Atlantic General Hospital Corporation

Audited Financial Statements

Years Ended June 30, 2019 and 2018

DIXON HUGHES GOODMAN LLP

DIXON HUGHES GOODMAN LLP

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Trustees
Atlantic General Hospital Corporation
Berlin, Maryland

We have audited the accompanying financial statements of Atlantic General Hospital Corporation (the Corporation), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Atlantic General Hospital Corporation as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Emphasis of Matter

Change in Accounting Principle

As described in Note 3 to the financial statements, the Corporation 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 2019. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

Gaithersburg, Maryland
October 28, 2019

Atlantic General Hospital Corporation
Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 7,784,200**	$ 9,210,003
Investments	**9,395,770**	8,801,622
Patient accounts receivable (see Note 3)	**10,631,908**	11,039,161
Supply inventory	**2,491,024**	3,027,402
Current portion of pledges receivable	**2,144,666**	1,340,407
Prepaid expenses and other current assets	**2,845,910**	3,146,294
Total current assets	**35,293,478**	36,564,889
Land, buildings and equipment, net	**64,159,377**	61,665,021
Other assets:		
Assets whose use is limited:		
Cash and cash equivalents restricted by donor	**62,241**	62,241
Cash and cash equivalents internally designated for an endowment	**80,320**	209,252
Investments internally designated for an endowment	**3,828,906**	3,584,398
Noncurrent pledges receivable, net	**1,364,007**	1,543,567
Swap contracts	**-**	1,134,417
Long-term investments	**27,696**	27,696
Goodwill and intangible assets	**2,223,207**	2,240,455
Other noncurrent assets	**5,103,973**	4,527,369
Total other assets	**12,690,350**	13,329,395
Total assets	**$ 112,143,205**	$ 111,559,305

See accompanying notes.

	2019	2018 (As Adjusted)
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	**$ 7,401,573**	$ 6,712,783
Salaries, wages, and related items	**6,143,328**	6,696,497
Interest payable	**106,825**	96,315
Advances from third party payers	**1,269,820**	1,135,346
Current portion of long-term obligations	**1,562,622**	1,564,361
Total current liabilities	**16,484,168**	16,205,302
Noncurrent liabilities:		
Long-term obligations, less current portion and net of unamortized debt issuance costs	**34,463,608**	32,467,237
Swap contracts	**2,157,322**	-
Other liabilities	**6,603,972**	6,275,696
Total liabilities	**59,709,070**	54,948,235
Net assets:		
Without donor restrictions		
General	**44,575,628**	48,870,096
Board-designated	**3,904,350**	3,793,650
With donor restrictions	**3,954,157**	3,947,324
Total net assets	**52,434,135**	56,611,070
Total liabilities and net assets	**$ 112,143,205**	$ 111,559,305

Atlantic General Hospital Corporation
Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenue:		
Patient service revenue, net of contractual allowance and discounts		$ 126,433,804
Provision for bad debts		(5,169,684)
Net patient service revenue (see Note 3)	**$ 124,549,444**	121,264,120
Other operating revenue	**5,016,562**	3,749,503
Total operating revenue	**129,566,006**	125,013,623
Operating expenses:		
Salaries	**58,274,726**	55,361,163
Employee benefits and other related expenses	**11,575,862**	11,404,532
Professional fees and contracted services	**11,090,279**	11,176,905
Supplies and other expense	**35,141,583**	31,486,985
Utilities	**1,563,530**	1,402,692
Maintenance and repairs	**7,642,127**	6,880,151
Insurance	**1,360,808**	1,701,623
Interest	**1,531,767**	1,169,556
Depreciation	**6,635,165**	6,852,427
Amortization	**22,248**	22,248
Total operating expenses	**134,838,095**	127,458,282
Loss from operations	**(5,272,089)**	(2,444,659)
Other income (expense):		
Investment income	**797,350**	748,112
Net unrealized gains on trading portfolio	**96,828**	654,814
Change in fair value of swap contracts	**(3,291,739)**	1,326,790
Other	**632,759**	816,177
Total other income (loss)	**(1,764,802)**	3,545,893
Revenue and gains (losses) in excess of expenses	**$ (7,036,891)**	$ 1,101,234

See accompanying notes.

Atlantic General Hospital Corporation
Statements of Change in Net Assets
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Nets assets, beginning of year (as adjusted)	**$ 52,663,746**	**$ 3,947,324**	**$ 56,611,070**
Revenue and gains (losses) in excess of expenses	**(7,036,891)**	**-**	**(7,036,891)**
Restricted contributions	**-**	**3,028,982**	**3,028,982**
Net assets released from restrictions used for operations	**-**	**(169,026)**	**(169,026)**
Net assets released from restrictions used for capital acquisitions	**2,853,123**	**(2,853,123)**	**-**
Change in net assets	**(4,183,768)**	**6,833**	**(4,176,935)**
Net assets, end of year	**$ 48,479,978**	**$ 3,954,157**	**$ 52,434,135**

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Net assets, beginning of year (as adjusted)	$ 51,562,512	$ 2,933,000	$ 54,495,512
Revenue and gains in excess of expenses	1,101,234	-	1,101,234
Restricted contributions	-	1,214,814	1,214,814
Net assets released from restrictions used for operations	-	(200,490)	(200,490)
Change in net assets	1,101,234	1,014,324	2,115,558
Net assets, end of year	$ 52,663,746	$ 3,947,324	$ 56,611,070

See accompanying notes.

