GARRETT REGIONAL MEDICAL CENTER

A PROUD AFFILIATE OF

WVU Medicine

Consolidated Financial Statements

Years Ended June 30, 2016 and 2015

DHG

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

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 Hospital), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and other changes in unrestricted net assets, 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 the 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 auditors' 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 Hospital as of June 30, 2016 and 2015, and the results of their operations, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Supplementary Schedules

Our audit was 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 4, 2016 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 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 Hospital's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Tysons, Virginia
October 4, 2016

Garrett Regional Medical Center
Consolidated Balance Sheets

	June 30, 2016	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,425,193	$ 10,704,963
Short-term investments -- *Note B*	15,188,189	20,937,862
Patient accounts receivable, net of allowance for doubtful accounts of $2,302,138 and $2,453,923 at June 30, 2016 and 2015, respectively -- *Note K*	6,332,659	4,342,516
Other amounts receivable	355,950	260,286
Assets whose use is limited by donors and others -- *Note B*	234,701	143,165
Inventories	1,221,414	1,017,300
Prepaid expenses	577,847	491,011
TOTAL CURRENT ASSETS	35,335,953	37,897,103
NONCURRENT ASSETS		
Property and equipment, net -- *Note D*	37,234,406	27,895,006
Insurance recoverable -- *Note J*	628,643	557,178
Long-term investments -- *Note B*	5,237,975	5,141,325
Investment in affiliates -- *Note C*	325,252	340,525
Assets whose use is limited by donors and others, less current portion -- *Note B*	757,014	500,602
Assets whose use is limited by board of governors -- *Note B*	698,073	698,073
Deferred financing costs, net	52,859	21,279
TOTAL NONCURRENT ASSETS	44,934,222	35,153,988
TOTAL ASSETS	$ 80,270,175	$ 73,051,091

	June 30, 2016	June 30, 2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,474,043	$ 1,963,163
Accrued salaries and wages	2,576,445	2,210,638
Advances from third parties	517,399	421,081
Current portion of long-term debt -- *Note E*	1,044,831	570,359
Other current liabilities -- *Note J*	329,558	268,052
TOTAL CURRENT LIABILITIES	6,942,276	5,433,293
Long-term debt, less current portion -- *Note E*	12,628,913	8,168,531
Pension obligation -- *Note G*	17,114,406	11,705,380
Other long-term liabilities -- *Note J*	1,091,130	1,413,494
TOTAL LIABILITIES	37,776,725	26,720,698
NET ASSETS		
Unrestricted	41,561,734	45,790,935
Temporarily restricted -- *Note F*	895,255	503,197
Permanently restricted -- *Note M*	36,461	36,261
TOTAL NET ASSETS	42,493,450	46,330,393
TOTAL LIABILITIES AND NET ASSETS	$ 80,270,175	$ 73,051,091

Garrett Regional Medical Center
Consolidated Statements of Operations and Other Changes in Unrestricted Net Assets

	Year Ended June 30, 2016	2015
REVENUE		
Net patient service revenue -- *Note K*		
Patient service revenue (net of contractual allowances and discounts)	$ 47,543,652	$ 45,298,311
Less: provision for uncollectible accounts	(1,473,140)	(1,680,514)
	46,070,512	43,617,797
Other revenue	1,352,140	2,006,996
Net assets released from restriction for use in operations -- *Note F*	169,728	45,629
TOTAL REVENUE	47,592,380	45,670,422
EXPENSES -- *Note L*		
Salaries and wages	19,765,047	18,170,040
Employee benefits -- *Note G*	7,210,303	6,420,976
Supplies	9,080,331	7,159,506
Utilities	550,198	648,438
Purchased services	6,209,562	5,047,595
Depreciation and amortization -- *Note D*	3,054,620	2,637,883
Interest -- *Note E*	138,735	144,552
Other expenses	1,651,797	1,368,085
TOTAL OPERATING EXPENSES	47,660,593	41,597,075
GAIN (LOSS) FROM OPERATIONS	(68,213)	4,073,347
OTHER INCOME		
Investment income -- *Note B*	525,829	275,825
Equity in earnings of affiliates -- *Note C*	39,728	232,185
Other	(231,000)	223,966
TOTAL OTHER INCOME	334,557	731,976
EXCESS OF REVENUE OVER EXPENSES	266,344	4,805,323
Net assets released from restriction for the purchase of property and equipment -- *Note F*	768,102	283,562
Pension-related changes other than net periodic pension cost -- *Note G*	(5,263,647)	(1,580,038)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ (4,229,201)	$ 3,508,847

See the accompanying notes to the consolidated financial statements.

Garrett Regional Medical Center
Consolidated Statements of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Assets
BALANCE AT JUNE 30, 2014	42,282,088	454,247	36,111	42,772,446
Excess revenue over expenses	4,805,323	-	-	4,805,323
Net assets released from restriction for the purchase of property and equipment -- *Note F*	283,562	(283,562)	-	-
Pension-related changes other than net periodic pension cost -- *Note G*	(1,580,038)	-	-	(1,580,038)
Contributions	-	378,141	150	378,291
Net assets released from restriction for use in operations -- *Note F*	-	(45,629)	-	(45,629)
INCREASE IN NET ASSETS	3,508,847	48,950	150	3,557,947
BALANCE AT JUNE 30, 2015	45,790,935	503,197	36,261	46,330,393
Excess revenue over expenses	266,344	-	-	266,344
Net assets released from restriction for the purchase of property and equipment -- *Note F*	768,102	(768,102)	-	-
Pension-related changes other than net periodic pension cost -- *Note G*	(5,263,647)	-	-	(5,263,647)
Contributions	-	1,329,888	200	1,330,088
Net assets released from restriction for use in operations -- *Note F*	-	(169,728)	-	(169,728)
INCREASE (DECREASE) IN NET ASSETS	(4,229,201)	392,058	200	(3,836,943)
BALANCE AT JUNE 30, 2016	$ 41,561,734	$ 895,255	$ 36,461	$ 42,493,450

See the accompanying notes to the consolidated financial statements.

