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November 16, 2018

Ms. Ruby Potter
Health Facilities Coordinator
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, MD 21215

Atlantic General Surgical Center
Matter No: 18-14-2431

Dear: Ms. Potter:

On behalf of Atlantic General Hospital Corporation, please accept these responses to the questions outlined in correspondence (letter Chan to Franklin, October 29, 2018) concerning the above-referenced Certificate of Need Application for the development and operation of a freestanding ambulatory surgery facility. In addition to the electronic version of these responses as a readable .pdf file attached to this message, I will be providing the Commission with an electronic file of these responses on a thumb drive in the formats as you have requested and hard copies by hand delivery on Monday, November 19, 2018.

We look forward to working with you and the other members of the staff of the Commission during the course of this Application's review.

Should you have any questions regarding this Application, please contact me, or Michael A. Franklin at (410) 641-9600.

Very truly yours,



Richard J. Coughlan

cc: Michael A. Franklin
Rebecca Jones, R.N., Health Officer, Worcester County Health Officer

RESPONSES TO COMPLETENESS QUESTIONS

Part 1 – Project Identification and General Information

1. Please provide a site map that shows the plat or lot number where the Medical Office Building and proposed ASF will be located on Racetrack Road in Ocean Pines, Worcester County. How far is the proposed ASF from AGH in miles and driving time?

APPLICANT RESPONSE: Please see Attachment 13 for the location of the proposed Medical Office Building (“MOB”) and ASF at 10592 Racetrack Road, Worcester County and Attachment 14 for the driving time (approximately 7 minutes) and distance (approximately 3.5 miles) from the MOB/ASF site to AGH.

2. Please provide an organizational chart for Atlantic General Hospital Corporation and show the affiliation or the corporate relationship with the hospital and the proposed ASF.

APPLICANT RESPONSE: Please see the organizational chart for the Atlantic General Hospital Corporation at Attachment 15.

3. Regarding Attachment 3, please discuss and clarify the relationship between Atlantic General Hospital Corporation and Sina Companies. Please explain the relationship of Sina as a “managing member of the ownership entity” and how the ownership entity “will be a single purpose entity whose sole asset is this facility and its associated land.”

APPLICANT RESPONSE: Following completion of the construction of the MOB, in which the ASF will be located, the relationship between Atlantic General Hospital Corporation and Sina Companies will simply be landlord and tenant. The entity which will own the MOB will be a Limited Liability Company (“LLC”). Executives of Sina Companies will be the managing members of the LLC. The LLC will own the building, its sole asset. AGH will not have any ownership in the MOB, nor will Sina Companies have any ownership in the operations of the ASF. A proposed lease agreement is the only written documentation of the relationship that is available for review at this time and can be found at Attachment 16.

4. While Sina Companies will build and own the two-story MOB, please discuss whether Sina Companies or the applicant will have the fiscal responsible for the entire cost or do these two parties have an agreement to share the costs of constructing the 13,101 gross square foot ASF that includes the two ORs and the three procedure rooms.

APPLICANT RESPONSE: Sina Companies will be solely responsible for the cost of building the MOB in which the ASF will be located. Sina Companies will pay 100% of the estimated construction costs and inflation allowance for the MOB including the space to be occupied by the ASF. AGH will not incur any costs for construction of the MOB or ASF. AGH will cover:

RESPONSES TO COMPLETENESS QUESTIONS

- 1) the capital costs of purchasing and installing the moveable medical equipment, IT equipment and furnishings in the ASF, and a 10% contingency allowance, estimated at \$2,810,444,
- 2) the CON Application assistance fees, estimated at \$50,000, and
- 3) make an estimated annual rental payment of \$690,863 to the LLC under the lease agreement for the space to be occupied by the ASF in the MOB.

Sina Companies will be responsible for the estimated \$5,173,363¹ portion of the total current construction costs of the Project associated with the construction of the ASF portion of the MOB, a construction contingency, and inflation. The total cost of the Project is estimated to be \$8,023,827. See Revised TABLES C., E., F., and G. found at Attachment 17.

5. Please provide a copy of the agreement between Sina Companies and the applicant that identifies (a) the type of ownership entity between the applicant and Sina Companies including the responsibilities for each party in constructing the proposed ASF, and (b) the terms of the lease for the proposed ASF upon project completion, including responsibilities and terms.

APPLICANT RESPONSE: As stated above, the owner of the MOB will be the LLC, and the owner of the ASF will be AGH Corporation. The responsibility in constructing the proposed ASF will be Sina Company's. The responsibility for equipping the ASF will be AGH's. A copy of the proposed lease is found at Attachment 16.

6. Regarding your statement on p. 7, please provide details or an explanation on how the "proposed consolidation will save approximately \$292,000 per year" for AGH management and how this relates to the proposed establishment of the ASF.

APPLICANT RESPONSE: At the heart of this Project is the construction and operation of a consolidated outpatient services center/medical office building (MOB), of which the proposed ASF is one of many care providers which will be located there. Currently, as described in the CON application, AGH Corporation owns and operates twenty-one outpatient service outlets in Worcester County, and bears significant administrative costs associated with staffing all of them in multiple locations. These outlets include the outpatient surgery services now provided in two locations on the AGH campus. It is our plan to consolidate as many of these outlets at the new MOB location on Racetrack Road and reduce the number of administrative staff accordingly.

¹ The \$3,250,000 estimated current Capital Costs for New Construction shown on TABLE E. Project Budget have been revised to remove the \$1,537,000 estimated cost of fixed equipment that was included in the CON Application submitted on October 5, 2018. A subsequent analysis of the construction plan indicates that there is no fixed equipment that will be purchased and installed in the ASF portion of the MOB. The Revised and Corrected Budget is found at Attachment 17.

RESPONSES TO COMPLETENESS QUESTIONS

We projected that the future annual savings in having fewer office staff personnel for those outlets would amount to a reduction in annual payroll expenses of \$292,000 for eight FTEs that will no longer be needed to staff several primary and specialty care practices which will relocate to the new outpatient center/MOB. Among the practices to be relocated there are a gastroenterology practice and an orthopedics practice, both of which will be using the ASF in the MOB for their patients.

7. Please describe what other businesses or services in addition to the proposed ASF will be located in the proposed MOB.

APPLICANT RESPONSE: The majority of the MOB will house both primary care and specialty physician practices that are owned/managed by AGH and a community education area. Other proposed tenants, either AGH owned/operated or owned/operated and leased by an independent entity: an urgent care center, phlebotomy access center (outpatient lab facility), imaging center, rehabilitation suite, pharmacy, infusion center, and dialysis center.

8. Please provide a response to the following:

- a. A line diagram that shows Atlantic General Hospital's Surgical Operating Rooms both before and after the proposed project. The line diagram should clearly indicate the operating room and the three procedure rooms that will be taken out of service in the hospital.

APPLICANT RESPONSE: AGH leases the suite in a medical office building adjacent to the Hospital where the three procedure rooms are located on its campus. The line drawing of this suite is found at Attachment 18. The lease on this suite expires August 31, 2023. Upon completion of the proposed ASF, AGH will decommission these three existing procedure rooms, with consideration for repurposing the leased suite space for other hospital uses or discontinuation of the lease at its termination. No line diagrams are available at this time which show an alternative use for the existing suite. AGH management will work with the medical office building landlord to determine its future use, following CON-approval of the ASF.

With respect to AGH's Surgery Department and Operating Rooms, one of the four Hospital's existing ORs will be taken out of service (but will remain in the existing space) following the implementation of the ASF. Two line diagrams of the existing AGH Surgery Department are found at Attachment 19. The first drawing shows the location of the four existing operating rooms in the Department. The second drawing shows a potential reconfiguration plan for the Department that would reduce the number of ORs permanently from four to three. Any reconfiguration plan that would involve renovations of the Hospital's Surgery Department will be implemented after the establishment and commencement of services at the ASF. No timetable for implementing that reconfiguration plan has been determined at this time.

RESPONSES TO COMPLETENESS QUESTIONS

- b. Provide an expected date when the hospital will take the OR and three procedure rooms out-of-service and what the hospital will do with this space after the proposed project is completed.

APPLICANT RESPONSE: The timetable for project implantation has AGH completing the construction of the ASF portion of the MOB and assuming occupancy in August, 2020. It is our plan to take one OR and three procedure rooms at AGH out-of-service within 120 days after the occupancy permit being issued and received by AGH. This time period will enable the completion of the movable equipment installation in the ASF, and the necessary training and staff relocation from the Hospital to the ASF to make it operational and ready to provide outpatient surgical services.

- c. Are any of the plans as well as the renovation costs for the changes to the AGH's surgical services department part of this proposed project budget, and if not, please explain why and when the hospital will complete these changes to the areas where the single OR and three procedure rooms are proposed to close?

APPLICANT RESPONSE: The Project Budget for the establishment and operation of the proposed ASF in this CON Application do not include any of the costs for changes to the Hospital's Surgery Department or the leased suite space for the three procedure rooms. Such changes, as summarized in our response to Question 8 a. above, have not yet been finalized. The single OR and three procedure rooms on the Hospital campus will be taken out of service consistent with the schedule for completing the equipment installation for the proposed ASF and commencing operations there in the Racetrack Road MOB.

It should be noted that AGH is in the process of implementing a multi-year Master Facilities Plan for its campus. This Master Facility Plan has five components: Comprehensive Women's Health Center (completed January, 2017); John H. "Jack" Burbage Regional Cancer Care Center (completed July, 2018); Patient Care Redesign of the hospital's medical/surgical inpatient areas (scheduled to begin July, 2019); Surgical Services Redesign (not yet scheduled); and Modernization of the Emergency Department and Outpatient facilities (not yet scheduled). Any permanent changes to the AGH Surgery Department will be implemented as the fourth component of the Master Facilities Plan.

After the application is docketed, we would encourage a site visit by the Commission staff to the Hospital campus to gain a "first hand" understanding of how the proposed ASF project and the Racetrack Road MOB/ASF is an integral part of the ongoing Master Facilities Plan of AGH.

RESPONSES TO COMPLETENESS QUESTIONS

9. Please provide documentation to support the position that the proposed 4 acres located at Racedown Road in Ocean Pines has all the required State and local land use and environmental approvals including zoning and site plan.

APPLICANT RESPONSE: The site for the MOB/ASF is located on "Racetrack Road," not "Racedown Road." Documentation of approvals is found at Attachment 20.

10. As instructed under "Features of Project Construction," please discuss the availability and adequacy of utilities for the proposed site on Racedown Road. Please identify the provider for each utility and the steps to be taken to obtain these approvals.

APPLICANT RESPONSE: Both wet utilities (water, sewer) and dry utilities (electricity, telephone) are required for this project. Water and sewer will need to be extended to the property lines by the developer. Electric and telephone are currently at the property lines.

The provision of water and sewer will be from existing County facilities. The applicant and their agents have discussed the project with Worcester County DPW and Worcester County Environmental Programs (WCEP). The property is currently classified as W-6 and S-6 in the County's Master Water and Sewer Plan. It is contiguous with the Greater Ocean Pines Sanitary Service Area (GOPSSA). It has applied to Worcester County for a Master Water & Sewer Plan and a Service Area Amendment to be reclassified as category (W-1/S-1). The project received a unanimous favorable recommendation from the Planning Commission on both of these matters at their meeting on November 1, 2018. We are currently awaiting scheduling and advertisement for the required Public Hearing before the Worcester County Commissioners.

Water: Worcester County owns and operates the Ocean Pines Public Water System. It consists of over 1.4 million gallons of elevated storage and dozens of miles of water mains. It has been determined to have adequate spare capacity to serve this project. The developer will purchase water capacity required for this project. Its closest connection is near the Pennington Commons development, along Maryland Route 589 (Racetrack Road), approximately one-half of a mile north of this project. It is proposed to extend a large diameter water main from this location to the project property to provide both fire and domestic service. Construction of this water main will be by the developer at the same time as the required roadway improvements are installed. This line will be placed in service prior to the operation of this facility. The off-site water infrastructure will be owned and operated by Worcester County.