Atlantic General Hospital Corporation
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities and other gains:		
Change in net assets	**$ (4,176,935)**	$ 2,115,558
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities and other gains:		
Depreciation and amortization expense	**6,657,413**	6,874,675
Amortization of debt issuance costs	**144,159**	108,119
Provision for bad debts	**-**	5,169,684
Recognition of change in fair value of swap contract	**3,291,739**	(1,326,790)
Realized gains on sale of investments	**(361,634)**	(345,714)
Unrealized gains on trading portfolio	**(96,828)**	(654,814)
Loss on extinguishment of debt	**-**	365,192
Loss on disposal of equipment	**209,490**	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable, net	**407,253**	(6,128,229)
Supply inventory	**536,378**	(288,863)
Prepaid expenses and other current assets	**300,384**	(714,722)
Other assets	**(1,206,303)**	(597,361)
Increase (decrease) in:		
Accounts payable and accrued expenses	**688,790**	856,094
Salaries, wages and related items	**(553,169)**	781,369
Interest payable	**10,510**	49,997
Third party advances	**134,474**	200,684
Other liabilities	**328,276**	(34,790)
Net cash and cash equivalents provided by operating activities and other gains	**6,313,997**	6,430,089
Cash flows from investing activities:		
Net (purchase) sale of trading investments	**(380,194)**	502,776
Proceeds from sale of equipment	**215,000**	-
Purchase of land, building, and equipment	**(9,554,011)**	(19,046,785)
Acquisition of radiation oncology business	**-**	(2,500,000)
Net cash and cash equivalents used in investing activities	**(9,719,205)**	(21,044,009)
Cash flows from financing activities:		
Payments on long-term debt	**(1,506,082)**	(19,909,237)
Proceeds from issuance of long-term debt	**3,356,555**	32,341,935
Payments for debt issuance costs	**-**	(553,409)
Net cash and cash equivalents provided by financing activities	**1,850,473**	11,879,289
Net change in cash and cash equivalents	**(1,554,735)**	(2,734,631)
Cash, cash equivalents, and restricted cash at beginning of year	**9,481,496**	12,216,127
Cash, cash equivalents, and restricted cash at end of year	**$ 7,926,761**	$ 9,481,496
Supplemental cash flow disclosure:		
Interest paid	**$ 1,521,258**	$ 1,119,559

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

Atlantic General Hospital Corporation (the Corporation) is a non-stock, non-profit Maryland corporation organized on April 4, 1989, primarily for the purpose of constructing, owning and operating Atlantic General Hospital (the Hospital) in Worcester County, Maryland. On May 21, 1993, the Hospital commenced operations as a full-service acute care inpatient and outpatient health care facility. Admitting physicians are primarily practitioners in the local area. Prior to May 21, 1993, the Corporation's primary activity was the planning and development of the Hospital.

2. Summary of Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation

The 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 Corporation'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.

In fiscal year 2019, the Corporation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The primary impact of adopting ASU 2016-14 for the Corporation is the presentation of net assets without donor restrictions and expanded disclosures related to functional expenses and liquidity and availability, as disclosed in notes 10 and 13, respectively. The Corporation has retrospectively adopted the guidance in ASU 2016-14 to the 2018 financial statement information and disclosures, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have only been presented for 2019, as permitted under the standard.

The impact on net assets as of June 30, 2018 upon adoption of this standard was as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented:			
Unrestricted	$ 52,663,746	$ -	$ 52,663,746
Temporarily restricted	-	3,947,324	3,947,324
Net assets as reclassified	$ 52,663,746	$ 3,947,324	$ 56,611,070

Board-designated unrestricted net assets

Board-designated unrestricted net assets represent assets whose use by the Hospital has been designated by the Board of Trustees for a particular purpose. The Board of Trustees may remove or modify the designations at any time. The board-designated assets were a result of the Hospital being named beneficiary in a portion of an estate pursuant to a will in 2001.

The Board of Trustees has determined that any investment income on the endowment will be internally designated by using a three year rolling average market value method, of which 3% annually can be used to fund physician practice development.

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 without donor restrictions 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 with donor restrictions as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Risk factors

The Corporation’s ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee-for-service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however, managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the outcome of the federal budget debate, and the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the ultimate impact of the federal health care reform legislation (5) the future of Maryland’s certificate of need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Hospital’s ability to expand or add new services; and (6) the future of the Maryland Health Services Cost Review Commission’s authority to regulate rates, where future changes could result in reductions to revenues since payers would be allowed to negotiate discounts not currently allowed.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States of America. Such accreditation is based upon a number of requirements including undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services of the U.S. Department of Health and Human Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides “deemed status” for facilities having Joint Commission accreditation. In other words, by being Joint Commission accredited, facilities are “deemed” to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The Hospital has been accredited by the Joint Commission through September 25, 2021.

The Medicare and Medicaid reimbursement programs represent a substantial portion of the Hospital’s revenues. The Corporation’s operations are subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse.

Cash and cash equivalents

The Corporation invests excess cash in financial instruments, which are converted into cash as needed to meet the Corporation’s obligations. Cash equivalents are highly liquid financial instruments with original maturities of less than three months or containing provisions for early redemption without penalty. The Corporation has cash holding in commercial banks that routinely exceed the Federal Deposit Insurance Corporation maximum insurance limit of $250,000.

The composition of cash and cash equivalents at June 30 is as follows:

	2019	2018
Cash and cash equivalents, classified as a current asset	**$ 7,784,200**	$ 9,210,003
Amounts restricted by donor	**62,241**	62,241
Amounts internally designated for an endowment	**80,320**	209,252
Total cash and cash equivalents (as reported in the accompanying statements of cash flows)	**$ 7,926,761**	$ 9,481,496

Investments

Investments in equity securities with readily determinable fair values are measured at fair value in the accompanying balance sheets based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in other income, unless the income or loss is restricted by donor or law. Long-term investments represent charitable gift annuities recorded at the present value of the expected gift and investment in a captive insurance company.

