ATLANTIC GENERAL HOSPITAL CORPORATION

Audited Consolidated Financial Statements

for the

Years Ended June 30, 2014 and 2013

(with Independent Auditors' Report thereon)

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Atlantic General Hospital Corporation

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June 30, 2014 and 2013

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

Board of Trustees
Atlantic General Hospital Corporation
Berlin, Maryland

We have audited the accompanying consolidated financial statements of ***Atlantic General Hospital Corporation*** (the Corporation) which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

111 Rockville Pike, 6th Floor, Rockville, MD 20850 | T 240.403.3700 | F 240.403.3701 | dhgllp.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic General Hospital Corporation as of June 30, 2014, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements as of June 30, 2013 were audited by Cohen, Rutherford + Knight, P.C., certain of whose shareholders joined Dixon Hughes Goodman LLP as of June 1, 2014, and whose report dated October 24, 2013 expressed an unmodified opinion on those statements.

Dixon Hughes Goodman LLP

Rockville, Maryland
October 30, 2014

Atlantic General Hospital Corporation

Consolidated Balance Sheets

June 30,	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 15,415,417	$ 16,281,525
Investments	2,065,709	1,776,160
Patient accounts receivable, less uncollectible accounts of $4,486,680 and $3,665,545 for 2014 and 2013, respectively	9,199,195	8,758,180
Supply inventory	2,415,384	1,963,267
Prepaid expenses and other current assets	2,209,853	2,098,294
Total current assets	31,305,558	30,877,426
Land, buildings and equipment	48,760,412	46,274,251
Other assets		
Assets whose use is limited		
Cash and cash equivalents restricted by donor	215,634	107,665
Cash and cash equivalents internally designated for a future endowment	56,915	32,371
Investments internally designated for a future endowment	3,506,655	3,126,341
Swap contracts	98,730	152,093
Long-term investments	7,696	29,777
Deferred financing costs, less accumulated amortization of $269,726 and $242,747 for 2014 and 2013, respectively	369,382	292,347
Other noncurrent assets	3,760,250	3,292,960
Total other assets	8,015,262	7,033,554
Total assets	$ 88,081,232	$ 84,185,231

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Atlantic General Hospital Corporation

Consolidated Balance Sheets - Continued

June 30,		**2014**		**2013**
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	$	7,532,764	$	7,593,945
Salaries, wages, and related items		4,469,380		4,422,285
Interest payable		51,792		57,480
Advances from third party payers		694,563		707,263
Current portion of long-term debt		2,387,297		2,210,877
Total current liabilities		15,135,796		14,991,850
Noncurrent liabilities				
Long-term debt, less portion classified as current liability		25,269,120		24,026,606
Other liabilities		3,719,033		3,236,443
Total liabilities		44,123,949		42,254,899
Net assets				
Unrestricted				
General		39,889,449		38,457,112
Board-designated		3,563,570		3,158,712
Temporarily restricted		504,264		314,508
Total net assets		43,957,283		41,930,332
Total liabilities and net assets	$	88,081,232	$	84,185,231

The accompanying notes are an integral part these consolidated financial statements.

Atlantic General Hospital Corporation

Consolidated Statements of Operations

Years Ended June 30,	**2014**	**2013**
Operating revenue		
Net patient service revenue, net of contractual allowances and discounts	$ 102,560,105	$ 96,362,784
Provision for bad debts	(4,926,326)	(4,155,469)
Net patient service revenue, net of provision for bad debts	97,633,779	92,207,315
Other operating revenue	2,304,846	3,000,518
Total operating revenue	99,938,625	95,207,833
Operating expenses		
Salaries	43,623,967	41,114,862
Employee benefits and other related expenses	10,745,537	9,197,571
Professional fees and contracted services	13,584,071	12,044,083
Supplies and other expense	19,226,993	19,125,823
Utilities	1,348,159	1,292,475
Maintenance and repairs	3,802,070	3,290,951
Insurance	1,563,039	1,485,714
Interest	827,576	873,955
Depreciation	6,825,708	5,683,876
Amortization	26,979	30,221
Total operating expenses	101,574,099	94,139,531
Income (loss) from operations	(1,635,474)	1,068,302
Other income		
Investment income	537,178	389,113
Net unrealized gains on trading portfolio	300,809	227,731
Other	1,773,632	1,040,866
Total other income	2,611,619	1,657,710
Revenue and gains in excess of expenses	$ 976,145	$ 2,726,012

The accompanying notes are an integral part these consolidated financial statements.

Atlantic General Hospital Corporation

Consolidated Statements of Changes in Net Assets

Years Ended June 30, 2014 and 2013

	Year Ended June 30, 2014		
	Unrestricted	**Restricted**	**Total**
Nets assets - beginning of year	$ 41,615,824	$ 314,508	$ 41,930,332
Revenue and gains in excess of expenses	976,145	-	976,145
Restricted contributions	-	451,708	451,708
Change in fair value of swap contract	(53,364)	-	(53,364)
Net assets released from restrictions used for operations	-	(97,538)	(97,538)
Net assets released from restrictions used for capital acquisitions	914,414	(164,414)	750,000
Change in net assets	1,837,195	189,756	2,026,951
Net assets - end of year	$ 43,453,019	$ 504,264	$ 43,957,283

	Year Ended June 30, 2013		
	Unrestricted	**Restricted**	**Total**
Net assets - beginning of year	$ 38,622,485	$ 240,465	$ 38,862,950
Revenue and gains in excess of expenses	2,726,012	-	2,726,012
Restricted contributions	-	94,695	94,695
Change in fair value of swap contract--*Note C*	259,827	-	259,827
Net assets released from restrictions used for operations	-	(13,152)	(13,152)
Net assets released from restrictions used for capital acquisitions	7,500	(7,500)	-
Change in net assets	2,993,339	74,043	3,067,382
Net assets - end of year	$ 41,615,824	$ 314,508	$ 41,930,332

The accompanying notes are an integral part these consolidated financial statements.