Sewer: Worcester County owns and operates the Ocean Pines

RESPONSES TO COMPLETENESS QUESTIONS

Public Sewer System. It consists of a network of gravity, pumped and vacuum sewer lines that connect to the Ocean Pines Wastewater Treatment Facility whose capacity is rated at least 2.5 million gallons per day (MGD). It has adequate spare capacity to serve this project. The developer will purchase sewer capacity required for this project. The project will require an on-site sewer pump station which will be built by the developer. It will pump sewer through an off-site low-pressure force main to the nearest County gravity sewer connection which is approximately three-quarters of a mile north on Maryland 589. Construction of this force main will again be by the developer at the same time as the required roadway improvements are installed. This force main and its pump station will be placed in service prior to the operation of this facility. The off-site force main infrastructure will be owned and operated by Worcester County.

Electric Power: Choptank Electric Cooperative is the electric provider for this area. Existing electric power lines are located in and along Maryland Route 589. There is sufficient power available in this location to serve this facility.

Telephone: Verizon is the principal provider for communications in this area. Existing telephone lines are located in and along Maryland Route 589.

Part II – Project Budget

11. Please provide documentation that includes the details on how the project cost of \$8.9 million will be shared between AGHC and Sina Companies. Is this arrangement identified in the leasing arrangement previously requested by staff? If not, provide a copy of the signed agreement between these two parties that delineates this arrangement between Atlantic General Hospital Corporation and Sina Companies.

APPLICANT RESPONSE: The revised total cost of the project is \$8,023,827. Sina Companies will be responsible for the estimated \$5,173,363 portion of the current capital costs of the Project associated with the construction of the ASF portion of the MOB. The balance of the total cost of the project, \$2,850,444, will be the responsibility of AGH Corporation. See Revised TABLES C., E., F., and G. found at Attachment 17.

12. Attachment 12 indicates that between 60% and 75% of the total cost of the project “will be funded by debt characterized as a construction, mini-permanent loan from a traditional bank or private lender.” Provide a letter from a financial institution that delineates the terms for the \$5,444,065 identified in the Project Budget as “MOB Developer Financing.” Please discuss how the applicant will arrange this debt financing; will the applicant reimburse the financial institution directly or reimburse Sina Companies, and is there a financing cost involved in setting up this debt financing between Atlantic General Hospital Corporation and Sina Companies with this financial lending institution. Are these financing costs included in the Project Budget?

RESPONSES TO COMPLETENESS QUESTIONS

APPLICANT RESPONSE: The Project costs of the ASC are estimated in the Revised Project Budget. Because the construction of the MOB/ASF has not yet commenced, and the final design of the building is not yet complete, the sources of debt and equity for the construction costs of the Project have been preliminarily identified and are not included in the proposed lease agreement between AGH Corporation and Sina Companies. As stated in the CON Application, AGH Corporation will fund its portion of the capital costs for equipment for the ASF out of available cash and Sina Companies will provide the funds for the construction costs. The financing of those funds for construction will be structured as follows:

65% - 75% will be provided by a lender. A number of lenders Sina Companies have utilized in the past include: Bank of America, Fifth Third, Wells Fargo, Sunovus and Comerica.

25% - 35% will be equity funded by executive of Sina Companies or a combination of Sina and an equity partner, such as a public healthcare REITs, private healthcare funds and other individual investors.

13. With regard to the cash contribution, Attachment 12 states this will be funded as equity “either fully funded by the principals/executives of Sina Companies, or by the principals/executives in combination with an institutional partner.” This statement differs with the applicant’s statement on p. 12 of the application that “AGH will fund those estimated costs from Corporation cash assets.” Please clarify how the \$3.4 million in cash will be funded. If Sina Corporation provides the cash equity, then Sina will have to provide documentation in the form of an audited financial statement or a letter signed by an independent Certified Public Accountant that attests to the financial condition of Sina Companies and the availability of such funds, and provides details on how the CPA reached this conclusion that adequate funds are available.

APPLICANT RESPONSE: AGH Corporation will fund the estimated \$2,850,444 capital costs of equipping the ASF out of available cash. Sufficient cash assets are available as documented in the Audited Financial Statements of Atlantic General Hospital Corporation found at Attachment 21 for the purchase and installation costs of this equipment. All other Project capital costs will be financed by Sina Companies as shown in the Revised Project Budget.

14. The project budget only includes \$7,065 for Architectural and Engineering Fees and - \$0- for Permits. In our experience these seem quite unrealistic. Please confirm and explain.

APPLICANT RESPONSE: TABLE E. Project Budget contains a typographical error. The \$7,000 estimate is for “Permits (Building Utilities, Etc.)” The \$300,000 estimate is

RESPONSES TO COMPLETENESS QUESTIONS

for “Architect/Engineering Fees.” See Revised TABLES C., E., F., and G. found at Attachment 17.

Part III – Applicant History, Statement of Responsibility, Authorization and Release of Information, and Signature

15. Please clarify whether Sina Companies is an owner and responsible for the proposed project and its implementation, and whether it should provide a response to this section of the CON application.

APPLICANT RESPONSE: As indicated in the CON Application, on page 4, Atlantic General Hospital Corporation will be the owner of the proposed Atlantic General Surgical Center. Sina Companies will be the landlord and owner of the building in which the ASF will be located.

Part IV – Consistency with General Review Criteria at COMAR 10.24.01.08G(3)

Charity Care Policy

16. We have attached a table to facilitate review of how your charity care policy conforms to the provisions of the Charity Care Standard. Please complete the table, excerpting the relevant language in the policy that addresses the standard, and provide a citation to where that language appears in the policy.

APPLICANT RESPONSE:

RESPONSES TO COMPLETENESS QUESTIONS

(3) Charity Care Policy	
Standard	Language that Satisfies the Standard, with Citation to Location within AGH Charity Care Policy
<p>(a) Each hospital and ambulatory surgical facility shall have a written policy for the provision of charity care that ensures access to services regardless of an individual's ability to pay and shall provide ambulatory surgical services on a charitable basis to qualified indigent persons consistent with this policy. The policy shall have the following provisions:</p> <p>(i) Determination of Eligibility for Charity Care. Within two business days following a patient's request for charity care services, application for medical assistance, or both, the facility shall make a determination of probable eligibility.</p>	<p><i>It is the policy of Atlantic General Hospital/Health System (AGH/HS) to provide medically necessary services without charge or at a reduced cost to all eligible patients who lack healthcare coverage or whose healthcare coverage does not pay the full cost of their bill for AGH/HS services. The intent of this policy is to ensure access to AGH/HS services regardless of an individual's ability to pay, and to provide those services on a charitable basis to qualified indigent persons consistent with this policy. (Page 1 of 6)</i></p> <p><i>Within two business days following a patient's request for charity care services, application for medical assistance, or both, AGH/HS shall make a determination of probable eligibility and communicate the determination to the patient and/or the patient's representative. (Page 4 of 6)</i></p>
<p>(ii) Notice of Charity Care Policy. Public notice and information regarding the facility's charity care policy shall be disseminated, on an annual basis, through methods designed to best reach the facility's service area population and in a format understandable by the service area population. Notices regarding the facility's charity care policy shall be posted in the registration area and business office of the facility. Prior to a patient's arrival for surgery, the facility shall address any financial concerns of the patient, and individual notice regarding the facility's charity care policy shall be provided.</p>	<p><i>The Maryland State Uniform FA application, (Attachment 1) the AGH/HS FA policy, Collection policy and the Plain Language Summary (PLS) are available in English and Spanish. No other language constitutes a group that is 5% or more of the hospital service area based on Worcester County population demographics as listed by the U.S. Census Bureau. The policies, application, and PLS can be obtained free of charge in English and in Spanish by one of the following ways:</i></p> <ol style="list-style-type: none"> <i>1. Available upon request by calling (410) 629-6025.</i> <i>2. Are located in the registration areas and AGHS Offices</i> <i>3. Downloaded from the hospital website; www.atlanticgeneral.org/FAP</i> <i>4. The PLS is inserted in the Admission packet</i>

RESPONSES TO COMPLETENESS QUESTIONS

	<p>5. FA language is included on all the patient's statement and includes the telephone number to call and request a copy and the website address where copies may be obtained.</p> <p>6. FA notification signs are posted in the main registration areas</p> <p>7. An annual notification is posted in the local newspaper</p> <p>8. Patients who have difficulty in completing the application can orally provide the information</p> <p>9. The PLS is on the third patient statement (Page 3 of 6)</p>														
<p>(iii) Criteria for Eligibility. A hospital shall comply with applicable State statutes and Health Services Cost Review Commission ("HSCRC") regulations regarding financial assistance policies and charity care eligibility. An ASF, at a minimum, shall include the following eligibility criteria in its charity care policies. Persons with family income below 100 percent of the current federal poverty guideline who have no health insurance coverage and are not eligible for any public program providing coverage for medical expenses shall be eligible for services free of charge. At a minimum, persons with family income above 100 percent of the federal poverty guideline but below 200 percent of the federal poverty guideline shall be eligible for services at a discounted charge, based on a sliding scale of discounts for family income bands. A health maintenance organization, acting as both the insurer and provider of health care services for members, shall have a financial assistance policy for its members that is consistent with the minimum eligibility criteria for charity care required of ASFs described in these regulations.</p>	<p>FA approval is based on the following income level:</p> <ul style="list-style-type: none"> • 0% to 200% of the Federal Poverty Guideline – 100% reduction for Medically Necessary care <table border="1" data-bbox="792 758 1414 869"> <tr> <td style="width: 20px;">•</td> <td>Between 201% and 225% of the Federal Poverty Guidelines – Reduced cost Medically Necessary care at 75%</td> </tr> </table> <table border="1" data-bbox="792 905 1414 1016"> <tr> <td style="width: 20px;">•</td> <td>Between 226% and 250% of the Federal Poverty Guidelines - Reduced cost Medically Necessary care at 50%</td> </tr> </table> <table border="1" data-bbox="792 1052 1414 1192"> <tr> <td style="width: 20px;">•</td> <td>Between 251% and 300% of the Federal Poverty Guidelines - Reduced cost care Medically Necessary care at 25%</td> </tr> </table> <p>Medical Hardship is based on the following income level:</p> <table border="1" data-bbox="792 1268 1414 1379"> <tr> <td style="width: 20px;">•</td> <td>0% to 200% of the Federal Poverty Guideline – 100% reduction for Medically Necessary care</td> </tr> </table> <table border="1" data-bbox="792 1415 1414 1526"> <tr> <td style="width: 20px;">•</td> <td>Between 201% and 300% of the Federal Poverty Guidelines – Reduced cost Medically Necessary care at 75%</td> </tr> </table> <table border="1" data-bbox="792 1562 1414 1673"> <tr> <td style="width: 20px;">•</td> <td>Between 301% and 400% of the Federal Poverty Guidelines - Reduced cost Medically Necessary care at 50%</td> </tr> </table> <table border="1" data-bbox="792 1709 1414 1850"> <tr> <td style="width: 20px;">•</td> <td>Between 401% and 500% of the Federal Poverty Guidelines - Reduced cost care Medically Necessary care at 25%</td> </tr> </table> <p>(Page 5 of 6)</p>	•	Between 201% and 225% of the Federal Poverty Guidelines – Reduced cost Medically Necessary care at 75%	•	Between 226% and 250% of the Federal Poverty Guidelines - Reduced cost Medically Necessary care at 50%	•	Between 251% and 300% of the Federal Poverty Guidelines - Reduced cost care Medically Necessary care at 25%	•	0% to 200% of the Federal Poverty Guideline – 100% reduction for Medically Necessary care	•	Between 201% and 300% of the Federal Poverty Guidelines – Reduced cost Medically Necessary care at 75%	•	Between 301% and 400% of the Federal Poverty Guidelines - Reduced cost Medically Necessary care at 50%	•	Between 401% and 500% of the Federal Poverty Guidelines - Reduced cost care Medically Necessary care at 25%
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<p>(b) A hospital with a level of charity care, defined as the percentage of total operating expenses that falls within the bottom quartile of all hospitals, as reported in the most recent HSCRC Community Benefit Report, shall demonstrate that its level of charity care is appropriate to the needs of its service area population.</p>	<p>N/A</p>
<p>(c) A proposal to establish or expand an ASF for which third party reimbursement is available, shall commit to provide charitable surgical services to indigent patients that are equivalent to at least the average amount of charity care provided by ASFs in the most recent year reported, measured as a percentage of total operating expenses. The applicant shall demonstrate that:</p> <p>(i) Its track record in the provision of charitable health care facility services supports the credibility of its commitment; and</p>	<p>N/A-new facility</p>
<p>(ii) It has a specific plan for achieving the level of charitable care provision to which it is committed.</p>	<p>N/A-new facility</p>
<p>(iii) If an existing ASF has not met the expected level of charity care for the two most recent years reported to MHCC, the applicant shall demonstrate that its historic level of charity care was appropriate to the needs of the service area population.</p>	<p>N/A-new facility</p>
<p>(d) A health maintenance organization, acting as both the insurer and provider of health care services for members, if applying for a Certificate of Need for a surgical facility project, shall make a commitment to provide charitable services to indigent patients. Charitable services may be surgical or non-surgical and may include charitable programs that subsidize health plan coverage. At a minimum, the amount of charitable services provided as a percentage of total operating expenses for the health maintenance organization will be equivalent to the average amount of charity</p>	<p>N/A</p>

RESPONSES TO COMPLETENESS QUESTIONS

<p>care provided statewide by ASFs, measured as a percentage of total ASF expenses, in the most recent year reported. The applicant shall demonstrate that:</p> <p>(i) Its track record in the provision of charitable health care facility services supports the credibility of its commitment; and</p>	
<p>(ii) It has a specific plan for achieving the level of charitable care provision to which it is committed.</p>	N/A
<p>(iii) If the health maintenance organization's track record is not consistent with the expected level for the population in the proposed service area, the applicant shall demonstrate that its historic level of charity care was appropriate to the needs of the population in the proposed service area.</p>	N/A

Quality of Care

17. Please discuss the hospital's progress in obtaining re-accreditation with the Joint Commission. Does the applicant envision any delays or problems in obtaining re-accreditation?

