GARRETT REGIONAL MEDICAL CENTER

A PROUD AFFILIATE OF WVU Medicine

Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

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 System), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and other changes in net assets without donor restrictions, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2019 and 2018, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Change in Accounting Principle

As discussed in Note 7 to the consolidated financial statements, during the year ended June 30, 2019 the System adopted Financial Accounting Standards Board Accounting Standard Update 2017-07, *Compensation-Retirement Benefits (Subtopic 715); Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which resulted in reclassification of certain amounts previously reported for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charleston, West Virginia
September 19, 2019

Garrett Regional Medical Center
Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 11,058,891**	$ 7,565,959
Short-term investments -- *Note 2*	**15,135,419**	15,180,958
Patient accounts receivable, net of allowance for doubtful accounts of approximately $2,886,000 and $2,680,000 at June 30, 2019 and 2018, respectively -- *Note 11*	**7,272,524**	7,404,754
Other amounts receivable	**1,063,291**	658,052
Assets whose use is limited by donors and others -- *Note 2*	**169,895**	179,723
Inventories	**1,462,662**	1,344,510
Prepaid expenses	**763,958**	730,185
Total current assets	**36,926,640**	33,064,141
Noncurrent assets:		
Property and equipment, net -- *Note 4*	**39,114,278**	40,699,773
Insurance recoverable -- *Note 10*	**919,346**	870,876
Long-term investments -- *Note 2*	**6,909,347**	6,439,950
Investment in affiliates -- *Note 3*	**453,505**	420,487
Assets whose use is limited by donors and others, less current portion -- *Note 2*	**429,248**	389,969
Assets whose use is limited by board of governors -- *Note 2*	**698,000**	698,000
Total noncurrent assets	**48,523,724**	49,519,055
Total assets	**$ 85,450,364**	$ 82,583,196

See accompanying notes.

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	**$ 2,058,405**	$ 2,059,329
Accrued salaries and wages	**3,101,094**	2,994,123
Advances from third parties	**551,245**	461,745
Current portion of long-term debt -- *Note 5*	**1,195,661**	1,186,573
Other current liabilities -- *Note 10*	**576,242**	477,358
Total current liabilities	**7,482,647**	7,179,128
Long-term debt, net of $41,595 and $45,350 of unamortized debt issuance costs at June 30, 2019 and 2018, respectively, less current portion -- *Note 5*	**12,906,749**	14,098,652
Pension obligation -- *Note 7*	**29,329,093**	21,674,875
Other long-term liabilities -- *Note 10*	**1,528,803**	1,465,315
Total liabilities	**51,247,292**	44,417,970
Net assets:		
Without donor restrictions	**33,321,742**	37,488,745
With donor restrictions -- *Note 6 and 14*	**881,330**	676,481
Total net assets	**34,203,072**	38,165,226
Total liabilities and net assets	**$ 85,450,364**	$ 82,583,196

See accompanying notes.

Garrett Regional Medical Center
Consolidated Statements of Operations and Other Changes in Net Assets Without Donor Restrictions
Years Ended June 30, 2019 and 2018

	2019	2018 As Adjusted
Revenue:		
Net patient service revenue -- *Note 11*		
Patient service revenue		
(net of contractual allowances and discounts)	**$ 61,289,794**	$ 56,249,915
Less: provision for uncollectible accounts	**(1,881,172)**	(1,598,755)
	59,408,622	54,651,160
Other revenue	**559,705**	679,769
Net assets released from restriction for use in operations -- *Note 6*	**136,107**	325,759
Total revenue	**60,104,434**	55,656,688
Expenses -- *Note 12:*		
Salaries and wages	**24,797,906**	22,867,079
Employee benefits -- *Note 7*	**7,663,792**	8,008,170
Supplies	**10,081,403**	11,018,896
Utilities	**661,538**	768,389
Purchased services	**7,914,294**	9,557,260
Depreciation and amortization -- *Note 4*	**4,385,486**	4,156,131
Interest -- *Note 5*	**557,815**	157,566
Other expenses	**1,357,814**	1,437,212
Total operating expenses	**57,420,048**	57,970,703
Gain (loss) from operations	**2,684,386**	(2,314,015)
Other income (expense):		
Investment income -- *Note 2*	**823,260**	661,336
Equity in earnings of affiliates -- *Note 3*	**93,018**	127,612
Other components of net periodic pension cost	**(820,694)**	(770,323)
Other	**26,682**	(12,415)
Total other income	**122,266**	6,210
Excess (deficit) of revenue over expenses	**2,806,652**	(2,307,805)
Net assets released from restriction for the purchase of property and equipment -- *Note 6*	**212,360**	76,275
Pension-related changes other than net periodic pension cost -- *Note 7*	**(7,186,015)**	1,304,006
Decrease in net assets without donor restrictions	**$ (4,167,003)**	$ (927,524)