Atlantic General Hospital Corporation

Consolidated Statements of Cash Flows

Years Ended June 30,	**2014**	**2013**
Cash flows from operating activities and other gains		
Change in net assets	$ 2,026,951	$ 3,067,382
Adjustments to reconcile changein net assets to net cash and cash equivalents provided by operating activities and other gains:		
Depreciation and amortization expense	6,852,687	5,714,097
Provision for bad debts	4,926,326	4,155,469
Recognition of change in fair value of swap contract	53,363	(259,826)
Realized gain on sale of investments	(255,856)	(116,800)
Unrealized gains	(300,809)	(227,731)
Gain on sale of equipment	(31,065)	(72,199)
Contribution of capital assets	(900,000)	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable, net	(5,367,341)	(3,706,413)
Supply inventory	(452,117)	(7,979)
Prepaid expenses and other current assets	(111,559)	(488,566)
Increase (decrease) in:		
Accounts payable and accrued expenses	(61,181)	(560,827)
Salaries, wages and related items	47,095	433,608
Interest payable	(5,688)	(6,491)
Third party advances	(12,700)	(382,600)
Other liabilities	15,300	(44,851)
Net cash and cash equivalents provided by operating activities and other gains	6,423,406	7,496,273
Cash flows from investing activities		
Net purchase of trading investments	(91,117)	(74,042)
Change in trustee held funds	-	2,441,167
Proceeds from sale of equipment	31,065	72,199
Net purchase of land, building, and equipment	(8,411,871)	(6,802,916)
Net cash and cash equivalents used in investing activities	(8,471,923)	(4,363,592)

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Atlantic General Hospital Corporation

Consolidated Statements of Cash Flows - Continued

Years Ended June 30,	**2014**	**2013**
Cash flows from financing activities		
Payments on long-term debt	$ (2,297,621)	$ (4,170,129)
Proceeds from long-term debt	3,716,557	-
Payments for financing costs	(104,014)	(31,437)
Net cash and cash equivalents provided by (used in) financing activities	1,314,922	(4,201,566)
Net change in cash and cash equivalents	(733,595)	(1,068,886)
Cash and cash equivalents at beginning of year	16,421,561	17,490,447
Cash and cash equivalents at end of year	$ 15,687,966	$ 16,421,561
Supplemental cash flow disclosure		
Interest paid	$ 834,067	$ 880,446
Supplemental schedule of noncash transactions		
Contributed capital assets	900,000	-
Equipment acquired with issuance of capital lease agreements	-	7,005
Total noncash	$ 900,000	$ 7,005

The accompanying notes are an integral part these consolidated financial statements.

June 30, 2014 and 2013

1. Organization and Nature of Activities

Atlantic General Hospital Corporation (the Corporation) is a non-stock, non-profit Maryland Corporation organized on April 4, 1989, primarily for the purpose of constructing, owning and operating Atlantic General Hospital (the Hospital) in Worcester County, Maryland. On May 21, 1993, the Hospital commenced operations as a full-service acute care inpatient and outpatient health care facility. Admitting physicians are primarily practitioners in the local area. Prior to May 21, 1993, the Corporation's primary activity was the planning and development of the Hospital. During 2006, the Corporation formed Atlantic ImmediCare, LLC (the LLC), for the purpose of providing urgent care services to area residents and visitors. For tax purposes, the Corporation considers Atlantic ImmediCare, LLC to be a disregarded entity.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Basis of Presentation

The Corporation prepares its consolidated financial statements on the accrual basis of accounting. The consolidated financial statements of the Corporation include the accounts of the Hospital and the LLC. All significant intercompany transactions have been eliminated.

Board-Designated Unrestricted Net Assets

Board-designated unrestricted net assets represent assets whose use by the Hospital has been designated by the Board of Trustees for a particular purpose. The Board of Trustees may remove or modify the designations at any time. Board-designated unrestricted net assets as of June 30, 2014 and 2013 are reported as cash and cash equivalents and investments internally designated for a future endowment in the accompanying consolidated balance sheets and are comprised of the following:

	2014	2013
Cash and cash equivalents	$ 56,915	$ 32,371
Investments	3,506,655	3,126,341
	$ 3,563,570	$ 3,158,712

The Hospital's Board of Trustees has determined that any investment income on the future endowment will be internally designated by using a three year rolling average market value method and remove 3% annually; 100% of these proceeds will be used to fund physician practice development.

The board-designated assets were a result of the Hospital being named beneficiary in a portion of an estate pursuant to a will in 2001. In March 2002, the trustee made a partial distribution of the trust assets, to which the Hospital received approximately $300,000 cash and $1,088,000 in stock certificates. In March 2003, the Hospital received cash, stock, and treasury securities in the aggregate amount of $1,184,228.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors or grantors to a specific time period or purpose. Temporarily restricted net assets as of June 30 are restricted for community and education programs and operations.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the earlier of the date the condition is satisfied or the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted revenue and support in the accompanying consolidated financial statements.

Risk Factors

The Hospital's ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee-for-service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however, managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the outcome of the federal budget debate, and the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 (5) the future of Maryland's certificate of need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Hospital's ability to expand or add new services; and (6) the future of the Maryland Health Services Cost Review Commission's authority to regulate rates, where future changes could result in reductions to revenues since payers would be free to negotiate discounts not currently allowed.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States of America. Such accreditation is based upon a number of requirements including undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services of the U.S. Department of Health and Human Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. In other words, by being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The Hospital's has been accredited by the Joint Commission through September 12, 2015.

Cash and Cash Equivalents

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

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

	2014	2013
Cash and cash equivalents, classified as a current asset	$ 15,415,417	$ 16,281,525
Amounts restricted by donor	215,634	107,665
Amounts internally designated for a future endowment	56,915	32,371
Total cash and cash equivalents (as reported in the accompanying consolidated statements of cash flows)	$ 15,687,966	$ 16,421,561

Investments

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

The composition of investments at June 30 is as follows:

	2014	2013
Investments		
Common stock	$ 2,020,568	$ 2,330,421
Mutual funds	1,903,546	2,267,658
Fixed maturity	1,628,250	289,427
	5,552,364	4,887,506
Other	27,696	44,772
	5,580,060	4,932,278
Less investments internally designated for a future endowment	3,506,655	3,126,341
Less long-term investments	7,696	29,777
Undesignated investments	$ 2,065,709	$ 1,776,160

Investment return for the years ended June 30 consists of:

		2014		2013
Interest and dividends	$	281,322	$	272,313
Realized gains		255,856		116,800
	$	537,178	$	389,113

During 2008, the Corporation joined Maryland e-Care, LLC, a joint venture formed by six Maryland hospitals to provide remote monitoring technology with clinical decision support and physician/nursing services for their use in the intensive care units and other clinical areas within their respective hospitals. At that time, the Corporation maintained a 5.64% interest in this joint venture. During 2009, another hospital became a member of the joint venture. Currently, the Corporation maintains a 5.19% interest in this joint venture.

Fair Value Measurements

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

Level 1: Quoted prices in active markets for identical assets or liabilities such as debt and equity securities, mutual funds, and money market accounts that are traded in an active market, and other cash equivalents. Level one investments include common stocks, equity mutual funds and money market funds that are traded in an active market.