APPLICANT RESPONSE: The Hospital has made significant progress in obtaining re-accreditation with the Joint Commission and does not envision any delays or problems obtaining accreditation.

18. Your response on p. 21 contains typographical errors. The applicant appears to be meaning to say that it "agrees to voluntarily suspend operation of the facility" if it does not obtain the necessary accreditation. Please confirm staff's interpretation.

APPLICANT RESPONSE: Staff's interpretation is correct.

Transfer Agreements

19. Please provide a signed copy of a transfer agreement between the proposed ASF and Atlantic General Hospital.

APPLICANT RESPONSE: The proposed ASF will operate as a new business entity of Atlantic General Hospital. The organizational chart shown at Attachment 15 indicates that the ASF will be administratively added to the existing surgery service. The Hospital has the capabilities of managing cases that exceed the capabilities of the ASF. With respect to its clinical program and patient care policies of the ASF, including those

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pertinent to emergency patient transfers, these will be identical to the existing policies of the Atlantic Endoscopy Center located on the AGH campus where the Hospital's three procedure rooms are currently located. These policies will be applicable to the proposed ASF and are found at Attachment 22.

Service Area

20. Please identify which zip codes for the proposed ASF are in the primary and which are in the secondary service area. Is the ASF service area different from the hospital, and if so, please identify this difference?

APPLICANT RESPONSE: The primary and secondary service zip code areas of the proposed ASF are no different from the Hospital, and are shown below:

PSA	SSA
19975	19939
21811	19945
21813	19966
21842	21841
21862	21850
21872	21851
	21863
	21874

Need – Minimum Utilization for Establishment of a New or Replacement Facility

21. Regarding Attachment 7, please respond to the following:

- a. Are the minutes reported only for length of time for each physician's surgical cases, or does it include turnaround time as well?

APPLICANT RESPONSE: The minutes reported do not include turnaround times.

- b. Provide documentation to support the statement that outpatient surgery utilization at AGH increased 11.65% between 2017 and 2018.

APPLICANT RESPONSE: We have updated the volumes of surgical cases and minutes reported by the twenty-one surveyed surgeons. The results are shown below, and indicate that their total cases increased by 10.1% between 2017 and 2018, and are projected to increase another 10.3% between 2017 and 2023:

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Physician Name	Outpatient Surgical Volumes					
	Year 2016		Year 2017		Year 2023	
	Cases	Minutes	Cases	Minutes	Cases	Minutes
Beck	414	45,215	357	36,648	417	44,321
Bell	1,118	27,323	1,166	29,337	1,262	31,743
Cherry	695	21,743	804	23,123	870	25,028
Constantini	25	820	25	781	27	845
Cuesta	50	5,508	67	6,725	72	7,277
Davis	391	10,516	362	9,530	385	10,023
Gannon	58	4,444	40	3,336	51	4,252
Huelson	23	1,017	12	552	19	855
Klepper	782	20,829	787	21,794	813	22,666
Lee	38	5,526	73	11,403	79	12,339
Musselman	122	18,840	133	15,425	147	16,690
Monis	21	5,016	12	2,305	20	4,020
Neto	50	4,288	42	2,787	50	3,016
Pellegrino*					36	3,000
Perrotta*					60	6,200
Rano	31	3,039	25	3,401	31	3,087
Spinoli	112	10,483	103	9,757	116	10,950
Zatry	549	15,220	875	24,433	947	26,437
Zarif	788	41,594	773	42,547	845	45,521
Zong	253	23,049	423	37,952	457	40,275
TOTAL	5,520	264,470	6,079	281,836	6,704	318,545

*Did not practice at AGH in FY 2017 or FY 2018

- c. The applicant states on p. 23 of the CON that “fourteen surgeons are likely to treat patients” and “will shift some of these cases to the ASF.” Clearly identify which physician will move outpatient surgical cases to the proposed ASF, and whether the surgeons will move all of the projected surgical cases for Years 1 thru 3 listed in Attachment 7 to the proposed ASF, or are these utilization projections reporting the total number of surgical cases each of these physicians will perform for these three years, combining the utilization performed at both AGH and the proposed ASF. If the latter is true, then separate the projected utilization performed at the proposed ASF from the projections for the hospital.

APPLICANT RESPONSE: AGH management surveyed 21 physicians likely to perform surgery at the ASF, and made projections concerning the number of cases that these physicians would “shift.” The are projections are shown below:

RESPONSES TO COMPLETENESS QUESTIONS

Physician Survey Responses and Projections						
Name	Status	Specialty	Annual Case Projections			Source of Case Migrations
			Year 1	Year 2	Year 3	
Beck	Independent	Orthopedics	216	221	225	AGH
Bell	Employed	GI	1,213	1,237	1,262	AGH
Cherry	Employed	Urology	836	853	870	AGH
Constantini	Employed	Pulmonology	26	27	27	AGH
Cuesta	Independent	Podiatry	70	71	72	AGH
Davis	Independent	Plastic Surg	385	385	385	AGH
Gannon	Independent	Podiatry	49	50	51	AGH
Hooker	Employed	Orthopedics	35	35	36	AGH
Huelson	Independent	Podiatry	18	19	19	AGH
Klepper	Employed	GI	813	829	846	AGH
Lee	Employed	Gynecology	50	51	52	AGH
Musselman	Employed	Gynecology	127	129	132	AGH
Monis	Independent	Podiatry	19	20	20	AGH
Neto	Employed	Gynecology	48	49	50	AGH
Pellegrino	Independent	Plastic Surg	18	24	36	*
Perrotta	Independent	Plastic Surg	30	45	60	*
Rano	Independent	Podiatry	29	30	31	AGH
Spinuzza	Independent	Orthopedics	58	59	61	AGH
Zaky	Employed	Pain Medicine	910	928	947	AGH
Zarif	Employed	General Surgery	497	507	517	AGH
Zong	Employed	General Surgery	245	250	253	AGH
TOTAL			5,692	5,819	5,952	

*Center for Aesthetic Surgery; Delmarva Surgery Center

The projections for outpatient surgery to be performed at AGH and the ASF are shown on TABLES F. and I. Shown below are the projected reductions in outpatient surgery cases and minutes at AGH, and the projected increase in cases and minutes at the ASF. By FY 2023, both AGH and the ASF are conservatively projected to be providing 357,780 minutes of outpatient surgery, slightly more than the 318,545 minutes projected by the surveyed physicians. The difference has been assumed to be the result of increasing the number of additional surgeons practicing at AGH and at the ASF in the future, whose numbers and volumes of services cannot be projected with precision at this time. There will be a lag time between 2018 and 2020 when the ASF is completed, and a “start up” period at the ASF for both current surgeons and new surgeons to be recruited to practice in the AGH service area.

RESPONSES TO COMPLETENESS QUESTIONS

The projected growth in surgical volumes can be assumed to reflect both the “shift” in cases and minutes that would have taken place at AGH as well as the projected increase in cases and minutes at the ASF that will not be attributed to the “shift.” These projected increases will include cases and minutes attributed to the growth in surgical volumes projected by the surveyed physicians, and our assumption that additional surgeons will be recruited to practice in the service area by FY 2023 and provide surgical services at both AGH and the ASF. Potential additional specialties to be recruited include Orthopedics and Spine Surgery, Plastic Surgery, ENT, Urology, Gastroenterology and Pulmonology.

TABLE F. STATISTICAL PROJECTIONS - ENTIRE FACILITY (Atlantic General Hospital)							
Indicate CY or FY	Two Most Recent Years (Actual)		Current Year Projected	Projected Years (ending at least two years after project completion and full occupancy) Include additional years, if needed in order to be consistent with Tables G and H.			
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OUTPATIENT SURGERY							
a. OR Cases	2,550	3,053	4,253	4,338	2,823	2,879	2,937
b. OR Procedures	2,678	3,206	4,466	4,555	2,964	3,023	3,084
c. OR Minutes	147,598	158,961	154,227	157,312	102,371	104,418	106,507
d. PR Cases	4,144	3,548	1,910	1,948	227	232	236
e. PR Procedures	4,289	3,672	1,977	2,016	230	240	244
f. PR Minutes	89,408	87,933	49,062	50,043	5,831	5,946	6,066

TABLE I. STATISTICAL PROJECTIONS - NEW FACILITY OR SERVICE (ASF)							
Indicate CY or FY	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
OUTPATIENT SURGERY							
a. OR Cases					2,191	2,443	2,679
b. OR Procedures					2,301	2,565	2,813
c. OR Minutes					146,884	163,800	179,645
d. PR Cases					1,980	1,853	2,028
e. PR Procedures					2,049	1,918	2,099
f. PR Minutes					52,159	48,822	53,430

See also the Applicant Response to Question 23. b and c.

Construction Costs

22. Please provide the calculations and background details to support the applicant’s statement that MVS value is \$278 per sq. ft. and the estimated project cost of new construction. Include any assumptions used to arrive at these two figures.

APPLICANT RESPONSE: The projected construction costs of the Project have been revised and are shown on TABLE E Project Budget Revised at Attachment 17. Estimates

RESPONSES TO COMPLETENESS QUESTIONS

for fixed equipment as part of the construction costs were removed from the previously submitted Project Budget. The calculations comparing the revised construction cost estimates to the applicable MVS standard are shown below, and indicate that the estimated cost of new construction at this time and in the proposed location are reasonable:

Construction Cost Estimates: Atlantic General Surgical Center	
Current Construction Costs	\$4,234,660
Excluded Costs	\$658,970
Adjusted Construction Costs	\$3,575,690
Square Footage*	13,101
Cost/Sq. Ft.	\$272.93
MVS Standard Ambulatory Surgery Center (Cost/Sq. Ft.)	\$278
Current Cost Multiplier (8- 18)	1.04
Local Multiplier	0.99
Cost/Sq. Ft.	\$286.23
* does not include allocation of 4,042 sq. ft. of MOB common area/shared space to the ASC for patient waiting and lobby areas	

Financial Feasibility

23. Please respond to the following:

- a. Table F and I: Please clarify whether the OR Minutes reported include average turnaround times. If not, then indicate whether the turnaround assumption of 25 minutes in Subsection .07A(2)(a) is reliable or Subsection .07A(2)(c) should be used and state the average turnaround time and justify the basis for this alternative assumption. Note: The physician minutes in Attachment 7 reporting utilization at the proposed ASF for Year 1 through Year 3 should total the projected OR minutes in Attachment 1, Table I for FY 2021 through FY 2023

APPLICANT RESPONSE: The OR minutes reported on TABLES F. and I. do not include average turnaround times. The average turnaround time for an outpatient OR cases was determined to be 24 minutes/case, one minute less than the turnaround time

RESPONSES TO COMPLETENESS QUESTIONS

assumption in the State Health Plan. This estimate was arrived at by measuring the average elapsed time between cases which is commonly defined as the time from the prior patient exiting the OR to the succeeding patient entering the OR.