Garrett Regional Medical Center
Consolidated Statements of Cash Flows

	Year Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (3,836,943)	$ 3,557,947
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Investment income	(525,829)	(275,825)
Restricted contributions	(1,330,088)	(378,291)
Depreciation	3,050,181	2,636,529
Amortization of deferred financing costs	4,439	1,354
Provision for uncollectible accounts	1,473,140	1,680,514
Earnings of affiliate investment	(39,728)	(232,185)
Loss (gain) on disposal of equipment	150,778	(3,690)
Change in pension obligation	5,409,026	1,555,623
Decrease (increase) in:		
Patient accounts receivable	(3,463,283)	(845,360)
Inventories	(204,114)	(26,670)
Prepaid expenses	(86,836)	(25,546)
Insurance recoverable	(71,465)	31,537
Other amounts receivable	(95,664)	66,187
Increase (decrease) in:		
Accounts payable	510,880	989,712
Accrued salaries and wages	365,807	249,896
Advances from third parties	96,318	(45,902)
Other liabilities	(260,858)	(203,703)
NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES	1,145,761	8,732,127

See the accompanying notes to the consolidated financial statements.

	Year Ended June 30	
	2016	**2015**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	$ (12,540,359)	$ (9,788,263)
Net purchase of assets whose use is limited by donors	(347,948)	(73,600)
Net sales (purchase) of investments	6,178,852	(1,936,939)
Net proceeds from affiliate investment	55,001	77,610
NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES	(6,654,454)	(11,721,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	$ 5,772,296	$ 5,336,940
Financing costs paid	(36,019)	-
Repayments of long-term debt	(837,442)	(164,774)
Proceeds from restricted contributions	1,330,088	378,291
NET CASH AND CASH EQUIVALENTS PROVIDED BY FINANCING ACTIVITIES	6,228,923	5,550,457
NET INCREASE IN CASH AND CASH EQUIVALENTS	720,230	2,561,392
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,704,963	8,143,571
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,425,193	$ 10,704,963
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 99,682	$ 136,406

Notes to Consolidated Financial Statements

Note A Organization and Summary of Significant Accounting Principles

Organization

Garrett County Memorial Hospital (the Hospital) 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 addition, the Hospital owns 100% of the outstanding shares of Garrett Community Health Services (GCHS), which is a for-profit corporation. GCHS had no activity for the years ended June 30, 2016 and 2015. In 2016, 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 during 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.

Principles of consolidation

The consolidated financial statements include the accounts of Garrett County Memorial Hospital, Professional Emergency Physician Services, LLC, Garrett Anesthesia Services, LLC, Specialty Physicians of Garrett County, LLC, and Garrett Community Health Services, (collectively referred to as the Company and doing business as Garrett Regional Medical Center). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets 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 unrestricted net assets. Contributions with donor-imposed restrictions are reported as increases in temporarily or permanently restricted net assets. Expirations of temporary 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 permanently restricted net assets 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;
- Increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- Increases (decreases) in unrestricted net assets in all other cases.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, 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 K). Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts contracted with third party payers, 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 I).

The Company grants credit without collateral to its patients, most of whom are local residents insured under third-party payer agreements (see Note K). Accounts receivable are reported at their net realizable value from third-party payers, patients, residents and others for services rendered. Allowances are provided for third-party payers based on estimated reimbursement rates. Allowances 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.

Allowance for uncollectible accounts

The provision for uncollectible 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 allowance for uncollectible accounts based upon its review of accounts receivable payer category, payer agreement rate changes and other factors. The results of these assessments are used to make modifications to the provision for uncollectible accounts and to establish an appropriate allowance for uncollectible accounts.

For self-pay patients, the provision is based on an analysis of past experience related to collection rates of self-pay balances. The Company follows established guidelines for placing certain past-due patient balances with external collection agencies.

Charity care

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

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Under current accounting standards, the Hospital is required to report the cost of providing charity care. The cost of charity care provided by the Hospital totaled $1,861,800 and $1,937,839 for the years ended June 30, 2016 and 2015, 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 I), 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 Company 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 Company's non-Hospital affiliates.

The HSCRC established an uncompensated care fund whereby all hospitals were 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. In December 2008, the HSCRC modified this mechanism to finance uncompensated care statewide. The policy implemented 100% pooling 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 $806,028 and $1,369,530 for 2016 and 2015, respectively, related to its participation in the uncompensated care fund mechanism.

Advertising expense

The Company expenses advertising costs as they are incurred.

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 Company has cash holdings in commercial banks that routinely exceed the Federal Deposit Insurance Corporation (FDIC) maximum insurance limit of $250,000. The Company has not experienced any losses related to funds held in excess of the FDIC limit.

Inventories

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

Donor-restricted funds

Donor-restricted funds are used to differentiate resources, the use of which are limited by the donor, from resources on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Restricted funds for care of needy patients and other temporarily restricted net assets are reflected in operating revenue to the extent restrictions have been met; net assets restricted for property and equipment are reclassified to the unrestricted net assets balance when those assets are acquired.

Assets whose use is limited

Assets limited as to use primarily consist of cash, certificates of deposit, pledges receivable and investments. Assets limited as to use 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.

Deferred financing costs

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

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 realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains

and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities (see Note B).

Investments in affiliates

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

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, include unrealized gains and losses on other than trading securities, 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).

Meaningful use incentive

Under the provisions of the American Recovery and Reinvestment Act of 2009, incentive payments are available to certain healthcare providers that can demonstrate "meaningful use" of certified electronic health records technology. The Hospital recognized these incentive payments when reasonably assured of the ability to successfully demonstrate compliance with meaningful use criteria. The Hospital recognized approximately $701,060 and $1,074,759 of these incentive payments in other operating revenue in the accompanying consolidated financial statements for the periods ended 2016 and 2015, respectively.

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 J).

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 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 2016 and 2015.

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.

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the 2016 consolidated financial statements.

Subsequent events

Management has evaluated the effect subsequent events would have on financial statements through October 4, 2016, which is the date the financial statements were available to be issued.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 *"Revenue from Contracts with Customers,"* which will eliminate the transaction and industry-specific revenue recognition guidance under current accounting standards and replace it with a principle-based approach using the following steps: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14 *"Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date"* which granted a one-year deferral of this ASU. The guidance in ASU 2014-09 will now be effective for the Company beginning July 1, 2019, with early adoption permitted. The guidance allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the impact of this guidance, including the transition method, on its financial position, results of operations and cash flows. At the present time, management has not yet determined what the effects of adopting this ASU will be on its consolidated financial statements

In February 2016, 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 Company beginning on July 1, 2020, 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 consolidated financial statements. Early adoption is permitted. Management has not yet determined what the effects of adopting this ASU will be on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-14, "*Not-For-Profit Entities (Topic 842), Presentation of Financial Statements of Not-for Profit Entities."* The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for Not-for-Profit (NFP) entities. Under the new guidance, financial statements and noted disclosures requirements for NFP entities include the following:

1. Present on the face of the statement of financial position net assets with and without donor restrictions
2. Present on the statement of activities additional operation measures
3. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method
4. Enhanced disclosures that provide quantitative and qualitative information about liquidity management

The amendments in ASU 2016-14 are effective for the Company beginning on July 1, 2018, with early adoption permitted. Management has not yet determined what the effects of adopting this ASU will be on its consolidated financial statements.