Garrett Regional Medical Center
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Balance, June 30, 2017	$ 38,416,269	$ 613,169	$ 39,029,438
Deficit of revenue over expenses	(2,307,805)	-	(2,307,805)
Net assets released from restriction for the purchase of property and equipment -- *Note 6*	76,275	(76,275)	-
Pension-related changes other than net periodic pension cost -- *Note 7*	1,304,006	-	1,304,006
Contributions	-	465,346	465,346
Net assets released from restriction for use in operations -- *Note 6*	-	(325,759)	(325,759)
(Decrease) increase in net assets	(927,524)	63,312	(864,212)
Balance, June 30, 2018	37,488,745	676,481	38,165,226
Excess of revenue over expenses	**2,806,652**	**-**	**2,806,652**
Net assets released from restriction for the purchase of property and equipment -- *Note 6*	**212,360**	**(212,360)**	**-**
Pension-related changes other than net periodic pension cost -- *Note 7*	**(7,186,015)**	**-**	**(7,186,015)**
Contributions	**-**	**553,316**	**553,316**
Net assets released from restriction for use in operations -- *Note 6*	**-**	**(136,107)**	**(136,107)**
(Decrease) increase in net assets	**(4,167,003)**	**204,849**	**(3,962,154)**
Balance, June 30, 2019	**$ 33,321,742**	**$ 881,330**	**$ 34,203,072**

Garrett Regional Medical Center
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Decrease in net assets	**$ (3,962,154)**	$ (864,212)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided by operating activities:		
Realized and unrealized gains on investments	**(469,086)**	(468,526)
Restricted contributions	**(553,316)**	(465,346)
Depreciation and amortization	**4,385,486**	4,156,131
Amortization of debt issuance costs	**3,755**	3,755
Provision for uncollectible accounts	**1,881,172**	1,598,755
Earnings of affiliate investment	**(93,018)**	(127,612)
Loss on disposal of property and equipment	**2,619**	24,451
Pension-related changes other than net periodic pension cost	**7,186,015**	(1,304,006)
Change in:		
Patient accounts receivable	**(1,748,942)**	(2,684,033)
Inventories	**(118,152)**	(87,135)
Investments in trading securities	**15,777**	(1,090,007)
Prepaid expenses	**(33,773)**	(57,827)
Insurance recoverable	**(48,470)**	(271,875)
Other amounts receivable	**(405,239)**	(143,812)
Accounts payable	**(924)**	(290,505)
Accrued salaries and wages	**106,971**	167,495
Advances from third parties	**89,500**	(22,762)
Pension obligation	**468,203**	494,906
Other liabilities	**162,372**	516,854
Net cash and cash equivalents provided by (used in) operating activities	**6,868,796**	(915,311)
Cash flows from investing activities:		
Purchases of property and equipment	**(2,802,610)**	(4,843,500)
Proceeds from the sale of property and equipment	**-**	39,418
Net proceeds from affiliate investment	**60,000**	60,001
Net cash and cash equivalents used in investing activities	**(2,742,610)**	(4,744,081)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	**-**	2,523,882
Repayments of long-term debt	**(1,186,570)**	(2,212,631)
Proceeds from restricted contributions	**553,316**	465,346
Net cash and cash equivalents (used in) provided by financing activities	**(633,254)**	776,597
Net increase (decrease) in cash and cash equivalents	**3,492,932**	(4,882,795)
Cash and cash equivalents, beginning of year	**7,565,959**	12,448,754
Cash and cash equivalents, end of year	**$ 11,058,891**	$ 7,565,959
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 482,922**	$ 119,555

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Principles

Organization

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

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

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

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

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

Purchased services from WVU Medicine primarily related to laboratory and oncology services and oversight provided under the Management Agreement, which approximated $1,404,000 and $1,134,000, for the years ended June 30, 2019 and 2018, respectively. The amounts payable to WVU Medicine related to these purchased services approximated $151,000 and $88,000 at June 30, 2019 and 2018, respectively.