The composition of investments at June 30 is as follows:

		2019		2018
Investments:				
Common stock	$	**3,189,551**	$	2,499,350
Mutual funds - equities		**8,230,816**		8,580,213
Mutual funds - fixed maturity		**1,832,005**		1,334,153
		13,252,372		12,413,716
Less investments internally designated for an endowment		**3,828,906**		3,584,398
Less long-term investments		**27,696**		27,696
Undesignated investments	**$**	**9,395,770**	$	8,801,622

Investment income for the years ended June 30 consists of:

		2019		2018
Interest and dividends	$	**435,716**	$	402,398
Realized gains		**361,634**		345,714
	$	**797,350**	$	748,112

During 2008, the Corporation joined Maryland e-Care, LLC, a joint venture formed by six Maryland hospitals to provide remote monitoring technology with clinical decision support and physician/nursing services for their use in the intensive care units and other clinical areas within their respective hospitals. The Corporation maintained a 23% interest ($20,000) in this joint venture, which was reported using the cost method of accounting in the accompanying financial statements. In June 2019, the existing members of the joint venture approved to dissolve Maryland eCare, LLC.

Fair value measurements

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 such as debt and equity securities, mutual funds, and money market accounts that are traded in an active market, and other cash equivalents. Level one investments include common stocks, equity mutual funds and money market funds that are traded in an active market.

Level 2: Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level two investments include corporate bonds, U.S. government obligations, and asset and mortgage backed securities. A third party pricing service may be used to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

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. Level three investments can include limited liability partnerships and limited liability companies. The fair value for these investments are determined by applying the ownership percentage to the net asset value of the investment fund. Underlying investments of the funds can include hedge funds, real estate funds, mortgage backed securities, asset backed securities, and global equity fund of funds.

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 Corporation'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.

Fair values of common stock and mutual funds have been determined by the Corporation 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 fair value of the Corporation's interest rate swap contracts are based on the proprietary model of a third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swap, and considers the credit risk of the Corporation and the counterparty. The method used to determine the fair value calculates the estimated future payments required by the swap and discounts these payments using an appropriate discount rate. The value represents the estimated exit price that the Corporation would pay to terminate the agreement.

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

	Level 1	Level 2	Total Fair Value
ASSETS			
Mutual funds:			
Fixed maturity:			
High Yield Bond	$ 439,637	$ -	$ 439,637
Inflation-Protected Bond	157,066	-	157,066
Intermediate-term Bond	1,235,302	-	1,235,302
Equities:			
Absolute	352,588	-	352,588
Directional	345,631	-	345,631
International Emerging Markets	604,711	-	604,711
International Blend	29,320	-	29,320
International Developed	2,043,873	-	2,043,873
International REIT Funds	155,969	-	155,969
U.S. Large/Mid-Cap	3,634,026	-	3,634,026
U.S. REIT Funds	138,418	-	138,418
U.S. Small-Cap	926,281	-	926,281
Common stocks:			
Basic Materials	58,261	-	58,261
Energy	78,740	-	78,740
Consumer Goods	310,964	-	310,964
Financial	528,090	728,540	1,256,630
Healthcare	514,254	-	514,254
Industrial Goods	165,650	-	165,650
Services	189,682	-	189,682
Technology	380,544	-	380,544
International Developed	76,508	-	76,508
Other Equity	31,953	-	31,953
Real Estate	32,163	-	32,163
Utilities	74,201	-	74,201
Total	$ 12,503,832	$ 728,540	$ 13,232,372
LIABILITIES			
Interest rate swaps liabilities	$ -	$ 2,157,322	$ 2,157,322
	$ 12,503,832	$ 1,428,782	$ 11,075,050

The following table presents the Corporation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

	Level 1	Level 2	Total Fair Value
ASSETS			
Mutual funds:			
Fixed maturity:			
High Yield Bond	$ 288,188	$ -	$ 288,188
Inflation-Protected Bond	153,503	-	153,503
Intermediate-term Bond	892,463	-	892,463
Equities:			
Bank Loan	99,085	-	99,085
Commodities Broad Basket	77,492	-	77,492
Diversified Emerging Markets	691,527	-	691,527
Equity Energy	37,380	-	37,380
Foreign Large Blend	783,558	-	783,558
Foreign Large Growth	1,120,928	-	1,120,928
Foreign Large Value	105,597	-	105,597
Foreign Small/Mid Growth	-	-	-
Large Blend	210,095	-	210,095
Large Growth	1,616,277	-	1,616,277
Large Value	1,098,328	-	1,098,328
Mid-Cap Growth	510,214	-	510,214
Mid-Cap Value	473,972	-	473,972
Option Writing	320,032	-	320,032
Real Estate	323,323	-	323,323
Small Blend	963,068	-	963,068
Small Growth	149,336	-	149,336
Common stocks:			
Basic Materials	58,033	-	58,033
Consumer Goods	167,788	-	167,788
Financial	745,951	611,440	1,357,391
Healthcare	463,331	-	463,331
Industrial Goods	109,708	-	109,708
Services	53,896	-	53,896
Technology	225,527	-	225,527
Utilities	43,676	-	43,676
Total	$ 11,782,276	$ 611,440	$ 12,393,716
Interest rate swaps assets	$ -	$ 1,134,417	$ 1,134,417
	$ 11,782,276	$ 1,745,857	$ 13,528,133

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

Supply inventory

Supply inventory is stated at the lower of cost or market, with cost determined principally by the first-in, first-out method.

Land, buildings, and equipment

Land, buildings, and equipment are carried at cost, including net interest on related borrowings capitalized during periods of construction. Donated items are recorded at fair value at the date of the donation. Capital leases are carried at the lower of the present value of their net minimum lease payments or the fair value of the leased properties at the inception of the lease less accumulated amortization. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. The carrying amounts of significant assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts.