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

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The Corporation's level three investments include limited liability partnerships and limited liability companies. The fair value for these investments are determined by applying the Corporation's ownership percentage to the net asset value of the investment fund. Underlying investments of the funds include hedge funds, real estate funds, mortgage backed securities, asset backed securities and global equity fund of funds.

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

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

Fair values for the Corporation's fixed maturity securities (US government agency bonds/notes and municipal bonds) are primarily valued based on the income approach. The fair value is based on level 2 inputs such as data points for benchmark constant maturity curves and spreads. The prices are provided to the Corporation by its investment managers and its custodian bank. Fair values of corporate bonds are primarily valued based on the market approach. Level 2 inputs observable include benchmark yields, reported trades, broker quotes, and redemption options.

Fair values of common stock and mutual funds have been determined by the Corporation from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

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

The following table presents the Corporation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Total Fair Value
Fixed Income			
Corporate bonds	$ -	$ 233,254	$ 233,254
US government agency bonds/notes	-	122,047	122,047
Mutual funds			
Intermediate-term bond	-	806,268	806,268
Short-term bond	-	231,122	231,122
World bond	-	235,559	235,559
Equities			
Mutual funds			
Commodities broad basket	97,363	-	97,363
Diversified emerging markets	231,926	-	231,926
Foreign large blend	275,950	-	275,950
Foreign large growth	105,203	-	105,203
Foreign small/mid growth	87,750	-	87,750
Large growth	273,517	-	273,517
Large value	38,463	-	38,463
Mid-cap growth	295,810	-	295,810
Mid-cap value	25,346	-	25,346
Small cap	19,616	-	19,616
Small growth	82,167	-	82,167
Special	270,029	-	270,029

Real estate	100,406	-	100,406
Common stocks			
Basic materials	196,521	-	196,521
Consumer goods	145,056	-	145,056
Financial	898,348	-	898,348
Healthcare	152,889	-	152,889
Industrial goods	98,710	-	98,710
OTC Markets	93,306	-	93,306
Services	225,119	-	225,119
Technology	203,585	-	203,585
Utilities	7,034	-	7,034
Interest rate swap	-	98,730	98,730
Total Assets	$ 3,924,114	$ 1,726,980	$ 5,651,094

The following table presents the Corporation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2013:

	Level 1	**Level 2**	**Total Fair Value**
Fixed maturity			
Corporate bonds	$ -	$ 233,981	$ 233,981
US government agency bonds/notes	-	5,265	5,265
Municipal bonds	-	50,181	50,181
Mutual funds			
Intermediate government	-	99,393	99,393
Intermediate-term bond	-	750,247	750,247
Short-term bond	-	152,817	152,817
World bond	-	203,378	203,378
Equities			
Mutual funds			
Small cap	14,630	-	14,630
Foreign small/mid growth	81,918	-	81,918
Foreign large blend	229,101	-	229,101
Foreign large growth	89,162	-	89,162
Large value	39,825	-	39,825
Mid-Cap value	22,467	-	22,467
Mid-Cap growth	140,197	-	140,197
Diversified emerging markets	201,891	-	201,891
Large growth	37,619	-	37,619
Real estate	122,519	-	122,519
Commodities broad basket	82,493	-	82,493

Common stocks			
Basic materials	232,150	1,555	233,705
Consumer goods	161,870	-	161,870
Financial	188,487	732,135	920,622
Healthcare	157,433	-	157,433
OTC markets	3,054	91,830	94,884
Industrial goods	132,839	-	132,839
Utilities	16,729	-	16,729
Services	317,135	3,953	321,088
Technology	253,252	38,000	291,252
Interest rate swap	-	152,093	152,093
Total Assets	$ 2,524,771	$ 2,514,828	$ 5,039,599

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2014 and 2013.

Supply Inventory

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

Land, Buildings, and Equipment

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

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from revenue and gains in excess of expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs related to the Corporation's 2001, 2002, and 2010 Series Revenue Bonds and the 2008 commercial mortgage loan are being amortized over the remaining period that such bonds are outstanding. Amortization of deferred financing costs of $26,979 and $30,221 was charged to operations for 2014 and 2013, respectively.

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts from patients, third party payers, and others for services rendered. Patient accounts receivable include hospital and physician charges for accounts due from Medicare, Maryland Medical Assistance (Medicaid), CareFirst, commercial and managed care insurers, and self-paying patients.

Deducted from patient accounts receivable are estimates of allowances for the excess of charges over the payments on patient accounts to be received from third party payers and uncollectible amounts related to self-paying patients. These estimates are calculated by management based on historical collection experience and analysis of financial class and age of groups of accounts receivable.

Charity Care

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

Under current accounting standards, the Corporation is required to report the cost of providing charity care. The cost of charity care provided by the Corporation totaled $2,659,777 and $3,099,716 for the years ended June 30, 2014 and 2013, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission (the Commission). For any charity services rendered by the Corporation, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Hospital.

A Maryland hospital either receives payments from or makes payments to the Commission with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital payments into the UCC totaled $545,250 and $1,073,012 for 2014 and 2013, respectively.

Revenue and Gains in Excess of Expenses

The consolidated statements of operations include revenue and gains in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include contributions of (and assets released from donor restrictions related to) long-lived assets and other items that are required by accounting principles generally accepted in the United States of America to be reported separately.

Maryland Health Services Cost Review Commission

Certain of the Hospital's charges are subject to review and approval by the Commission. The Hospital has filed the required reports with the Commission and believes it is in compliance with the Commission's requirements. The rate of reimbursement for principally all inpatient services and certain other services to patients under the Medicare and Medicaid programs prior to January 1, 2014 was based on a 36-year-old agreement between CMS and the Commission. This agreement was based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act. In January 2014, CMS approved a new waiver to modernize Maryland's unique all-payer rate-setting system for hospital services. The new waiver consists of a five-year performance period. Maryland Hospitals will commit to achieving significant quality improvements including reductions in 30-day readmissions and hospital acquired conditions. Maryland will also limit annual Medicare per capita hospital cost growth to a rate lower than the national annual per capita growth rate per year for 2015 to 2018. Under this model, Medicare is estimated to save at least $330 million over the next five years. Under the waiver, Maryland will shift virtually all of its hospital revenue over the five year performance period into global payment models. The Hospital elected to participate in this new global budget revenue program.

