

GARRETT REGIONAL MEDICAL CENTER

A PROUD AFFILIATE OF



Consolidated Financial Statements

Years Ended June 30, 2020 and 2019

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Independent Auditors' Report

Board of Governors
Garrett County Memorial Hospital
Oakland, Maryland

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, 2020 and 2019, and the related consolidated statements of operations and other changes in net assets without donor restrictions, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2020 and 2019, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, the System adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition and related disclosure using the modified retrospective method in 2020. Additionally, as described in Note 1 to the consolidated financial statements, the System retrospectively adopted ASU 2016-18 *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to display the change in total cash and cash equivalents, including restricted cash and cash equivalents. Our opinion is not modified with respect to these matters.

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, results of operations and cash flows 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 28, 2020

Garrett Regional Medical Center
Consolidated Balance Sheets
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,564,782	\$ 11,058,891
Short-term investments -- Note 3	16,427,061	15,135,419
Patient accounts receivable, net of allowance for doubtful accounts of \$2,866,000 in 2019-- Note 12	5,860,225	7,272,524
Other amounts receivable	1,263,116	1,063,291
Assets whose use is limited by donors and others -- Note 3	77,380	169,895
Inventories	1,733,416	1,462,662
Prepaid expenses	850,831	763,958
	<u>57,776,811</u>	<u>36,926,640</u>
Total current assets		
Noncurrent assets:		
Property and equipment, net -- Note 5	38,211,903	39,114,278
Insurance recoverable -- Note 11	680,300	919,346
Long-term investments -- Note 3	6,559,444	6,909,347
Investment in affiliates -- Note 4	320,119	453,505
Assets whose use is limited by donors and others, less current portion -- Note 3	264,491	429,248
Assets whose use is limited by board of governors -- Note 3	698,000	698,000
	<u>46,734,257</u>	<u>48,523,724</u>
Total noncurrent assets		
	<u>\$ 104,511,068</u>	<u>\$ 85,450,364</u>
Total assets		

Garrett Regional Medical Center
Consolidated Balance Sheets
June 30, 2020 and 2019

(Continued)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,920,205	\$ 2,058,405
Accrued salaries and wages	3,551,190	3,101,094
Advances from third parties	512,545	551,245
Medicare advance contract liability -- Note 1	11,266,394	-
Provider relief funds liability -- Note 1	5,620,155	-
Current portion of long-term debt -- Note 6	1,204,069	1,195,661
Other current liabilities -- Note 11	<u>714,068</u>	<u>576,242</u>
Total current liabilities	24,788,626	7,482,647
Long-term debt, net of \$37,840 and \$41,595 of unamortized debt issuance costs at June 30, 2020 and 2019, respectively, less current portion -- Note 6	11,706,435	12,906,749
Pension obligation -- Note 8	38,244,092	29,329,093
Other long-term liabilities -- Note 11	<u>1,294,547</u>	<u>1,528,803</u>
Total liabilities	<u>76,033,700</u>	<u>51,247,292</u>
Net assets:		
Without donor restrictions	27,822,044	33,321,742
With donor restrictions -- Notes 7 and 15	<u>655,324</u>	<u>881,330</u>
Total net assets	<u>28,477,368</u>	<u>34,203,072</u>
Total liabilities and net assets	<u>\$ 104,511,068</u>	<u>\$ 85,450,364</u>

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Operations and Other Changes in Net Assets Without Donor Restrictions
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue:		
Net patient service revenue -- Note 2		
Patient service revenue (net of explicit price concessions)		\$ 61,289,794
Less: Provision for bad debts		(1,881,172)
		<hr/>
Net patient service revenue	\$ 55,429,355	59,408,622
CARES Act provider relief funds	5,371,608	-
Other revenue	556,871	559,705
Net assets released from restriction for use in operations -- Note 7	602,745	136,107
		<hr/>
Total revenue	61,960,579	60,104,434
Expenses -- Note 13:		
Salaries and wages	25,882,559	24,797,906
Employee benefits -- Note 8	7,674,581	7,663,792
Supplies	10,219,788	10,081,403
Utilities	766,886	661,538
Purchased services	8,369,816	7,914,294
Depreciation and amortization -- Note 5	4,463,860	4,385,486
Interest -- Note 6	492,717	557,815
Other expenses	1,418,776	1,357,814
		<hr/>
Total operating expenses	59,288,983	57,420,048
Income from operations, net	2,671,596	2,684,386
Other income (loss):		
Investment income -- Note 3	935,910	823,260
Equity in earnings of affiliates -- Note 4	(133,386)	93,018
Other components of net periodic pension cost	(1,024,948)	(820,694)
Other	141,429	26,682
		<hr/>
Total other (loss) income	(80,995)	122,266
Excess of revenue over expenses	2,590,601	2,806,652
Net assets released from restriction for the purchase of property and equipment -- Note 7	273,216	212,360
Pension-related changes other than net periodic pension cost -- Note 8	(8,363,515)	(7,186,015)
		<hr/>
Decrease in net assets without donor restrictions	\$ (5,499,698)	\$ (4,167,003)

