related to the position of President and Chief Executive Officer for the Hospital, and another WVU Medicine critical access hospital located regionally in a neighboring county in West Virginia. This operational decision was in support of continued programmatic clinical services collaboration between the regional hospitals, and to achieve operational cost savings. The Management Agreement further expanded into information technology directorship support services in 2019.

A Letter of Intent by and among the Board of County Commissioners of Garrett County, The Board of Governors of Garrett County Memorial Hospital, Garrett Regional Medical Center, and West Virginia University Health System and GRMC, Inc., a newly formed nonprofit corporation whose sole member is West Virginia United Health System, Inc., has been presented whereas the parties are interested in entering into an Operating Lease and Agreement whereby the Hospital will be leased to GRMC, Inc. In the July 2021 public meeting of the Board of Garrett County Commissioners, County Attorney Gorman E. Getty presented the Letter of Intent for the potential lease of the county-owned hospital property. The Board of County Commissioners unanimously approved and signed the Letter of Intent. Then, the Letter of Intent was presented, approved and signed at the West Virginia University Health System Board of Directors' August 2021 meeting. Finally, the Letter of Intent was presented, approved and signed at the March 2022 Board of Governors of Garrett County Memorial Hospital meeting. Effective July 1, 2022, the Operating and Lease Agreement went into effect between the Board of County Commissioners of Garrett County and GRMC, Inc. for all county-owned hospital property, with the exception of $2,500,000 (Cash Withhold Amount) and three parcels of land approximating 105 acres with carrying value of approximately $1,024,000 as of June 30, 2022. The Cash Withhold Amount is reported as assets whose use is limited by the Board of Governors as of June 30, 2022. The Cash Withhold Amount is to be retained by the Board of Governors to support the Hospital and Board of Governors during the term of the Lease Agreement. The initial term of the lease will be a period of 15 years ending on June 30, 2037.

Purchased services from WVU Medicine primarily related to laboratory and oncology services and oversight provided under the Management Agreement, approximated $1,998,000 and $2,244,000, for the years ended June 30, 2022 and 2021, respectively. The amounts payable to WVU Medicine related to these purchased services approximated $171,000 and $142,000 at June 30, 2022 and 2021, respectively.

Principles of consolidation

The consolidated financial statements include the accounts of the Hospital, PEPS, GAS and SPE (collectively referred to as the System). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, with no donor-imposed restrictions are recognized in the period received as increases in net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Income and realized net gains (losses) on investments are reported as follows:

- Increases (decreases) in net assets with donor restrictions if the terms of the gift or the Hospital's interpretation of relevant state law require that they be added to the principal of a permanent net asset with donor restriction;
- Increases (decreases) in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income;
- Increases (decreases) in net assets without donor in all other cases.

Cash and cash equivalents

Cash and cash equivalents include investments in certain highly liquid debt instruments with original maturities of three months or less when purchased. The System has cash holdings in commercial banks that routinely exceed the Federal Deposit Insurance Corporation (FDIC) maximum insurance limit of $250,000. Funds held in excess of the FDIC maximums are collateralized by the deposit institution. The System has not experienced any losses related to funds held in excess of the FDIC limit.

Following is a reconciliation of cash, cash equivalents and restricted cash as presented in the accompanying consolidated statements of cash flows as of June 30:

	2022	2021
Cash and cash equivalents	**$ 18,189,451**	$ 24,393,859
Investments	**204,159**	224,327
Assets whose use is limited by donors and others	**226,291**	111,485
Assets whose use is limited by the Board of Governors	**2,500,000**	698,000
Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	**$ 21,119,901**	$ 25,427,671

Patient accounts receivable, net

Patient accounts receivable are reported at net realizable value. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid, and various commercial insurance companies. For receivables associated with services provided to patients who have third-party coverage, the System estimates net realizable value based on the estimated explicit price concession/contractual reimbursement percentage, which in turn is based on current contract provisions and historical paid claims by payor.

The provision for implicit price concessions/doubtful accounts is based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. On a relatively continuous basis, management assesses the adequacy of the provision for price concessions/doubtful accounts based upon its review of accounts receivable payor category, payor agreement rate changes and other factors. The results of these assessments are used to make modifications to the provisions for price concessions/doubtful accounts and to establish an appropriate related allowance. The System follows established guidelines for placing certain past-due patient balances with external collection agencies.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, after contractual adjustments. Patient accounts receivable include charges for amounts due from Medicare, Maryland Medical Assistance (Medicaid), Blue Cross, commercial insurers and self-pay patients (see Note 12). Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts contracted with third party payors and are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Rates charged are based primarily on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC); accordingly, revenue reflects actual charges to patients based on rates in effect during the period in which the services are rendered (see Note 10).

The System grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements (see Note 12). Accounts receivable are reported at their net realizable value from third-party payors, patients, residents and others for services rendered. Allowances (explicit price concessions) are provided for third-party payors based on estimated reimbursement rates. Allowances (implicit price concessions) are also provided for uncollectible accounts based on an estimate of ultimate collectability. Write-off of uncollectible accounts is determined on a case-by-case basis after a review of the circumstances surrounding individual patient accounts.

Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Under current accounting standards, the Hospital is required to report the cost of providing charity care. The cost of charity care provided by the Hospital totaled $2,506,194 and $2,501,150 for the years ended June 30, 2022 and 2021, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the HSCRC (see Note 10), and therefore the cost of charity services noted above for the Hospital are equivalent to its established rates for those services.

For any charity services rendered by the System other than the regulated services of the Hospital, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the System's non-Hospital affiliates.

The HSCRC established an uncompensated care fund whereby all hospitals are required to contribute 0.75% of revenues to this fund to help provide for the cost associated with uncompensated care for certain Maryland hospitals above the State average, and all Maryland hospitals have the same percentage of uncompensated care in rates. High uncompensated care hospitals receive funds and low uncompensated care hospitals provide funding. The Hospital had net receipts of $1,315,450 and $1,195,826 for 2022 and 2021, respectively, related to its participation in the uncompensated care fund mechanism.

Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds

These relief funds are considered non-exchange transactions subject to terms and conditions specified by the resource provider distributed by the Health Resources Service Administration section of the U.S. Department of Health and Human Services (HHS). These conditions create a restriction that such funds must be used to prevent, prepare or respond to the coronavirus (COVID-19), creating purpose restrictions in addition to conditions. This conditional grant revenue is recognized as other operating income to the extent conditions/restrictions for entitlement are met for coronavirus related expenses or lost revenues. The System reports conditional contributions for which the conditions and related restrictions are met in the same reporting period as net assets without donor restrictions. Such funds are subject to recoupment to the extent the conditions for entitlement are not met.