Note B Investments and Assets Whose Use is Limited

Investments and assets limited as to use consist of the following:

	Investments	Assets whose use is limited by donors	Assets whose use is limited by the board of governors	Total
At June 30, 2016:				
Cash and cash equivalents	**$ 368,557**	**$ 11,144**	**$ -**	**$ 379,701**
Certificates of deposit	**15,198,993**	**127**	**698,073**	**15,897,193**
Corporate bonds	**925,693**	**11,023**	**-**	**936,717**
Mutual funds	**2,451,122**	**29,188**	**-**	**2,480,310**
Common stock	**1,453,693**	**17,251**	**-**	**1,470,994**
Preferred stock	**28,105**	**335**	**-**	**28,440**
Pledges receivable, net	**-**	**922,647**	**-**	**922,647**
	20,426,164	**991,715**	**698,073**	**22,115,952**
Less short-term portion	**15,188,189**	**234,701**	**-**	**15,422,890**
	$ 5,237,975	**$ 757,014**	**$ 698,073**	**$ 6,693,062**

	Investments	Assets whose use is limited by donors	Assets whose use is limited by the board of governors	Total
At June 30, 2015:				
Cash and cash equivalents	$ 233,795	$ 6,348	$ -	$ 240,143
Certificates of deposit	20,972,689	594	698,073	21,671,356
Corporate bonds	95,011	1,650	-	96,661
Mutual funds	3,396,811	58,996	-	3,455,807
Common stock	1,370,959	23,724	-	1,394,683
Preferred stock	9,922	176	-	10,098
Pledges receivable, net	-	552,279	-	552,279
	26,079,187	643,767	698,073	27,421,027
Less short-term portion	20,937,862	143,165	-	21,081,027
	$ 5,141,325	$ 500,602	$ 698,073	$ 6,340,000

Assets whose use is limited include investments and pledges receivable. Board designated funds consist of certificates of deposit at June 30, 2016 and 2015.

Pledges receivable are recorded net of an allowance for uncollectible pledges of $68,980 and $29,917 at June 30, 2016 and 2015, respectively. Pledges are recorded at their net present value and are due as follows at June 30, 2016:

2017	$ 239,946
2018	206,492
2019	151,741
2020	127,060
2021	74,477
After 2021	265,885
	1,065,601
Present value discount, at 0.89%	(73,974)
Allowance for uncollectible pledges	(68,980)
	$ 922,647

The investment return on the Company's investments and assets limited as to use consists of the following for the years ended June 30:

	2016	2015
Interest and dividends	**$ 115,936**	$ 134,518
Net realized gain	**498,510**	259,823
Net unrealized loss	**(88,617)**	(118,516)
	$ 525,829	$ 275,825

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 Company's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the

financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values of the Company'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 Company'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 Company'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 Company 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 Company's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Total
Cash and cash equivalents	**$ 379,701**	**$ -**	**$ 379,701**
Certificates of deposit	**15,897,193**	**-**	**15,897,193**
Corporate bonds	**-**	**936,717**	**936,717**
Mutual funds	**2,480,310**	**-**	**2,480,310**
Common stock	**1,470,944**	**-**	**1,470,944**
Preferred stock	**28,440**	**-**	**28,440**
	$ 20,256,588	**$ 936,717**	**$ 21,193,305**

The following table presents the Company's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Total
Cash and cash equivalents	$ 240,143	$ -	$ 240,144
Certificates of deposit	21,671,356	-	21,671,356
Corporate bonds	-	96,661	96,661
Mutual funds	3,455,807	-	3,455,807
Common stock	1,394,683	-	1,139,683
Preferred stock	10,098	-	10,098
	$ 26,772,087	$ 96,661	$ 26,868,748

The tables above do not include pledges receivables of $922,647 and $552,279 at June 30, 2016 and 2015, respectively. There were no transfers among the three fair value levels during 2016 and 2015.

Note C Investments in Affiliates

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

Joint Venture	Type of organization	Business purpose	Percentage ownership 2016	Percentage ownership 2015
Oakland MRI Center, LLC (OMRI)	For Profit	MRI and Dexa scan services	**50%**	50%
Freestate Healthcare Insurance Company, Ltd. (Freestate)	For-profit	Malpractice and professional liability insurance	**20%**	20%
Western Maryland Medical Supply, LLC (WMMS)	For-profit	Durable medical equipment services	**33.3%**	33.3%

In April 2004, the Hospital formed OMRI with Premier Imaging, LLC. The purpose of this joint venture is to provide MRI 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 Cayman Islands corporation formed for the purpose of providing insurance coverage to its members, their affiliates and their respective employees (see Note J). The Hospital contributed $15,000 of equity to Freestate during 2005.

In April 2009, the Hospital joined Western Maryland Medical Supply, LLC (WMMS). WMMS provides durable medical equipment to the local and surrounding communities. The Hospital initially contributed $201,403 in 2009. WMMS ceased operations in December 2015, and the Hospital's investment was liquidated as of June 30, 2016.

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

	Investment balance 2016	Investment balance 2015	Income (loss) in earnings 2016	Income (loss) in earnings 2015
OMRI	**$ 304,710**	$ 270,025	**$ 89,686**	$ 100,172
Freestate	**20,542**	20,542	**-**	-
WMMS	**-**	49,958	(**49,958**)	124,404
Other	**-**	-	**-**	7,609
	$ 325,252	$ 340,525	**$ 39,728**	$ 232,185

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

	2016	2015
Current assets	**$ 26,851,334**	$ 41,081,598
Noncurrent assets	**18,483,450**	3,941,847
Total assets	**$ 45,334,784**	$ 45,023,445
Current liabilities	**$ 565,234**	$ 697,342
Noncurrent liabilities	**44,218,072**	43,533,453
Net worth	**551,478**	792,650
Total liabilities and net worth	**$ 45,334,784**	$ 45,023,445
Total operating revenue	**$ 8,060,198**	$ 4,172,867
Total operating expense	**8,179,704**	3,985,473
Net income (loss)	**$ (119,506)**	$ 187,394