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Balance, June 30, 2018	\$ 37,488,745	\$ 676,481	\$ 38,165,226
Excess of revenue over expenses	2,806,652	-	2,806,652
Net assets released from restriction for the purchase of property and equipment -- Note 7	212,360	(212,360)	-
Pension-related changes other than net periodic pension cost -- Note 8	(7,186,015)	-	(7,186,015)
Contributions	-	553,316	553,316
Net assets released from restriction for use in operations -- Note 7	-	(136,107)	(136,107)
	<u>(4,167,003)</u>	<u>204,849</u>	<u>(3,962,154)</u>
(Decrease) increase in net assets			
Balance, June 30, 2019	33,321,742	881,330	34,203,072
Excess of revenue over expenses	2,590,601	-	2,590,601
Net assets released from restriction for the purchase of property and equipment -- Note 7	273,216	(273,216)	-
Pension changes other than net periodic pension cost -- Note 8	(8,363,515)	-	(8,363,515)
Contributions	-	649,955	649,955
Net assets released from restriction for use in operations -- Note 7	-	(602,745)	(602,745)
	<u>(5,499,698)</u>	<u>(226,006)</u>	<u>(5,725,704)</u>
Decrease in net assets			
Balance, June 30, 2020	<u>\$ 27,822,044</u>	<u>\$ 655,324</u>	<u>\$ 28,477,368</u>

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>Adjusted 2019</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (5,725,704)	\$ (3,962,154)
Adjustments to reconcile decrease in net assets to net cash, cash equivalents, equivalents provided by operating activities:		
Realized and unrealized losses (gains) on investments	367,924	(469,086)
Restricted contributions	(649,955)	(553,316)
Depreciation and amortization	4,463,860	4,385,486
Amortization of debt issuance costs	3,755	3,755
Provision for doubtful accounts	-	1,881,172
Loss (earnings) of affiliate investment	133,386	(33,018)
(Gain) loss on disposal of property and equipment	(13,184)	2,619
Pension-related changes other than net periodic pension cost	8,363,515	7,186,015
Change in:		
Patient accounts receivable	1,412,299	(1,748,942)
Inventories	(270,754)	(118,152)
Investments in trading securities	(965,043)	61,877
Prepaid expenses	(86,873)	(33,773)
Insurance recoverable	239,046	(48,470)
Other amounts receivable	(199,825)	(405,239)
Accounts payable	(138,200)	(924)
Accrued salaries and wages	450,096	106,971
Advances from third parties	(38,700)	89,500
Medicare advance contract liability	11,266,394	-
Provider relief funds liability	5,620,155	-
Pension obligation	551,484	468,203
Other liabilities	(96,430)	162,372
Net cash and cash equivalents provided by operating activities	<u>24,687,246</u>	<u>6,974,896</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(3,548,301)</u>	<u>(2,802,610)</u>
Net cash and cash equivalents used in investing activities	<u>(3,548,301)</u>	<u>(2,802,610)</u>
Cash flows from noncapital financing activities:		
Repayments of long-term debt	(1,195,661)	(1,186,570)
Proceeds from restricted contributions	649,955	553,316
Net cash and cash equivalents used in financing activities	<u>(545,706)</u>	<u>(633,254)</u>
Net increase in cash, cash equivalents, and restricted cash	20,593,239	3,539,032
Cash, cash equivalents, and restricted cash beginning of year	<u>11,304,701</u>	<u>7,765,669</u>
Cash, cash equivalents, and restricted cash end of year	<u>\$ 31,897,940</u>	<u>\$ 11,304,701</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 501,770</u>	<u>\$ 482,922</u>

See accompanying notes.

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.

Purchased services from WVU Medicine primarily related to laboratory and oncology services and oversight provided under the Management Agreement, which approximated \$1,412,000 and \$1,404,000, for the years ended June 30, 2020 and 2019, respectively. The amounts payable to WVU Medicine related to these purchased services approximated \$210,000 and \$151,000 at June 30, 2020 and 2019, 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.

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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.

In 2020, the System adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU was issued to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The accompanying 2019 consolidated financial statements have been adjusted to reflect retrospective application of ASU 2016-18.

A summary follows of the adjustments made to the accompanying consolidated statement of cash flows for the year ended June 30, 2019 as a result of the implementation of ASU 2016-18:

	<u>As Previously Presented</u>	<u>Adjustment</u>	<u>As Adjusted</u>
Net cash, cash equivalents and restricted cash provided by operating activities	\$ 6,928,796	\$ 46,100	\$ 6,974,896
Net increase in cash, cash equivalents and restricted cash	\$ 3,492,932	\$ 46,100	\$ 3,539,032
Cash, cash equivalents, and restricted cash, beginning of year	\$ 7,565,959	\$ 199,710	\$ 7,765,669
Cash, cash equivalents, and restricted cash, end of year	\$ 11,058,891	\$ 245,810	\$ 11,304,701

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 31,564,782	\$ 11,058,891
Investments	301,211	241,863
Assets whose use is limited by donors and others	<u>31,947</u>	<u>3,947</u>
 Total cash, cash equivalents and restricted cash shown in the accompanying consolidated statements of cash flows	 <u>\$ 31,897,940</u>	 <u>\$ 11,304,701</u>

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.