Medicare Accelerated and Advance Payment Program

The CARES Act also expanded the Medicare Accelerated and Advance Payment Program, which allows for eligible health care facilities to request up to six months of advance Medicare payments. Such accelerated payments are interest free for 29 months for most acute care hospitals. The Centers for Medicare and Medicaid Services (CMS) began to apply claims for services provided to Medicare beneficiaries against the advance payments received by hospitals and other eligible health care facilities after approximately 13 months starting in April 2021. During 2020, the System received approximately $11,267,000 of payments under this program. As of June 30, 2022 and 2021, the System had repaid approximately $7,693,000 and $1,220,000, respectively.

Inventories

Inventories consist primarily of drugs and medical supplies and are carried at the lower of cost (first-in, first-out) or net realizable value.

Investments

Investments are exposed to certain risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term and these changes could materially differ from the amounts reported in the accompanying consolidated financial statements. Investments and assets whose use is limited, which are invested in marketable securities, are reported at their fair value, based on quoted market prices provided by the asset managers. Investment income or loss (including interest, dividends, and gains and losses, both real and unrealized, on investment) is included in the excess (deficit) of revenues over expenses unless the income or loss is restricted by donor or law (see Note 3).

Assets whose use is limited

Assets whose use is limited primarily consist of cash, certificates of deposit, pledges receivable and investments. Assets whose use is limited include donor restricted assets, funds held by trustee and assets designated by the Board of Governors for funds required for the Cash Withhold Amount under the Operating and Lease Agreement and future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes.

Property and equipment

Property and equipment are stated at cost, except for donated items which are recorded at fair value at the date of donation. Expenditures less than $1,000 are expensed when incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on a straight-line basis over the shorter period of the lease terms or the estimated useful lives of the equipment. Such amortization is included in depreciation in the accompanying 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess (deficit) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments in affiliates

The Hospital maintains certain investments in unconsolidated entities. These investments are accounted for using the equity method (see Note 4).

Debt issuance costs

Costs related to issuance of debt are deferred and amortized using the straight-line method, which approximates the effective interest rate method.

Estimated malpractice costs

The costs of professional and general liability insurance include estimates for both reported claims and claims incurred but not reported, based on the evaluation of pending claims and past experience (see Note 11).

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.
>
> *Net Assets With Donor Restrictions* – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Advertising expense

The System expenses advertising costs as they are incurred.

Excess (deficit) of revenue over expenses

The accompanying consolidated statements of operations include excess (deficit) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenue over expenses, consistent with industry practice, pension-related changes other than net periodic pension cost, any permanent transfers of assets to and from affiliates for other than goods or services and contributions of long lived assets (including assets required using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

The Hospital has been recognized by the Internal Revenue Service (IRS) as tax exempt under Section 115 of the Internal Revenue Code as an instrumentality of a political subdivision of the State of Maryland. GCHS is organized as a for-profit entity and, therefore, is subject to federal and state income taxes. GAS, SPE and PEPS have been treated as disregarded entities for tax purposes.

The state in which the Hospital operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the Hospital is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

The Hospital had no unrecognized tax benefits, or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. No tax returns were filed for the Hospital during 2022 and 2021.

Management has also considered the impact of unrelated business activities and has concluded that the Hospital is not subject to unrelated business tax or any other taxes that could be imposed by the Internal Revenue Code or state taxing authorities. As such, no provision is made for income taxes and no asset or liability has been recognized for deferred taxes.

Subsequent events

Management has evaluated the effect subsequent events would have on the System's consolidated financial statements through September 30, 2022, which is the date the consolidated financial statements were available to be issued.

2. Net Patient Service Revenue

The System routinely obtains assignments of (or is otherwise entitled to receive) patient benefits receivable under their health insurance programs, plans or policies (i.e., third-party payors). Third party payors include both government payors, which include Medicare, Medicaid, and management care organizations, and commercial insurance carriers. Agreements with third party payors typically provide for payments at amounts less than established charges. A summary of payment arrangements with third party payors, by service type, is as follows:

- Global budget revenue – the System has entered into agreements by which the third-party payors pay a percentage of charges approved by the HSCRC (Note 10). A reduced percentage can be obtained if the payor advances a certain amount of working capital.

- Physician services – System has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.

- Unregulated hospital patient revenue - the System has entered into agreements by which the third-party payors pay negotiated rates per procedures as defined in the term sheet of the agreements.

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

All of the System's performance obligations generally relate to contracts with a duration of less than one year, therefore the System has elected to apply the optional exemptions provided under applicable standards and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles).

As discussed in Note 10, the System charges are based on rates established by the HSCRC, which is subsequently reduced by price concession provided to third-party payors and discounts provided to uninsured patients in accordance with policy. The transaction price for physician services is primarily based on standard charges for goods and services provided, reduced by explicit price concession in the form of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with internal policy, and implicit price concessions provided to uninsured patients. The System determines its estimate of implicit price concessions based on historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

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

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

The System aggregates revenue from contracts with customers by type of service and payor source. Tables providing details of these factors are presented below.

Net patient service revenue disaggregated by service type for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Global budget revenue	**$ 60,127,423**	$ 54,678,593
Physician services revenue	**5,657,858**	5,548,255
Unregulated hospital revenue	**1,772,771**	1,633,383
Total	**$ 67,558,052**	$ 61,860,231

Net patient service revenue by payor class, consisted of the following for the years ended June 30:

	2022		2021	
Medicare	**$ 34,851,517**	**52%**	$ 31,900,666	52%
Commercial insurance and MCOs	**9,720,952**	**14%**	11,056,113	18%
Blue Cross	**11,306,808**	**17%**	8,825,529	14%
Medicaid	**11,453,447**	**17%**	9,829,810	16%
Self-pay and others	**225,328**	**0%**	248,113	0%
	$ 67,558,052	**100%**	$ 61,860,231	100%

3. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited consist of the following:

	Investments	Assets Whose Use is Limited by Donors	Assets Whose Use is Limited by the Board of Governors	Total
At June 30, 2022:				
Cash and cash equivalents	**$ 204,159**	**$ 226,291**	**$ 2,500,000**	**$ 2,930,450**
Certificates of deposit	**878,457**	**959**	**-**	**879,416**
Corporate bonds	**2,301,074**	**12,111**	**-**	**2,313,185**
Government securities	**1,254,465**	**1,339**	**-**	**1,255,804**
Mutual funds	**2,881,012**	**15,163**	**-**	**2,896,175**
Common stock	**2,113,625**	**11,125**	**-**	**2,124,750**
Pledges receivable, net	**-**	**140,856**	**-**	**140,856**
	9,632,792	**407,844**	**2,500,000**	**12,540,636**
Less short-term portion	**1,696,065**	**274,470**	**-**	**1,970,535**
	$ 7,936,727	**$ 133,374**	**$ 2,500,000**	**$ 10,570,101**