Depreciation, which includes amortization of equipment under capital leases, is recorded on the straight-line basis using the half-year convention over the estimated useful lives (or lease term if shorter) of 10 to 40 years for buildings and improvements and 5 to 10 years for equipment. Any acquisitions from July 1, 1999 and forward that are in excess of $100,000 are depreciated on the straight-line basis without using the half-year convention.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from revenue and gains in excess of expenses and losses. 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.

Patient accounts receivable

Net patient service revenue is reported at estimated net realizable amounts from patients, third party payers, and others for services rendered. Patient accounts receivable include Hospital and physician charges for accounts due from Medicare, Maryland Medical Assistance (Medicaid), CareFirst, commercial and managed care insurers, and self-paying patients. Deducted from patient accounts receivable are estimates of implicit price concessions in 2019 or the provision for uncollectible accounts in 2018 for the excess of charges over the payments on patient accounts to be received from third party payers and uncollectible amounts related to self-paying patients. These estimates are calculated by management based on historical collection experience and analysis of financial class and age of groups of accounts receivable.

Goodwill

Goodwill represents the excess of the cost over the fair value of the identified net assets of acquired businesses. The Company evaluates goodwill for impairment at the entity level. Goodwill is tested for impairment at least annually.

Charity care

The Hospital provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient (or their guarantor) and subsequent analysis and use of the federal poverty limits as guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as a component of net patient service revenue or net patient accounts receivable.

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 $1,369,586 and $1,612,423 for the years ended June 30, 2019 and 2018, 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 Maryland Health Services Cost Review Commission (the Commission). For any charity services rendered by the Corporation, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Hospital.

A Maryland hospital either receives payments from or makes payments to the Commission with respect to an Uncompensated Care Fund (UCC) established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital received net payments from the UCC of $1,342,218 and $1,005,416 for the years ended June 30 2019 and 2018, respectively.

Revenue and gains in excess of expenses

The statements of operations include revenue and gains in excess of expenses. Changes in net assets without donor restrictions, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include contributions of (and assets released from donor restrictions related to) long-lived assets and other items that are required by accounting principles generally accepted in the United States of America to be reported separately.

Maryland Health Services Cost Review Commission (the Commission)

Certain of the Hospital's charges are subject to review and approval by the Commission. The Hospital has filed the required reports with the Commission and believes it is in compliance with the Commission's requirements. The rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs prior to January 1, 2014 was based on a 36-year-old agreement between the Centers for Medicare and Medicaid Services (CMS) and the Commission. This agreement was based upon a waiver from the Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a new waiver to modernize Maryland's unique all-payer rate-setting system for hospital services. The current waiver consists of a five-year performance period. Maryland hospitals commit to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions. Maryland also limits the annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2016 to 2019. Under this model, Medicare is estimated to save at least $330 million over the five years. Under the waiver, Maryland shifts virtually all of its hospital revenue over the five year performance period into global payment models. 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 Model is approved for a 10-year term provided Maryland meets the Model performance requirements.

Patient service revenue is recorded at rates established by the Commission. The Hospital entered into the Global Budget Revenue (GBR) agreement with the Commission. The GBR agreement renews each year for a one-year period unless it is cancelled by the Commission 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 payer mix and uncompensated care, change in population and quality incentives.

Other operating revenue

Majority of other operating revenue is derived from retail pharmacy sales. During 2019 and 2018, the Corporation generated pharmacy revenue totaling $3,878,673 and $3,089,215, respectively. Other operating revenue also includes rental income, rebates, physician billing fees and miscellaneous income earned from refunds.

Advertising and marketing costs

The Corporation expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses were approximately $1,434,000 and $1,566,000 for the fiscal years ended June 30, 2019 and 2018, respectively, and are reported as supplies and other expense in the accompanying statements of operations. No advertising or marketing costs have been capitalized in the accompanying balance sheets.

Income taxes

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption.

The state in which the Corporation operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation. However, the Corporation 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.

Current accounting standards define the threshold for recognizing uncertain income tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on technical merits, and also provide guidance on the measurement, classification, and disclosure of tax return positions in the financial statements. Management believes there is no impact on the Corporation’s accompanying financial statements related to uncertain income tax provisions.

Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported change in net assets.

Subsequent events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 28, 2019, the date the financial statements were available to be issued.

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The amendments in this ASU are effective for the Corporation for fiscal year ending June 30, 2022, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805),* and *Not-for-Profit Entities (Topic 958).* The amendments in this ASU extend the private company alternatives from *Topic 350* and *Topic 805* to non-for-profit entities. The alternative allow goodwill to be amortized over a period of 10 years (or less). The Corporation intends to adopt the amendment in this ASU effective for the fiscal year ending June 30, 2020.

The Corporation is currently evaluating the impact of these ASU’s on its financial position, results of operations, and cash flows. At the present time, management has not yet determined what the effects of adopting these ASUs will have on its financial statements.

3. Net Patient Service Revenue

During fiscal year 2019, the Corporation 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 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 Corporation elected certain available practical expedients under the standard. First, the Corporation 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 Corporation'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 Corporation 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 Corporation 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 Corporation otherwise would have recognized is one year or less in duration.