Garrett Regional Medical Center Notes to Consolidated Financial Statements

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 \$2,568,240 and \$2,220,309 for the years ended June 30, 2020 and 2019, 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 \$1,161,932 and \$1,587,726 for 2020 and 2019, respectively, related to its participation in the uncompensated care fund mechanism.

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) will begin to apply claims for services provided to Medicare beneficiaries against the advance payments received by hospitals and other eligible health care facilities after approximately 12 months following receipt of the advance payments. As of June 30, 2020, the System had received approximately \$11,267,000 of payments under this program. Amounts received represent contract liabilities under current revenue recognition accounting standards (Topic 606) and are recorded within Medicare advance contract liability on the accompanying consolidated balance sheet as of June 30, 2020.

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

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

investment) is included in the excess 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 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 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

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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 of revenue over expenses

The accompanying consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess 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 2020 and 2019.

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 October 28, 2020, which is the date the consolidated financial statements were available to be issued.

New accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which was amended in June 2020 by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. The amendments in ASU 2016-02 revised the accounting related to lessee accounting. Under the new guidance, the System will be required to recognize a lease liability and a right-of-use asset for all leases. ASU 2020-05 extended the effective date for the System to July 1, 2021, with early adoption permitted, and should be applied through the modified retrospective transition approach for leases existing at, or entered into, after that date. The primary impact of adoption is a gross-up of right of use assets and lease liability for operating leases.

2. Net patient service revenue

During fiscal year 2020, the System adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, using the modified retrospective method (ASC 606). The information in the prior year comparative period has not been restated and continues to be reported under the accounting standards in effect for that period. The overall impact of adoption was not material to the accompanying consolidated financial statements, with the primary changes related to presentation of certain information, as described below, and expanded disclosures related to revenue recognition principles, disaggregation of revenues and other matters.

As part of the adoption of ASC 606, the System elected certain available practical expedients under the standard. 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.

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.

As a result of the adoption of ASC 606, estimated uncollectible amounts from patients that were previously presented as the provision for uncollectible accounts in the consolidated statements of operations are now considered implicit price concessions (as defined in ASC 606) and, therefore, included in net patient service revenue in 2020. Such implicit price concessions reflected in net patient service revenue in the accompanying consolidated financial statements for the year ended June 30, 2020 were \$1,126,492. Prior to July 1, 2019, the provision for uncollectible accounts was presented consistent with the previous revenue recognition standards separately as a component of patient service revenue. Implicit price concessions are presented as a direct reduction of patient accounts receivable.

Garrett Regional Medical Center Notes to Consolidated Financial Statements

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).

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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.

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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Global budget revenue	\$ 49,381,722	\$ 52,979,799
Physician services revenue	4,432,076	4,815,166
Unregulated hospital revenue	<u>1,615,557</u>	<u>1,613,657</u>
Total	<u>\$ 55,429,355</u>	<u>\$ 59,408,622</u>

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

	<u>2020</u>		<u>2019</u>	
Medicare	\$ 27,974,564	50%	\$ 41,784,649	53%
Commercial insurance and MCOs	9,708,691	18%	13,051,235	17%
Blue Cross	7,409,028	13%	8,132,071	10%
Medicaid	9,835,769	18%	14,238,790	18%
Self-pay and others	<u>501,303</u>	<u>1%</u>	<u>1,815,962</u>	<u>2%</u>
	<u>\$ 55,429,355</u>	<u>100%</u>	79,022,707	<u>100%</u>
Less – contractual allowances and discounts			(17,732,913)	
Less - provision for uncollectible accounts			<u>(1,881,172)</u>	
			<u>\$ 59,408,622</u>	

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

3. Investments and Assets Whose Use is Limited

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

	<u>Investments</u>	<u>Assets Whose Use is Limited by Donors</u>	<u>Assets Whose Use is Limited by the Board of Governors</u>	<u>Total</u>
At June 30, 2020:				
Cash and cash equivalents	\$ 301,211	\$ 31,947	\$ -	\$ 333,158
Certificates of deposit	14,439,297	93	-	14,439,390
Corporate bonds	1,664,110	14,194	-	1,678,304
Government securities	2,175,578	1,508	-	2,177,086
Mutual funds	2,557,032	27,763	698,000	3,282,795
Common stock	1,849,277	15,729	-	1,865,006
Pledges receivable, net	-	250,637	-	250,637
	<u>22,986,505</u>	<u>341,871</u>	<u>698,000</u>	<u>24,026,376</u>
Less short-term portion	<u>16,427,061</u>	<u>77,380</u>	<u>-</u>	<u>16,504,441</u>
	<u>\$ 6,559,444</u>	<u>\$ 264,491</u>	<u>\$ 698,000</u>	<u>\$ 7,521,935</u>