	Investments	Assets Whose Use is Limited by Donors	Assets Whose Use is Limited by the Board of Governors	Total
At June 30, 2021:				
Cash and cash equivalents	$ 224,327	$ 111,485	$ 698,000	$ 1,033,812
Certificates of deposit	14,674,956	51	-	14,675,007
Corporate bonds	1,961,975	9,181	-	1,971,156
Government securities	1,258,016	1,207	-	1,259,223
Mutual funds	4,341,973	20,318	-	4,362,291
Common stock	2,136,745	9,999	-	2,146,744
Pledges receivable, net	-	233,649	-	233,649
	24,597,992	385,890	698,000	25,681,882
Less short-term portion	15,664,158	160,165	-	15,824,323
	$ 8,933,834	$ 225,725	$ 698,000	$ 9,839,559

Assets whose use is limited include investments and pledges receivable. Board designated funds consist of cash and cash equivalents at June 30, 2021 and 2022.

Pledges receivable, included in the assets whose use is limited by donors and others, less current portion line on the consolidated balance sheets are recorded net of an allowance for uncollectible pledges of $81,893 and $13,136 at June 30, 2022 and 2021, respectively. Pledges are recorded at their net present value and are due as follows at June 30, 2022:

2023		$ 40,300
2024		38,300
2025		36,300
2026		34,300
2027		21,250
Thereafter		65,762
		236,212
Less:	Present value discount, at 2.65%	(13,307)
	Allowance for uncollectible pledges	(82,049)
		$ 140,856

The investment gain (loss) on the System's investments and assets whose use is limited consists of the following for the years ended June 30:

	2022	2021
Interest and dividends	**$ 88,771**	$ 271,468
Net realized gain	**226,423**	900,091
Net unrealized gain (loss)	**(1,293,563)**	711,249
	$ (978,369)	$ 1,882,808

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable input, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the System's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values of the System's government securities and corporate bonds are based on prices provided by its investment managers, who use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. The System's government securities and corporate bonds portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services. Fair values of the System's certificate of deposits are based on cost plus accrued interest, which in the opinion of management approximates fair value. Fair values of marketable equity securities (mutual funds and stock) have been determined by the System from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2022:

	Level 1	Level 2	Total
Certificates of deposit	$ 879,416	$ -	$ 879,416
Corporate bonds	-	2,313,185	2,313,185
Government securities	-	1,255,804	1,255,804
Mutual funds	2,896,175	-	2,896,175
Common stock	2,124,750	-	2,124,750
	$ 5,900,341	$ 3,568,989	$ 9,469,330

The table above does not include cash and cash equivalents of $2,930,450 and pledges receivables of $140,856 at June 30, 2022.

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2021:

	Level 1	Level 2	Total
Certificates of deposit	$ 14,675,007	$ -	$ 14,675,007
Corporate bonds	-	1,971,156	1,971,156
Government securities	-	1,259,223	1,259,223
Mutual funds	4,362,291	-	4,362,291
Common stock	2,146,744	-	2,146,744
	$ 21,184,042	$ 3,230,379	$ 24,414,421

The table above does not include cash and cash equivalents of $1,033,812 and pledges receivables of $233,649 at June 30, 2021.

4. Investments in Affiliates

The Hospital maintains investments in joint ventures at June 30 as follows:

Joint Venture	Type of Organization	Business Purpose	Percentage Ownership 2022	Percentage Ownership 2021
Oakland MRI Center, LLC (OMRI)	For-profit	MRI, mammography and Dexa scan services	**50%**	50%
Freestate Healthcare Insurance System, Ltd. (Freestate)	For-profit	Malpractice and professional liability insurance	**33%**	25%

In April 2004, the Hospital formed OMRI with Premier Imaging, LLC. The purpose of this joint venture is to provide MRI, Mammography and Dexa Scan services to the local and surrounding communities. The Hospital made an initial capital contribution of $162,000 in 2005. OMRI began operations in January 2006.

In December 2004, the Hospital joined Freestate along with seven other community hospitals from Maryland. Freestate is a captive insurance company formed in the Cayman Islands for the purpose of providing insurance coverage to its members, their affiliates and their respective employees (see Note 11). The Hospital contributed $15,000 of equity to Freestate during 2005, with additional contributions of $8,333 and $5,000 in 2022 and 2021, respectively.

The Hospital's investment balance and income (loss) in earnings of these joint ventures as of and for the years ended June 30 are as follows:

	Investment Balance 2022	Investment Balance 2021	Income (Loss) in Earnings 2022	Income (Loss) in Earnings 2021
OMRI	**$ 265,331**	$ 335,133	**$ (69,802)**	$ 35,556
Freestate	**34,203**	25,678	**192**	136
	$ 299,534	$ 360,811	**$ (69,610)**	$ 35,692

Summary combined financial information (unaudited) for these joint ventures as of and for the year ended June 30 is as follows:

	2022	2021
Current assets	$ 41,695,511	$ 46,847,804
Noncurrent assets	17,351,699	20,929,008
Total assets	$ 59,047,210	$ 67,776,812
Current liabilities	$ 633,959	$ 520,717
Noncurrent liabilities	57,779,878	66,483,118
Net worth	633,373	772,977
Total liabilities and net worth	$ 59,047,210	$ 67,776,812
Total operating revenue	$ 346,634	$ 10,778,468
Total operating expense	349,380	10,848,758
Net loss	$ (2,746)	$ (70,290)

5. Property and Equipment

Property and equipment and their related estimated useful lives as of June 30 are summarized as follows:

	Estimated Useful life	2022	2021
Land improvements	10 – 40 years	$ 1,180,413	$ 1,164,428
Buildings and improvements	15 – 40 years	49,626,042	50,160,904
Fixed equipment	5 – 20 years	6,686,295	6,616,028
Movable equipment	3 – 20 years	25,979,077	24,323,337
Equipment under finance lease	lease term	259,816	138,282
		83,731,643	82,402,979
Less accumulated depreciation and amortization		(49,306,058)	(46,572,071)
		34,425,585	35,830,908
Land		1,259,605	1,259,605
Construction in progress		187,824	250,828
		$ 35,873,014	$ 37,341,341

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was $4,579,846 and $4,631,109, respectively.