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

Other Operating Revenue

The Corporation met compliance requirements to receive incentives to upgrade and implement certified electronic health record systems and become meaningful users under the provisions of the American Recovery and Reinvestment Act of 2009. The Corporation recognized $1,454,460 and $2,009,140 of meaningful use incentives for fiscal years ended June 30, 2014 and 2013, respectively, and reported this amount as other operating revenue in the accompanying consolidated statements of operations. The meaningful use incentive amounts received are subject to audit and future settlement by CMS.

Advertising and Marketing Costs

The Hospital expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses were approximately $1,134,000 and $1,152,000 for the fiscal years ended June 30, 2014 and 2013, respectively, and are reported as supplies and other expense in the accompanying consolidated statements of operations. No advertising or marketing costs have been capitalized in the accompanying consolidated balance sheets.

Income Taxes

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

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

The Corporation had no unrecognized tax benefits or such amounts were immaterial during the periods presented. Tax periods for which no tax return is filed remain open for examination indefinitely.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events have been evaluated by management through October 30, 2014, which the date the consolidated financial statements were available to be issued.

3. Land, Buildings, and Equipment

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

	2014	2013
Land, buildings, and improvements	$ 42,806,971	$ 36,440,903
Fixed equipment	17,986,544	17,426,166
Movable equipment	31,584,350	29,713,061
Capital lease equipment	1,420,098	1,420,098
	93,797,963	85,000,228
Less accumulated depreciation	45,918,631	39,074,355
	47,879,332	45,925,873
Work in process	881,080	348,378
	$ 48,760,412	$ 46,274,251

Accumulated amortization on leased equipment totaling $1,119,397 and $823,776 is included in the balance of accumulated depreciation as of June 30, 2014 and 2013, respectively. Amortization expense associated with equipment under capital lease was $295,621 and $299,511 for the years ended June 30, 2014 and 2013, and is included in the balance of depreciation expense in the accompanying statements of operations. Depreciation expense was $6,825,708 and $5,683,876 for the years ended June 30, 2014 and 2013, respectively.

4. Non-Current Liabilities

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

	2014	2013
$9,978,700 Berlin, Maryland Hospital Refunding Revenue Bonds (Atlantic General Hospital Facility), Series 2001; interest is determined by taking the weighted BMA index plus 1.65% per annum; principal and interest payments are due monthly commencing December 20, 2001 through December 20, 2026.	$ 6,823,402	$ 7,174,435
$5,000,000 Berlin, Maryland Hospital Revenue Bond (Atlantic General Hospital Facility), Series 2002; interest is currently the weighted BMA index plus 1.65% per annum, with an option to change quarterly to 65% of the prime rate; payable in monthly principal and interest installments of $11,111 commencing October 1, 2008; matures September 18, 2027.	1,766,667	1,900,000

$472,500 loan payable from Bank of Ocean City, secured by deposit accounts and property, with interest of 4.83%; payable in monthly principal and interest installments of $3,835, due January 2016.	66,454	108,159
$1,750,000 loan payable from Bank of Ocean City, secured by real property, with interest of 3.99%; payable in monthly principal and interest installments of $10,599 commencing May 11, 2014; due April 11, 2034.	1,757,097	-
$5,172,000 loan payable to M&T Bank with an interest rate of 30 day LIBOR + 1.85%; payable in 59 monthly principal installments of $17,240 and one final payment to be made on April 9, 2013. The 30 day LIBOR rate was 0.15% at June 30, 2014. During 2013, the outstanding balance was refinanced for a term of 20 years. The Corporation entered into an interest rate swap that effectively fixes the interest rate at 4.02%. The interest rate swap expires April 11, 2023.	3,929,785	4,137,528
$1,950,000 loan payable from Bank of Ocean City, secured by real property, interest of 3.99%; payable in monthly principal and interest installments of $11,810 commencing June 23, 2014; due May 23, 2034.	1,944,680	-
$2,200,000 Series A Bond payable to M&T Bank with a fixed interest rate of 5.19%, which was based on the 10 year point on the S43 MUNI Swaps Curve + 2.44% until June 30, 2020. Beginning July 1, 2020 to and including its maturity or prepayment in full, the loan will bear interest at a rate equals to the Weighted SIFMA Calculation + 1.65%. Principal and interest payments are due monthly commencing August 1, 2010 through July 1, 2025.	1,625,556	1,772,222
$2,600,000 Series B Bond payable to M&T Bank with a fixed interest rate of 5.08% through June 30, 2020 and a variable rate equal to the weighted SIFMA Calculation + 1.65%. Principal and interest payments are due monthly commencing January 1, 2011 through July 1, 2025.	1,987,356	2,166,667
$7,400,000 Series C Bond payable to M&T Bank with a variable interest rate equal to the Weighted SIFMA Calculation through December 31, 2012 and a fixed rate calculated as the 7-year point on the S43 Muni Swaps Curve + 2.44% from January 1, 2013 through June 30, 2020; thereafter, a variable rate equal to the SIFMA rate. Principal and interest payments are due monthly commencing August 1, 2011 through July 1, 2025. This loan converted to a fixed rate of 3.48% on January 1, 2013.	5,727,074	6,281,787
$5,673,704 loan payable for financing of Allscripts Perks Inpatient Clinical System with a fixed interest rate of 2.00% secured by the associated equipment.	1,659,021	2,084,326

Capital leases payable, with interest ranging from 4.00% to 8.10%, secured by selected equipment.	369,325	612,359
	27,656,417	26,237,483
Less current portion	2,387,297	2,210,877
	$ 25,269,120	$ 24,026,606

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

	2015	2016	2017	2018	2019	After 2019
Future minimum lease payments	$ 276,245	$ 119,991	$ 2,023	$ -	$ -	$ -
Less interest	23,711	5,086	137	-	-	-
	252,534	114,905	1,885	-	-	-
Notes/loans payable	747,112	749,032	747,548	762,897	430,048	5,920,400
Bonds payable	1,387,650	1,410,347	1,435,140	1,461,485	1,489,477	10,745,956
	$ 2,387,297	$ 2,274,284	$ 2,184,573	$ 2,224,382	$ 1,919,525	$ 16,666,356

2001 Series Refunding Revenue Bond

On December 20, 2001, pursuant to a loan and financing agreement (the Financing Agreement) between the Corporation, the Mayor and Council of Berlin, Maryland (the Issuer), and M&T Bank (formerly Wilmington Trust Company (the Lender)), the Town of Berlin issued a $9,978,700 Hospital Refunding Revenue Bond (Atlantic General Hospital Facility), 2001 Series (the 2001 Bond) dated December 1, 2001, to refund the then-existing 1992 Series Revenue Bonds (the Prior Bonds), provide for the payment of accrued and unpaid interest and premium on the Prior Bonds, and provide for the payment of a portion of the costs of issuance of the 2001 Bond. The Financing Agreement requires monthly payments by the Corporation sufficient to meet the principal and interest requirements of the 2001 Bond through its maturity on December 20, 2026. There is no trustee for the 2001 Bond; the Corporation makes all payments of principal and interest on the 2001 Bond directly to the Lender.