Principles of consolidation

The consolidated financial statements include the accounts of the Hospital, PEPS, GAS, SPE and GCHS, (collectively referred to as the System 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 net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions, including unconditional promises to give, with no donor-imposed restrictions are recognized in the period received as increases in net assets without donor restrictions. Contributions with donor-imposed restrictions are reported as increases in net assets with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

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

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

Net assets

In fiscal year 2019, the System adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The primary impact of adopting ASU 2016-14 for the System is the presentation of net assets without donor restrictions and expanded disclosures related to functional expenses and liquidity and availability, as disclosed in notes 12 and 13, respectively. The System has retrospectively adopted the guidance in ASU 2016-14 to the 2018 financial statement information and disclosures, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have only been presented for 2019, as permitted under the standard. The impact on net assets as of June 30, 2018 upon adoption was as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without Donor Restrictions**	**With Donor Restrictions**	**Total Net Assets**
As previously presented:			
Unrestricted	$ 37,488,745	$ -	$ 37,488,745
Temporarily restricted	-	638,470	638,470
Permanently restricted	-	38,011	38,011
Net assets as reclassified	$ 37,488,745	$ 676,481	$ 38,165,226

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 11). 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 9).

The System grants credit without collateral to its patients, most of whom are local residents insured under third-party payer agreements (see Note 11). 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 System 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 $2,220,309 and $2,119,906 for the years ended June 30, 2019 and 2018, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the HSCRC (see Note 9), and therefore the cost of charity services noted above for the Hospital are equivalent to its established rates for those services.

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

The HSCRC established an uncompensated care fund whereby all hospitals are required to contribute 0.75% of revenues to this fund to help provide for the cost associated with uncompensated care for certain Maryland hospitals above the State average, and all Maryland hospitals have the same percentage of uncompensated care in rates. High uncompensated care hospitals receive funds and low uncompensated care hospitals provide funding. The Hospital had net receipts of $1,587,726 and $1,173,646 for 2019 and 2018, respectively, related to its participation in the uncompensated care fund mechanism.

Advertising expense

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

Inventories

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

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.

Debt issuance costs

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

Investments

Investments are exposed to certain risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term and these changes could materially differ from the amounts reported in the accompanying consolidated financial statements. Investments and assets whose use is limited, which are invested in marketable securities, are reported at their fair value, based on quoted market prices provided by the asset managers. Investment income or loss (including interest, dividends, and gains and losses, both real and unrealized, on investment) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law (see Note 2).

Investments in affiliates

The Hospital maintains certain investments in unconsolidated entities. These investments are accounted for using the equity method (see Note 3).

Net assets

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

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Excess (deficit) of revenue over expenses

The accompanying consolidated statements of operations include excess deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenue over expenses, consistent with industry practice, 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).

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 10).

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 2019 and 2018.

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

Subsequent events

Management has evaluated the effect subsequent events would have on financial statements through September 19, 2019, which is the date the financial statements were available to be issued.

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation in the accompanying consolidated financial statements. Such reclassifications did not impact the 2018 consolidated change in net assets without donor restrictions.

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-9, *Revenue from Contracts with Customers*, which provides a principles-based standard for recognizing revenue through a five-step process. This standard is effective for the System for the fiscal year ending June 30, 2020.

In November 2015, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 23): Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The ASU is effective for the System for fiscal year ending June 30, 2020. The ASU should be applied retrospectively to all periods presented.

In February 2016, the 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 System for fiscal year ending June 30, 2021, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU requires equity investments, excluding investments recorded under the equity method of accounting, to be measured at fair value with changes reported within the performance indicator. Not-for-profit entities are no longer required to disclose fair value of finical instruments not recognized at fair value on the balance sheet. The ASU is effective for System for its fiscal year ending June 30, 2020.

Management has not yet determined the impact, if any, of adoption of these changes in accounting standards on the consolidated financial statements of the System.