We do not agree that the physician minutes in Attachment 7 reporting utilization at the proposed ASF for Year 1 through Year 3 should total the projected OR minutes in Attachment 1, TABLE I. for FY 2021 through FY 2023.

The estimates and projections of OR minutes of the surveyed surgeons are based on historical utilization data from a limited group of current and recently recruited AGH physicians, many of whom do not have access to an ASF. It is our hope and intention that most of these physicians will continue to practice at AGH and at the proposed ASF, and that their projections of OR minutes in the future prove to be accurate.

We have included their projections for the ASF in the projections shown on TABLE I. Nevertheless, it is also our hope and intention to grow the number of physicians who will be granted privileges to perform surgery at AGH and at the proposed ASF in the future. Five specialties have specifically been targeted for future recruitment: Orthopedics, Gastroenterology, Plastic Surgery, ENT, and Urology. There will likely be other specialists who may also be recruited into the service area before FY 2023, but we have not incorporated their potential future volumes initially into the ASF's projections. As a result of these recruitment plans, we have assumed an increase in future OR minutes of these new physicians as well as the OR minutes of current physicians. Both have been considered in projecting the OR minutes projected in for the ASF TABLE I.

- b. Table F: Please report the Inpatient Surgery Utilization at AGH for four ORs from FY 2017 through FY 2020, and the projected utilization for the three ORs from FY 2021 through FY 2023.

APPLICANT RESPONSE:

<i>Indicate CY or FY</i>	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
INPATIENT SURGERY							
a. OR Cases	1,131	988	1,075	1,414	1,442	1,471	1,501
b. OR Procedures	1,188	1,037	1,129	1,485	1,514	1,545	1,576
c. OR Minutes	106,578	96,120	107,530	141,400	144,200	147,100	150,100

- c. Table F: Based on the Outpatient Surgery utilization projections for FY 2021 through FY 2023, the number of minutes would not be sufficient to support the need for 3 ORs at AGH after project completion. Please provide projected surgery utilization to support the need to maintain 3 ORs at AGH after project completion.

RESPONSES TO COMPLETENESS QUESTIONS

APPLICANT RESPONSE: Shown below are the projections of Operating Room utilization for AGH and the ASF through FY 2023, including both inpatient and outpatient cases and minutes. These projections for FY 2021 through FY 2023 show that the total number of minutes is more than sufficient to support the need for three ORs at AGH and two ORs at the ASF.

TOTAL SURGERY (AGH + ASF ORs)							
a. OR Cases	4,066	4,403	5,143	5,563	6,456	6,793	7,117
b. OR Procedures	4,270	4,623	5,400	5,841	6,779	7,133	7,473
c. OR Minutes	264,692	264,611	294,658	332,271	394,900	413,223	430,902
Surgical Capacity (Available Operating Rooms)							
AGH	4	4	4	4	3	3	3
ASF	0	0	0	0	2	2	2
TOTAL	4	4	4	4	5	5	5
Surgical Capacity @ 122,400 minutes/year/OR							
	489,600	489,600	489,600	489,600	612,000	612,000	612,000
OR Minutes + Turnaround Time @ 24 minutes/case	362,276	370,283	418,090	465,783	549,844	576,255	601,710
% Utilization	74%	76%	85%	95%	90%	94%	98%

- d. Table G: Please provide the projected Revenues and Expenses for AGH for FY 2020 through FY 2023.

APPLICANT RESPONSE: A revised TABLE G. can be found at Attachment 23.

- e. Table L Workforce for ASF: Please reconcile the difference in the total cost of \$2,144,588 in Table L with the \$2,002,715 for Salaries and Wages reported in Table J for FY 2023.

APPLICANT RESPONSE: The total cost of the workforce for the ASF is shown on TABLE M. WORKFORCE INFORMATION – ASF. The estimated amount is \$2,144,568. The Salaries and Wages of the workforce for the ASF is shown on TABLE K. REVENUES & EXPENSES INFLATED – NEW FACILITY OR SERVICE. The estimated amount is \$2,141,722. The difference is attributed to a small rounding error.

- f. For Tables F through L, please list the assumptions used to arrive at the projected utilization and Revenues and Expenses for these tables.

RESPONSES TO COMPLETENESS QUESTIONS

APPLICANT RESPONSE:

Table F – In addition to the assumptions listed at the bottom of Table F, it only includes cases and statistics done at AGH, not at ASF or our Endoscopy Center.

Table G – This is for AGH as a whole for all regulated services. The year FY19 is based on our hospital budget. The years FY20-FY23 assume we will pull out the ASF but that the volumes will be backfilled by other services. We have assumed the addition of 1 physician to be recruited in each of the areas of Endoscopy, General Surgery, Spine Surgery, Orthopedics, and Plastic Surgery in FY21.

Other Assumptions for Table G are as follows:

- Base Revenue was increased by 0.49% per year as a population increase per year
- A split of 34% inpatient/66% outpatient
- Benefits are assumed at 25% of Salaries.
- Professional & Contractual Services at 10.5% of Net Patient Service Revenue (NPSR)
- Supplies at 14.75% of NPSR
- We assumed a base increase of 5% per year in Maintenance & Repairs due to commitments of increases in large maintenance contracts
- Interest and Depreciation expenses were kept the same based on our financing obligations and level of assumed capital purchases

Table H is an inflated version of Table H with inflation factors of a 3.5% growth in surgical cases and reimbursements to be adjusted by payer, but Medicare to pay at 100% of billed charges. We kept the years FY17 and FY19 the same as with Table G.

Other Inflationary Assumptions for Table H are as follows:

- Base Revenue was changed to increase by the 0.49% population increase + additional increases of the following for assumed growth:
 - 2020 => 1.8%
 - 2021 => 2.0%
 - 2022 => 2.2%
 - 2023 => 2.25%
- Salaries were inflated as follows:
 - 1% in the years 2020 and 2023
 - 2% in the years 2021 and 2022
- Drugs inflated at 7.75% per year
- Utilities at 1% per year
- Maintenance & Repairs changed to 10% per year

RESPONSES TO COMPLETENESS QUESTIONS

- Insurance at 2% per year
- Equipment & Building-related costs at 3% per year

Table I assumes shifted OR volumes from AGH to the ASF in FY21 as well as growth in the overall demand for outpatient surgery among residents in the service area. Future volumes were projected using the following assumptions

- Evaluating all current physician volumes by specialty and what volumes would be done at the ASC;
- New recruitment of physicians by specialty, including both employed and non-employed physicians. Projected volumes were based on a combination of existing physician capacity and applicable MGMA benchmarks;
- Physicians with existing volumes assumed a flat 3.5% inflation and newly recruited physician volumes assumed the same after fully ramped up to capacity based on specialty;
- Adjustment for factors such as patient co-morbidities, and acuity; and
- The results of the physician survey described above.

Table J contains the estimated income statement for the years FY21-FY23 for the ASF. The OR utilization, including turnaround time, is assumed to gradually increase from 1.5 in FY21 to 1.9 in FY25. Bad debt is assumed at 7.4%. Contractuals in the new unregulated environment are assumed at approx. 54%. Charity care at 1.5% of gross revenue. Services are projected to commence after August, 2020 in FY21. We are assuming the payer mix will stay the same as it has not changed over the last few years.

Table K is the inflated version of Table J. Revenues are inflated by 1% per major payer, 2% for commercial, and 0% for self-pay. Expenses are increased 2.5% for salaries, 2% for medical supplies, professional fees, and purchased services.

Table L is the Hospital's workforce. The first 3 columns represent the FTEs in AGH's current OR staffing. The next 3 columns represent our estimate of the staffing that would transfer out of AGH's OR over to the ASF. Table M is the workforce (FTE staffing) projection for the ASF only. It brings over the transfer staff in the first 3 columns and adds some incremental new staffing in the next 3 columns.

Need

24. Please provide the calculations based on historical and projected OR utilization that supports the need to establish a new ASF with two ORs and maintain 3 ORs at AGH in Worcester County. Provide the documentation that supports the applicant's statement on p. 32 that "the projection of 2,679 dedicated outpatient general purpose operating room (DOGPOR) cases, 179,645 DOGPOR minutes, and turnaround time of 24 minutes/case."

RESPONSES TO COMPLETENESS QUESTIONS

APPLICANT RESPONSE: See Response to Question 23 C. above.

25. Provide evidence regarding the applicant’s statement on p. 32 that “the overall projected growth in outpatient surgical utilization by the service area population” supports the need for the proposed ASF.

APPLICANT RESPONSE: See Response to Question 23 C. above.

Availability of More Cost-Effective Alternatives

26. Please specifically provide more details on the pros and cons for each of the four alternative financing options discussed on pp 32-33 of the CON, and why the applicant selected the “turnkey operating lease” with “a real estate development company who would be responsible for building and furnishing the ASF” as the best of the four alternatives identified by the applicant. As instructed in the standard, the analysis should include the level of cost required to implement each of the four alternatives identified by the applicant.

APPLICANT RESPONSE: Shown below are the level of estimated costs required to implement each of the four alternative financing options for implementing the Project, and the reasons why the “turnkey operating lease” was selected:

Alternative Financing Options Considered for Implementation of the ASF				
Alternative	Description	Estimated Cost (ASF Only)	Accepted/ Rejected	Reasons
Direct Investment and Ownership	AGH Corporation would own both the 98,000 GSF MOB and the ASF	\$8M	Rejected	Current debt load of AGH Corporation
Shared Partnership with Independent Providers	A new LLC would be formed to establish a joint venture	\$8M	Rejected	Insufficient number of community providers available to invest in ASF
Lease: Shell Space Only	Developer would build and rent "shell space" for ASF; AGH would pay for "fitting out and equipment."	Rent: \$402,000/year (15 Years); \$394,000/year (20 Years) Finishing Cost: \$2,035,000 Medical Equipment; \$3,250,000 Building	Rejected	Insufficient Savings Compared to Accepted Alternative
"Turnkey" Financing	Developer would build MOB with space for ASF; AGH would purchase and install equipment	Rent: \$690,863/year (15 years); \$678,000/year (20 years) Movable Equipment Cost: \$2,035,000	Accepted	Best combination of current and future costs to AGH Corporation

Viability of the Proposal

27. Please provide the audited financial statement for Atlantic General Hospital Corporation for the year ended June 30, 2018 when this document becomes available.

APPLICANT RESPONSE: These are found at Attachment 21.

RESPONSES TO COMPLETENESS QUESTIONS

Impact on Existing Providers and the Health Care Delivery System.

28. Is your statement that third-party payers have indicated their preference that “subscribers obtain services at freestanding ASFs rather than at Maryland hospitals” a generic one about the environment, or do you have specific examples?

APPLICANT RESPONSE: The most specific example of the preference of third-party payers is Priority Partners, a Medicaid MCO, but other payers are also influencing the utilization of AGH’s hospital services. See Attachment 23 for a copy of the policies of United Healthcare.

AGH management reviewed the its own utilization of outpatient services relate to certain CPR codes over the last three years. These are codes which were identified by Priority Partners as gastroenterology procedures to be performed in a non-hospital setting:

43236, 43246, 44380, 45337, 45382, 43239, 43247, 45330, 45338, 45384,
43241, 43248, 45332, 45378, 45399, 43243, 43250, 45333, 45380, 45388
43200, 43244, 43251, 45335, 45381,

Shown below are the resulting 24% reduction in utilization of these cases coded above at AGH by insurance grouping, largely attributed to changes in reimbursement policies of third party payers:

Cases by Primary Insurance Grouping	1/1/16 thru 10/31/16	1/1/17 thru 10/31/17	1/1/18 thru 10/31/18	% change from 2016-2018
Blue Cross of Maryland	279	325	169	-39%
Blue Cross of Nat'l Capit	294	303	243	-17%
Blue Cross Out of State	253	271	141	-44%
Commercial Insurance PPO	395	408	244	-38%
Managed Care Payor	22	29	17	-23%
Medicaid Managed Care	323	323	224	-31%
Medicaid Only Fee for Svc	10	5	9	-10%
Medicare Managed Care	52	91	66	27%
Medicare Only Fee for Svc	926	1024	813	-12%
Other Govt Programs	43	57	50	16%
Worker's Compensation			1	
Self-Pay	6	7	9	50%
Donor	1			-100%
Grand Total	2604	2843	1986	-24%

It is our opinion that this policy will likely be adopted by all of the Medicaid MCOs which enrolled Worcester County residents over time as well as other payers. This

RESPONSES TO COMPLETENESS QUESTIONS

preference has resulted in a significant diversion of Worcester County residents away from both local gastroenterologists who practice in the County and the AGH itself. The ASF will permit greater accessibility of service area residents consistent with these changes in third party policies.