6. Long-Term Debt

Long-term debt as of June 30 consists of the following:

	2022	2021
Huntington Note	**$ 12,500,000**	$ -
Series 2015 Bonds	**-**	3,333,291
Series 2014 Bonds	**-**	5,999,997
Series 2007 Bonds	**-**	2,038,700
Series 2004 Bonds	**-**	346,107
Capital lease obligations	**-**	24,839
	12,500,000	11,742,934
Less unamortized debt issuance cost	**(75,000)**	(34,085)
	12,425,000	11,708,849
Less current portion	**(833,333)**	(1,206,317)
	$ 11,591,667	$ 10,502,532

Huntington Note

On June 24, 2022, Huntington National Bank issued a term loan (Huntington Note) in the amount of $12,500,000, the proceeds to be used for repayment of the Series 2015 Bonds, Series 2014 Bonds, Series 2007 Bonds and Series 2004 Bonds. The note incurs interest at a fixed interest rate of 3.35% per annum. Annual principal payments of $833,333 are due on June 30 beginning on June 30, 2023 through June 30, 2037. As of June 30, 2022, $1,777,653 of loan proceeds were due to the System from WVU Medicine and are included within other amounts receivable on the accompanying consolidated balance sheet.

Series 2015 Bonds

On December 23, 2015, Garrett County (the County) issued the Garrett County Memorial Hospital Refunding Bonds, Series 2015 (Series 2015 Bonds), on behalf of the Hospital for the purpose of renovating various areas of the Hospital. The Series 2015 Bonds represent a supplemental loan agreement between the Hospital and the County for amounts that were equal to the loan principal of the County's Series 2015 Bonds. Series 2015 Bonds incurred interest at a fixed interest rate of 3.53% per annum. Interest accrued based on the average outstanding principal balance and was paid semi-annually. Annual principal payments were due on the anniversary date of issuance based on a twenty-five-year amortization period, until December 23, 2030, when the Series 2015 Bonds were scheduled to mature at which time all outstanding principal balances and interest were due. The Series 2015 Bonds were repaid in full in 2022 with the proceeds of the Huntington Note.

Series 2014 Bonds

On November 26, 2014, the County issued the Garrett County Memorial Hospital Refunding Bonds, Series 2014 (Series 2014 Bonds), on behalf of the Hospital for the purpose of renovating and constructing a new wing of the Hospital. The Series 2014 Bonds represent a supplemental loan agreement between the Hospital and the County for amounts that were equal to the loan principal of the County's Series 2014 Bonds. Series 2014 Bonds incurred interest at a fixed interest rate of 3.53% per annum. Interest accrued based on the average outstanding principal balance and was paid semi-annually. Annual principal payments were due on the anniversary date of issuance based on a twenty-five-year amortization period. On November 26, 2029, the Series 2014 Bonds were scheduled to mature at which time all outstanding principal balances and interest were due. The Series 2014 Bonds were repaid in full in 2022 with the proceeds of the Huntington Note.

United States Department of Agriculture (USDA) Bonds

In June 2007, the County issued the Garrett County Memorial Hospital Refunding Bonds, Series 2007 (Series 2007 Bonds), on behalf of the Hospital for the purpose of providing funding for the Hospital's Emergency Room/Same Day Surgery/Admissions construction and renovation project. The Series 2007 Bonds represent a supplemental loan agreement between the Hospital and the County for amounts that are equal to the loan principal of the County's Series 2007 Bonds. The funds were provided to the County from the USDA. Funding from the Series 2007 Bonds was also used to refinance other outstanding indebtedness.

The Series 2007 Bonds bore interest at an average rate of approximately 4.13%. Bond principal and interest payments were made in monthly installments to a trustee to meet the payment schedule stipulated in the loan agreement. The Series 2007 Bonds were scheduled to mature June 28, 2037. The Series 2007 Bonds were repaid in full in 2022 with the proceeds of the Huntington Note.

Series 2004 Bonds

In November 2004, the County issued County Commissioners of Garret County Hospital Refunding Bonds, Series 2004 (Series 2004 Bonds), on behalf the Hospital for the purpose of refunding a portion of other outstanding indebtedness. The Series 2004 Bonds represent a supplemental loan agreement between the Hospital and the County for amounts that was equal to the loan principal of the County's Series 2004 Bonds.

The Series 2004 Bonds incurred interest at a rate of 4.12% per annum. Bond principal and interest payments were made in semiannual installments to a trustee to meet the payment schedule stipulated in the loan agreement. The Series 2004 Bonds were scheduled to mature on November 19, 2024. The Series 2004 Bonds were repaid in full in 2022 with the proceeds of the Huntington Note.

Aggregate maturities of outstanding long-term debt as of June 30, 2022 are as follows:

2023	$ 833,333
2024	833,333
2025	833,333
2026	833,333
2027	833,333
Thereafter	8,333,335
	$ 12,500,000

The System is subject to certain restrictive covenants defined in various agreements with lenders. In the opinion of management, the System was in compliance with applicable restrictive covenants as of June 30, 2022 and 2021.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions of $698,630 and $727,957 at June 30, 2022 and 2021, respectively, are restricted primarily for property replacement, expansion, health care clinical services, and the endowment (see Note 16).

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the years ended June 30:

	2022	2021
Health care clinical services	**$ 573,159**	$ 102,940
Plant replacement and expansion	**486,814**	393,803
	$ 1,059,973	$ 496,743

8. Pension and Other Retirement Plans

The Hospital has a noncontributory defined benefit pension plan (the Plan) covering all employees of the Hospital who work at least twenty hours per week. Employees hired after January 1, 2017 are ineligible to participate in the plan. Benefits are based on the participants' credited service and average monthly earnings. The Hospital's funding policy is to contribute an amount annually that is equal to the normal cost, plus interest on the unfunded accrued liability. Accruals for benefits froze for active participants as of June 30, 2022. The Internal Revenue Service classifies the Plan as a government plan, and the Plan, as such, is exempt from the requirements of the Employee Retirement Income Security Act of 1974. The Hospital uses a June 30 measurement date for the Plan. The Hospital intends to contribute an estimated $2,500,000 for fiscal year 2023. The service cost component of net periodic pension cost is reported in employee benefits, while the other components of net periodic pension cost are presented in the consolidated statements of operations separately from the service cost component in other expense and outside a subtotal of income (loss) from operations.