Note D Property and Equipment

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

	Estimated Useful life	2016	2015
Land improvements	10 – 40 years	**$ 727,066**	$ 479,327
Buildings and improvements	15 – 40 years	**39,037,946**	25,309,303
Fixed equipment	5 – 20 years	**5,005,957**	4,682,551
Movable equipment	3 – 20 years	**18,727,696**	16,870,917
Equipment under capital lease	lease term	**148,562**	144,211
		63,647,227	47,486,309
Less accumulated depreciation		**(31,945,576)**	(30,453,597)
		31,701,651	17,032,712
Land		**1,162,039**	1,162,039
Construction in progress		**4,370,716**	9,700,255
		$ 37,234,406	$ 27,895,006

Depreciation expense for the years ended June 30, 2016 and 2015 was $3,050,181 and $2,636,529, respectively. Accumulated amortization of assets acquired under capital leases was $102,799 and $73,521 in June 30, 2016 and 2015, respectively.

In August 2015, the Hospital signed a construction management contract for approximately $16.6 million of which approximately $12.2 million has been incurred by the Hospital for various renovations including an additional wing to the Hospital. Construction is expected to be completed by summer 2017.

Note E Long-Term Debt

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

	2016	2015
Series 2015 bonds	**$ 1,104,885**	$ -
Series 2014 bonds	**9,333,333**	5,336,940
USDA bonds	**2,446,970**	2,519,013
Series 2004 bonds	**738,671**	807,484
Capital lease obligations	**49,885**	75,453
	13,673,744	8,738,890
Less current portion	**1,044,831**	570,359
	$ 12,628,913	$ 8,168,531

Series 2015 Bonds

On December 23, 2015, the 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 and all outstanding principal balances and interest are due.

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 and 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 Garrett County 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 as of June 30, 2016 are as follows:

2017	$ 1,044,831
2018	769,671
2019	760,762
2020	767,685
2021	774,437
After 2022	9,556,358
	$ 13,673,744

The Company is subject to certain restrictive covenants defined in various agreements with lenders. In the opinion of management, the Company was in compliance with all applicable restrictive covenants as of June 30, 2016 and 2015.

Capital leases

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

Note F Temporarily Restricted Net Assets

Temporarily restricted net assets of $895,255 and $503,197 at June 30, 2016 and 2015, respectively, are restricted primarily for property replacement, expansion, and health care clinical services. 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:

	2016	2015
Health care clinical services	**$ 169,728**	$ 45,629
Plant replacement and expansion	**768,102**	283,562
	$ 937,830	$ 329,191

Note G Pension Plan

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 approximately $1,250,000 for fiscal year 2017. The assumption change in the table below represents change in the discount rate and rate of compensation increase for 2016 and 2015.

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

	2016	2015
Projected benefit obligation at beginning of year	**$ 36,561,060**	34,323,968
Service cost	**1,187,734**	1,150,638
Interest	**1,625,582**	1,497,298
Assumption change	**4,264,302**	751,178
Benefits paid	**(1,383,340)**	(1,162,022)
Projected benefit obligation at end of year	**$ 42,255,338**	$ 36,561,060

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

	2016	2015
Fair value of Plan assets at beginning of year	**$ 24,855,680**	$ 24,174,211
Actual return on Plan assets	**386,051**	683,350
Employer contribution	**1,282,541**	1,160,141
Benefits paid	**(1,383,340)**	(1,162,022**)**
Fair value of Plan assets at end of year	**$ 25,140,932**	$ 24,855,680
Funded status	**$ (17,114,406)**	$ (11,705,380)
Net loss included in unrestricted net assets	**$ 15,330,296**	$ 10,066,649
Accumulated benefit obligation	**$ 37,687,118**	$ 31,455,857

The components of the net periodic benefit cost consist of the following at June 30:

	2016	2015
Service cost	**$ 1,187,734**	$ 1,150,638
Interest cost	**1,625,582**	1,497,298
Expected return on assets held in the plan	**(1,972,586)**	(1,952,817)
Amortization of net loss	**587,190**	440,607
	$ 1,427,920	$ 1,135,726

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

	2016	2015
Discount rate	**3.65%**	4.45%
Rate of compensation increase	**2.65%**	3.45%

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

	2016	2015
Discount rate	**3.65%**	4.45%
Rate of compensation increase	**2.65%**	3.45%
Expected long-term return on plan assets	**8.00%**	8.00%

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

	2016	2015
Equity securities	**54%**	58%
Fixed maturity securities	**39%**	41%
Other	**7%**	1%
Total plan assets	**100%**	100%

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

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

2017	$ 1,438,000
2018	1,520,000
2019	1,729,000
2020	1,800,000
2021	1,863,000
2022 - 2027	13,687,000
	$ 22,037,000

The fair values of the Hospital's Plan assets as of June 30, 2016 by asset category are as follows:

	Level 1	Level 2	Total
Cash and Cash Equivalents	**$ 1,952,275**	**$ -**	**$ 1,952,275**
Fixed Income			
Corporate Bonds	**-**	**6,603,571**	**6,603,571**
Municipal Bonds	**-**	**1,766,130**	**1,766,130**
Mutual Funds	**1,357,280**	**-**	**1,357,280**
Equity Securities			
Mutual Funds	**4,719,686**	**-**	**4,719,686**
Common Stocks	**5,285,220**	**-**	**5,285,220**
Exchange Traded Funds	**3,456,770**	**-**	**3,456,770**
	$ 16,771,231	**$ 8,369,701**	**$ 25,140,932**

The fair values of the Hospital's Plan assets as June 30, 2015 by asset category are as follows:

	Level 1	Level 2	Total
Cash and Cash Equivalents	$ 233,774	$ -	$ 233,774
Fixed Income			
Corporate Bonds	-	5,945,679	5,945,679
Municipal Bonds	-	1,677,188	1,677,188
Mutual Funds	2,459,042	-	2,459,042
Equity Securities			
Mutual Funds	5,913,551	-	5,913,551
Common Stocks	4,926,873	-	4,926,873
Exchange Traded Funds	3,699,575	-	3,699,576
	$ 17,232,817	$ 7,622,866	$ 24,855,680

There were no transfers between or among the three fair value levels during 2016 and 2015.

Note H Certain Significant Risks and Uncertainties

The Hospital provides general acute health care services in Garrett County, Maryland. The Company 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 K)*;

- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission *(see Note I)*;
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims (*see Note J)*.