29. Please provide a response on how the proposed project will improve travel times for residents of Worcester County to AGH and the ASF.

APPLICANT RESPONSE: The proximity of the proposed ASF to AGH would suggest that travel times for most residents of Worcester County will not be significantly improved, if AGH is the most accessible provider. The exception, of course, is for residents whose health coverage is provided by payers who encourage outmigration away from AGH, its medical staff, and Worcester County to out-of-area non-hospital facilities and surgeons for outpatient surgical services that charge non-HSCRC approved rates. The operation of the proposed ASF in Worcester County is designed to address this access issue. In addition, projected population growth trends would indicate that the areas of rapid population growth, particularly among elderly residents, are concentrated in the Ocean Pines community of Worcester County where the MOB and ASF will be conveniently located.

Tables

30. Regarding **Table C**, please provide the perimeter and the wall height for the proposed ASF in linear feet.

APPLICANT RESPONSE: The perimeter and wall height for the proposed ASF in linear feet is 484' 11" and 14'0" respectively.

31. Does the Total Estimated On-Site and Off-Site Costs of \$658,970 entered into Table D represent the cost of constructing the proposed ASF, or for the construction of the MOB. If the former, please revise Table E, the Project Budget, to include it among the costs associated with construction of the ASF.

APPLICANT RESPONSE: The Total Estimated On-Site and Off-Site Costs entered into Table D., represent an estimated total MOB on-site and off-site development costs allocated to the development costs of building the ASF. Accordingly, TABLE E., the Project Budget has been revised to include these costs.

AFFIRMATION

I hereby declare and affirm under the penalties of perjury that the facts stated in these responses to Completeness Questions and their Attachments are true and correct to the best of my knowledge, information, and belief.



November 16, 2018

Name and Title

Date

AFFIRMATION

I hereby declare and affirm under the penalties of perjury that the facts stated in these responses to Completeness Questions and their Attachments are true and correct to the best of my knowledge, information, and belief.

RT Anglin
Name and Title

11-16-18
Date

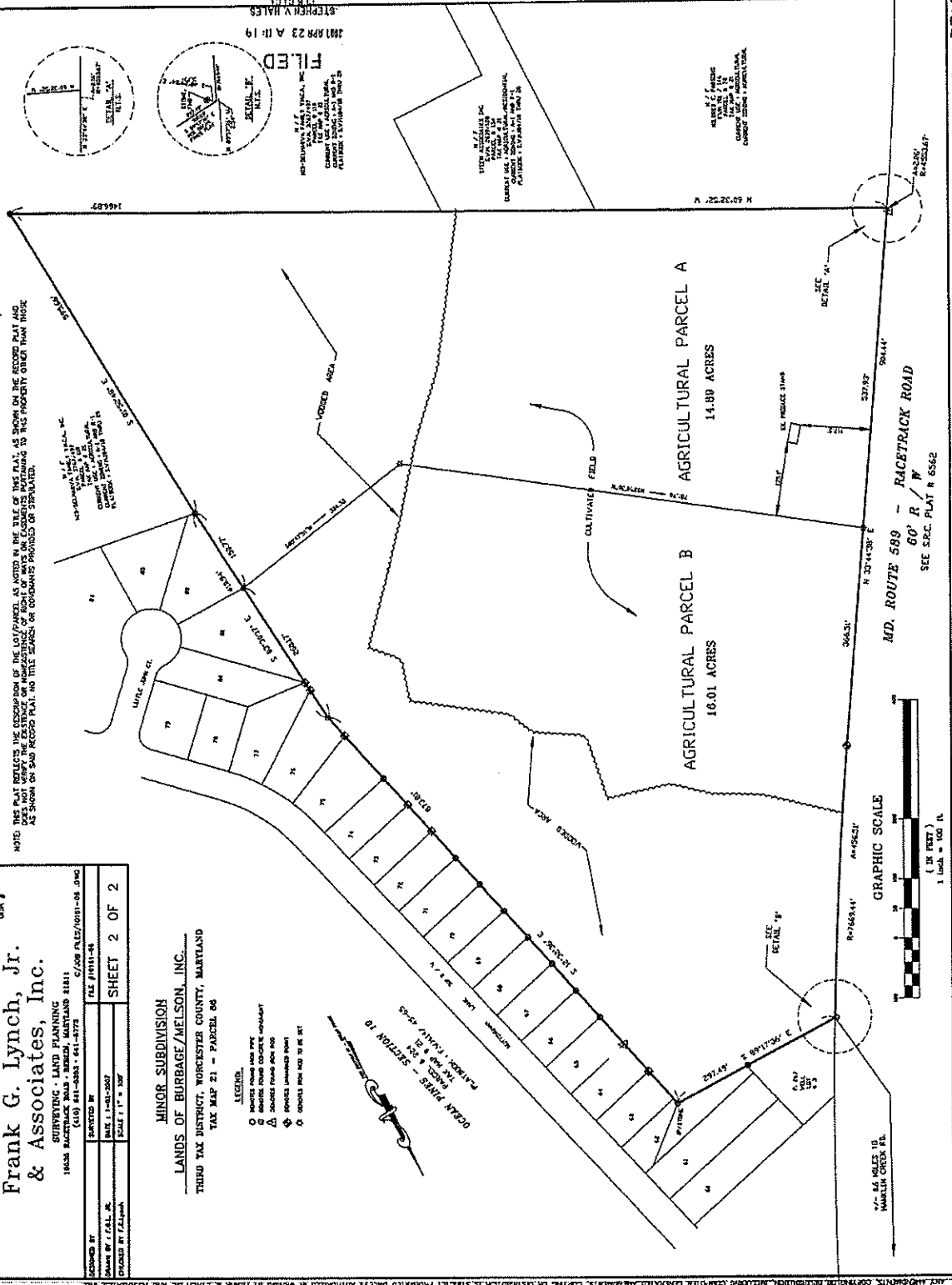
ATTACHMENT 13

S.V.H. 217/66

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MINOR SUBDIVISION
LANDS OF BURBAGE/WELSON, INC.
 THIRD TAX DISTRICT, WORCESTER COUNTY, MARYLAND
 TAX MAP 21 - PARCEL 06

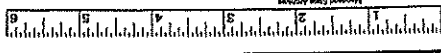
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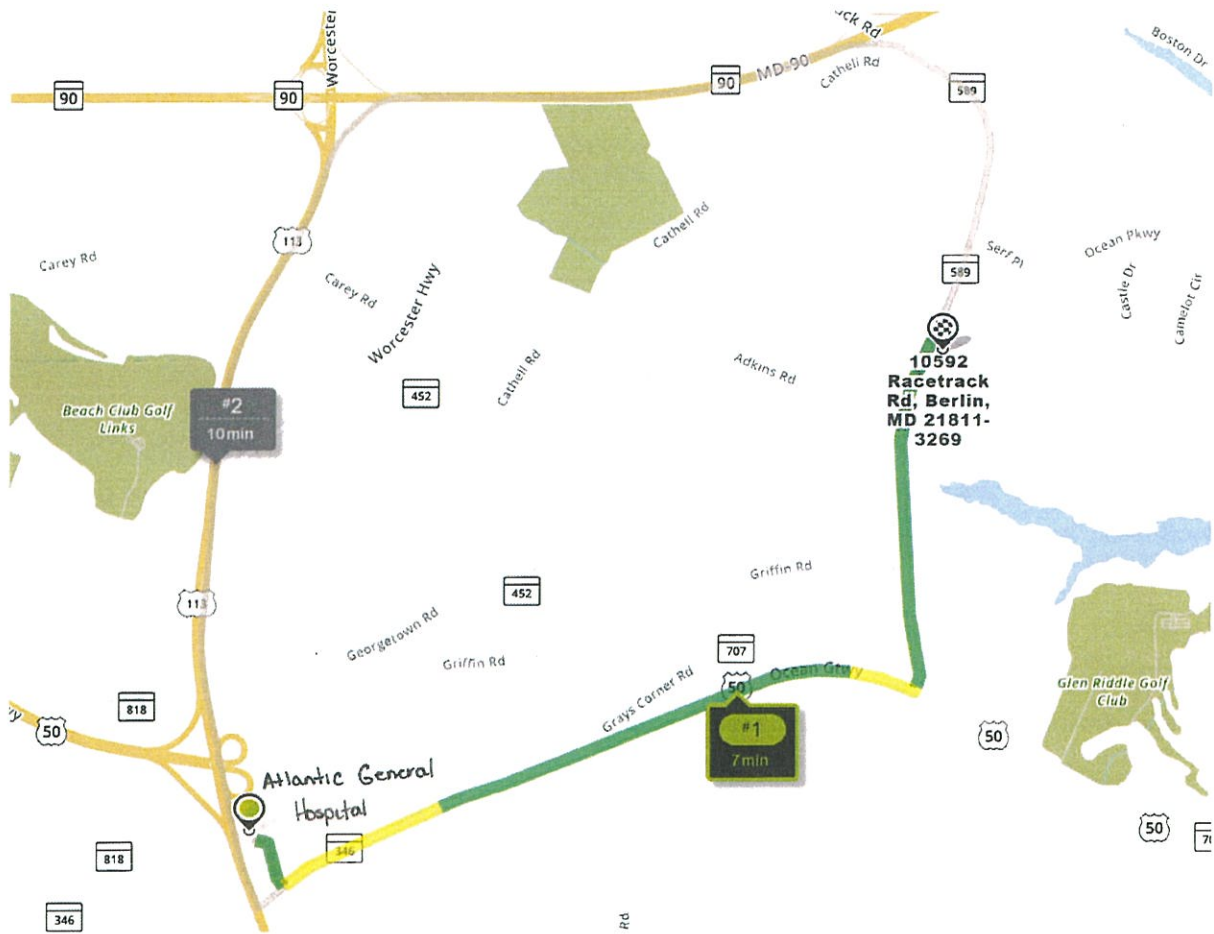