Management has determined that the Corporation 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 Corporation's facilities at the statement of financial position date. Accordingly, the Corporation accrues revenue and the related accounts receivable for services performed but not yet billed at the statement of financial position date for in-house patients. Thus, management has determined that Corporation 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 bad debts in the statements of operations are now considered implicit price concessions (as defined in ASC 606) and, therefore, included in net patient service revenue in 2019. Such implicit price concessions reflected in net patient service revenue in the accompanying financial statements for the year ended June 30, 2019 were $5,230,923. Prior to July 1, 2018, the provision for bad debts was presented consistent with the previous revenue recognition standards separately as a component of patient service revenue. Upon adoption of ASC 606, the allowance for doubtful accounts of $10,148,028 at June 30, 2018, was reclassified as a direct reduction of patient accounts receivable. Such implicit price concessions continue to be presented as a direct reduction of patient accounts receivable.

The Corporation 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 Corporation has entered into agreements by which the third-party payors pay a percentage of approved HSCRC charges. A reduced percentage can be obtained if the payor advances a certain amount of working capital.

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

- Regional cancer center revenue – Corporation 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 Corporation 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 Corporation. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation 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 our hospitals receiving services over multiple days. The Corporation 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 Corporation 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 Corporation 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 Corporation's performance obligations generally relate to contracts with a duration of less than one year, therefore the Corporation 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 Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients financial assistance, by either policy or law, from standard charges. The Corporation 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 Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles).

The Corporation 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 year ended June 30, 2019 and 2018 are as follows:

	2019	2018
Global budget revenue	**$ 95,883,757**	$ 95,096,026
Physician services revenue	**18,081,792**	19,331,287
Regional cancer center revenue	**9,619,406**	5,699,420
Unregulated hospital revenue	**964,489**	1,137,387
Total	**$ 124,549,444**	$ 121,264,120

Net patient service revenue disaggregated by payor for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Medicare	**$ 53,288,858**	$ 52,757,720
Medicaid	**11,838,415**	11,740,069
Commercial insurance and HMOs	**9,449,828**	9,198,467
CareFirst	**17,217,344**	17,360,564
Self-pay and others	**4,089,312**	4,039,206
	95,883,757	95,096,026
Physician services revenue	**18,081,792**	19,331,287
Regional cancer center revenue	**9,619,406**	5,699,420
Unregulated hospital revenue	**964,489**	1,137,387
Total	**$ 124,549,444**	$ 121,264,120

The following table presents the detail of net patient service revenue:

	2019	2018
Gross charges	**$ 180,090,295**	$ 174,118,965
Price concessions		
Explicit price concessions (contractual and other allowances in 2018)	**(47,921,468)**	(45,117,605)
Implicit price concessions (provision for bad debts in 2018)	**(5,230,923)**	(5,169,684)
Charity care	**(2,388,460)**	(2,567,556)
Net patient service revenue	**$ 124,549,444**	$ 121,264,120

4. Land, Buildings, and Equipment

Land, buildings, and equipment are comprised of the following as of June 30:

	2019	2018
Land, buildings, and improvements	**$ 58,211,806**	$ 56,704,352
Fixed equipment	**26,808,637**	24,228,014
Movable equipment	**46,535,542**	40,010,654
Capital lease equipment	**2,978,185**	2,978,185
	134,534,170	123,921,205
Less accumulated depreciation	**75,892,714**	70,514,829
	58,641,456	53,406,376
Construction in process	**5,517,921**	8,258,645
	$ 64,159,377	$ 61,665,021

Accumulated amortization on leased equipment totaling $2,164,372 and $1,782,175 is included in the balance of accumulated depreciation as of June 30, 2019 and 2018, respectively. Amortization expense associated with capital lease equipment was $382,198 for the years ended June 30, 2019 and 2018, and is included in the balance of depreciation expense in the accompanying statements of operations.

5. Pledges Receivable

Unconditional promises to give cash and others assets are recorded at fair value in the year that they are made net of allowance for uncollectible accounts and discounted to their present value. As of June 30, 2019, promises to give that are expected to be received in less than one year total $2,144,666, one to five years total $1,666,780 and more than five years total $111,429. The promises to give in future years are discounted in the amount of $250,499 at a rate of 4% at June 30, 2019. Conditional promises to give are recorded at the time they become unconditional and are reported in prepaid expenses and other current assets and noncurrent pledges receivable of the accompanying balance sheet. The allowance for doubtful accounts for pledges receivable was $163,703 and $76,000 at June 30, 2019 and 2018, respectively.

6. Non-Current Liabilities

Long-term debt as of June 30 is comprised of the following:

	2019	2018
$7,501,000 Series A Bond payable to Maryland Health and Higher Educational Facilities Authority (MHHEFA) with interest of 2.21% per annum for the immediately succeeding interest payment date, with an interest rate based on LIBOR thereafter. The interest rate was 3.55% as of June 30, 2019. Interest payments are due monthly beginning October 1, 2018. Principal and interest payments are due monthly commencing September 1, 2023; matures July 1, 2027.	**$ 7,501,000**	$ 7,501,000
$20,013,000 Series B Bond maximum principal amount, payable to MHHEFA with interest of 2.45% per annum for the immediately succeeding interest payment date, with an interest rate based on LIBOR thereafter. The interest rate was 3.92% as of June 30, 2019. Interest payments are due monthly beginning October 1, 2018. Principal and interest payments are due monthly commencing August 2, 2027; matures March 3, 4042.	**16,484,490**	13,127,935
$10,000,000 Berlin, Maryland Hospital Refunding Revenue Bonds (Atlantic General Hospital Facility), Series 2018; interest is 2.36% for the first LIBOR Interest Period, with an interest rate based on the floating LIBOR rate thereafter. The interest rate was 3.71% as of June 30, 2019. Interest payments are due monthly beginning November 1, 2018. Principal and interest payments are due monthly commencing April 1, 2042; matures July 1, 2047.	**10,000,000**	10,000,000
$1,713,000 loan payable from M&T Bank for repayment of 2008 loan and transaction costs, with an interest rate of LIBOR + 1.80%. The interest rate was 4.2% as of June 30, 2019. Principal and interest payments are due monthly commencing October 2, 2018; matures August 1, 2019.	**152,902**	1,056,276