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

The Medicare and state Medicaid reimbursement programs represent a substantial portion of the Company's revenues and the Company'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 Company. Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Company.

The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws and regulations. The Company's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time.

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 Company 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 Company's financial position or changes in net assets.

Note I Maryland Health Services Cost Review Commission

The Hospital's rate structure applicable to regulated services is subject to review and approval by the Maryland Health Services Cost Review Commission. The Hospital has entered into a Total Patient Revenue (TPR) System with the HSCRC. Under TPR, regulated gross patient service revenue is determined prospectively for each rate year ending on June 30. TPR-approved revenue and rates are adjusted annually for the effect of cost of inflation, growth of the population area served by the Hospital and variances between TPR-approved revenue versus the actual revenue charged to patients during the prior rate year. 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 TPR, 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.

The Commission has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services (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 10, 2015 Maryland's All-Payer Hospital System Modernization was approved by CMS. This is a five year demonstration where Maryland agreed to permanently shift away from its current statutory waiver, which is based on Medicare payment per inpatient admission, in exchange for the new CMS model based on Medicare per capita total hospital cost growth.

Note J Insurance

Malpractice Insurance

The Company is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted against the Company and are currently in various stages of litigation. Additional claims may be asserted against the Company arising from services provided through June 30, 2016. Management believes that no material loss will result from any pending or threatened litigation or from incidents incurred but not reported.

In accordance with current accounting standards, the Company reports gross insurance recoveries separately from the related claims liability for professional liability claims already reported to its insurance carrier. As of June 30, 2016 and 2015, the Company recorded insurance recoverable and professional claim liability of $628,643 and $557,178, 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 $335,000 and $694,000 for the years ended June 30, 2016 and 2015, 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, 2016, but not reported to its insurance carrier.

Effective March 1, 2005, the Hospital became a shareholder of the newly formed Freestate Healthcare Insurance Company, Ltd. (Freestate), a captive insurance company formed in the Cayman Islands by eight Maryland hospitals. The Hospital became a shareholder of Freestate when the Hospital's insurance company decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. The Hospital 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 owners for professional liability claims and comprehensive general liability of $1,000,000 for each and every claim. 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 $2,000,000 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. In management's opinion, the assets of Freestate are sufficient to meet its obligations as of June 30, 2016. 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% in 2016 and 2015. Effective September 1, 2015, 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 and a $5,000,000 policy aggregate.

Health Insurance

The Company is self-insured for employee health claims. Under the self-insurance plan, the Company has accrued a liability of $234,716 and $185,826 for the years ended June 30, 2016 and 2015 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, 2016 and 2015.

Note K Business and Credit Concentrations

The Company provides health care services through its inpatient and outpatient care facilities located in Oakland, Maryland. The Company grants credit to patients, substantially all of whom are local residents. The Company 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, health maintenance organizations (HMOs) and commercial insurance policies).

At June 30, the Company had patient accounts receivable, net of contractual allowances from third-party payers and others, as follows:

	2016	2015
Self-pay and others	**$ 1,994,807**	2,189,179
Medicare	**2,489,368**	1,686,490
Commercial insurance and HMOs	**1,939,578**	1,367,516
Medicaid	**1,440,406**	1,159,434
Blue Cross	**770,638**	393,820
	8,634,797	6,796,439
Allowance for doubtful accounts	**(2,302,138)**	(2,453,923)
	$ 6,332,659	$ 4,342,516

Patient service revenue, by payer class, consisted of the following for the years ended June 30:

	2016	2015
Medicare	**46%**	47%
Commercial insurance and HMOs	**19%**	19%
Blue Cross	**11%**	11%
Medicaid	**21%**	20%
Self-pay and others	**3%**	3%
	100%	100%

Note L Functional Expenses

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

	2016	2015
Health care services	**$ 39,711,133**	$ 33,395,169
General and administrative	**7,949,460**	8,194,742
	$ 47,660,593	$ 41,589,911

Note M Endowment

Current accounting standards provide guidance on the net asset classification of donor-restricted endowment funds 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 Company's endowment consists of one donor-restricted fund. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Governors of the Company 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 Company classifies as permanently restricted net assets (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (if any) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Company 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 Company 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 Company
7. The investment policies of the Company

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 Company to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 or 2015.

The Company 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 assets of donor-restricted funds 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 Company 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 Company 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 Company targets a diversified asset allocation that places a greater emphasis on highly liquid investments such as money market accounts to achieve its long-term return objectives within prudent risk constraints.

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

	2016			2015		
	Unrestricted	Permanently Restricted	Endowment Total	Unrestricted	Permanently Restricted	Endowment Total
Beginning balance	**$ 14,267**	**$ 36,261**	**$ 50,528**	$ 12,266	$ 36,111	$ 48,377
Interest and dividends	**360**	**-**	**360**	2,001	-	2,001
Contributions	**-**	**200**	**150**	-	525	150
Ending Balance	**$ 14,627**	**$ 36,461**	**$ 51,008**	$ 14,267	$ 36,261	$ 50,528

Other Financial Information

DIXON HUGHES GOODMAN LLP

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

The 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 Company), which comprise the consolidated balance sheets as of June 30, 2016, and the related consolidated statements of operations and other changes in unrestricted net assets, 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 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 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 Company'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 determination of financial statement amounts. 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*.

DIXON HUGHES GOODMAN LLP

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

Tysons, Virginia
October 4, 2016

Garrett Regional Medical Center
Consolidating Balance Sheet Information
As of June 30, 2016