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

	Investments	Assets Whose Use is Limited by Donors	Assets Whose Use is Limited by the Board of Governors	Total
At June 30, 2018:				
Cash and cash equivalents	$ 196,055	$ 3,655	$ -	$ 199,710
Certificates of deposit	9,046,913	574	698,000	9,745,487
Corporate bonds	1,072,376	10,389	-	1,082,765
Government securities	6,249,201	536	-	6,249,737
Mutual funds	3,585,252	34,733	-	3,619,985
Common stock	1,444,390	13,944	-	1,458,334
Preferred stock	26,721	259	-	26,980
Pledges receivable, net	-	505,602	-	505,602
	21,620,908	569,692	698,000	22,888,600
Less short-term portion	15,180,958	179,723	-	15,360,681
	$ 6,439,950	$ 389,969	$ 698,000	$ 7,527,919

Assets whose use is limited include investments and pledges receivable. Board designated funds consist of certificates of deposit at June 30, 2019 and 2018 and are designated to be used for future capital needs.

Pledges receivable are recorded net of an allowance for uncollectible pledges of $31,169 and $40,844 at June 30, 2019 and 2018, respectively. Pledges are recorded at their net present value and are due as follows at June 30, 2019:

2020	$	256,225
2021		97,271
2022		78,715
2023		72,132
2024		39,076
Thereafter		67,003
		610,422
Present value discount, at 2.65%		(44,537)
Allowance for uncollectible pledges		(31,169)
	$	534,716

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

		2019		2018
Interest and dividends	**$**	**354,174**	**$**	192,810
Net realized gain		**244,764**		430,099
Net unrealized gain		**224,322**		38,427
	$	**823,260**	$	661,336

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

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

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

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

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

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

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

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

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

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

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

	Level 1	**Level 2**	**Total**
Certificates of deposit	$ 9,745,487	$ -	$ 9,745,487
Corporate bonds	-	1,082,765	1,082,765
Government securities	-	6,249,737	6,249,737
Mutual funds	3,619,985	-	3,619,985
Common stock	1,458,334	-	1,458,334
Preferred stock	26,980	-	26,980
	$ 14,850,786	$ 7,332,502	$ 22,183,288

The table above does not include cash and cash equivalents of $199,710 and pledge receivables of $505,602 at June 30, 2018. During fiscal year 2018, the System transferred approximately $6,200,000 of financial instruments classified as Level 1 to purchase government securities.

3. Investments in Affiliates

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

Joint Venture	Type of Organization	Business Purpose	Percentage Ownership 2019	Percentage Ownership 2018
Oakland MRI Center, LLC (OMRI)	For-profit	MRI, mammography and Dexa scan services	**50%**	50%
Freestate Healthcare Insurance System, Ltd. (Freestate)	For-profit	Malpractice and professional liability insurance	**20%**	20%

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

In December 2004, the Hospital joined Freestate along with seven other community hospitals from Maryland. Freestate is a Cayman Islands corporation formed for the purpose of providing insurance coverage to its members, their affiliates and their respective employees (see Note 10). The Hospital contributed $15,000 of equity to Freestate during 2005.

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

	Investment Balance 2019	Investment Balance 2018	Income in Earnings 2019	Income in Earnings 2018
OMRI	**$ 432,963**	$ 399,945	**$ 93,018**	$ 127,612
Freestate	**20,542**	20,542	**-**	-
	$ 453,505	$ 420,487	**$ 93,018**	$ 127,612

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

	2019	2018
Current assets	**$ 36,600,299**	$ 36,214,417
Noncurrent assets	**20,246,647**	14,200,436
Total assets	**$ 56,846,946**	$ 50,414,853
Current liabilities	**$ 282,274**	$ 280,319
Noncurrent liabilities	**55,596,034**	49,231,932
Net worth	**968,638**	902,602
Total liabilities and net worth	**$ 56,846,946**	$ 50,414,853
Total operating revenue	**$ 5,384,818**	$ 7,455,125
Total operating expense	**5,077,056**	7,212,330
Net income	**$ 307,762**	$ 242,795

4. Property and Equipment

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

	Estimated Useful life	2019	2018
Land improvements	10 – 40 years	**$ 1,022,579**	$ 988,829
Buildings and improvements	15 – 40 years	**46,451,411**	46,387,142
Fixed equipment	5 – 20 years	**6,065,179**	5,735,014
Movable equipment	3 – 20 years	**22,688,192**	21,453,583
Equipment under capital lease	lease term	**138,282**	138,282
		76,365,643	74,702,850
Less accumulated depreciation and amortization		**(39,867,167)**	(35,664,084)
		36,498,476	39,038,766
Land		**1,259,605**	1,259,605
Construction in progress		**1,356,197**	401,402
		$ 39,114,278	$ 40,699,773

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was $4,385,486 and $4,156,131, respectively.