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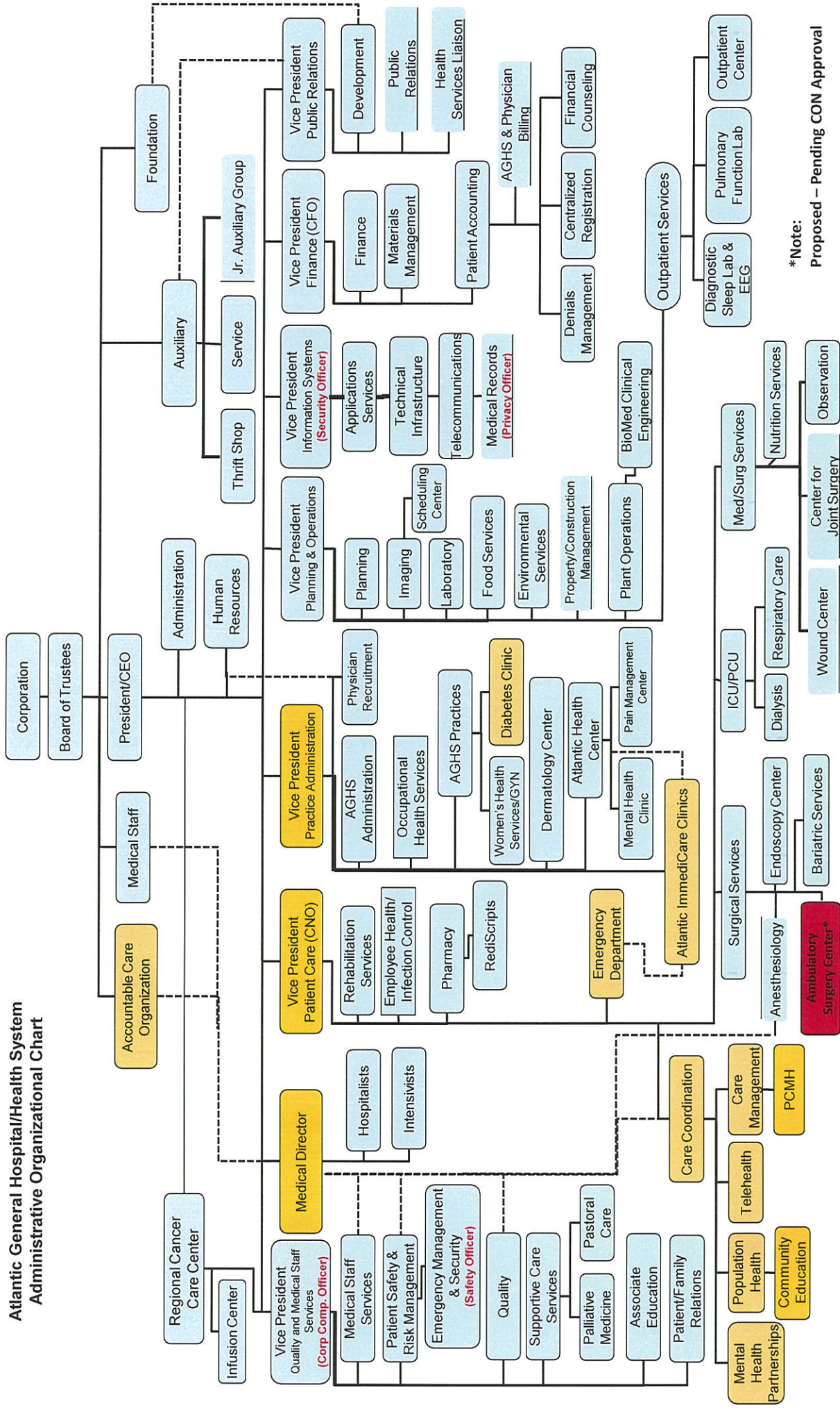
ATTACHMENT 14

Driving Distance to Parcel 66A Tax Map 21



ATTACHMENT 15

Atlantic General Hospital/Health System Administrative Organizational Chart



*Note:
Proposed - Pending CON Approval

ATTACHMENT 16

LEASE AGREEMENT

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LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of this ____ day of _____ 20__ by and between Landlord and Tenant.

**SECTION 1
BASIC TERMS**

Landlord: Ocean Pines Medical Owners I, LLC, a Nevada limited liability company ("Landlord").

Tenant: [Atlantic General Health System] _____, a _____ ("Tenant").

Project: The project commonly known as "_____" which is more particularly described on Exhibit A attached hereto and incorporated herein by this reference (the "Project").

Building: The medical outpatient facility in the Project containing approximately one hundred thousand (100,000) square feet of floor area (the "Building").

Leased Premises: That certain demised premises stipulated by the parties to be thirteen thousand ninety (13,090) square feet of floor area in the Building as indicated by cross-hatching on the floor plan attached hereto as Exhibit B and incorporated herein by this reference (the "Leased Premises").

Term: One Hundred Eighty (180) months.

Commencement Date: _____ (_____) days after Landlord notifies Tenant in writing that Landlord's Work is substantially complete, or as soon as Tenant commences to do business in, upon or from the Leased Premises, whichever first occurs (the "Commencement Date").

Minimum Rent: \$_____ per month.

Increases to Minimum Rent: Three percent (3%).

Improvement Allowance: \$_____.

Permitted Use: Ambulatory surgical center.

Tenant's Trade Name: _____.

Parking Areas: Tenant and Tenant's employees shall be required to park in the unreserved parking spaces in the parking areas located on the portion of the Project designated by Landlord therefor (the "Parking Areas"). The Parking Areas shall have the number of parking spaces required by applicable laws, regulations, codes, and ordinances governing the Leased Premises and the Project.

Tenant's Signage: Tenant may install or otherwise place on the exterior of the Leased Premises or in the Project its signage in accordance with all applicable laws, regulations, codes, and ordinances and subject to the review and prior written approval of Landlord ("Tenant's Signage").

Addresses for Notices: To Landlord: Ocean Pines Medical Owners I, LLC
5220 Hood Road, Suite 110
Palm Beach Gardens, FL 33418
Attn: Robert Sina
Telephone: (561) 627-8725
Email: robert@sinacompanies.com

and to: Law Office of Mitchell Stipp
10120 W. Flamingo Rd.
Suite 4-124
Las Vegas, Nevada 89147
Attn: Mitchell Stipp
Facsimile: (866) 220-5332
Telephone: (702) 602-1242
Email: mstipp@stipplaw.com

To Tenant: _____

Attn: _____
Phone: (____) _____
Facsimile: (____) _____
Email: _____

Or at the Leased Premises once open for business.

SECTION 2 DEMISED PREMISES

2.01. Leased Premises. Upon the conditions, limitations, covenants and agreements set forth below, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the Leased Premises.

2.02. Landlord's Reservations. This Lease does not confer rights on Tenant with respect to the Project or any improvements thereon except to the extent specifically provided herein. Landlord reserves to itself the area above and below the Leased Premises together with the right to install, maintain, use, repair and replace pipes, ducts, conduits, equipment, systems, wires and structural elements now or in the future leading through the Leased Premises and which serve other parts of the Project; provided, however, that Landlord's exercise of its rights set forth in this Section 2.02 shall not unreasonably interfere with Tenant's use and occupancy of the Leased Premises.

SECTION 3 TERM

3.01. Commencement Date. The term of this Lease shall be for the term set forth in Section 1 hereof, unless terminated earlier as elsewhere herein provided; provided, however, that if the Commencement Date is not the first day of a calendar month, the term hereof shall additionally include the period between the Commencement Date and the first day of the next succeeding calendar month. At such time as the Commencement Date shall have been established, Landlord and Tenant shall execute a memorandum confirming said date and the same shall be marked Exhibit C and shall be attached hereto and deemed incorporated herein by reference. In the event that Tenant fails or refuses to open the Leased Premises for, and to commence the conduct of, its business within _____ days after the Commencement Date, then, at the option of Landlord, Landlord may treat such failure or refusal as an event of default. Should Landlord not terminate this Lease, Landlord may, without waiving its right to thereafter terminate this Lease for such failure to open, collect all rents due hereunder.

3.02. Right to Hold Over. Should Tenant hold possession of the Leased Premises with the consent of Landlord after the expiration of the stated term of this Lease, such holding over shall create a tenancy from month to month only, upon the same terms and conditions as are hereinafter set forth, except that minimum rent shall be one hundred fifty percent (150%) of the adjusted minimum rent as determined in Section 4 hereof.

SECTION 4
RENT

4.01. Minimum Rent for Term: Initial Rent Deposit. Subject to adjustments as hereinafter provided, beginning on the Commencement Date, Tenant shall pay to Landlord monthly in advance the minimum rent set forth in Section 1 hereof, provided, that if the term includes a fractional month, for that fractional month Tenant shall pay on the Commencement Date as minimum rent that proportion of the minimum rent due which the number of days in said fractional month bears to the total number of days in said month.

4.02. Increases to Minimum Rent for Term. After each lease year, the minimum rent for the succeeding lease year shall be increased by an amount equal to the increase set forth in Section 1 hereof. As used in this Lease, "lease year" shall mean each consecutive twelve (12) month period beginning on the Commencement Date, except that in the event the Commencement Date occurs on a date other than the first day of a month, the first lease year shall commence on the first day of the month following the Commencement Date.

4.03. Manner of Payment. The minimum rent shall be paid to Landlord in advance not later than the first day of each month during the term of this Lease and any extensions thereof. Rent for any fractional month shall be paid on the Commencement Date. All rents and other monies required to be paid by Tenant hereunder shall be paid to Landlord without deduction or offset, prior notice or demand, in lawful money of the United States of America, at such place as Landlord may, from time to time, designate in writing.

4.04. Late Fee and Default Rate. If Tenant shall fail to pay, within five (5) days after the same is due and payable, any rent, additional rent, or any other amount or charges to be paid by Tenant hereunder, Tenant shall pay, as additional rent, and in addition to the amounts due, ten percent (10%) of the amount due and interest at a per annum rate of fifteen percent (15%) (the "Default Rate") on each such obligation from the day it is due until

SECTION 5
POSSESSION AND SURRENDER OF LEASED PREMISES

5.01. "As-is" Condition. Tenant shall by entering upon and occupying the Leased Premises, be deemed to have accepted the Leased Premises "as is," and Landlord shall not be liable for any latent or patent defect therein; provided, however, that Landlord shall cause the contractors completing Landlord's Work to warrant to Landlord and Tenant that Landlord's Work shall be free from defects for the longer of (a) one (1) year following the Commencement Date, or (b) the applicable warranty period imposed by the governmental authorities and other duly qualified bodies having jurisdiction with respect to each portion of Landlord's Work. Landlord shall be solely responsible for causing the contractors to be responsible for the repair and/or replacement of Landlord's Work necessary to fulfill the warranty set forth above.

5.02. Surrender and Move-out Conditions. Upon the expiration or sooner termination of the term of this Lease, if Tenant has fully and faithfully performed all of the terms, conditions and covenants of this Lease to be performed by Tenant, but not otherwise, Tenant shall, at its sole cost and expense, remove all movable furniture, furnishings, equipment and personal property which Tenant has installed or placed on the Leased Premises (all of which are hereinafter referred to as "Tenant's Property") from the Leased Premises and repair all damage thereto resulting from such removal and Tenant shall thereupon surrender the Leased Premises in the same condition as on the date when the Leased Premises was ready for occupancy, reasonable wear and tear excepted, subject to the following: (a) Tenant shall clean and remove any and all debris from the Leased Premises; (b) all lighting, plumbing and heating and air conditioning systems shall be fully operational; and (c) Tenant shall remove all signs placed in and around the Leased Premises by Tenant (including Tenant's Signage) and repair all damage caused to the Leased Premises by such removal. If Tenant has not fully and faithfully performed all of the terms, conditions and covenants of this Lease to be performed by Tenant, Tenant shall nevertheless remove Tenant's Property from the Leased Premises in the manner aforesaid within five (5) days after receipt of written direction to do so from Landlord. In the event Tenant shall fail to remove any of Tenant's Property as provided herein, Landlord may, at its option, retain all or any portion thereof as abandoned by Tenant, or Landlord may, but is not obligated to, at Tenant's expense, remove all of such property not so removed and repair all damage to the Leased Premises resulting from such removal, and Landlord shall have no responsibility to Tenant for any loss or damage to said property caused by or resulting from such removal or otherwise. If the Leased Premises is not surrendered at the end of the term, Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Leased Premises including, without limitation, any claims made by any succeeding tenant or prospective tenant founded on such delay.

SECTION 6
USE OF LEASED PREMISES

6.01. Permitted Use. The Leased Premises is leased to Tenant solely for the permitted use set forth in Section 1 hereof. Tenant shall not use or suffer to be used the Leased Premises, or any portion thereof, for any other purpose or purposes whatsoever, without Landlord's written consent therefor first had and obtained, which consent may be withheld in Landlord's sole and absolute discretion. Tenant shall conduct business under the trade name set forth in Section 1 and no other without prior written consent of Landlord, which consent may be withheld in Landlord's sole and absolute discretion.

6.02. Tenant's Maintenance Obligations. Tenant shall keep and maintain in first class order, condition and repair (including any such replacement and restoration as is required for that purpose) the Leased Premises and every part thereof and any and all appurtenances thereto, including, but without limitation, the exterior and interior portion of all doors, windows, plate glass, all plumbing and sewage facilities within the Leased Premises including free flow up to the main sewer line, fixtures, heating and air conditioning and electrical systems, sprinkler system, walls, floors and ceilings, and any work performed by or on behalf of Tenant hereunder. Any such work shall be subject to such requirements as Landlord may, in its sole discretion, deem reasonable, including, but not limited to, the requirement that Landlord approve the contractors, materials, mechanics and/or materialmen utilized for such purposes. Landlord may, at its sole option, enter into a maintenance contract for the maintenance of all HVAC systems servicing the Leased Premises. Tenant shall reimburse Landlord within five (5) days of written demand by Landlord, as additional rent, for the cost of such maintenance contract. Landlord agrees to assign to Tenant any warranties Landlord may have pertaining to those parts of the Leased Premises Tenant is responsible for maintaining hereunder.