	<u>Investments</u>	<u>Assets Whose Use is Limited by Donors</u>	<u>Assets Whose Use is Limited by the Board of Governors</u>	<u>Total</u>
At June 30, 2019:				
Cash and cash equivalents	\$ 241,863	\$ 3,947	\$ -	\$ 245,810
Certificates of deposit	2,099,577	543	698,000	2,798,120
Corporate bonds	1,239,266	11,250	-	1,250,516
Government securities	13,121,445	234	-	13,121,679
Mutual funds	3,595,369	32,638	-	3,628,007
Common stock	1,722,094	15,587	-	1,737,681
Preferred stock	25,152	228	-	25,380
Pledges receivable, net	-	534,716	-	534,716
	<u>22,044,766</u>	<u>599,143</u>	<u>698,000</u>	<u>23,341,909</u>
Less short-term portion	<u>15,135,419</u>	<u>169,895</u>	<u>-</u>	<u>15,305,314</u>
	<u>\$ 6,909,347</u>	<u>\$ 429,248</u>	<u>\$ 698,000</u>	<u>\$ 8,036,595</u>

Assets whose use is limited include investments and pledges receivable. Board designated funds consist of certificates of deposit at June 30, 2019, and mutual funds at June 30, 2020, and are designated to be used for future capital needs.

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Notes to Consolidated Financial Statements

Pledges receivable are recorded net of an allowance for uncollectible pledges of \$14,245 and \$31,169 at June 30, 2020 and 2019, respectively. Pledges are recorded at their net present value and are due as follows at June 30, 2020:

2021	\$	46,082
2022		43,900
2023		39,900
2024		39,900
2025		37,900
Thereafter		<u>77,211</u>
		284,893
Present value discount, at 2.65%		20,011
Allowance for uncollectible pledges		<u>14,245</u>
		<u>\$ 250,637</u>

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

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 567,986	\$ 354,174
Net realized gain	587,085	244,764
Net unrealized gain (loss)	<u>(219,161)</u>	<u>224,322</u>
	<u>\$ 935,910</u>	<u>\$ 823,260</u>

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

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of deposit	\$ 14,439,390	\$ -	\$ 14,439,390
Corporate bonds	-	1,678,304	1,678,304
Government securities	-	2,177,086	2,177,086
Mutual funds	3,282,795	-	3,282,795
Common stock	<u>1,865,006</u>	-	<u>1,865,006</u>
	<u>\$ 19,587,191</u>	<u>\$ 3,855,390</u>	<u>\$ 23,442,581</u>

The table above does not include cash and cash equivalents of \$333,158 and pledges receivables of \$250,637 at June 30, 2020.

The following table presents the System's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of deposit	\$ 2,798,120	\$ -	\$ 2,798,120
Corporate bonds	-	1,250,516	1,250,516
Government securities	-	13,121,679	13,121,679
Mutual funds	3,628,007	-	3,628,007
Common stock	1,737,681	-	1,737,681
Preferred stock	<u>25,380</u>	-	<u>25,380</u>
	<u>\$ 8,189,188</u>	<u>\$ 14,372,195</u>	<u>\$ 22,561,383</u>

The table above does not include cash and cash equivalents of \$245,810 and pledges receivables of \$534,716 at June 30, 2019. During fiscal year 2019, the System transferred approximately \$6,948,000 of financial instruments classified as Level 1 to purchase government securities.

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

4. Investments in Affiliates

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

<u>Joint Venture</u>	<u>Type of Organization</u>	<u>Business Purpose</u>	<u>Percentage Ownership</u>	
			<u>2020</u>	<u>2019</u>
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	20%	20%

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.

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

	<u>Investment Balance</u>		<u>Income in Earnings</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
OMRI	\$ 299,577	\$ 432,963	\$ (133,386)	\$ 93,018
Freestate	20,542	20,542	-	-
	<u>\$ 320,119</u>	<u>\$ 453,505</u>	<u>\$ (133,386)</u>	<u>\$ 93,018</u>

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

	<u>2020</u>	<u>2019</u>
Current assets	\$ 40,972,724	\$ 36,600,299
Noncurrent assets	22,343,050	20,246,647
Total assets	<u>\$ 63,315,774</u>	<u>\$ 56,846,946</u>
Current liabilities	\$ 386,438	\$ 282,274
Noncurrent liabilities	62,227,470	55,596,034
Net worth	701,866	968,638
Total liabilities and net worth	<u>\$ 63,315,774</u>	<u>\$ 56,846,946</u>
Total operating revenue	\$ 5,754,288	\$ 5,384,818
Total operating expense	6,014,996	5,077,056
Net income	<u>\$ (260,708)</u>	<u>\$ 307,762</u>

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

5. Property and Equipment

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

	<u>Estimated Useful life</u>	<u>2020</u>	<u>2019</u>
Land improvements	10 – 40 years	\$ 1,022,579	\$ 1,022,579
Buildings and improvements	15 – 40 years	48,290,197	46,451,411
Fixed equipment	5 – 20 years	6,336,435	6,065,179
Movable equipment	3 – 20 years	24,114,325	22,688,192
Equipment under capital lease	lease term	<u>138,282</u>	<u>138,282</u>
		79,901,818	76,365,643
Less accumulated depreciation and amortization		<u>(43,257,109)</u>	<u>(39,867,167)</u>
		36,644,709	36,498,476
Land		1,259,605	1,259,605
Construction in progress		<u>307,589</u>	<u>1,356,197</u>
		<u>\$ 38,211,903</u>	<u>\$ 39,114,278</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$4,463,860 and \$4,385,486, respectively.