In accordance with the terms of the Financing Agreement, the Corporation has entered into various covenants imposing restrictions on the transfer or disposition of property and incurrence of additional indebtedness, restrictions on the acquisition of real property and equipment beyond specified limits, the achievement of certain pre-established financial indicators, monthly reporting of financial information, and the granting of a security interest in all property and unrestricted revenues of the Corporation.

The Corporation's obligations are evidenced by the Financing Agreement, a deed of trust, and other documents executed and delivered for the purpose of securing the loan. The Corporation has assigned a continuing security interest in its receipts, equipment collateral, personal property, any judgments or awards, any insurance settlements, all rents, and all right and title and interest in property leases and subleases. Upon the occurrence of an event of default under the Financing Agreement, the interest on the outstanding principal balance will be increased 2% per annum in excess of the tax-exempt rate or the taxable rate, as applicable, until such time that the default is cured.

The 2001 Bond is subject to redemption prior to the scheduled December 1, 2026 maturity in different ways:

(1) Optional redemption in whole or in part, at the direction of the Hospital and if approved by the Issuer, with partial redemptions applied to unpaid interest, premiums, and then principal installments in the inverse order of the installment payment dates:

Redemption Period	Redemption Price (on principal)
December 1, 2006 - November 30, 2007	104%
December 1, 2007 - November 30, 2008	103%
December 1, 2008 - November 30, 2009	102%
December 1, 2009 - November 30, 2010	101%
December 1, 2010 and thereafter	100%

(2) Mandatory redemption in whole but not in part, at the sole option of the Lender, at a redemption price equal to the unpaid principal amount together with unpaid interest through redemption. Redemption without premium or penalty is available on the following dates: December 1, 2011; December 1, 2016; or December 1, 2021. The lender must give 180 days' notice for mandatory redemption and they can only do so in the years 2012, 2017 and 2022. On July 30, 2009, the Lender waived the December 31, 2011 put option.

(3) Special mandatory redemption given certain circumstances, in whole or in part as the case may be, at redemption price equal to the principal amount together with all unpaid interest through redemption plus applicable penalties.

2002 Series Revenue Bond

On September 18, 2002, pursuant to a loan and financing agreement (Second Financing) between the Corporation, the Issuer, and the Lender, the Town of Berlin issued a qualified tax-exempt $5,000,000 Berlin, Maryland Corporation Revenue Bond (Atlantic General Hospital Facility), 2002 Series (the 2002 Bond) dated September 1, 2002. Its proceeds were used to finance a portion of the cost of the acquisition, construction and equipping of an expansion of the existing hospital facility for additional emergency, surgical, and outpatient service capacity. The Second Financing requires monthly payments by the Corporation directly to the Lender sufficient to meet the principal and interest requirements of the 2002 Bond through its maturity on September 18, 2027. Initially, interest was paid at 65% of the prime rate; however, from January 1, 2003 until such time that the Corporation enters into a swap arrangement, the Corporation has the option to direct a change in the interest rate between the initial rate and the weighted BMA calculation plus 165 basis points on any quarterly conversion date.

The Bond is subject to redemption prior to the September 18, 2027 maturity in different ways:

(1) Optional redemption in whole or in part, at the direction of the Corporation and if approved by the Issuer, with partial redemptions applied to unpaid interest, premiums, and then principal installments in the inverse order of the installment payment dates:

Redemption Period	Redemption Price (on principal)
September 2, 2006 - September 1, 2007	104%
September 2, 2007 - September 1, 2008	103%
September 2, 2008 - September 1, 2009	102%
September 2, 2009 - September 1, 2010	101%
September 2, 2010 and thereafter	100%

(2) Mandatory redemption in whole but not in part, at the sole option of the Lender, at a redemption price equal to the unpaid principal amount together with unpaid interest through redemption. Redemption without premium or penalty is available on the following dates: September 1, 2012; September 1, 2017; or September 1, 2022. On July 30, 2009, the Lender waived the September 1, 2012 put option.

(3) Special mandatory redemption given certain circumstances, in whole or in part as the case may be, at redemption price equal to the principal amount together with all unpaid interest through redemption plus applicable penalties.

The 2002 Bond is collateralized by the pledged receipts, property, and revenues of the Hospital. The 2002 Bond also imposes certain restrictive covenants on the Corporation, for which noncompliance could cause accelerated demand for payment.

In July 2009, the Corporation received written notification from the Lender agreeing to waive the put options for the 2001 Series Refunding Revenue Bond and 2002 Series Revenue Bond, subject to a formal amendment of the bond documents.

2008 Term Loan

During 2008, the Corporation obtained a $1.570 million term loan from a commercial bank for the purposes of paying off old debt and to purchase equipment for a medical office building. The loan is secured by all equipment owned or hereafter acquired by the Corporation. The loan was fully paid during the year ended June 30, 2013.

2008 Commercial Mortgage Loan

During 2008, the Corporation obtained a $5.172 million commercial mortgage from a commercial bank for the purposes of paying off old debt and completing construction work on a medical office building. The loan is collateralized by a mortgage lien against the Hospital property as well as certain units in the medical office building. During 2013, the outstanding balance of $4,154,850 was refinanced over a 20-year term, maturing April 11, 2023. At that time the Corporation entered into a 10-year interest rate swap agreement effectively fixing the interest rate at 4.02%.

2008 Series Swap Agreement

In connection with the issuance of the 2008 term loan and commercial loan, the Corporation entered into an ISDA Master Agreement with the Lender to reduce the Corporation's exposure to future variable cash flows caused by fluctuations in the interest rate (the 2008 Swap Agreement). The 2008 Swap Agreement qualified as a cash flow hedge, which management had determined to be fully effective. Under the terms of the 2008 Swap Agreement, the Corporation paid a fixed rate of 5.30% and 5.15% on the outstanding principal balance of the 2008 Commercial Mortgage Loan and the 2008 Term loan, respectively, during the period April 2008 to March 2013. With the refinancing of the 2008 term loan during 2013, the Corporation entered into an interest rate swap agreement with the Lender expiring April 2023. Under this swap agreement, the fixed rate is 1.77% and the variable rate is the 30-day LIBOR rate.