6.03. Storage of Trash and Garbage. Tenant shall store all trash and garbage in metal containers located where designated by Landlord and so as not to be visible or create a nuisance to customers and business invitees in the Project, and so as not to create or permit any health or fire hazard and arrange for the prompt and regular removal thereof.

6.04. Compliance with Laws. Tenant shall at all times during the term of this Lease comply with all governmental rules, regulations, ordinances, statutes and laws, and the orders and regulations of the Insurance Services Office or any other body now or hereafter exercising similar functions, now or hereafter in effect pertaining to the Project, the Leased Premises or Tenant's use thereof.

6.05. Conduct of Tenant's Business. Tenant shall operate all of the Leased Premises during the entire lease term with sound business practice. Tenant shall provide, install and at all times maintain in the Leased Premises all suitable furniture, fixtures, equipment and other personal property, and shall staff the Leased Premises at all times with sufficient office personnel, necessary for the conduct of Tenant's business therein in a businesslike manner.

6.06. Advertising. Tenant hereby grants to Landlord an irrevocable, non-exclusive license for the term, plus any prior period beginning with the date of this Lease, to use Tenant's trade name as set forth in Section 1 hereof together with a description of the nature of Tenant's business in the Leased Premises, in any television, radio, print, electronic or other media advertising or marketing programs of Landlord for the benefit of the Project. Tenant shall also refer to the Project in any television, radio, print, electronic or other media advertising or marketing programs of Tenant for the purpose of promoting Tenant's business in the Project; provided, however, that Tenant shall refer to the Project solely by its name as set forth in Section 1 hereof.

SECTION 7
ALTERATIONS AND IMPROVEMENTS

7.01. Landlord's Work. Landlord shall construct and install those improvements more particularly described as Landlord's Work in Exhibit D attached hereto and incorporated herein by this reference.

7.02. Tenant Improvements. During the term of this Lease, Tenant may make additions, alterations, improvements or changes in or to the Leased Premises which are non-structural, cosmetic and/or do not affect the mechanical, plumbing, electrical or HVAC systems of the Leased Premises. Such improvements shall be made by Tenant at its sole cost and expense and shall be made in a good and workmanlike manner by contractors duly licensed in the State of Maryland and in compliance with all insurance requirements and with all applicable permits, authorizations, building regulations, zoning laws and all other governmental rules, regulations, ordinances, statutes and laws, now or hereafter in effect pertaining to the Leased Premises and Tenant's use of the Leased Premises. Prior to the commencement of such work, Tenant shall give evidence to Landlord that appropriate insurance satisfactory to Landlord has been obtained for the protection of Landlord from damage or injury resulting from the making of such improvements, including, without limitation, Form B Endorsements or their equivalents naming Landlord

as an additional insured under the policies of insurance of the contractors performing the work. In addition, prior to the commencement of such work, Tenant if required by Landlord, shall secure, at Tenant's sole cost and expense, performance, labor and materials bonds for the full cost of such work satisfactory to Landlord. Landlord shall have the right to require Tenant to remove these improvements, at Tenant's sole cost and expense, upon such expiration or sooner termination of this Lease and to surrender the Leased Premises in the same condition as it was prior to the making of any or all such improvements, ordinary wear and tear excepted.

7.03. Liens, Encumbrances and Charges. Tenant will not create or permit to be created or to remain, and will discharge, any lien, encumbrance or charge upon fixtures, equipment, or personal property located within the Leased Premises.

SECTION 8 COMMON AREAS

8.01. Right to Use Common Areas. Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers and business invitees shall have the nonexclusive right, in common with Landlord and all others to whom Landlord has or may hereafter grant rights, to use such common areas of the Project (including, but not limited to, the driveways, walkways, sidewalks and the Parking Areas) as designated from time to time by Landlord, subject to such rules and regulations as Landlord may from time to time impose. Landlord may at any time close any common areas to make repairs or changes, to prevent the acquisition of public rights in such areas, or to discourage non-customer parking. Landlord reserves the right to dedicate all or portions of such common areas and other portions of the Project for public utility purposes. Landlord may do such other acts in and to the common areas as in its judgment may be desirable. Tenant shall not at anytime interfere with the rights of Landlord and its agents, employees, servants, contractors, and business invitees to use any part of the common areas. All common areas that Tenant may be permitted to use are to be used under a revocable license, and if any such license is revoked, or if the amount of such common area is diminished, Landlord shall not be subject to any liability, nor shall Tenant be entitled to any compensation or diminution or abatement of rent, nor shall revocation or diminution of such common areas be deemed constructive or actual eviction.

8.02. Project's Operating Cost

8.02.1. Tenant's Liability. Throughout the term hereof, Tenant will pay to Landlord monthly in advance in addition to the rent specified in Section 4 hereof, as additional rent, its share of Project's Operating Cost, as hereinafter defined, equal to the fraction, the numerator of which is the number of square feet of the Leased Premises and the denominator of which is the total number of square feet of the Building.

8.02.2. Definition. For the purpose of this Section 8, the term "Project's Operating Cost" is hereby defined to mean the total cost and expense incurred in managing, operating, equipping, lighting, repairing, replacing and maintaining the Project (excluding the Leased Premises). Such operating and maintenance costs shall include all costs and expenses of operating and maintaining such areas and facilities in such manner as Landlord may from time to time deem appropriate and for the best interests of the Project, including, without limitation, providing private police protection, security patrol, or night watchmen (including, but not limited to uniforms), fire protection and security alarm systems and equipment, labor compensation insurance, payroll taxes, materials, supplies, and all other costs of operating and repairing, lighting, cleaning, sweeping, painting, striping, removing of rubbish or debris, policing and inspecting, depreciation on or rentals of machinery and equipment, all utility expenses not separately metered to Tenant, Landlord's insurance including fire and extended coverage, liability, property damage, terrorism, vandalism, malicious mischief, flood, earthquake insurance, insurance against liability for defamation and claims of false arrest, and such other insurance in such amounts and covering hazards deemed appropriate by Landlord, fidelity bonds, and all costs of replacement of paving, curbs, walkways, remarking, directional or other signs, landscaping, drainage, lighting facilities, repair and maintenance of the common areas and parking areas, costs and expenses of planting, replanting and replacing flowers, shrubbery and other landscaping, and the cost to Landlord of servicing and maintaining any sprinkler system. There shall also be included the cost of leasing and operating any signs, the cost of personnel to implement any service described above, to direct traffic and to police the common areas, and management or administrative fees.

8.02.3. Manner of Payment. The additional rent provided to be paid in this Section 8 shall be estimated by Landlord and such estimate shall be paid in advance by Tenant on the first day of each month without further demand or any deduction or set off whatever. Such additional rent shall be held by Landlord for the payment of the Project's Operating Cost. Landlord shall ascertain the actual Project's Operating Cost for each period of twelve (12) consecutive calendar months beginning on January 1st and ending on December 31st by no later than April 30th following the end of each such twelve (12) month period. Tenant shall pay to Landlord on demand the amount, if any, equal to the difference between the actual Project's Operating Cost and the estimated Project's Operating Cost for

such twelve (12) month period. The balance, if any, of the estimated Project's Operating Cost remaining after the payment of the actual Project's Operating Cost shall be held by Landlord and applied to the next monthly payment of additional rent provided to be paid under this Section 8, and, if necessary, each monthly payment thereafter until fully exhausted, or refunded by Landlord to Tenant. Tenant shall not be entitled to receive interest on any additional rent paid hereunder.

SECTION 9 TAXES

9.01. Tenant's Personal Property. Tenant shall be liable for and shall pay before delinquency (and, upon demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of the payment thereof) all taxes, fees and assessments of whatsoever kind or nature, and penalties and interest thereon, if any, levied against Tenant's property or any other personal property of whatsoever kind and to whomsoever belonging situated or installed in or upon the Leased Premises whether or not affixed to the realty. If at any time during the term of this Lease any such taxes on personal property are assessed as part of the tax on the real property of which the Leased Premises is a part, then in such event Tenant shall pay to Landlord on demand the amount of such additional taxes as may be levied against the real property by reason thereof.

9.02. Impositions. Throughout the term hereof, Tenant will pay to Landlord monthly in advance in addition to all other rental specified herein, as additional rent, its share of Impositions, as hereinafter defined, equal to the fraction, the numerator of which is the number of square feet of the Leased Premises and the denominator of which is the total number of square feet of the Building. The amounts due hereunder shall be estimated in advance by Landlord and shall be paid in the same manner as specified in Section 8 hereof for payment of the Project's Operating Cost. For the purposes of this Lease, "Impositions" means:

(a) Any real estate taxes, fees, assessments or other charges assessed against the Project or any improvements thereon, and the costs incurred by Landlord in contesting the same.

(b) All personal property taxes on personal property used in connection with the Project and related structures other than taxes payable by Tenant under Section 9.01 hereof.

(c) Any and all taxes, assessments, license fees, and public charges levied, assessed, or imposed and which become payable during the term hereof upon all leasehold improvements, over and above the building shell, whether installed by Landlord or Tenant.

(d) Any and all environmental levies or charges now in force affecting the Project or any portion thereof, or which may hereafter become effective, including, but not limited to, parking taxes, levies, or charges, employer parking regulations, and any other parking or vehicular regulations, levies, or charges imposed by any municipal, state or federal agency or authority.

(e) Any other taxes levied or assessed in addition to or in lieu of such real or personal property taxes.

9.03. Tax or Excise on Rents. If at any time during the term of this Lease, under the laws of the United States, Maryland or any political subdivision thereof, a tax or excise on rents or other tax (except income tax), however described, is levied or assessed by the United States, Maryland or said political subdivision against Landlord on account of any rent reserved under this Lease, the Leased Premises or any use thereof, all such tax or excise on rents or other taxes shall be paid by Tenant. Whenever Landlord shall receive any statement or bill for any such tax or shall otherwise be required to make any payment on account thereof, Tenant shall pay the amount due hereunder within ten (10) days after demand therefor accompanied by delivery to Tenant of a copy of such tax statement, if any.

SECTION 10 UTILITIES

Tenant shall pay all charges for water, gas, heat, electricity, power, garbage service, air conditioning, telephone service, sewer service charges and sewer rentals charged or attributable to the Leased Premises, and all other services or utilities used in, upon or about the Leased Premises by Tenant or any of its subtenants, licensees or concessionaires during the term hereof. Tenant shall make all arrangements for and shall pay all connection fees and costs for utility installations and pay directly for all utilities and services furnished to or used by it in the Leased Premises.

SECTION 11
INSURANCE

11.01. Compliance with Insurance Policies. Tenant shall not use or occupy, or permit the Leased Premises to be used or occupied in a manner which will increase the rates of insurance for the Leased Premises or the Project (or any portion thereof), which will make void or voidable any insurance then in force with respect thereto, which would constitute a defense to any action thereon, or which will make it impossible to obtain any insurance with respect thereto. If by reason of the failure of Tenant to comply herewith, any insurance rates for the Leased Premises or the Project (or any portion thereof) become higher than they otherwise would be, Tenant shall reimburse Landlord, on the first day of the calendar month next succeeding the notice by Landlord to Tenant of said increase, for that part of all insurance premiums thereafter paid by Landlord which shall have been charged because of such failure by Tenant. Any policy of insurance maintained by Tenant insuring against any risk in, upon, about or in any way connected with the Leased Premises or Tenant's use thereof shall contain an express waiver of any and all rights of subrogation thereunder whatsoever against Landlord, its officers, managers, agents and employees.