6. Long-Term Debt

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

	<u>2020</u>	<u>2019</u>
Series 2015 bonds	\$ 3,666,624	\$ 3,999,957
Series 2014 bonds	6,666,665	7,333,332
USDA bonds	2,127,214	2,212,156
Series 2004 bonds	431,566	513,401
Capital lease obligations	<u>56,275</u>	<u>85,159</u>
	12,948,344	14,144,005
Less unamortized debt issuance cost	<u>(37,840)</u>	<u>(41,595)</u>
	12,910,504	14,102,410
Less current portion	<u>(1,204,069)</u>	<u>(1,195,661)</u>
	<u>\$ 11,706,435</u>	<u>\$ 12,906,749</u>

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 are equal to the loan principal of the County's Series 2015 Bonds. Series 2015 Bonds incur interest at a fixed interest rate of 3.53% per annum. Interest accrues based on the average outstanding principal balance and is paid semi-annually. Annual principal payments are due on the anniversary date of issuance based on a twenty-five-year amortization period. On December 23, 2030, the Series 2015 Bonds mature at which time all outstanding principal balances and interest are due.

**Garrett Regional Medical Center
Notes to Consolidated Financial Statements**

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 are equal to the loan principal of the County's Series 2014 Bonds. Series 2014 Bonds incur interest at a fixed interest rate of 3.53% per annum. Interest accrues based on the average outstanding principal balance and is paid semi-annually. Annual principal payments are due on the anniversary date of issuance based on a twenty-five-year amortization period. On November 26, 2029, the Series 2014 Bonds mature at which time all outstanding principal balances and interest are due.

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 bear interest at an average rate of approximately 4.13%. Bond principal and interest payments are made in monthly installments to a trustee to meet the payment schedule stipulated in the loan agreement. The Series 2007 Bonds mature June 28, 2037.

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 are equal to the loan principal of the County's Series 2004 Bonds.

The Series 2004 Bonds incur interest at a rate of 4.12% per annum. Bond principal and interest payments are made in semiannual installments to a trustee to meet the payment schedule stipulated in the loan agreement. The Series 2004 Bonds matures on November 19, 2024.

Aggregate maturities of all long-term debt (including capital leases) as of June 30, 2020 are as follows:

2021	\$ 1,204,069
2022	1,206,437
2023	1,189,307
2024	1,197,474
2025	1,155,010
Thereafter	<u>6,996,047</u>
	<u>\$ 12,948,344</u>

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, 2020 and 2019.

Capital leases

The System periodically enters into various leases for equipment that meet the criteria for capitalization under current accounting standards.

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

7. Net Assets with Donor Restrictions

Net assets with donor restrictions of \$655,324 and \$881,330 at June 30, 2020 and 2019, respectively, are restricted primarily for property replacement, expansion, health care clinical services, and the endowment (see Note 15).

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:

	<u>2020</u>	<u>2019</u>
Health care clinical services	\$ 602,745	\$ 136,107
Plant replacement and expansion	<u>273,216</u>	<u>212,360</u>
	<u>\$ 875,961</u>	<u>\$ 348,467</u>

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. 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. 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 \$1,600,000 for fiscal year 2021. 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 statement of operations separately from the service cost component in other expense and outside a subtotal of income from operations.

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

	<u>2020</u>	<u>2019</u>
Projected benefit obligation at beginning of year	\$ 58,020,231	\$ 48,673,952
Service cost	1,531,380	1,325,803
Interest cost	1,925,691	1,929,278
Actuarial loss (gain)	(51,000)	345,019
Assumption changes	8,797,113	7,464,414
Benefits paid	<u>(1,902,582)</u>	<u>(1,718,235)</u>
Projected benefit obligation at end of year	<u>\$ 68,320,833</u>	<u>\$ 58,020,231</u>

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

	<u>2020</u>	<u>2019</u>
Fair value of Plan assets at beginning of year	\$ 28,691,138	\$ 26,999,077
Actual return on Plan assets	1,283,340	1,732,012
Employer contributions	2,004,845	1,678,284
Benefits paid	<u>(1,902,582)</u>	<u>(1,718,235)</u>
Fair value of Plan assets at end of year	<u>\$ 30,076,741</u>	<u>\$ 28,691,138</u>
Funded status	<u>\$ (38,244,092)</u>	<u>\$ (29,329,093)</u>
Unrecognized actuarial loss included in net assets without donor restrictions	<u>\$ 35,076,828</u>	<u>\$ 26,713,313</u>
Accumulated benefit obligation	<u>\$ 61,095,044</u>	<u>\$ 51,753,051</u>

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Notes to Consolidated Financial Statements