	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	$ 11,017,747	$ 195,162	$ 106,551	$ 105,733	$ -	$ 11,425,193
Short-term investments	15,188,189	-	-	-	-	15,188,189
Patient accounts receivable, net	5,829,513	203,742	277,220	22,184	-	6,332,659
Other amounts receivable	355,179	-	-	771	-	355,950
Assets whose use is limited by donors	234,701	-	-	-	-	234,701
Inventories	1,220,728	686	-	-	-	1,221,414
Prepaid expenses	524,993	46,397	3,398	3,059	-	577,847
Due from affiliates	3,938,515	-	-	-	(3,938,515)	-
TOTAL CURRENT ASSETS	38,309,565	445,987	387,169	131,747	(3,938,515)	35,335,953
NONCURRENT ASSETS						
Property and equipment	37,054,583	-	-	179,823	-	37,234,406
Insurance recoverable	628,643	-	-	-	-	628,643
Long-term investments	5,237,975	-	-	-	-	5,237,975
Investment in affiliates	325,252	-	-	-	-	325,252
Assets whose use is limited by donors, less current portion	757,014	-	-	-	-	757,014
Assets whose use is limited by board of governors	698,073	-	-	-	-	698,073
Deferred financing costs, net	52,859	-	-	-	-	52,859
TOTAL NONCURRENT ASSETS	44,754,399	-	-	179,823	-	44,934,222
TOTAL ASSETS	$ 83,063,964	$ 445,987	$ 387,169	$ 311,570	$ (3,938,515)	$ 80,270,175
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	$ 2,423,556	$ 12,997	$ 37,490	$ -	$ -	$ 2,474,043
Accrued salaries and wages	2,254,608	171,763	128,995	21,079	-	2,576,445
Due to affiliates		1,588,368	1,562,787	787,360	(3,938,515)	-
Advances from third parties	517,399		-	-	-	517,399
Current portion of long-term debt	1,044,831	-	-	-	-	1,044,831
Other current liabilities	324,593	4,965			-	329,558
TOTAL CURRENT LIABILITIES	6,564,987	1,778,093	1,729,272	808,439	(3,938,515)	6,942,276
Long-term debt, less current portion	12,628,913	-	-	-	-	12,628,913
Pension obligation	17,114,406	-	-	-	-	17,114,406
Other long-term liabilities	963,696	127,434	-	-	-	1,091,130
TOTAL LIABILITIES	37,272,002	1,905,527	1,729,272	808,439	(3,938,515)	37,776,725
NET ASSETS (DEFICIT)						
Unrestricted	44,860,246	(1,459,540)	(1,342,103)	(496,869)	-	41,561,734
Temporarily restricted	895,255	-	-	-	-	895,255
Permanently restricted	36,461	-	-	-	-	36,461
TOTAL NET ASSETS (DEFICIT)	45,791,962	(1,459,540)	(1,342,103)	(496,869)	-	42,493,450
TOTAL LIABILITIES AND NET ASSETS	$ 83,063,964	$ 445,987	$ 387,169	$ 311,570	$ (3,938,515)	$ 80,270,175

Garrett Regional Medical Center
Consolidating Statement of Operations Information
As of June 30, 2016

	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						
Patient service revenue (net of contractual allowances and discounts)	$ 43,436,055	$ 2,094,643	$ 1,714,860	298,094	$ -	$ 47,543,652
Less: provision for uncollectible accounts	(1,037,131)	(310,496)	(73,667)	(51,846)	-	(1,473,140)
	42,398,924	1,784,147	1,641,193	246,248	-	46,070,512
Other revenue	1,586,132	235	-	10,052	(244,279)	1,352,140
Net assets released from restriction for use in operations	169,728	-	-	-	-	169,728
TOTAL REVENUE	44,154,784	1,784,382	1,641,193	256,300	(244,279)	47,592,380
EXPENSES						
Salaries and wages	17,096,463	1,341,161	1,052,552	274,871	-	19,765,047
Employee benefits	6,767,376	257,248	131,940	53,739	-	7,210,303
Supplies	8,954,482	292	872	124,685	-	9,080,331
Utilities	535,063	3,980	1,886	9,269	-	550,198
Purchased services	4,694,000	301,701	1,160,429	53,432	-	6,209,562
Depreciation and amortization	3,024,294	-	-	30,326	-	3,054,620
Interest	138,735	-	-	-	-	138,735
Management fees		157,051	54,291	32,937	(244,279)	-
Other expenses	1,412,406	50,781	114,690	73,920	-	1,651,797
TOTAL EXPENSES	42,622,819	2,112,214	2,516,660	653,179	(244,279)	47,660,593
GAIN (LOSS) FROM OPERATIONS	1,531,965	(327,832)	(875,467)	(396,879)	-	(68,213)
OTHER INCOME						
Investment income	525,709	120	-	-	-	525,829
Equity in earnings of affiliates	39,728	-	-	-	-	39,728
Other	(231,000)	-	-	-	-	(231,000)
TOTAL OTHER INCOME	334,437	120	-	-	-	334,557
EXCESS REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	$ 1,866,402	$ (327,712)	$ (875,467)	$ (396,879)	$ -	$ 266,344

See the accompanying report of independent auditors.

GARRETT REGIONAL MEDICAL CENTER A Proud Affiliate of WVU Medicine	Department: Patient Financial Services		Policy Title: Caring Program (Financial Assistance)	
	Original Date: 09/01/01		Policy Number: 8520.000	Page Number: 1 of 8
	Effective Date: 09/01/01	Reviewed/Revised Dates: 01/11, 02/12, 2/13	Submitted by: Angela Maule RHIA, CCS	
Approval Signature & Title: Tracy Lipscomb, Vice President Finance Date: 4/22/16	Approval Signature & Title: Angela Maule, Director Health Information Management/Billing and Collecting Date: 4/22/16		Approval Signature & Title: Lori Dixon, Senior Director Finance and Accounting Date: 4/29/16	

Policy Statement:

The "Caring Program" enables Garrett Regional Medical Center (GRMC) to offer financial assistance for healthcare services rendered to underprivileged, underemployed, and/or underinsured patients who have difficulty providing themselves with life's necessities, i.e., food, clothing, shelter, and healthcare. In an effort to assist those in need and to further the hospital's charitable mission, GRMC has established a financial assistance program to allow the write-off of unpaid account balances upon determination of the "Caring Program" eligibility. GRMC strives to ensure that the financial capacity of people who need health care services does not prevent them from seeking or receiving care. Individuals with a demonstrated inability to pay rather than unwillingness to pay are eligible to apply for the financial assistance program at GRMC. Patients are expected to cooperate with GRMC's procedures for obtaining financial assistance and to contribute to the cost of their care based on their individual ability to pay.

Objective:

The qualifying criteria are minimal and broad so GRMC can exercise maximum flexibility to offer financial assistance to program applicants. Eligibility to the "Caring Program" represents "free" or reduced healthcare and as such, is included as part of the hospital's outreach mission.

Guidelines:

A. GRMC will grant financial assistance for eligible applicants for medically necessary services that are urgent, emergent, or acute in nature. Services included in the program are emergency room visits, inpatient admissions, and outpatient laboratory, radiology and cardiopulmonary services. Elective surgical procedures may also be eligible for financial assistance for eligible applicants through the "Caring Program" and will require individual consideration by management.