(continued)	2019	2018
$1,950,000 loan payable from Bank of Ocean City, secured by real property, interest of 3.99%; payable in monthly principal and interest installments of $11,810 commencing June 23, 2014; matures May 23, 2034.	**751,169**	860,629
$680,000 loan payable from Bank of Ocean City, secured by real property, with interest of 3.99%; payable in monthly principal and interest installments of $4,118 commencing July 30, 2015; matures June 30, 2035.	**585,653**	611,250
$660,730 loan payables from unrelated third parties; with interest ranging 3.99% to 5.00%; payable in principal and interest installments commencing between December 2015 and April 1, 2016; maturing between December 31, 2023 and March 1, 2026.	**463,991**	503,998
Capital leases payable, with interest ranging from 3.54% to 5.44%, secured by selected equipment.	**797,275**	1,224,920
Total long-term debt	**36,736,480**	34,886,008
Less – net unamortized debt issuance costs.	**(710,250)**	(854,410)
Less – current portion	**(1,562,622)**	(1,564,361)
	$ 34,463,608	$ 32,467,237

Maturities of long-term debt, including capital leases, for years ending June 30 are as follows:

	2020	2021	2022	2023	2024	After 2024
Future minimum lease payments	$ 472,869	$ 320,363	$ 36,427	$ 6,071	$ -	$ -
Less interest	30,123	7,406	899	27	-	-
	442,746	312,957	35,528	6,044	-	-
Notes/loans payable	253,974	212,280	221,359	230,832	236,876	645,492
Bonds payable	865,902	877,000	903,000	929,000	954,000	29,609,490
	$ 1,562,622	$ 1,402,237	$ 1,159,887	$ 1,165,876	$ 1,190,876	$30,254,982

Swap agreements

During 2017, the swap agreement connected with the issuance of the 2008 term loan and commercial loan was terminated upon repayment of the respective debt. During 2018, the Corporation obtained a new swap agreement connected with the 2017 Series revenue bonds. The fair value of the swap agreements as of June 30, 2019 and 2018 (as determined after consultation with investment hedging consultants), based on the present value of cash flow differences over the lives of the swap agreements between the interest rate calculated on the swap agreements at inception and rates available on similar swap agreements as of June 30, is $2,157,322 (liability) and $1,134,417 (asset), respectively. Payments made to the counterparty to the Swap Agreement were $178,490 and $115,944 for the years ended June 30, 2019 and 2018, respectively. The Corporation is exposed to credit loss in the event of nonperformance by the counterparty on the swap agreements, but does not anticipate nonperformance by the counterparty.

2015 Commercial Mortgage Loan

During 2015, the Corporation obtained a $680,000 commercial mortgage from a commercial bank for the purposes of purchasing a condominium unit in the medical office building. The loan is collateralized by a mortgage lien against the condominium. Principal and interest payments of $4,118 are made monthly and the loan matures on June 30, 2035.

2017 Series revenue bonds

On September 1, 2017, pursuant to a loan and financing agreement (the 2017 Loan and Financing Agreement) between the Corporation, the Issuer, and M&T Bank (the Lender), the Issuer issued the Hospital Revenue Bonds (Atlantic General Hospital Facility) 2017 Series A in the amount of $7,501,000 and Series B in the amount of $20,013,000. The Series A Bond proceeds were to refund a portion of the 2010 Series Revenue Bonds and to refinance a portion of the 2008 Commercial Mortgage Loan. The Series B Bond was issued in the maximum principal amount of $20,013,000 in order to finance the 2017 Project, consisting of building renovations and equipment acquisitions, to refund a portion of the 2001 Series Refunding Revenue Bonds, 2002 Series Revenue Bonds, and 2010 Series Revenue Bonds, and to refinance a portion of the 2008 Commercial Mortgage Loan.

The financing requires monthly payments by the Corporation directly to the Lender sufficient to meet the principal and interest requirements of the 2017 Series A and Series B Bonds through their maturity on July 1, 2027, and March 3, 2042, respectively. Interest payments for Series A and Series B Bonds began on October 1, 2017. Principal and interest payments for Series A are to begin September 3, 2019, with any outstanding interest and principal due July 1, 2027. Principal and interest payments for Series B are to begin August 2, 2027, with any outstanding interest and principal due March 3, 2042.

The 2017 Series Bonds bear interest at the respective index floating rates applicable to the bonds, excluding the immediately succeeding interest payments date, in which the interest rate was 2.21% and 2.45% for Series A and B respectively. Thereafter, the index floating rate is determined by the LIBOR Interest Period.

Each Series 2017 Bond is subject to redemption at the option of MHHEFA upon the request of the Corporation, on any date upon not less than five days' notice to the lender, at a redemption price of 100% of the principal amount of the bond redeemed plus accrued interest to the redemption date.

The Bonds may also be redeemed at the option of MHHEFA upon the request of the Corporation through purchase at a price equal to 100% of the principal amount of the bond plus accrued interest on the date set for redemption.

On September 1, 2017, the Corporation also entered into a financing agreement between the Corporation, the Mayor and Council of Berlin, and the Lender for a 2017 Bond in the amount of $10,000,000 to finance the 2017 Project. The 2018 Bond bears interest at the index floating rate, excluding the immediately succeeding interest payment date, in which the interest rate was 2.37%. Thereafter, the index floating rate is determined by the LIBOR Interest Period. Interest payments began November 1, 2017. Principal and interest payments are to begin April 1, 2042, with any outstanding interest and principal due July 1, 2047.