The following table sets forth the changes in the benefit obligation at June 30:

	2022	2021
Projected benefit obligation at beginning of year	**$ 69,270,240**	$ 68,320,833
Service cost	**1,737,944**	1,770,752
Interest cost	**1,685,451**	1,569,071
Actuarial gain	**(14,444,398)**	(363,666)
Curtailments	**(4,838,334)**	-
Benefits paid	**(2,757,590)**	(2,026,750)
Projected benefit obligation at end of year	**$ 50,653,313**	$ 69,270,240

The following table sets forth the changes in the Plan assets at June 30:

	2022	2021
Fair value of Plan assets at beginning of year	**$ 37,625,913**	$ 30,076,741
Actual return on Plan assets	**(5,310,408)**	7,086,738
Employer contributions	**4,500,000**	2,489,184
Benefits paid	**(2,757,590)**	(2,026,750)
Fair value of Plan assets at end of year	**$ 34,057,915**	$ 37,625,913
Funded status	**$ (16,595,398)**	$ (31,644,327)
Unrecognized actuarial loss included in net assets without donor restrictions	**$ 15,703,322**	$ 28,231,641
Accumulated benefit obligation	**$ 50,653,313**	$ 62,482,806

The components of the net periodic pension cost consist of the following for the years ended June 30:

	2022	2021
Service cost	**$ 1,737,944**	$ 1,770,752
Interest cost	**1,685,451**	1,569,071
Expected return on assets held in the Plan	**(2,642,650)**	(2,112,884)
Amortization of net loss	**1,198,645**	1,507,667
	$ 1,979,390	$ 2,734,606

The assumptions used in the accounting for the projected benefit obligation are as follows at June 30:

	2022	2021
Discount rate	**4.62%**	2.84%
Rate of compensation increase	**3.00%**	3.00%

The discount rate changed based on the Financial Times Stock Exchange (FTSE) Above Median Yield Curve which changed based on the change in market conditions. There was a decrease to the Projected Benefit Obligation (PBO) of approximately 24% mainly due to the change in discount rate from 2.84% to 4.62% in combination with changes to the mortality rate improvement scale. There was also a decrease to the PBO of approximately 8% due to the freezing of benefit accruals as of June 30, 2022.

The weighted average assumptions used in the accounting for the net periodic pension cost are as follows for the years ended June 30:

	2022	2021
Discount rate	**4.62%**	2.84%
Rate of compensation increase	**3.00%**	3.00%
Expected long-term return on Plan assets	**7.00%**	7.00%

The Hospital's weighted average asset allocations for Plan assets are as follows at June 30:

	2022	2021
Equity securities	**51%**	56%
Fixed maturity securities	**37%**	38%
Other	**12%**	6%
Total Plan assets	**100%**	100%

Plan assets are invested in accordance with the investment policy statement objectives in an attempt to maximize return with reasonable and prudent levels of risk. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return. The Hospital periodically reviews performance to test progress toward attainment of longer-term targets, compare results to appropriate indices and peer groups, and assess overall investment risk levels. The target weighted-average asset allocation of pension investments is 55% equity securities, 40% debt securities and 5% other. Fixed maturity securities primarily include corporate bonds, municipal bonds and fixed income mutual funds. Equity securities primarily include investments in large-cap and mid-cap mutual funds, exchanged traded funds and common stock which are valued by observable market quotations.

The fair values of the Hospital's Plan assets as June 30, 2022 by asset category are as follows:

	Level 1	Level 2	Total
Fixed Income:			
Corporate Bonds	**$ -**	**$ 4,084,909**	**$ 4,084,909**
Municipal Bonds	**-**	**4,436,840**	**4,436,840**
Mutual Funds	**4,125,388**	**-**	**4,125,388**
Equity Securities:			
Mutual Funds	**11,595,264**	**-**	**11,595,264**
Common Stocks	**5,672,552**	**-**	**5,672,552**
	$ 21,393,204	**$ 8,521,749**	**$ 29,914,953**

The table above does not include cash and cash equivalents of $4,142,962 at June 30, 2022. There were no transfers between or among the fair value levels during fiscal year 2022.

The fair values of the Hospital's Plan assets as of June 30, 2021 by asset category are as follows:

	Level 1	Level 2	Total
Fixed Income:			
Corporate Bonds	$ -	$ 5,890,241	$ 5,890,241
Municipal Bonds	-	7,531,441	7,531,441
Mutual Funds	569,189	-	569,189
Equity Securities:			
Mutual Funds	14,366,093	-	14,366,093
Common Stocks	6,826,589	-	6,826,589
	$ 21,761,871	$ 13,421,682	$ 35,183,553

The table above does not include cash and cash equivalents of $2,442,360 at June 30, 2021. There were no transfers between or among the fair value levels during fiscal year 2021.

The following benefit payments, which reflect expended future service, as appropriate, are expected to be paid:

2023	$ 2,320,761
2024	2,475,774
2025	2,623,099
2026	2,738,933
2027	2,856,557
2028 - 2032	15,238,416
	$ 28,253,540

The Hospital also offers a 403(b) retirement savings plan. The 403(b) plan is offered to full-time and selected part-time employees meeting minimum eligibility requirements. Elective contributions can be made from date of hire. The Hospital makes discretionary matching contributions based on an annual assessment depending on your date of hire. Employees hired from January 1, 2017 forward receive up to a 5% match after a two-year in-service period. For employees hired prior to January 1, 2017, the matching contribution is based on a graduated scale with time in service. Employer contributions are 100% vested upon award. The Hospital expensed approximately $253,000 and $189,000 related to the 403(b) retirement plan for the years ended June 30, 2022 and 2021, respectively.

The Subsidiaries also offer a safe harbor 401(k) retirement savings plan that covers substantially all employees upon their hire. The 401(k) plan is offered to full-time and selected part-time employees meeting minimum eligibility requirements. The Subsidiaries contribute 3% of eligible employees' compensation up to IRS limits to maintain safe harbor status but may, at times, offer additional matching or profit sharing contributions. Employer safe harbor contributions are 100% vested upon award. The Subsidiaries expensed approximately $224,000 and $210,000 related to the 401(k) retirement plan for the years ended June 30, 2022 and 2021, respectively.

9. Certain Significant Risks and Uncertainties

The Hospital provides general acute health care services in Garrett County, Maryland. The System and other health care providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs (see Note 12);
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission (see Note 10);
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims (see Note 11).

Such inherent risks require the use of certain management estimates in the preparation of the System's consolidated financial statements, and it is reasonably possible that a material change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the System's revenues and the System's operations are subject to a variety of other federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the System. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the System.

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

As a result of federal healthcare reform legislation, substantial changes are anticipated in the healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade.

The System is subject to certain legal proceedings and claims arising in the ordinary course of business. After consultation with legal counsel, it is management’s opinion that the ultimate resolution of these claims will not have a material adverse effect on the System’s financial position.