B. Screening for Medicaid eligibility is required.

a. If Medicaid eligibility is likely, the patient must apply for Medicaid within the required timeframe of the service date or the date the patient assumes financial responsibility for the services rendered (specific to state Medicaid requirements).

b. If Medicaid eligibility is not likely, i.e., no extraordinarily high medical bills, no children in the household, any disability, etc., a formal denial from Medicaid is not required, however all Patient Financial Services Representatives have the authority to request the Medicaid application whenever there is a chance of Medicaid eligibility.

    i. All inpatient and observation visits require Medicaid status.

c. Any patient who is not eligible for fully covered Medicaid services may apply for financial assistance through "The Caring Program."

d. Any patient who is eligible for Medicaid but has a "spend-down" requirement to meet before Medical Assistance begins to cover charges may apply for "The Caring Program.

e. Incomplete applications and/or failure to apply and follow through with the Medicaid application will result in a denial from the "Caring Program."

C. The "Caring Program" application must be completed and returned via the U.S. Postal Service, delivered in person, or completed over the telephone within 60 days of date the patient becomes financially responsible for services rendered. The patient, a family member, a close friend, or associate of the patient, subject to applicable privacy laws, may make a request for financial assistance.

a. All applications require the signature of the individual who is financially responsible for the unpaid bills as well as proof of financial information used to determine program eligibility.

b. If the application is completed over the telephone for the patient by the PFS representative then the application will then be mailed to the patient for a signature. The application will then be either mailed or faxed back to the PFS Department.

c. If the applicant cannot read/write, PFS will read the policy to the applicant and assist with the form completion, requiring only a witnessed signature of an "X."

d. Any required signatures or additional information requested by a Patient Financial Services Representative must be returned to the Patient Financial Services (PFS) Department within 30 days of the request. If the information is not returned within

that time, the patient is ineligible for assistance through the "Caring Program" for those service dates that related to the application.

D. In order for an individual to qualify, he/she must have exhausted all other sources of payment, including assets easily liquidated, i.e., bank accounts, money market accounts, Certificate(s) of Deposit, savings bonds, etc. Calculation of the applicant's income excludes net assets of $10,000 or less.

E. The following definitions of family size and income will assist in the "Caring Program" eligibility determination:

1. Family: Using the Census Bureau definition, a family is a group of two or more persons related by birth, marriage, or adoption, living in the same residence, sharing income and expenses. When a household includes more than one family, GRMC will use each separate family's income for eligibility determination. According to Internal Revenue Service rules, if the patient claims someone as a dependent on their income tax return, they may be considered a dependent for the purposes of the provision of financial assistance.

2. Individual: An individual is a person who is emancipated, married, or 18 years of age or older (excluding inmates of an institution) who is not living with relatives. An individual may be the only person living in a housing unit, or may be living in a housing unit with unrelated persons. An individual is also, for the purposes of this policy, someone 18 years of age or older who lives with relatives but has his/her own source of income.

3. Income: Before taxes from all sources, as follows:
   a. Wages and salaries
   b. Interest or dividends
   c. Cash value of stocks, bonds, mutual funds, etc.
   d. Net self-employment income based on a tax return as calculated by GRMC. Non-cash deductions (depreciation), income tax preparation fees, expenses for use of part of a home, entertainment, and any other non-essential expense will be subtracted from the reported business expense deductions in determining financial need and program eligibility.
   e. Regular payments from Social Security, railroad retirement, unemployment compensation, veterans' payments, etc
   f. Strike benefits from union funds
   g. Workers' compensation payments for lost wages
   h. Public assistance including Aid to Families with Dependent Children

i. Supplemental Security Income

j. Non-Federally funded General Assistance or General Relief money payments

k. Alimony, child support, military family allotments or other regular support from an absent family member or someone not living in the household

l. Private pensions or government employee pensions (including military retirement pay)

m. Regular insurance or annuity payments

n. Net rental income, net royalties, and periodic receipts from estates or trusts

o. Net gambling or lottery winnings

p. Assets withdrawn from a financial institution one year or less before program application

q. Proceeds from the sale of property, a house, or a car

r. Tax refunds

s. Gifts of cash, loans, lump-sum inheritances

t. One-time insurance payments or compensation for injury

F. Eligibility for 100% financial assistance at GRMC is available to applicants whose income is at or below 200% of the current Federal Poverty Guidelines when the applicant has less than $10,000.00 in net assets. Any Individual treated at GRMC, regardless of permanent State residence, may apply for financial assistance through "The Caring Program." Partial assistance is available with incomes up to 300% (after the $10,000 net asset exclusion) of the Federal Poverty Guidelines, as follows:

1. Eligibility for 95% financial assistance is available for incomes at 201%-210% of the Federal Poverty Guidelines.

2. Eligibility for 85% financial assistance is available for incomes at 211%-220% of the Federal Poverty Guidelines.

3. Eligibility for 75% financial assistance is available for incomes at 221%-230% of the Federal Poverty Guidelines

4. Eligibility for 65% financial assistance is available for incomes at 231%-240% of the Federal Poverty Guidelines.

5. Eligibility for 55% financial assistance is available for incomes at 241%-250% of the Federal Poverty Guidelines.

6. Eligibility for 45% financial assistance is available for incomes at 251%-260% of the Federal Poverty Guidelines.

7. Eligibility for 35% financial assistance is available for incomes at 261%-270% of the Federal Poverty Guidelines.

8. Eligibility for 25% financial assistance is available for incomes at 271%-280% of the Federal Poverty Guidelines.

9. Eligibility for 15% financial assistance is available for incomes at 281%-290% of the Federal Poverty Guidelines.

10. Eligibility for 5% financial assistance is available for incomes at 291%-300% of the Federal Poverty Guidelines.

G. If ineligibility results from the financial guidelines stated above or the applicant is eligible for partial assistance only and the applicant indicates an inability to pay the outstanding balance, the applicant will be asked to complete a financial statement to determine if his/her available monthly income is consumed by the daily necessities of life. Individual consideration of eligibility for applicants in this situation will apply to assure members of our community who cannot pay for their hospital care are included in our financial assistance program.

1. Mutually agreed upon interest-free monthly payments (based on available income after expenses) will be discussed and offered to those who are otherwise ineligible for the "Caring Program" and have expressed a need for an extended repayment period.