The 2017 Bond is subject to redemption at the option of the Corporation, in whole or in part, on any date upon not less than five days' notice to the lender, at a redemption price of 100% of the principal amount of the bond redeemed plus accrued interest to the redemption date.

2017 Term Loan

During 2017, the Corporation obtained a $1,713,000 loan from M&T Bank for repayment of the 2008 commercial mortgage loan. Principal and interest payments began on October 2, 2017, with any outstanding interest and principal due on August 1, 2019. Interest shall accrue on the principal amount from and including the first day of each interest period until, but not including, the last day of such interest period, or until the principal amount is paid in full at a rate per annum equal to 1.80% above the LIBOR rate.

7. Business Combination

In March 2018, the Company acquired 100% of the equity interest of Berlin Radiation Therapy Treatment Center, LLC (the Center). The Center is in the business of providing cancer care services to Berlin, MD and the surrounding area. The Company paid $2,500,000 and acquired medical and office equipment of $308,171. Goodwill of $2,191,837 was recorded as part of the acquisition, which included the assembled workforce and noncompete agreements, as well as the Center's brand. Goodwill is not subject to amortization; rather, it will be assessed for impairment at least annually. No impairment was recognized in 2019.

8. Professional Liability Insurance Coverage

The Corporation is presently exposed to asserted and unasserted potential legal claims encountered in the ordinary course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Corporation's June 30, 2019 financial position or the results of operations for the year then ended.

Prior to 2005, the Corporation had claims-made professional liability insurance through a commercial insurance carrier covering claims arising from the performance of professional services and brought against the Corporation while the policy was in force. Insurable limits under this policy were $1 million per claim and $3 million annual aggregate shared limit basis. In addition, the Corporation maintained an umbrella policy of $15,000,000 per occurrence and aggregate.

During 2005, the Hospital, in conjunction with eight other Maryland hospitals, (Shareholders) formed Freestate Healthcare Insurance Company, Ltd. (Captive), a Cayman Islands company, to provide claims-made professional and general liability coverage for the risks of the Shareholders, their controlled affiliates, and their respective employees. Each of the Shareholders is a Maryland nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (Code or IRC), as an organization described in Section 501(c)(3) of the Code. The Shareholders are not affiliated with one another through common ownership or control. As of June 30, 2019, the Captive had five Shareholders.

The Captive provides primary coverage to the Shareholders and their affiliates with limits of liability of $1,000,000 for each and every claim (Retained Layer), and provides an excess policy with various limits of liability which is fully reinsured through commercial carriers. The Corporation has $10,000,000 of additional reinsurance in the aggregate through such reinsurance arrangements. The estimated unpaid loss liability reserved by the captive for the Hospital was $5,103,972 and $4,527,369 at June 30, 2019 and 2018, respectively. In accordance with current accounting standards, the June 30, 2019 and 2018 unpaid loss liability is recorded as a noncurrent liability, and the related insurance recovery was reported as a noncurrent asset, in the accompanying balance sheets. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately $1,500,000 and $1,748,000 as a noncurrent liability as of June 30,2019 and 2018, respectively.

Premiums are calculated by an actuary under a retrospectively rated policy and are based primarily on the experience of the Shareholders. The total premium is allocated to each of the Shareholders based on their experience. Premiums for the Corporation's professional and general liability insurance of approximately $1,330,000 and $1,260,000 were charged to operations during fiscal years 2019 and 2018. 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. In management's opinion, the assets of the Captive are sufficient to meet its obligations as of June 30, 2019. If the financial condition of the Captive were to materially deteriorate in the future, and the Captive was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

9. Commitments

Employment agreements

The Corporation has entered into various employee agreements with certain physicians whereby the Corporation has agreed to pay reasonable expenses of the physicians' practices in addition to compensation for services rendered. These agreements are generally for a period of two years.

Lease agreements

The Corporation has entered into various lease agreements for equipment and facilities. Most lease arrangements contain a renewal option. Total rent expense for the years ended June 30, 2019 and 2018 was approximately $1,541,000 and $1,368,000 respectively. Future minimum payments on noncancelable office and equipment leases, with initial or remaining terms of one year or more, for years ending June 30 are as follows:

2020	$ 1,577,441
2021	1,266,458
2022	903,788
2023	697,946
2024	667,879
Thereafter	1,723,294
	$ 6,836,807

Retirement plans

The Corporation sponsors a 403(b) retirement covering substantially all employees of the Corporation. Participants may elect to contribute a percentage of their pretax annual compensation, as defined by the Plan, not to exceed the maximum allowable contributions under the Internal Revenue Code (IRC). The Corporation matches 50% of the first 5% of participants' elective deferrals and participants become fully vested in employer contributions after three years of continuous service. Plan expenses were approximately $858,000 and $883,000 for the years ended June 30, 2019 and 2018, respectively.

Effective January 31, 2003, the Corporation entered into an agreement to sponsor a Section 457 deferred compensation plan. All contributions to the Section 457 plan are from participating employees; however, all assets of the Section 457 plan are the sole property of the Corporation and are fully subject to claims by the Corporation's general creditors.

Self-insured plans

Effective May 1, 2002, the Corporation joined the Maryland Hospital Association (MHA) Workers' Compensation Self-Insurance Group to self-insure for worker's compensation benefits. The annual premium for worker's compensation is calculated based on the Corporation's payroll estimate and MHA rates per payroll classification. The MHA rates are determined based on past experience. Amounts charged to operations for workers' compensation expense were $689,421 and $663,538 for the years ended June 30, 2019 and 2018, respectively.

In lieu of paying unemployment tax premiums to the State of Maryland, the Corporation secured a letter of credit with M&T Bank, effective May 21, 2004. As of June 30, 2019 the letter of credit was in the amount of $427,306. Additionally, the Corporation paid actual Maryland unemployment claims in the amount of $33,362 and $85,949 for the years ended June 30, 2019 and 2018, respectively.