10. Maryland Health Services Cost Review Commission

The Hospital’s rate structure applicable to regulated services is subject to review and approval by the Maryland HSCRC. Effective July 1, 2016, the Hospital entered into a Global Budget Revenue (GBR) agreement with the HSCRC. The GBR agreement will renew each year for a one-year period unless it is cancelled by the HSCRC or by the Hospital. The GBR agreement provides the Hospital with a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital’s payor mix and uncompensated care, change in population and quality incentives. Approximately 95% of the gross patient revenue of the Hospital is subject to the GBR system.

The rate variances, plus penalties where applicable, are applied to decreases (in the case of overcharges) or increases (in the case of undercharges) prospectively in future approved rates on an annual basis. Under GBR, the Hospital has the ability (within limits) to adjust rates to charge patients more or less than the gross patient service revenue approved for each year.

The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with CMS. This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. On January 1, 2014, Maryland's All-Payor Hospital System Modernization was approved by CMS. This was a new global budget arrangement which set a fixed revenue amount for the upcoming year, without fluctuation due to utilization or case mix. This was a five-year demonstration where Maryland successfully made significant progress toward reducing costs inside and outside of the hospital as well as improving patient care. Beginning January 2019, the new “Total Cost of Care Model” (the Model) was approved and builds upon the successes of the All-Payor Model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

The HSCRC publicly announced its intention to support Maryland hospitals during the COVID-19 pandemic and has worked with other state regulatory agencies to remove certain barriers to the provision of emergency health care services. In recognition of higher than typical volumes attributed to the pandemic, the HSCRC permitted the system to increase its rate corridor. This action is intended to allow the System in its overcharged position compared to GBR due to volume increases, to modify their charges in order to offset increased volumes. The HSCRC has stated that this rate corridor modification is a temporary adjustment to allow the System closer compliance with the GBR target.

11. Insurance

Malpractice insurance

The System is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted against the System and are currently in various stages of litigation. Additional claims may be asserted against the System arising from services provided through June 30, 2022. Management believes that no material loss will result from any pending or threatened litigation or from incidents incurred but not reported. However, the ultimate outcome with respect to these matters is unknown.

In accordance with current accounting standards, the System reports gross insurance recoveries separately from the related claims liability for professional liability claims already reported to its insurance carrier. As of June 30, 2022 and 2021, the System recorded insurance recoverable and professional claim liability of approximately $590,000 and $647,000, respectively, as both an asset and other long-term liability in the accompanying consolidated financial statements.

An estimated liability for incurred but not reported professional liability claims has been recorded in the amount of approximately $447,000 and $445,000 for the years ended June 30, 2022 and 2021, respectively. These amounts are included in other long-term liabilities in the accompanying consolidated financial statements. Management believes this accrual is adequate to provide for all professional liability claims that have been incurred through June 30, 2022, but not reported to its insurance carrier.

Effective March 1, 2005, the Hospital became a shareholder of Freestate. The Hospital became a shareholder of Freestate when the Hospital’s insurance carrier decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. Hospital management believes that becoming a shareholder of the captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its shareholders for professional liability claims and comprehensive general liability of $2,000,000 for each loss event. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. Freestate has $4,000,000 of additional insurance in the aggregate through such reinsurance arrangements which is applicable to the Hospital. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured’s assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. Each named insured will not be charged or entitled to any retrospective premium assessments or credits until the policy period has been closed and no further claim obligations are expected. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the payment of such claims would be the responsibility of the member hospitals. The estimated cost of claims is actuarially determined based upon past experience and discounted using a discount rate of 3.5%. Effective September 1, 2016, coverage was expanded to include the operations of GAS and SPE.

PEPS’ malpractice insurance is provided by a commercial insurance carrier. The policy provides coverage of $1,000,000 for each event, with a physician aggregate of $3,000,000.

Health insurance

The System is self-insured for employee health claims. Under the self-insurance plan, the System has accrued a liability of approximately $401,000 and $489,000 for the years ended June 30, 2022 and 2021, respectively, for incurred but not reported claims. These amounts are included in other current liabilities in the accompanying consolidated financial statements. Management believes that the accruals are adequate to provide for all employee health claims that have been incurred for the years ended June 30, 2022 and 2021.

12. Business and Credit Concentrations

The System provides health care services through its inpatient and outpatient care facilities located in Oakland, Maryland. The System grants credit to patients, substantially all of whom are local residents. The System generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, managed care organizations (MCOs) and commercial insurance policies).

At June 30, the System had patient accounts receivable, net of reserves for implicit and explicit price concessions from payors, as follows:

	2022		2021	
Self-pay and others	**$ 145,462**	**2%**	$ 128,012	2%
Medicare	**3,654,853**	**42%**	3,175,292	40%
Commercial insurance and MCOs	**1,919,643**	**23%**	2,069,243	27%
Medicaid	**1,429,611**	**17%**	1,383,216	18%
Blue Cross	**1,379,517**	**16%**	1,050,616	13%
	$ 8,529,086	**100%**	$ 7,806,379	100%

13. Functional Expenses

The System provides general health care and related services to individuals within its geographic location. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30:

	2022		
	Healthcare Services	**General and Administrative**	**Total**
Salaries and wages	**$ 28,432,969**	**$ 4,309,029**	**$ 32,741,998**
Employee benefits	**7,741,580**	**1,160,188**	**8,901,768**
Supplies	**14,126,614**	**290,522**	**14,417,136**
Utilities	**505,656**	**465,937**	**971,593**
Purchased services	**10,608,927**	**3,096,200**	**13,705,127**
Depreciation and amortization	**3,158,301**	**1,403,803**	**4,562,104**
Interest	**295,846**	**134,966**	**430,812**
Other expenses	**784,481**	**993,922**	**1,778,403**
Total	**$ 65,654,374**	**$ 11,854,567**	**$ 77,508,941**

	2021		
	Healthcare Services	**General and Administrative**	**Total**
Salaries and wages	$ 24,950,259	$ 3,892,927	$ 28,843,186
Employee benefits	7,036,181	1,095,030	8,131,211
Supplies	12,152,997	351,804	12,504,801
Utilities	453,634	406,094	859,728
Purchased services	7,574,285	2,491,441	10,065,726
Depreciation and amortization	3,102,454	1,528,655	4,631,109
Interest	320,967	135,729	456,696
Other expenses	605,658	1,006,210	1,611,868
Total	$ 56,196,434	$ 10,907,890	$ 67,104,325

The accompanying consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, employee benefits, and other occupancy costs, are allocated to a function based on a square footage basis.