5. Long-Term Debt

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

	2019	2018
Series 2015 bonds	**$ 3,999,957**	$ 4,333,290
Series 2014 bonds	**7,333,332**	7,999,999
USDA bonds	**2,212,156**	2,293,672
Series 2004 bonds	**513,401**	591,767
Capital lease obligations	**85,159**	111,847
	14,144,005	15,330,575
Less unamortized debt issuance cost	**(41,595)**	(45,350)
	14,102,410	15,285,225
Less current portion	**(1,195,661)**	(1,186,573)
	$ 12,906,749	$ 14,098,652

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 (including capital leases) as of June 30, June 30, 2019 are as follows:

2020	$ 1,195,661
2021	1,205,288
2022	1,206,437
2023	1,189,307
2024	1,197,474
Thereafter	8,149,838
	$ 14,144,005

The System is subject to certain restrictive covenants defined in various agreements with lenders. In the opinion of management, the System was in compliance with applicable restrictive covenants as of June 30, 2019 and 2018.

Capital Leases

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

6. Net Assets with Donor Restrictions

Net assets with donor restrictions of $881,330 and $676,481 at June 30, 2019 and 2018, respectively, are restricted primarily for property replacement, expansion, health care clinical services, and the endowment (see Note 14).

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:

	2019	2018
Health care clinical services	**$ 136,107**	$ 325,759
Plant replacement and expansion	**212,360**	76,275
	$ 348,467	$ 402,034

7. Pension Plan

During the year ended June 30, 2019, the Hospital implemented FASB Accounting Standard Update 2017-07, *Compensation-Retirement Benefits (Subtopic 715); Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require the service cost component of net periodic pension cost be reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations. Prior to the adoption of ASU 2017-07, the Hospital reported net periodic pension cost in employee benefits expense in the consolidated statement of operations. As a result of the retrospective application of the adoption of ASU 2017-07, the other components of net periodic pension cost for the year ended June 30, 2018, have been reclassified and presented outside the subtotal gain (loss) from operations in the consolidated statements of operations consistent with the presentation for the year ended June 30, 2019. As a practical expedient, the Hospital has used the amounts disclosed in its consolidated financial statements as of and for the year ended June 30, 2018 as the estimation basis for applying the retrospective presentation requirements.

The effect of the retrospective application of ASU 2017-07 to the consolidated financial statement line items for the year ended June 30, 2018 is as follows:

	Year ended June 30, 2018 As Previously Reported	**Adjustment**	**Year ended June 30, 2018 As Adjusted**
Consolidated Statement of Operations and Other Changes in Net Assets Without Donor Restrictions:			
Employee Benefits	$ 8,778,493	$ (770,323)	$ 8,008,170
Total operating expenses	$ 58,741,026	$ (770,323)	$ 57,970,703
Loss from operations	$ (3,084,338)	$ 770,323	$ (2,314,015)
Other components of net periodic pension cost	$ -	$ (770,323)	$ (770,323)
Total other income	$ 776,533	$ (770,323)	$ 6,210

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 $1,600,000 to $1,700,000 for fiscal year 2020. Changes in the discount rate and mortality assumptions resulted in an increase in the projected benefit obligation at June 30, 2019 of $5,320,515 and $2,143,899, respectively.

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

	2019	2018
Projected benefit obligation at beginning of year	**$ 48,673,952**	$ 48,108,636
Service cost	**1,325,803**	1,357,653
Interest	**1,929,278**	1,658,867
Actuarial loss	**345,019**	1,313,768
Assumption changes	**7,464,414**	(2,014,268)
Benefits paid	**(1,718,235)**	(1,750,704)
Projected benefit obligation at end of year	**$ 58,020,231**	$ 48,673,952

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

	2019	2018
Fair value of Plan assets at beginning of year	**$ 26,999,077**	$ 25,624,661
Actual return on Plan assets	**1,732,012**	1,492,050
Employer contribution	**1,678,284**	1,633,070
Benefits paid	**(1,718,235)**	(1,750,704)
Fair value of Plan assets at end of year	**$ 28,691,138**	$ 26,999,077
Funded status	**$ (29,329,093)**	$ (21,674,875)
Net loss included in net assets without donor restrictions	**$ 26,713,313**	$ 19,527,308
Accumulated benefit obligation	**$ 51,753,051**	$ 43,816,772