The Corporation maintains an agreement with a third party to administer a self-insured health plan that benefits Hospital employees and their dependents. On behalf of participating employees, the Corporation pays the cost of health claims and an administration fee for each subscriber employee. The participating associates share in the cost by remitting a pre-established premium through payroll deductions. Additionally, the Hospital obtains stop loss insurance to cover possible claims in excess of expected claims. The stop loss insurance agreements are annual agreements, subject to annual renewals. The Corporation submits a claim for reimbursement of stop loss insurance when claims exceed a pre-established ceiling. The Corporation's net health benefit expense for the fiscal years ended June 30, 2019 and 2018 was $5,739,318 and $5,752,905, respectively, net of premiums received from associates during the fiscal years of $1,115,892 and $1,083,192, respectively.

The Corporation maintains an agreement with a third party to coordinate the administration of dental health benefits to Hospital employees and their dependents. This is an annual agreement, subject to annual renewals. On behalf of participating employees, the Hospital pays the cost of claims and a fee for each subscriber employee, and the participating employees remit a portion of the Corporation’s cost through a pre-established schedule of payroll deductions.

10. Functional expenses

The Corporation provides general health care services and related services to individual 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:

	2019		
	Healthcare Services	General and Administrative	Total
Salaries	$ 45,920,256	$ 12,354,470	$ 58,274,726
Employee benefits and other related expenses	9,414,273	2,161,589	11,575,862
Professional fees and contracted services	8,002,510	3,087,769	11,090,279
Supplies and other expenses	31,882,553	3,259,030	35,141,583
Utilities	1,115,585	447,945	1,563,530
Maintenance and repairs	6,142,209	1,499,918	7,642,127
Insurance	615,525	745,283	1,360,808
Interest	444,168	1,087,599	1,531,767
Depreciation	5,150,150	1,485,015	6,635,165
Amortization	22,228	-	22,248
Total	$108,709,477	$ 26,128,618	$134,838,095

	2018
Health care services	$ 103,007,775
General and administrative	24,450,507
	$ 127,458,282

The 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, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

11. Business and Credit Concentrations

The Corporation grants credit to patients, many of whom are local residents. The Corporation 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.

At June 30, the Corporation had gross accounts receivable from third-party payers and others as follows:

	2019	2018
Medicare	$ **5,825,434**	$ 7,059,204
Medicaid	**844,639**	826,565
Commercial insurance and HMOs	**5,000,672**	4,257,924
CareFirst	**2,719,124**	2,966,415
Self-pay and others	**13,411,253**	11,972,169
	$ **28,124,670**	$ 27,082,277

Gross patient charges, by payer class, consisted of the following for the years ended June 30:

	2019	2018
Medicare	**51**%	51%
Medicaid	**12**%	13%
Commercial insurance and HMOs	**14**%	14%
CareFirst	**18**%	18%
Self-pay and others	**5**%	4%
	100%	100%

12. Grant Awards

In January 2002, the Hospital received notice indicating it was a recipient of a conditional award of up to $750,000 through the Perdue Kresge Challenge for the Community, an endowment challenge grant program for nonprofit organizations serving the Lower Eastern Shore of Maryland. This grant was contingent upon the Hospital's ability to raise, at a minimum, slightly more than two-thirds of the $750,000 match ($502,500) in qualified gifts in the Hospital's named agency-restricted endowment fund (the Fund). During 2005, the Hospital met the full challenge and Purdue Kresge matched the $750,000. By Board designation, all of the income distributed from the Perdue Kresge Challenge endowment will be used to fund physician practice development in the community.

On January 15, 2002, an endowment fund (the Fund) was established in the Hospital's name in order for the Hospital to participate in the Perdue Kresge Challenge for the Community. The Fund is held by and accounted for in the financial statements of the Community Foundation of the Eastern Shore. An unrelated third party actively manages the investments, which are invested currently in various bonds, mutual funds, and equities. All realized gains and losses are reinvested in the Fund. The Fund has no minimum value requirement. All gifts to the Fund will be invested in perpetuity. The Hospital, as sole beneficiary to any interest earned on the Fund, will receive income distributions earned on the assets of the Fund with no external restrictions regarding use; however, the Board of Trustees has designated all investment income from this endowment fund for funding physician practice development in the community. Income distributions will be made on an annual basis.

Fund activity is presented below for the years ended June 30:

	2019	2018
Beginning fund balance	$ **2,054,387**	$ 1,958,131
Interest and dividends	**80,642**	80,583
Net realized and unrealized losses	**(32,157)**	133,368
Administrative and management fees	**(19,442)**	(20,079)
Annual income distributions	**(99,289)**	(97,616)
Ending fund balance	$ **1,984,141**	$ 2,054,387

13. Liquidity and Availability

As of June 30, 2019, the Corporation has working capital of approximately $18,809,000 and 60 average days (based on normal expenditures) unrestricted cash and marketable securities on hand.

Financial assets available for general expenditure within one year of the balance sheet date consist of the following at June 30, 2019 (in accordance with applicable transitional guidance, 2018 amounts have not been presented):

	2019
Cash and cash equivalents	$ 7,784,200
Marketable securities	13,324,996
	21,109,196
Accounts receivable, net	10,631,908
Other receivables	472,493
Total	$ 32,213,597

In addition to the assets in the table above, the Corporation has other investments and assets whose use is limited for specified purposes, and because they are not available for general expenditure within one year are not reflected in the amounts above. The Corporation does, however, have investments and certain other long-term assets whose use is limited by board designation that could be made available for general expenditure within one year, if necessary.