The fair value of the Swap Agreement as of June 30, 2014 and 2013 (as determined by the investment hedging consultants, based on the present value of cash flow differences over the life of the Swap Agreement between the interest rate calculated on the swap at inception and rates available on similar swap agreements as of June 30) is an asset (liability) totaling $98,730 and $152,093, respectively. Payments made to the counterparty to the Swap Agreement were $65,606 and $134,584 for the years ended June 30, 2014 and 2013, respectively. Because management considers the Swap Agreement to be fully effective, the change in fair value of the swap contract has been recognized as a direct charge to net assets rather than as a component of total operating expenses. As long as the Swap Agreement continues to be fully effective, no existing gains or losses will be reclassified into earnings. The Corporation is exposed to credit loss in the event of nonperformance by the counterparty on the Swap Agreement, but does not anticipate nonperformance by the counterparty.

2010 Series Revenue Bonds

Pursuant to a Commitment Letter dated June 21, 2010, M&T Bank approved financing in the aggregate principal amount not to exceed $12,200,000 for the Corporation by the issuance of three series of bonds (Series A, Series B and Series C), collectively, the 2010 Series Revenue Bonds issued by the Mayor and Council of Berlin (the Issuer). On June 29, 2010, pursuant to a loan and financing agreement (the "2010 Loan and Financing Agreement") between the Corporation, the Issuer, and M&T Bank (the Lender), the Issuer issued the Hospital Revenue Bonds (Atlantic General Hospital Facility) 2010 Series A in the amount of $2,200,000. The Series B Bond and Series C Bond were issued on December 13, 2010 in the amounts of $2,600,000 and $7,400,000, respectively. Proceeds of each Series of the Bonds have been used to finance a portion of cost of the acquisition, installation and improvement of various improvements, equipment and furnishings at the main hospital campus, equipment at the billing office, and equipment at the Atlantic Health Center.

The Financing requires monthly payments by the Corporation directly to the Lender sufficient to meet the principal and interest requirements of the 2010 Bonds through its maturity on July 1, 2025. Repayment began on August 1, 2010 for Series A Bond and February 1, 2011 for Series B Bond and August 1, 2011 for the Series C Bond.

The Series A and B Bonds bear interest from the date of its issuance to and including June 30, 2020 at a fixed rate which is equal to the rate of 10-year point on the S43 MUNI Swaps Curve plus 244 basis points. For the Series A Bond and B Bond, the interest rate is 5.19% and 5.08%, respectively. Beginning July 1, 2020 to and including its maturity or repayment in full, the Bonds shall bear interest at a rate which is equal to the Weighted SIFMA Calculation plus 165 basis points. The Series C Bond incurred interest from the date of its issuance to and including December 31, 2012 at a variable rate which was equal to the Weighted SIFMA Calculation plus 165 basis points. From and after January 1, 2013 to and including June 30, 2020, the Series C Bond bears interest at the fixed rate of 7-year point on the S43 MUNI Swaps Curve plus 244 basis points, which was 3.48% at June 30, 2013. From and after July 1, 2020 to and including its maturity or repayment in full, the Series C Bond shall bear interest at a variable rate which is equal to the Weighted SIFMA Calculation plus 165 basis points. There will be no swaps or other interest rate hedging arrangement with respect to any

Series of the Bonds.

The Bonds are subject to redemption prior to the July 1, 2025 maturity in different ways:

(1) Optional redemption in whole or in part, at the direction of the Corporation and if approved by the Issuer, with partial redemptions applied to unpaid interest, premiums, and then principal installments in the inverse order of the installment payment dates:

Redemption Period	Redemption Price (on principal)
June 30, 2010 - June 30, 2015	105%
July 1, 2015 - June 30, 2016	104%
July 1, 2016 - June 30, 2017	103%
July 1, 2017 - June 30, 2018	102%
July 1, 2019 - June 30, 2020	101%
July 1, 2010 and thereafter	100%

(2) Mandatory redemption prior to maturity from Receipts Requiring Mandatory Redemption.

(3) Mandatory redemption prior to maturity at the option of the Holder.

(4) Mandatory redemption prior to maturity upon the occurrence of a Determination of Taxability.

The 2010 Bonds are collateralized by the pledged receipts, property, and the revenues of the Hospital. The 2010 Bonds also impose certain restrictive covenants on the Corporation, for which noncompliance could cause accelerated demand for payment.

The Bonds are also subject to a put option which with at least 270 days prior written notice to the Borrower, whereby the Lender at its sole option may put any one or more of the Bonds to the Borrower as of July 1, 2020, and be paid the unpaid principal balance of such Bond or Bonds selected for such put option, plus interest accrued thereon to such put date.

5. Professional Liability Insurance Coverage

The Corporation is presently exposed to asserted and unasserted potential legal claims encountered in the ordinary course of business. In the opinion of management, the resolution of such matters will not have a material adverse impact on the Corporation's June 30, 2014 financial position or the results of operations for the year then ended.

Prior to 2005, the Corporation had claims-made professional liability insurance through a commercial insurance carrier covering claims arising from the performance of professional services and brought against the Corporation while the policy was in force. Insurable limits under this policy were $1 million per claim and $3 million annual aggregate shared limit basis. In addition, the Corporation maintained an umbrella policy of $15,000,000 per occurrence and aggregate. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because any such amount is not reasonably estimable.

During 2005, the Hospital, in conjunction with eight other Maryland hospitals, (collectively, the "Shareholders") formed Freestate Healthcare Insurance Company, Ltd. (the "Captive"), a Cayman Islands company, to provide claims-made professional and general liability coverage for the risks of the Shareholders, their controlled affiliates, and their respective employees. Each of the Shareholders is a Maryland nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code" or "IRC"), as an organization described in Section 501(c)(3) of the Code. The Shareholders are not affiliated with one another through common ownership or control. As of June 30, 2014, the Captive had five Shareholders.

The Captive provides primary coverage to the Shareholders and their affiliates with limits of liability of $1,000,000 for each and every claim (the "Retained Layer"), and writes an excess policy with various limits of liability which is fully reinsured through commercial carriers. The Corporation has $10,000,000 of additional reinsurance in the aggregate through such reinsurance arrangements. The estimated unpaid loss liability reserved by the captive for the Hospital was $3,719,033 and $3,236,443 at June 30, 2014 and 2013, respectively. In accordance with current accounting standards, the June 30, 2014 and 2013 unpaid loss liability is recorded as a noncurrent liability, and the related insurance recovery was reported as a noncurrent asset, in the accompanying consolidated balance sheets.