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

	2019	2018
Service cost	**$ 1,325,803**	$ 1,357,653
Interest cost	**1,929,278**	1,658,867
Expected return on assets held in the Plan	**(1,880,158)**	(1,781,338)
Amortization of net loss	**771,574**	892,794
	$ 2,146,497	$ 2,127,976

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

	2019	2018
Discount rate	**3.55%**	4.17%
Rate of compensation increase	**3.00%**	3.00%

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

	2019	2018
Discount rate	**3.55%**	4.17%
Rate of compensation increase	**3.00%**	3.00%
Expected long-term return on Plan assets	**7.00%**	7.00%

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

	2019	2018
Equity securities	56%	56%
Fixed maturity securities	41%	40%
Other	3%	4%
Total Plan assets	100%	100%

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

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

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

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

The fair values of the Hospital's Plan assets as of June 30, 2018 by asset category are as follows:

	Level 1	Level 2	Total
Fixed Income:			
Corporate Bonds	$ -	$ 7,670,604	$ 7,670,604
Municipal Bonds	-	1,962,205	1,962,205
Mutual Funds	949,266	-	949,266
Equity Securities:			
Mutual Funds	4,314,136	-	4,314,136
Common Stocks	7,300,871	-	7,300,871
Exchange Traded Funds	3,845,984	-	3,845,984
	$ 16,410,257	$ 9,632,809	$ 26,043,066

The table above does not include cash and cash equivalents of $956,011 at June 30, 2018. There were no transfers between or among the fair value levels during fiscal year 2018.

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

2020	$ 2,024,567
2021	2,097,795
2022	2,189,632
2023	2,275,146
2024	2,382,824
2025 - 2029	13,346,734
	$ 24,316,698

8. Certain Significant Risks and Uncertainties

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

- Dependence on revenues derived from reimbursement by the federal Medicare and state Medicaid programs *(see Note 11)*;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission *(see Note 9)*;
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims (*see Note 10)*.

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

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

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

9. Maryland Health Services Cost Review Commission

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

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

The Hospital's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

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 1, 2014, Maryland's All-Payer Hospital System Modernization was approved by CMS. This was a new global budget arrangement which set a fixed revenue amount for the upcoming year, without fluctuation due to utilization or case mix. This was a five-year demonstration where Maryland successfully made significant progress toward reducing costs inside and outside of the hospital as well as improving patient care. Beginning January 2019 the new "Total Cost of Care Model" (the "Model") was approved and builds upon the successes of the All-Payer Model. The Model encourages continued clinical redesign and provides tools to providers to treat complex and chronic conditions and is built on the same global budget arrangement mechanics for revenue setting as the predecessor model. This is approved for a 10-year term provided Maryland meets the Model performance requirements.

10. Insurance

Malpractice insurance

The System is involved in litigation arising in the normal course of business. Claims alleging malpractice have been asserted against the System and are currently in various stages of litigation. Additional claims may be asserted against the System arising from services provided through June 30, 2019. Management believes that no material loss will result from any pending or threatened litigation or from incidents incurred but not reported. However, the ultimate outcome with respect to these matters is unknown.

In accordance with current accounting standards, the System reports gross insurance recoveries separately from the related claims liability for professional liability claims already reported to its insurance carrier. As of June 30, 2019 and 2018, the System recorded insurance recoverable and professional claim liability of $919,346 and $870,876, 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 $427,000 and $421,000 for the years ended June 30, 2019 and 2018, 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, 2019, but not reported to its insurance carrier.

Effective March 1, 2005, the Hospital became a shareholder of Freestate Healthcare Insurance System, 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 carrier decided not to continue to write insurance policies for hospitals within the State of Maryland effective March 1, 2005. Hospital management believes that becoming a shareholder of the captive insurance company provides the best long-term solution to providing insurance coverage that is cost effective and predictable. Freestate provides insurance coverage on a claims-made basis to its shareholders for professional liability claims and comprehensive general liability of $1,000,000 for each loss event. Freestate has entered into reinsurance and excess policy agreements with independent insurance companies to limit its losses for professional liability and comprehensive general liability claims. Freestate has $4,000,000 of additional insurance in the aggregate through such reinsurance arrangements which is applicable to the Hospital. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy. Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. If the financial condition of Freestate were to materially deteriorate in the future, and Freestate was unable to pay its claim obligations, the payment of such claims would be the responsibility of the member hospitals. The estimated cost of claims is actuarially determined based upon past experience and discounted using a discount rate of 3.5%. Effective September 1, 2016, coverage was expanded to include the operations of GAS and SPE.