14. Liquidity and Availability

The System has working capital of approximately $26,533,000 and $38,035,000 as of June 20, 2022 and 2021, respectively. As of June 30, 2022 and 2021, respectively, the System had 91 and 143 average days (based on normal expenditures) cash on hand.

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

	2022	**2021**
Cash and cash equivalents	**$ 18,189,451**	$ 24,393,859
Patient accounts receivable, net	**8,529,086**	7,806,379
Other amounts receivable	**4,162,086**	1,325,335
Short-term investments	**1,696,065**	15,664,158
Total	**$ 32,576,688**	$ 49,189,731

In addition to the assets in the table above, the System has other assets whose use is limited by donors and investments, and because they are not available for general expenditure within one year, are not reflected in the amounts above.

15. Leases

Effective July 1, 2021, the System adopted the requirements of ASU 2016-02, *Leases (Topic 842)*. The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance, *(Topic 840)*, is the recognition of a right-of-use asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the System was required to measure and recognize leases that existed at July 1, 2021 using a modified retrospective approach. For leases existing at the effective date, the System elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification and did not reassess what qualifies as an initial direct cost. The adoption of *Topic 842* resulted in the recognition of operating ROU assets and lease liabilities of approximately $266,000. The accounting for finance leases remained substantially unchanged with the adoption of *Topic 842*.

The System leases certain equipment and office buildings under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

The components of lease expense (and related classification in the accompanying statements of operations) were as follows during 2022:

Operating lease cost (other expense)	$	115,036
Finance lease cost:		
Amortization of right-of use assets (depreciation and amortization)		34,331
Interest on lease liabilities (interest expense)		8,411
Total lease cost	$	157,778

Right-of-use assets obtained in exchange for new lease obligations for the year ended June 30, 2022 are as follows:

Right-of-use assets obtained in exchange for new finance lease liabilities	$	126,615
Right-of-use assets obtained in exchange for new operating lease liabilities	$	139,606

Current operating lease liabilities are included in current portion of operating lease obligations on the accompanying consolidated balance sheets. Noncurrent operating lease liabilities are included in long-term operating lease obligations on the accompanying consolidated balance sheets. The following table presents lease-related assets and liabilities at June 30, 2022:

Operating leases:		
Right-of-use assets - operating leases	$	74,072
Current portion of operating lease obligations	$	66,242
Long-term operating lease obligations		8,784
Total operating lease liabilities	$	75,026

Current finance lease liabilities are included in current portion of finance lease obligations in the accompanying consolidated balance sheets. Noncurrent finance lease liabilities are included in long-term finance lease obligations, in the accompanying consolidated balance sheets. The following table presents lease-related assets and liabilities at June 30, 2022:

Finance leases:		
Property and equipment, net	$	87,203
Current portion of finance lease obligations	$	16,004
Long-term finance lease obligations		83,898
Total finance lease liabilities	$	99,902

Other information:

Weighted-average remaining lease term – operating leases	6.28 years
Weighted-average remaining lease term – finance leases	1.11 years
Weighted-average discount rate – operating leases	3.80%
Weighted-average discount rate – finance leases	3.00%

The following is a schedule of lease liability maturities related to leases for the years ending:

	Finance	Operating
2023	$ 16,298	$ 67,380
2024	16,087	8,846
2025	16,087	-
2026	16,087	-
2027	16,087	-
Thereafter	31,217	-
Total	111,863	76,226
Less: Interest	11,961	1,200
Lease liability	$ 99,902	$ 75,026

Total office rent and equipment lease expense was $164,841 for the year ended June 30, 2021 and is reported as a component of other expenses in the accompanying consolidated statements of operations and other changes in net assets without donor restrictions.

Property held under the capital leases as of June 30, 2021 consisted of equipment with a gross carrying value of $138,282 and accumulated amortization of ($117,540) for a net carrying value of $20,742.

16. Endowment

Current accounting standards provide guidance on the net asset classification of endowment funds with donor restrictions for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The State of Maryland has adopted UPMIFA. The System's endowment consists of one donor-restricted fund.

The Board of Governors of the System has interpreted the Maryland State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. A portion of such funds available for spending remains in net assets with donor restrictions until those amounts are released from restriction by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the System and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the System
7. The investment policies of the System

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or SPMIFA required the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2022 or 2021.

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those net assets with donor restrictions that the organization must hold in perpetuity. Under this policy, as approved by the Board of Governors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Lehman Intermediate Government/Corporate Bond index while assuming a moderate level of investment risk. The System expects its endowment funds, over time, to provide an average rate of return of approximately 8% percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on highly liquid investments such as money market accounts to achieve its long-term return objectives within prudent risk constraints.

The endowment's net asset composition and the changes therein were as follows:

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Endowment Total	Without Donor Restrictions	With Donor Restrictions	Endowment Total
Beginning balance	$ 28,355	$ 38,011	$ 66,366	$ 26,236	$ 38,011	$ 64,247
Interest and dividends	45	-	45	2,119	-	2,119
Ending balance	$ 28,400	$ 38,011	$ 66,411	$ 28,355	$ 38,011	$ 66,366

17. COVID-19 Pandemic

In response to the global coronavirus disease pandemic across the United States of America, the federal government and a large number of state governments, including Maryland, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including limitations on public gatherings, wearing of masks in public, and restrictions on restaurant and other businesses operating capacity.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the System's service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services. The treatment of this highly contagious disease could also result in a temporary shutdown of areas of the facility or diversion of patients or staffing shortages. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also continue to affect the System's partners, suppliers, distributors and payors, disrupting or delaying the System's supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the duration of the COVID-19 pandemic, the ultimate impact on operating income, the ongoing costs associated with responding to this pandemic, or what federal funds may continue be made available to help recover from this crisis. The System has implemented various cost saving measures to help mitigate any financial impact, including at times suspending elective procedures, redeploying staff to high impact areas, setting up screening centers, establishing a decontamination process for N95 masks, and soliciting the community for handmade masks and other personal protective equipment.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines at times attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the System expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the System has activated plans to address the COVID-19 threat and is operates pursuant to infectious disease protocols and its emergency preparedness plan as necessary, the impact of the ongoing COVID-19 pandemic is difficult to predict and could materially adversely impact the System's financial condition, liquidity and results of operations in the future.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments also took action to provide economic relief and emergency assistance. The System received CARES Act Provider Relief Funds (PRF) general and targeted distributions of approximately $11,026,000 in the year ended June 30, 2020. Additionally, the System received PRF and American Rescue Plan funds of approximately $3,039,000 in the year ended June 30, 2022. The System recognized approximately $0 and $255,000 as net assets released from restriction for the purchase of property and equipment, and $3,039,000 and $5,365,000 as other operating revenue in fiscal years 2022 and 2021 to the extent the conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met, resulting in the simultaneous release of restrictions.