Premiums are calculated by an actuary under a retrospectively rated policy and are based primarily on the experience of the Shareholders. The total premium is allocated to each of the Shareholder’s based on their experience. Premiums for the Corporation’s professional and general liability insurance of approximately $1,020,000 and $1,120,000 were charged to operations during fiscal years 2014 and 2013. 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 Captive are sufficient to meet its obligations as of June 30, 2014. If the financial condition of Captive were to materially deteriorate in the future, and Captive was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

6. Commitments

Employment Agreements

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

Lease Agreements

The Corporation has entered into various office lease agreements for equipment and facilities. Most lease arrangements contain a renewal option. Total rent expense for the years ended June 30, 2014 and 2013 was approximately $1,272,000 and $1,252,000 respectively. Future minimum payments on noncancelable office leases, with initial or remaining terms of one year or more, for years ending June 30 are as follows:

2015	$ 653,411
2016	431,054
2017	339,975
2018	259,209
	$ 1,683,649

Retirement Plans

On September 7, 2000, the Board of Trustees adopted resolutions to implement 401(a) and 403(b) retirement plans, retroactively effective January 1, 2000. The 401(a) plan maintained employer match contributions and earnings thereon, while the 403(b) plan maintained participant salary deferral contributions and earnings thereon. The 401(a) plan was subject to the Employee Retirement Income Security Act of 1974, as amended, and permitted participants' investment direction of their accounts, thereby limiting fiduciary liability of the Plan Sponsor for participant investment instructions. Under the 401(a) plan, the Corporation regularly declared a 50% match of the first 5% of participants' elective deferrals to the 403(b) plan. Participants become 100% vested in employer contributions after three years of continuous service.

In June 2002, the Board of Trustees adopted a resolution to convert the 401(a) plan to an employer 403(b) plan for administrative benefits, effective June 30, 2002. The employer 403(b) plan was designed to mirror the 401(a) plan except that funding and eligibility requirements were modified to quarterly provisions. After January 1, 2002 through June 30, 2002 match contributions were made to the 401(a) plan, and non-vested forfeitures were identified and transferred into a forfeiture account for future refunding to the Corporation, all participant account balances in the terminating 401(a) plan were declared fully vested and then transferred into identical investment accounts within the 403(b) plan. Plan expenses were $592,000 and $515,000 for the years ended June 30, 2014 and 2013, respectively.

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

Self-Insured Plans

Effective May 1, 2002, the Hospital joined the Maryland Hospital Association (MHA) Workers' Compensation Self-Insurance Group to self-insure for worker's compensation benefits. The annual premium for worker's compensation is calculated based on the Hospital's payroll estimate and MHA rates per payroll classification. The MHA rates are determined based on past experience. Amounts charged to operations for workers' compensation expense were $359,622 and $409,510 for the years ended June 30, 2014 and 2013, respectively.

In lieu of paying unemployment tax premiums to the State of Maryland, the Hospital secured a letter of credit with M&T Bank, effective May 21, 2004. As of June 30, 2014 the letter of credit was in the amount of $824,983. Additionally, the Hospital paid actual Maryland unemployment claims in the amount of $19,560 and $86,461 for the years ended June 30, 2014 and 2013, respectively.

The Hospital maintains an agreement with a third party to administer a self-insured health plan that benefits Hospital associates and their dependents. On behalf of participating associates, the Hospital pays the cost of health claims and an administration fee for each subscriber associate. The participating associates share in the cost by remitting a pre-established premium through payroll deductions. Additionally, the Hospital obtains stop loss insurance to cover possible claims in excess of expected claims. The stop loss insurance agreements are annual agreements, subject to annual renewals. The Hospital submits a claim for reimbursement of stop loss insurance when claims exceed a pre-established ceiling. The Hospital's net health benefit expense for the fiscal years ended June 30, 2014 and 2013, net of premiums received from associates during the fiscal years, ($1,032,993 and $1,024,453, respectively), were $6,506,060 and $5,095,591, respectively.

Effective January 1, 2003, the Corporation entered into an agreement with a third party to coordinate the administration of dental health benefits to Hospital employees and their dependents. This is an annual agreement, subject to annual renewals. On behalf of participating employees, the Hospital pays the cost of claims and a fee for each subscriber employee, and the participating employees remit a portion of the Hospital's cost through a pre-established schedule of payroll deductions.

Line of Credit

In April 2009, the Hospital entered into a line-of-credit agreement with the Chesapeake Eye Center, PA (Eye Center) in the amount of $300,000. The Hospital entered into this agreement to assist the Eye Center with the provision of health care services to the community served by the Hospital. All requests for draws on the line of credit must be submitted in writing to the Hospital. The initial term of the line of credit was one year and automatically renews for up to two additional years unless the Hospital provides written notice of its intention to terminate the line of credit at least 30 days before the end of any term. At the end of the line of credit term, all outstanding amounts are due and payable in full. The entire indebtedness was due and payable in full on April 10, 2012, however during 2012, the Hospital and the Eye Center entered into a loan repayment agreement, which revised the outstanding unpaid principal to be due in full by May 1, 2013. The loan has been extended until April 10, 2015. The outstanding unpaid principal balance will accrue interest at the prime rate of interest as published in *The Wall Street Journal*. The interest rate will be adjusted quarterly on the first days of January, April, July and October of each year as long as any funds remain outstanding. The line of credit is guaranteed by the owners of the Eye Center and secured by the Eye Center's assets. As of June 30, 2014 and 2013, the outstanding principal amount of the line of credit is $79,453 and $128,052, respectively.

Allscripts Perks Inpatient Clinical System

In September 2011, the Corporation entered into a seven-year agreement for an electronic medical records system and support services for approximately $8.8 million. As of June 30, 2014, approximately $5.2 million has been paid.

7. Functional Expenses

The Corporation provides general health care services to residents within its geographic area. Expenses related to providing these services are as follows for the years ended June 30:

	2014	2013
Health care services	$ 77,309,618	$ 72,024,367
General and administrative	24,264,481	22,115,164
	$ 101,574,099	$ 94,139,531

8. Business and Credit Concentrations

The Corporation grants credit to patients, many of whom are local residents. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies.

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

	2014	2013
Medicare	$ 5,291,020	$ 4,563,219
Medicaid	520,511	761,997
Commercial insurance and HMOs	3,535,090	3,047,654
CareFirst	1,968,721	1,658,227
Self-pay and others	7,064,858	6,357,508
	$ 18,380,200	$ 16,388,605

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

	2014	2013
Medicare	51%	51%
Medicaid	3%	8%
Commercial insurance and HMOs	22%	16%
CareFirst	17%	16%
Self-pay and others	7%	9%
	100%	100%

9. Related Party Transactions

The Hospital periodically advances funds to certain members of the Hospital's medical staff or associated ventures. These advances are held as interest bearing promissory. Under the established terms of these notes, the loan balances may be (and periodically have been) forgiven based on the achievement of certain service levels.