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

	<u>2020</u>	<u>2019</u>
Service cost	\$ 1,531,381	\$ 1,325,803
Interest cost	1,925,690	1,929,278
Expected return on assets held in the Plan	(2,010,270)	(1,880,158)
Amortization of net loss	<u>1,109,528</u>	<u>771,574</u>
	<u>\$ 2,556,329</u>	<u>\$ 2,146,497</u>

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

	<u>2020</u>	<u>2019</u>
Discount rate	2.78%	3.55%
Rate of compensation increase	3.00%	3.00%

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

	<u>2020</u>	<u>2019</u>
Discount rate	2.78%	3.55%
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:

	<u>2020</u>	<u>2019</u>
Equity securities	60%	56%
Fixed maturity securities	36%	41%
Asset backed securities	2%	-
Other	<u>2%</u>	<u>3%</u>
Total Plan assets	<u>100%</u>	<u>100%</u>

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.

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

The fair values of the Hospital's Plan assets as June 30, 2020 by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income:			
Corporate Bonds	\$ -	\$ 6,324,841	\$ 6,324,841
Municipal Bonds	-	4,930,320	4,930,320
Mutual Funds	178,993	-	178,993
Equity Securities:			
Mutual Funds	13,233,721	-	13,233,721
Common Stocks	4,390,992	-	4,390,992
Exchange Traded Funds	<u>486,387</u>	-	<u>486,387</u>
	<u>\$ 18,290,093</u>	<u>\$ 11,255,161</u>	<u>\$ 29,545,254</u>

The table above does not include cash and cash equivalents of \$531,487 at June 30, 2020. There were no transfers between or among the fair value levels during fiscal year 2020.

The fair values of the Hospital's Plan assets as of June 30, 2019 by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income:			
Corporate Bonds	\$ -	\$ 7,584,776	\$ 7,584,776
Municipal Bonds	-	2,206,728	2,206,728
Mutual Funds	1,829,010	-	1,829,010
Equity Securities:			
Mutual Funds	5,507,074	-	5,507,074
Common Stocks	5,774,133	-	5,774,133
Exchange Traded Funds	<u>4,804,181</u>	-	<u>4,804,181</u>
	<u>\$ 17,914,398</u>	<u>\$ 9,791,504</u>	<u>\$ 27,705,902</u>

The table above does not include cash and cash equivalents of \$985,236 at June 30, 2019. There were no transfers between or among the fair value levels during fiscal year 2019.

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

2021	\$ 2,086,201
2022	2,217,250
2023	2,333,757
2024	2,477,309
2025	2,640,666
2026 - 2030	<u>15,289,475</u>
	<u>\$ 27,044,658</u>

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 \$163,000 and \$146,000 related to the 403(b) retirement plan for the years ended June 30, 2020 and 2019, 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

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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 \$156,000 and \$145,000 related to the 401(k) retirement plan for the years ended June 30, 2020 and 2019, 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 Hospital's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed. For 2020, hospitals that are in an undercharge position due to the current pandemic may not be able to recoup more than their undercharge net of any applicable CARES Act funding (see Note 16).

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.

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, 2020. 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, 2020 and 2019, the System recorded insurance recoverable and professional claim liability of \$680,300 and \$919,346, 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 \$425,000 and \$427,000 for the years ended June 30, 2020 and 2019, 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, 2020, but not reported to its insurance carrier.

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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 \$1,000,000 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 \$426,578 and \$398,976 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

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 price concessions and contractual allowances from third-party payors and others, as follows:

	<u>2020</u>		<u>2019</u>	
Self-pay and others	\$ 460,789	8%	\$ 2,612,914	26%
Medicare	2,428,848	41%	3,971,076	39%
Commercial insurance and MCOs	1,509,897	26%	1,965,346	19%
Medicaid	825,863	14%	927,897	9%
Blue Cross	<u>634,828</u>	<u>11%</u>	<u>680,870</u>	<u>7%</u>
	<u>\$ 5,860,225</u>	<u>100%</u>	10,158,103	<u>100%</u>
Less – allowance for doubtful accounts			<u>(2,885,579)</u>	
			<u>\$ 7,272,524</u>	

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

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 year ended June 30:

	2020		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 22,283,114	\$ 3,599,445	\$ 25,882,559
Employee benefits	6,608,288	1,066,293	7,674,581
Supplies	9,894,394	325,394	10,219,788
Utilities	400,622	366,264	766,886
Purchased services	5,910,105	2,459,711	8,369,816
Depreciation and amortization	2,980,594	1,483,266	4,463,860
Interest	486,811	5,906	492,717
Other expenses	520,334	898,442	1,418,776
Total	<u>\$ 49,084,262</u>	<u>\$ 10,204,721</u>	<u>\$ 59,288,983</u>