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

Health insurance

The System is self-insured for employee health claims. Under the self-insurance plan, the System has accrued a liability of $398,976 and $376,023 for the years ended June 30, 2019 and 2018, respectively, for incurred but not reported claims. These amounts are included in other current liabilities in the accompanying consolidated financial statements. Management believes that the accruals are adequate to provide for all employee health claims that have been incurred for the years ended June 30, 2019 and 2018.

11. Business and Credit Concentrations

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

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

	2019		2018	
Self-pay and others	**$ 2,612,914**	**26%**	$ 2,335,161	23%
Medicare	**3,971,076**	**39%**	3,250,627	32%
Commercial insurance and MCOs	**1,965,346**	**19%**	2,123,997	21%
Medicaid	**927,897**	**9%**	1,454,930	15%
Blue Cross	**680,870**	**7%**	919,965	9%
	10,158,103	**100%**	10,084,680	100%
Less – allowance for doubtful accounts	**(2,885,579)**		(2,679,926)	
	$ 7,272,524		$ 7,404,754	

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

	2019		2018	
Medicare	**$ 41,784,649**	**53%**	$ 36,681,656	51%
Commercial insurance and MCOs	**13,051,235**	**17%**	13,106,132	18%
Blue Cross	**8,132,071**	**10%**	7,449,919	10%
Medicaid	**14,238,790**	**18%**	13,408,737	19%
Self-pay and others	**1,815,962**	**2%**	1,706,975	2%
	79,022,707	**100%**	72,353,419	100%
Less – contractual allowances and discounts	**(17,732,913)**		(16,103,504)	
Less - provision for uncollectible accounts	**(1,881,172)**		(1,598,755)	
	$ 59,408,622		$ 54,651,160	

12. Functional Expenses

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

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

	2018
Health care services	$ 48,869,554
General and administrative	9,101,149
	$ 57,970,703

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

13. Liquidity and Availability

As of June 30, 2019, the System has a working capital of approximately $29,444,000 and 76 average days (based on normal expenditures) cash on hand.

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

	2019
Cash and cash equivalents	$ 11,058,891
Patient accounts receivable, net	7,272,524
Other amounts receivable	1,063,291
Short-term investments	15,135,419
Total	$ 34,530,125

In addition to the assets in the table above, the System has other assets whose use is limited by donors, and because they are not available for general expenditure within one year, are not reflected in the amounts above. The System does, however, have certain long-term investments and assets whose use is limited by board designation of approximately $7,607,000 that could be made available for general expenditure within one year, if necessary.

14. Endowment

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

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

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

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

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or SPMIFA required the System to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 or 2018.

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

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

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

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Endowment Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Endowment Total**
Beginning balance	**$ 20,778**	**$ 38,011**	**$ 58,789**	$ 18,290	$ 37,361	$ 55,651
Interest and dividends	**706**	**-**	**706**	2,488	-	2,488
Contributions	**-**	**-**	**-**	-	650	650
Ending Balance	**$ 21,484**	**$ 38,011**	**$ 59,495**	$ 20,778	$ 38,011	$ 58,789