10. Grant Awards

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

On January 15, 2002, an endowment fund (the Fund) was established in the Hospital's name in order for the Hospital to participate in the Perdue Kresge Challenge for the Community. The Fund is held by and accounted for in the financial statements of the Community Foundation of the Eastern Shore. An unrelated third party actively manages the investments, which are invested currently in various bonds, mutual funds, and equities. All realized gains and losses are reinvested in the Fund. The Fund has no minimum value requirement. All gifts to the Fund will be invested in perpetuity. The Hospital, as sole beneficiary to any interest earned on the Fund, will receive income distributions earned on the assets of the Fund with no external restrictions regarding use; however, the Board of Trustees has designated all investment income from this endowment fund for funding physician practice development in the community. Income distributions will be made on an annual basis. Fund activity is presented below for the years ended June 30:

	2014	2013
Beginning fund balance	$ 1,821,146	$ 1,662,916
Interest and dividends	83,031	65,362
Net realized and unrealized gains	280,384	191,443
Administrative and management fees	(20,672)	(19,184)
Annual income distributions	(83,068)	(79,391)
Ending fund balance	$ 2,080,821	$ 1,821,146

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report
on Consolidating Information

Board of Trustees
Atlantic General Hospital Corporation
Berlin, Maryland

The 2014 audited consolidated financial statements of ***Atlantic General Hospital Corporation*** and our report thereon are presented in the preceding section of this report. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended June 30, 2014 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Rockville, Maryland
October 30, 2014

Atlantic General Hospital Corporation

Consolidating Balance Sheet

June 30, 2014

	AGH	Atlantic Immedicare	Eliminations	Consolidated AGH Corporation
Assets				
Current assets				
Cash and cash equivalents	$ 14,816,532	$ 598,885	$ -	$ 15,415,417
Investments	2,065,709	-	-	2,065,709
Due from affiliates	5,393,475	-	(5,393,475)	-
Patient accounts receivable, less uncollectible accounts of $4,486,680	9,162,669	36,526	-	9,199,195
Supply inventory	2,408,429	6,955	-	2,415,384
Prepaid expenses and other current assets	2,209,033	820	-	2,209,853
Total current assets	36,055,847	643,186	(5,393,475)	31,305,558
Land, buildings and equipment	48,737,287	23,125	-	48,760,412
Other assets				
Assets whose use is limited:				
Cash and cash equivalents restricted by donor	215,634	-	-	215,634
Cash and cash equivalents internally designated for a future endowment	56,915	-	-	56,915
Investments internally designated for a future endowment	3,506,655	-	-	3,506,655
Swap contracts	98,730	-	-	98,730
Long-term investments	7,696	-	-	7,696
Deferred financing costs, less accumulated amortization of $269,726	369,382	-	-	369,382
Other noncurrent assets	3,760,250	-	-	3,760,250
Total other assets	8,015,262	-	-	8,015,262
Total assets	$ 92,808,396	$ 666,311	$ (5,393,475)	$ 88,081,232

- Continued -

Atlantic General Hospital Corporation

Consolidating Balance Sheet - Continued

June 30, 2014

Liabilities and Net Assets	**AGH**	**Atlantic Immedicare**	**Eliminations**	**Consolidated AGH Corporation**
Current liabilities				
Accounts payable and accrued expenses	$ 7,507,875	$ 24,889	$ -	$ 7,532,764
Salaries, wages, and related items	4,469,380	-	-	4,469,380
Due to affiliate	-	5,393,475	(5,393,475)	-
Interest payable	51,792	-	-	51,792
Advances from third party payers	694,563	-	-	694,563
Current portion of long-term debt	2,387,297	-	-	2,387,297
Total current liabilities	15,110,907	5,418,364	(5,393,475)	15,135,796
Long-term debt, less portion classified as current liability	25,269,120	-	-	25,269,120
Other liabilities	3,719,033	-	-	3,719,033
Total liabilities	44,099,060	5,418,364	(5,393,475)	44,123,949
Net assets				
Unrestricted				
General	44,641,502	(4,752,053)	-	39,889,449
Board-designated	3,563,570	-	-	3,563,570
Temporarily restricted	504,264	-	-	504,264
Total net assets	48,709,336	(4,752,053)	-	43,957,283
Total liabilities and net assets	$ 92,808,396	$ 666,311	$ (5,393,475)	$ 88,081,232

See independent auditors' report on supplementary information.

Atlantic General Hospital Corporation

Consolidating Statement of Operations

Year Ended June 30, 2014

	AGH	Atlantic Immedicare	Eliminations	Consolidated AGH Corporation
Operating revenues				
Net patient service revenue, net of contractual allowances and discounts	$ 102,209,846	$ 350,259	$ -	$ 102,560,105
Provision for bad debts	(4,911,118)	(15,208)	-	(4,926,326)
Net patient service revenue, net of provision for bad debts	97,298,728	335,051	-	97,633,779
Other operating revenue	2,827,936	-	(523,090)	2,304,846
Total operating revenue	100,126,664	335,051	(523,090)	99,938,625
Operating expenses				
Salaries	43,623,967	-	-	43,623,967
Employee benefits and other related expenses	10,745,537	-	-	10,745,537
Professional fees and contracted services	13,491,433	666,843	(574,205)	13,584,071
Supplies and other expense	19,028,557	147,321	51,115	19,226,993
Utilities	1,331,949	16,210	-	1,348,159
Maintenance and repairs	3,801,686	384	-	3,802,070
Insurance	1,557,838	5,201	-	1,563,039
Interest	827,576	-	-	827,576
Depreciation	6,817,103	8,605	-	6,825,708
Amortization	26,979	-	-	26,979
Total operating expenses	101,252,625	844,564	(523,090)	101,574,099
Loss from operations	(1,125,961)	(509,513)	-	(1,635,474)
Other income				
Investment income	537,178	-	-	537,178
Net unrealized gains on trading portfolio	300,809	-	-	300,809
Other	1,773,632	-	-	1,773,632
Total other income	2,611,619	-	-	2,611,619
Revenue and gains in excess of expenses	$ 1,485,658	$ (509,513)	$ -	$ 976,145

See independent auditors' report on supplementary information.