	2019		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 21,348,150	\$ 3,449,756	\$ 24,797,906
Employee benefits	6,636,127	1,027,665	7,663,792
Supplies	9,769,353	312,050	10,081,403
Utilities	356,878	304,660	661,538
Purchased services	5,972,151	1,942,143	7,914,294
Depreciation and amortization	3,007,512	1,377,974	4,385,486
Interest	545,754	12,061	557,815
Other expenses	456,042	901,772	1,357,814
Total	<u>\$ 48,091,967</u>	<u>\$ 9,328,081</u>	<u>\$ 57,420,048</u>

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

As of June 30, 2020, the System has a working capital of approximately \$32,988,185 and 210 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:

	2020	2019
Cash and cash equivalents	\$ 31,564,782	\$ 11,058,891
Patient accounts receivable, net	5,860,225	7,272,524
Other amounts receivable	1,263,116	1,063,291
Short-term investments	16,427,061	15,135,419
Total	<u>\$ 55,115,184</u>	<u>\$ 34,530,125</u>

Garrett Regional Medical Center
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In addition to the assets in the table above, the System has other assets whose use is limited by donors, and because they are not available for general expenditure within one year, are not reflected in the amounts above. The System does, however, have certain long-term investments and assets whose use is limited by board designation of approximately \$7,257,000 that could be made available for general expenditure within one year, if necessary.

15. 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, 2020 or 2019.

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.

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

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Endowment Total	Without Donor Restrictions	With Donor Restrictions	Endowment Total
Beginning balance	\$ 21,484	\$ 38,011	\$ 59,495	\$ 20,778	\$ 38,011	\$ 58,789
Interest and dividends	4,752	-	4,752	706	-	706
Contributions	-	-	-	-	-	-
Ending Balance	<u>\$ 26,236</u>	<u>\$ 38,011</u>	<u>\$ 64,247</u>	<u>\$ 21,484</u>	<u>\$ 38,011</u>	<u>\$ 59,495</u>

16. 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. Additionally, elective services were being deferred in the later part of FY 2020, which resulted in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the System's partners, suppliers, distributors and payors, potentially 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 significance of the duration of the COVID-19 pandemic, the impact on operating income, the 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 closing 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 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 operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the 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 are also taking action to provide economic relief and emergency assistance. The System received CARES Act Provider Relief Funds general and targeted distributions of approximately \$11,026,000 in the year ended June 30, 2020. The System recognized approximately \$34,000 as net assets released from restriction for the purchase of property and equipment, and \$5,372,000 as other operating revenue in fiscal year 2020 to the extent the conditions for entitlement to such funding for healthcare related expenses or

Garrett Regional Medical Center
Notes to Consolidated Financial Statements

lost revenues to prevent, prepare for or respond to COVID-19, have been met, resulting in the simultaneous release of restrictions. The remaining CARES Act payments of approximately \$5,620,000 are recorded as provider relief funds liability on the accompanying consolidated balance sheet as of June 30, 2020. The System has until June 30, 2021 to utilize remaining funds toward expenses attributable to coronavirus but not reimbursed by other sources or to lost revenues per the terms and conditions.

On September 19, 2020 and October 22, 2020, HHS issued Post-Payment Notices of Reporting Requirements (PPNRR) which establish the reporting criteria for providers which received Provider Relief Fund (PRF) funding under the CARES Act. The PPNRR also provides 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. Due to the nature and extent of the guidance that existed as of June 30, 2020, the issuance of the PPNRR is a substantial change from the initial guidance that the System operated under when attesting to the terms and conditions of the awards and the subsequent guidance HHS had previously issued through its "Frequently Asked Questions" on the PRF website through June 30, 2020. The guidance provided in the PPNRR is advisory in nature, and subject to change, and it is unknown at the report date what impacts this, and future guidance will have on PRF funding and revenue recognition. Management has determined that the issuance of this PPNRR guidance is a non-recognized subsequent event that does not provide additional information about the facts and circumstances that existed as of June 30, 2020. As a non-recognized subsequent event, the System has not changed its methodology for recognizing revenue during the year ended June 30, 2020, which was based on the guidance that was available and in effect as of year-end. As such, amounts recognized as other operating income for the year ended June 30, 2020 are subject to change and those changes could be material. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

The System also received \$11,266,394 in Medicare Advance Payments as part of the CARES Act stimulus to provide additional working capital. The System has recognized these amounts as Medicare advance contract liability in the consolidated balance sheets. On September 30, 2020, the Continuing Appropriations Act (CAA) was signed into law which includes provision to relax the recoupment of Medicare Advance Payments, including delaying recoupment for one year from when the advances were made. It also staggers the percentage of claims processed that will be recouped over a twenty-nine-month period. Management believes the CAA is a non-recognized subsequent event. Therefore, the System has not changed its methodology for presenting the balance of Medicare Advance Payments as a current liability, which was based on the guidance that was available and in effect as of year-end.