HHS has issued several Post-Payment Notices of Reporting Requirements (PPNRR) and frequently asked questions and answers (FAQs) which establish the reporting criteria for providers which received PRF funding under the CARES Act. The PPNRR and FAQs also provide guidance related to the determination of lost revenues and COVID-19 related expenses under the terms and conditions of the PRF funding received by the System. The funds are subject to future audits. Potential adjustments and certain amounts may need to be repaid to the government. As such, amounts recognized as other operating income are subject to change and those changes could be material.

Supplementary Information

Garrett Regional Medical Center
Consolidating Balance Sheet Information
June 30, 2022

	Garrett County Memorial Hospital	Professional Emergency Physician Services, LLC	Garrett Anesthesia Services, LLC	Specialty Physicians of Garrett County, LLC	Elimination Entries	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 17,817,625	$ 169,641	$ 104,820	$ 97,365	$ -	$ 18,189,451
Short-term investments	1,696,065	-	-	-	-	1,696,065
Net patient accounts receivable	8,091,820	126,343	113,662	197,261	-	8,529,086
Other amounts receivable	3,821,732	55,798	114,371	170,185	-	4,162,086
Assets whose use is limited by donors	274,470	-	-	-	-	274,470
Inventories	1,978,333	-	-	-	-	1,978,333
Prepaid expenses	781,989	105,033	3,168	16,960	-	907,150
Due from affiliates	33,210,012	-	-	-	(33,210,012)	-
Total current assets	67,672,046	456,815	336,021	481,771	(33,210,012)	35,736,641
Noncurrent assets:						
Property and equipment	35,712,081	-	-	160,933	-	35,873,014
Operating lease right-of-use asset	-	-	-	74,072	-	74,072
Insurance recoverable	590,138	-	-	-	-	590,138
Long-term investments	7,936,727	-	-	-	-	7,936,727
Investment in affiliates	299,534	-	-	-	-	299,534
Assets whose use is limited by donors, less current portion	133,374	-	-	-	-	133,374
Assets whose use is limited by Board of Governors	2,500,000	-	-	-	-	2,500,000
Total noncurrent assets	47,171,854	-	-	235,005	-	47,406,859
Total assets	$ 114,843,900	$ 456,815	$ 336,021	$ 716,776	$ (33,210,012)	$ 83,143,500
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	$ 1,176,951	$ 50,988	$ 51,554	$ 64,477	$ -	$ 1,343,970
Accrued salaries and wages	2,590,991	205,356	129,342	520,233	-	3,445,922
Due to affiliates	-	9,279,326	12,579,921	11,350,765	(33,210,012)	-
Advances from third parties	543,972	-	-	-	-	543,972
Medicare advance contract liability, current	2,350,518	-	3,557	-	-	2,354,075
Current portion of long-term debt	833,333	-	-	-	-	833,333
Current portion of operating lease obligations	-	-	-	66,242	-	66,242
Current portion of finance lease obligations	16,004	-	-	-	-	16,004
Other current liabilities	573,397	7,100	-	19,483	-	599,980
Total current liabilities	8,085,166	9,542,770	12,764,374	12,021,200	(33,210,012)	9,203,498
Long-term debt, net of unamortized debt issuance costs, less current portion	11,591,667	-	-	-	-	11,591,667
Long-term operating lease obligations	-	-	-	8,784	-	8,784
Long-term finance lease obligations	83,898	-	-	-	-	83,898
Pension obligation	16,595,398	-	-	-	-	16,595,398
Other long-term liabilities	1,060,909	237,184	-	-	-	1,298,093
Total liabilities	37,417,038	9,779,954	12,764,374	12,029,984	(33,210,012)	38,781,338
Net assets (deficit):						
Without donor restrictions	76,736,932	(9,323,139)	(12,428,353)	(11,313,208)	-	43,672,232
With donor restrictions	689,930	-	-	-	-	689,930
Total net assets (deficit)	77,426,862	(9,323,139)	(12,428,353)	(11,313,208)	-	44,362,162
Total liabilities and net assets	$ 114,843,900	$ 456,815	$ 336,021	$ 716,776	$ (33,210,012)	$ 83,143,500

Garrett Regional Medical Center
Consolidating Statement of Operations Information
Year Ended June 30, 2022

	Garrett County Memorial Hospital	Professional Emergency Physician Services, LLC	Garrett Anesthesia Services, LLC	Specialty Physicians of Garrett County, LLC	Elimination Entries	Consolidated
Revenue:						
Net patient service revenue	$ 61,900,194	$ 1,454,997	$ 1,132,235	$ 3,070,626	$ -	$ 67,558,052
CARES Act provider relief funds	2,926,064	46,257	21,214	45,165	-	3,038,700
Other revenue	1,686,172	(3,031)	-	246,073	(496,728)	1,432,486
Net assets released from restriction for use in operations	573,159	-	-	-	-	573,159
Total revenue	67,085,589	1,498,223	1,153,449	3,361,864	(496,728)	72,602,397
Expenses:						
Salaries and wages	24,271,564	1,910,797	1,840,416	4,743,221	(24,000)	32,741,998
Employee benefits	7,370,148	185,982	211,761	1,133,877	-	8,901,768
Supplies	14,153,629	78	-	263,429	-	14,417,136
Utilities	960,386	698	538	9,971	-	971,593
Purchased services	10,359,791	894,648	1,525,187	925,501	-	13,705,127
Depreciation and amortization	4,505,845	-	-	56,259	-	4,562,104
Interest	427,496	-	-	3,316	-	430,812
Management fees	-	194,508	48,408	229,812	(472,728)	-
Other expenses	1,221,795	54,952	207,606	294,050	-	1,778,403
Total expenses	63,270,654	3,241,663	3,833,916	7,659,436	(496,728)	77,508,941
Income (loss) from operations	3,814,935	(1,743,440)	(2,680,467)	(4,297,572)	-	(4,906,544)
Other (loss) income:						
Investment (loss) income	(978,596)	227	-	-	-	(978,369)
Equity in losses of affiliates	(69,610)	-	-	-	-	(69,610)
Other components of net periodic pension cost	(241,446)	-	-	-	-	(241,446)
Other	(344,636)	-	-	(21)	-	(344,657)
Total other (loss) income	(1,634,288)	227	-	(21)	-	(1,634,082)
Excess (deficit) of revenue over expenses without donor restrictions	$ 2,180,647	$ (1,743,213)	$ (2,680,467)	$ (4,297,593)	$ -	$ (6,540,626)