H. Individuals with a need for financial assistance who are unable to apply or do not have an individual to apply on their behalf are not overlooked for financial assistance through the "Caring Program." This includes anyone determined to be homeless, patients who have filed for bankruptcy, and/or patients who are deceased with no estate or with an estate too small to cover the patient's hospital bills. Any patient falling into these categories will be eligible for 100% coverage of his/her hospital bills through The Caring Program. (Homeless patients are only eligible for the date of service in question). The following indicates the available methods for GRMC to obtain information needed for eligibility determination in these situations and for whom a completed, signed application is not required:

1. Telephone contact, including TTY communication and verbal information about the individual's financial situation

2. Discussion of the situation with the individual's state Medicaid office to obtain a preliminary determination of Medicaid eligibility

3. Research the applicant's other GRMC accounts

4. Information from the next of kin or other person able to speak about the individual's financial condition-Within HIPAA guidelines

5. Have personal knowledge of the individual's living situation

I. Documentation requirements include the application for financial assistance, proof of income and/or any unusual expenses, financial statement, release of information, etc.

J. GRMC has posted signs publicizing the Program at all registration areas and in the reception area of the Patient Financial Services (PFS) Department. Information about the program is printed in the "Patient Handbook" and on the hospital's web site. Monthly self-pay statements include a pre-printed notification of the financial assistance program and instructions for applying to the "Caring Program." Included with every self-pay statement is the "Maryland Hospital Patient Information Sheet" that mentions the hospital's financial assistance program. Automated monthly statement messages also encourage applications for financial assistance. Whenever a patient/guarantor inquires about the availability of a financial assistance program at GRMC, staff members should refer the inquiry to the PFS Department; offer to supply the telephone number of the PFS department, and/or direct patients to the PFS department. All PFS personnel review the financial assistance policy annually, at a minimum, discuss policy changes at departmental meetings, and have access to the current financial assistance policy during all work hours.

K. GRMC will post, at least on an annual basis, an ad in the local newspaper informing residents of the availability of its financial assistance program, or upon approval of updates to the program guidelines. Printed copies of the application forms are available at the time of registration or at any registration location. Copies of the financial assistance policy and applications are also available in the Patient Financial Services Department upon request and may be picked up in person or mailed to the patient's or guarantor's home.

L. Self-pay accounts will be screened for financial assistance regardless of the dollar amount of the account; however, self-pay balances resulting from insurance company payment to the individual or from the individual's failure to respond to an insurance or GRMC query will not be considered eligible for the program.

M. Financial assistance is not available for any account already referred to a collection agency or attorney for formal collection action. Excluded from this statement are accounts where an individual/family has declared bankruptcy or has deceased with no estate or has an estate too small to pay our claims. Any outsourced third party collection agencies receive a copy of the financial assistance policy on an annual basis, or when changed, which ever occurs first.

N. Financial assistance through the "Caring Program" will continue for a period of one year after the eligibility approval date based on date of service, unless income significantly changes, when based on fixed incomes such as social security or retirement, or the tax return of a self-employed individual. Eligibility based on the guarantor's past three months of income or annual tax return of someone who is not self-employed will qualify for a six-month eligibility to the Caring Program unless the income of the applicant changes significantly.

1. After the designated period of eligibility, a new application for financial assistance must be completed/signed by the guarantor. Fixed income verification is required annually and applies for one calendar year (January through December) for eligibility determination if the applicant completes the renewal application at the appropriate time.
2. Upon application approval, GRMC will write-off eligible account balances. GRMC may reverse the determination of eligibility if any of the information supplied on the application was incorrect.
3. If an individual's financial status deteriorates and he/she cannot pay the agreed upon monthly payment amount, GRMC will again review (upon request) the individual's eligibility to the program.
4. Once GRMC has determined that an account is eligible for financial assistance or is not collectible, that financial classification is final.
5. GRMC will post payments received from any source (after the eligible account balance is written-off) to the appropriate hospital account and will adjust the amount of the financial assistance write-off accordingly.

O. Individuals who have incurred hospital expenses for care and/or treatment ordered through the Garrett County Health Department (GCHD) as part of the Garrett County Cancer Control Program shall be eligible for financial assistance for balances remaining after payment from GCHD. GCHD is responsible for notifying GRMC of all claims that fall into this category.

P. Individuals or families with an income below 500% of the federal poverty level that can prove medical hardship will be eligible for The Caring Program for a15% financial assistance or reduction in charges. In order to meet the medical hardship criteria, the patient/family must have medical debt at Garrett Regional Medical Center (excluding co-pays, co-insurance, and deductibles) that exceeds 25% of the individual's/family's annual income. Medical debt is any out-of-pocket expense (excluding co-pays, co-insurance, and deductibles) for medically necessary care that the individual/family has incurred at Garrett Regional Medical Center in a 12 month period. Medically necessary care, for the purposes of this policy, does not include elective or cosmetic procedures. If an individual/ family meets these criteria and is found eligible for The Caring Program, that eligibility will last for 12 months from the date on which the reduced-cost medically necessary care was initially received, unless there is a significant change in the individual or family's income. Once found eligible, The Caring Program covers medical bills for all members of the household. Eligible medical debt does not include any accounts which the patient chooses to opt out of insurance coverage or insurance billing.

Q. Upon receipt or notification of an individual's or a guarantor's notice of bankruptcy filing, all accounts with an outstanding self-pay balance for that individual or guarantor will become eligible for 100% financial assistance through the Caring Program.

R. Self-pay accounts for individuals who are deceased and have no assets or estate shall be eligible for 100% financial assistance through the Caring Program.

S. A probable eligibility determination will be given to the applicant within 2 business days of PFS representative receiving the patient's request.

T. A final approval or denial letter will be mailed out to the applicant within 2 weeks of receipt of the completed application.

U. In implementing this Policy, GRMC management and facilities shall comply with all other federal, state, and local laws, rules, and regulations that may apply to activities conducted pursuant to the Policy.

V. It is recognized that Old Order Amish and Old Order Mennonite patients do not rely in any manner on any type of government programs or private insurance based upon their religious beliefs. These two Orders rely on their religious community to pull resources together to pay for healthcare bills for members of their community. These patients, who are 100% self-pay will be granted a 25% discount when paid in full within 30 days of receiving first statement.

1. A letter from the Old Order Amish Church and Old Order Mennonite Church will be presented to Garrett Regional Medical Center to be kept on file.
2. Any patient applying for this discount will be required to fill out an application form.
3. Patients requesting this assistance must present to the Patient Financial Services Department and speak to a PFS Representative.
4. Any outstanding balances prior to the implementation of this discount within this policy may be considered if account notes show that payment was attempted within 30 days of date of service.