Supplementary Information

Garrett Regional Medical Center
Consolidating Balance Sheets
June 30, 2020

	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	\$ 30,783,920	\$ 220,764	\$ 333,383	\$ 226,715	\$ -	\$ 31,564,782
Short-term investments	16,427,061	-	-	-	-	16,427,061
Net patient accounts receivable	5,408,376	140,688	141,995	169,166	-	5,860,225
Other amounts receivable	1,263,050	-	-	66	-	1,263,116
Assets whose use is limited by donors	77,380	-	-	-	-	77,380
Inventories	1,733,416	-	-	-	-	1,733,416
Prepaid expenses	777,804	64,042	3,098	5,887	-	850,831
Due from affiliates	18,212,823	-	-	-	(18,212,823)	-
Total current assets	74,683,830	425,494	478,476	401,834	(18,212,823)	57,776,811
Noncurrent assets:						
Property and equipment	37,942,414	-	-	269,489	-	38,211,903
Insurance recoverable	680,300	-	-	-	-	680,300
Long-term investments	6,559,444	-	-	-	-	6,559,444
Investment in affiliates	320,119	-	-	-	-	320,119
Assets whose use is limited by donors, less current portion	264,491	-	-	-	-	264,491
Assets whose use is limited by board of governors	698,000	-	-	-	-	698,000
Total noncurrent assets	46,464,768	-	-	269,489	-	46,734,257
Total assets	\$ 121,148,598	\$ 425,494	\$ 478,476	\$ 671,323	\$ (18,212,823)	\$ 104,511,068
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	\$ 1,699,133	\$ 132,053	\$ 7,969	\$ 81,050	\$ -	\$ 1,920,205
Accrued salaries and wages	2,968,588	133,842	198,948	249,812	-	3,551,190
Due to affiliates	-	5,586,551	8,487,593	4,138,679	(18,212,823)	-
Advances from third parties	512,545	-	-	-	-	512,545
Medicare advance contract liability	10,990,174	93,244	66,590	116,386	-	11,266,394
Provider relief funds liability	5,620,155	-	-	-	-	5,620,155
Current portion of long-term debt	1,204,069	-	-	-	-	1,204,069
Other current liabilities	677,916	16,194	-	19,958	-	714,068
Total current liabilities	23,672,580	5,961,884	8,761,100	4,605,885	(18,212,823)	24,788,626
Long-term debt, net of unamortized debt issuance costs, less current portion						
Pension obligation	11,704,289	-	-	2,146	-	11,706,435
Other long-term liabilities	38,244,092	-	-	-	-	38,244,092
	1,140,846	153,701	-	-	-	1,294,547
Total liabilities	74,761,807	6,115,585	8,761,100	4,608,031	(18,212,823)	76,033,700
Net assets (deficit):						
Without donor restrictions	45,731,467	(5,690,091)	(8,282,624)	(3,936,708)	-	27,822,044
With donor restrictions	655,324	-	-	-	-	655,324
Total net assets (deficit)	46,386,791	(5,690,091)	(8,282,624)	(3,936,708)	-	28,477,368
Total liabilities and net assets	\$ 121,148,598	\$ 425,494	\$ 478,476	\$ 671,323	\$ (18,212,823)	\$ 104,511,068

Garrett Regional Medical Center
Consolidating Statements of Operations
Year Ended June 30, 2020

	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	\$ 50,997,279	\$ 1,454,000	\$ 1,100,533	\$ 1,877,543	\$ -	\$ 55,429,355
CARES Act provider relief funds	5,122,599	95,154	82,848	71,007	-	5,371,608
Other revenue	903,681	-	-	52,776	(399,586)	556,871
Net assets released from restriction for use in operations	602,745	-	-	-	-	602,745
Total revenue	57,626,304	1,549,154	1,183,381	2,001,326	(399,586)	61,960,579
Expenses:						
Salaries and wages	20,131,974	1,296,285	2,291,693	2,184,507	(21,900)	25,882,559
Employee benefits	6,560,815	263,395	470,941	379,430	-	7,674,581
Supplies	9,979,168	67	28	240,525	-	10,219,788
Utilities	747,532	-	1,347	18,007	-	766,886
Purchased services	6,449,285	1,185,917	516,605	218,009	-	8,369,816
Depreciation and amortization	4,396,371	-	-	67,489	-	4,463,860
Interest	491,810	-	-	907	-	492,717
Management fees	-	162,941	37,432	177,313	(377,686)	-
Other expenses	1,090,168	101,020	99,474	128,114	-	1,418,776
Total expenses	49,847,123	3,009,625	3,417,520	3,414,301	(399,586)	59,288,983
Income (loss) from operations	7,779,181	(1,460,471)	(2,234,139)	(1,412,975)	-	2,671,596
Other income (expense):						
Investment income	935,874	36	-	-	-	935,910
Equity in earnings of affiliates	(133,386)	-	-	-	-	(133,386)
Other components of net periodic pension cost	(1,024,948)	-	-	-	-	(1,024,948)
Other	141,429	-	-	-	-	141,429
Total other income	(81,031)	36	-	-	-	(80,995)
Excess revenue over expenses without donor restrictions	\$ 7,698,150	\$ (1,460,435)	\$ (2,234,139)	\$ (1,412,975)	\$ -	\$ 2,590,601

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

Board of Governors
Garrett County Memorial Hospital
Oakland, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 sheet as of June 30, 2020, 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 year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purposes of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Charleston, West Virginia
October 28, 2020**

DHG