Supplementary Information

	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	$ 10,878,782	$ 40,576	$ 70,041	$ 69,492	$ -	$ 11,058,891
Short-term investments	15,135,419	-	-	-	-	15,135,419
Patient accounts receivable, net	6,812,171	131,698	145,177	183,478	-	7,272,524
Other amounts receivable	1,063,065	226	-		-	1,063,291
Assets whose use is limited by donors	169,895	-	-	-	-	169,895
Inventories	1,462,662	-	-	-	-	1,462,662
Prepaid expenses	692,320	62,218	3,248	6,172	-	763,958
Due from affiliates	13,020,131	-	-	-	(13,020,131)	-
Total current assets	49,234,445	234,718	218,466	259,142	(13,020,131)	36,926,640
Noncurrent assets:						
Property and equipment	38,839,622	-	-	274,656	-	39,114,278
Insurance recoverable	919,346	-	-	-	-	919,346
Long-term investments	6,909,347	-	-	-	-	6,909,347
Investment in affiliates	453,505	-	-	-	-	453,505
Assets whose use is limited by donors, less current portion	429,248	-	-	-	-	429,248
Assets whose use is limited by board of governors	698,000	-	-	-	-	698,000
Total noncurrent assets	48,249,068	-	-	274,656	-	48,523,724
Total assets	$ 97,483,513	$ 234,718	$ 218,466	$ 533,798	$ (13,020,131)	$ 85,450,364
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	$ 1,977,259	$ 38,913	$ 11,359	$ 30,874	$ -	$ 2,058,405
Accrued salaries and wages	2,583,269	164,082	167,755	185,988	-	3,101,094
Due to affiliates	-	4,107,428	6,087,834	2,824,869	(13,020,131)	-
Advances from third parties	551,245	-	-	-	-	551,245
Current portion of long-term debt	1,194,791	-	-	870	-	1,195,661
Other current liabilities	558,831	4,627	-	12,784	-	576,242
Total current liabilities	6,865,395	4,315,050	6,266,948	3,055,385	(13,020,131)	7,482,647
Long-term debt, net of unamortized debt issuance costs, less current portion	12,904,603	-	-	2,146	-	12,906,749
Pension obligation	29,329,093	-	-	-	-	29,329,093
Other long-term liabilities	1,379,480	149,323	-	-	-	1,528,803
Total liabilities	50,478,571	4,464,373	6,266,948	3,057,531	(13,020,131)	51,247,292
Net assets (deficit):						
Without donor restrictions	46,123,612	(4,229,655)	(6,048,482)	(2,523,733)	-	33,321,742
With donor restrictions	881,330	-	-	-	-	881,330
Total net assets (deficit)	47,004,942	(4,229,655)	(6,048,482)	(2,523,733)	-	34,203,072
Total liabilities and net assets	$ 97,483,513	$ 234,718	$ 218,466	$ 533,798	$ (13,020,131)	$ 85,450,364

Garrett Regional Medical Center
Consolidating Statements of Operations
Year Ended June 30, 2019

	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	$ 56,094,464	$ 1,915,116	$ 1,332,252	$ 1,947,962	$ -	$ 61,289,794
Less: provision for uncollectible accounts	(1,501,008)	(300,080)	(48,659)	(31,425)	-	(1,881,172)
	54,593,456	1,615,036	1,283,593	1,916,537	-	59,408,622
Other revenue	978,308	138	-	70,378	(489,119)	559,705
Net assets released from restriction for use in operations	136,107	-	-	-	-	136,107
Total revenue	55,707,871	1,615,174	1,283,593	1,986,915	(489,119)	60,104,434
Expenses:						
Salaries and wages	19,682,524	1,356,420	2,166,639	1,607,923	(15,600)	24,797,906
Employee benefits	6,737,261	184,084	423,026	319,421	-	7,663,792
Supplies	9,875,215	267	-	205,921	-	10,081,403
Utilities	640,665	-	1,073	19,800	-	661,538
Purchased services	6,372,303	930,587	396,357	215,047	-	7,914,294
Depreciation and amortization	4,321,322	-	-	64,164	-	4,385,486
Interest	556,644	-	-	1,171	-	557,815
Management fees	-	210,478	61,387	201,654	(473,519)	-
Other expenses	1,087,839	46,415	79,236	144,324	-	1,357,814
Total expenses	49,273,773	2,728,251	3,127,718	2,779,425	(489,119)	57,420,048
Gain (loss) from operations	6,434,098	(1,113,077)	(1,844,125)	(792,510)	-	2,684,386
Other income (expense):						
Investment income	823,227	33	-	-	-	823,260
Equity in earnings of affiliates	93,018	-	-	-	-	93,018
Other components of net periodic pension cost	(820,694)	-	-	-	-	(820,694)
Other	26,682	-	-	-	-	26,682
Total other income	122,233	33	-	-	-	122,266
Excess (deficit) revenue over expenses without donor restrictions	$ 6,556,331	$ (1,113,044)	$ (1,844,125)	$ (792,510)	$ -	$ 2,806,652

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

Board of Governors
Garrett County Memorial Hospital
Oakland, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Garrett County Memorial Hospital and subsidiaries, d/b/a Garrett Regional Medical Center, (collectively, the System), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and other changes in net assets without donor restrictions, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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

Charleston, West Virginia
September 19, 2019

DHG