11.02. Comprehensive General Liability Insurance. Tenant shall, at all times during the term hereof, at its sole cost and expense, procure and maintain in full force and effect a policy of comprehensive general liability insurance issued by an insurance carrier approved by Landlord insuring against loss, damage or liability for injury or death to persons and loss or damage to property occurring from any cause whatsoever in connection with the Leased Premises or Tenant's use thereof. Such liability insurance shall be in amounts of not less than Two Million Dollars (\$2,000,000) combined single limit-bodily injury and property damage. All such insurance shall specifically insure the performance by Tenant of the indemnity agreement as to liability for injury to or death of persons and loss of or damage to property contained in Section 13.01 hereof. Tenant, Landlord and Landlord's lender shall be named as insureds (and at Landlord's option, any other persons, firms or corporations designated by Landlord shall be additionally named insureds) under each such policy of insurance which shall provide that Landlord, although named as an insured, shall nevertheless be entitled to recovery thereunder for any loss suffered by it, its agents, servants and employees by reason of Tenant's negligence.

11.03. Fire and Extended Coverage Insurance. Tenant shall, at all times during the term hereof, at its sole cost and expense, procure and maintain in full force and effect standard form of fire and extended coverage insurance including the special form endorsement covering Tenant's property (including Landlord's Work and betterments), and the personal property of others in Tenant's possession in, upon or about the Leased Premises. Such insurance shall be in an amount equal to the then current replacement value of the property required to be insured. Tenant, Landlord and Landlord's lender, as their interests may appear, shall be the named insureds (and at Landlord's option, any other persons, firms or corporations designated by Landlord shall be additionally named insureds) under each such policy of insurance. Landlord shall procure and maintain in full force and effect standard form of fire with extended coverage insurance covering the Leased Premises. Tenant will pay to Landlord monthly in advance in addition to all other rental specified herein, as additional rent, for such fire insurance. Tenant will also pay to Landlord upon written demand therefor in addition to all other rental specified herein, as additional rent, any deductible due under such fire insurance.

11.04. Rental Insurance. Landlord may procure and maintain in full force and effect a policy of rental insurance in an amount up to twelve (12) times the monthly minimum rent and additional rent then due hereunder. Bills for the premiums therefor shall be rendered by Landlord to Tenant at such times as Landlord may elect, and shall be due from, and payable by, Tenant when rendered, and the amount thereof shall be deemed to be, and be paid as, additional rent.

11.05. Evidence of Insurance and Payment of Premiums. A certificate issued by the insurance carrier for each policy of insurance required to be maintained by Tenant hereunder together with a copy of each such policy and evidence of payment of all premiums shall be delivered to Landlord, Landlord's lender and all other named insureds on or before the Commencement Date and thereafter, as to policy renewals, within thirty (30) days prior to the expiration of the terms of each such policy. Each of said certificates of insurance and each such policy of insurance required to be maintained by Tenant hereunder shall be from an insurer and in form and substance satisfactory to Landlord and shall expressly evidence insurance coverage as required by this Lease and shall contain an endorsement or provision requiring not less than thirty (30) days written notice to Landlord and all other named insureds prior to the cancellation, diminution in the perils insured against, or reduction of the amount of coverage of the particular policy in question.

11.06. Waiver of Recovery. Tenant hereby waives any and all rights of recovery from Landlord, its officers, managers, agents and employees for any loss or damage, including consequential loss or damage, caused by any peril or perils (including negligent acts) enumerated in each form of insurance policy required to be maintained by Tenant hereunder.

11.07. Waiver of Subrogation. Each policy of insurance required to be maintained by Tenant hereunder shall contain an express waiver of any and all rights of subrogation thereunder whatsoever against Landlord, its officers, managers, agents and employees. All such policies shall be written as primary policies and not contributing with or in excess of the coverage, if any, which Landlord may carry. Any other provision contained in this Section 11 or elsewhere in this Lease notwithstanding, the amounts of all insurance required hereunder to be paid by Tenant shall be not less than an amount sufficient to prevent Landlord or Tenant from becoming a co-insurer.

11.08. Insurance for Glass. Tenant shall replace, at the sole cost and expense of Tenant, any and all plate and other glass damaged or broken from any cause whatsoever in and about the Leased Premises. Tenant shall insure, and keep insured, at Tenant's sole cost and expense, all plate and other glass in the Leased Premises for and in the name of Tenant and Landlord.

SECTION 12 LIENS

Tenant shall at all times indemnify, save and hold Landlord, the Leased Premises and the leasehold created by this Lease free, clear and harmless from any and all claims, liens, demands, charges, encumbrances, litigation and judgments arising directly or indirectly out of any use, occupancy or activity of Tenant, or out of any work performed, material furnished, or obligations incurred by Tenant in, upon or otherwise in connection with the Leased Premises. Tenant shall give Landlord written notice at least ten (10) business days prior to the commencement of any such work on the Leased Premises to afford Landlord the opportunity of filing appropriate notices of non-responsibility. Tenant shall, at its sole cost and expense, within fifteen (15) days after filing of any lien of record, obtain the discharge and release thereof. Nothing contained herein shall prevent Landlord, at the cost and for the account of Tenant, from obtaining said discharge and release in the event Tenant fails or refuses to do the same within said fifteen (15) day period.

SECTION 13 INDEMNIFICATION

13.01. Indemnification by Tenant. Tenant hereby covenants and agrees to indemnify, save and hold Landlord, the Leased Premises and the leasehold estate created by this Lease free, clear and harmless from any and all liability, loss, damages, costs, expenses, including attorneys' fees, judgments, claims, liens and demands of any kind whatsoever in connection with, arising out of, or by reason of any act, omission or negligence of Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees while in, upon, about or in any way connected with the Leased Premises or the Project or arising from any accident, injury or damage, howsoever and by whomsoever caused, to any person or property whatsoever, occurring in, upon, about or in any way connected with the Leased Premises or any portion thereof other than as a result of Landlord's sole gross negligence or willful acts. The foregoing obligation to indemnify shall include, but is not limited to, Landlord's reasonable attorneys' fees, investigation costs and all other of Landlord's costs, expenses and liabilities reasonably incurred in connection therewith from the first notice that any claim or demand is to be made or may be made. Tenant further agrees that if, by reason of any act or omission of Tenant, Landlord is made a party defendant in any legal proceeding concerning this Lease or the Leased Premises, Tenant shall indemnify and hold Landlord harmless from all costs, expenses, and liabilities (including attorneys' fees and court costs) it may incur by reason thereof.

13.02. Limits of Landlord's Liability. Landlord shall not be liable to Tenant or to any other person whatsoever for any damage occasioned by falling plaster, electricity, plumbing, gas, water, steam, sprinkler or other pipe and sewage system, by the bursting, running or leaking of any tank, washstand, closet, waste or other pipes, or by water being upon or coming through the roof, skylight, vent, trap door or otherwise for any reason whatsoever or for any damage arising from any acts or neglect of occupants of the Project or of adjacent property or of the public, including, but not limited to, breach of any lease or rules and regulations, nor shall Landlord be liable in damages or otherwise for any failure to furnish, or interruption of, service of any utility.

SECTION 14 SUBORDINATION AND ATTORNMENT

14.01. Subordination. Tenant agrees upon request of Landlord to subordinate this Lease and its rights hereunder to the lien of any mortgage, deed of trust or other encumbrance, (including, but not limited to, sale-lease back transactions), together with any renewals, extensions or replacements thereof, hereafter placed, charged or enforced against the Leased Premises, or any portion thereof, or any property of which the Leased Premises is a part, and to execute and deliver at any time, and from time to time, upon demand by Landlord, such documents as may be required to effectuate such subordination, and in the event that Tenant shall fail, neglect or refuse to execute and deliver any such documents to be executed by it, Tenant hereby appoints Landlord, its successors and assigns, the attorney-in-fact of Tenant

irrevocably to execute and deliver any and all such documents for and on behalf of Tenant; provided, however, that Tenant shall not be required to effectuate such subordination, nor shall Landlord be authorized to effectuate such subordination on behalf of Tenant, unless the mortgagee, beneficiary or ground lease lessor named in such encumbrance shall first agree in writing, for the benefit of Tenant, that so long as Tenant is not in default under any of the provisions, covenants or conditions of this Lease on the part of Tenant to be kept and performed, that neither this Lease nor any of the rights to Tenant hereunder shall be terminated or be subject to termination, nor shall Tenant's possession of the Leased Premises be disturbed by proceedings to foreclose said mortgage, deed of trust or other encumbrance.

14.02. Attornment. Tenant shall, in the event any proceedings are brought for the foreclosure of the Leased Premises or in the event of exercise of the power of sale under any deed of trust made by Landlord covering the Leased Premises, or termination of any ground lease, attorn to the purchaser upon any such foreclosure or sale, or ground lessor, as the case may be, and recognize such purchaser or lessor as the landlord under this Lease.

14.03. Security Deposit. Tenant hereby agrees not to look to any mortgagee, beneficiary of any mortgage or deed of trust, or ground lessor for accountability for any security deposit required by Landlord hereunder, unless said sums have been actually received by the foregoing as security for Tenant's performance of this Lease.

SECTION 15 ASSIGNMENT AND SUBLETTING

15.01. Consent of Landlord. Tenant shall not assign, mortgage, pledge, hypothecate or encumber this Lease nor the leasehold estate hereby created or any interest herein, whether by agreement, operation of law or otherwise, or sublet the Leased Premises or any portion thereof, or license the use of all or any portion of the Leased Premises without the prior written consent of Landlord, which may be withheld by Landlord in its sole and absolute discretion except as provided by Section 15.05 hereof. If this Lease be assigned, or if the Leased Premises or any part thereof be sublet or occupied by anybody other than Tenant, Landlord may collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of this Section, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of covenants on the part of Tenant herein contained. If Tenant is an entity, the issuance of any additional equity interests and/or the transfer, assignment or hypothecation of any interest in such entity in the aggregate in excess of twenty-five percent (25%) of such interests, as the same may be constituted as of the date of this Lease, whether directly or indirectly, shall be deemed an assignment within the meaning of this Section 15.

15.02. Release of Tenant or Guarantor. In the absence of an express agreement in writing to the contrary, executed by Landlord, no assignment, mortgage, pledge, hypothecation, encumbrance, subletting or license hereof or hereunder shall act as a release of Tenant or any guarantor from any of the terms, covenants and conditions of this Lease on the part of Tenant to be kept and performed. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or a consent to the assignment or subletting of the Leased Premises.

15.03. Assumption by Assignee or Transferee. Each assignee or transferee shall assume and be deemed to have assumed this Lease and shall be and remain liable jointly and severally with Tenant for the payment of all rents due hereunder, and for the due performance during the term of this Lease of all the covenants and conditions herein set forth by Tenant to be kept and performed.

15.04. Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation hereof, or the termination of this Lease by Landlord pursuant to any provision contained herein, shall not work a merger, but at the option of Landlord, shall either terminate any or all existing subleases or subtenancies, or operate as an assignment to Landlord of any and all such subleases or subtenancies.

15.05. Conditions to Assignment and Subletting. Tenant's request for consent to any proposed assignment or sublease as described in Section 15.01 hereof shall set forth in writing the details of the proposed assignment or sublease, including, without limitation, the name, business and financial condition of the prospective assignee or subtenant, the financial details of the proposed assignment or sublease (e.g., the term of and the rent, additional rent and security deposit payable under any proposed assignment or sublease), and any other information Landlord deems relevant in its sole and absolute discretion. Landlord shall have the right to withhold consent of the proposed assignment or sublease based on the following factors: (i) the business of the proposed assignee or subtenant and the proposed use of the Leased Premises by the same; (ii) the net worth and financial reputation of the proposed assignee or subtenant; (iii) Tenant's compliance with all of its obligations under this Lease; and (iv) such other factors as Landlord may deem relevant in its sole and absolute discretion. If Landlord approves of the proposed assignment or sublease, all Profits, as hereafter defined, from the proposed assignment or

sublease shall be paid to Landlord. The term "Profits" means all amounts paid to Tenant as consideration for such assignment or sublease, including all rent and additional rent in excess of the rent and additional rent payable under this Lease, and all fees and other consideration paid to Tenant for the assignment or sublease. Upon written demand by Landlord therefor, Tenant shall provide Landlord a written statement certifying the amount of all Profits from any proposed assignment or sublease, and Landlord may inspect Tenant's books and records to verify the accuracy of such statement.

SECTION 16 INSOLVENCY AND DEATH

16.01. Passage by Operation of Law. It is understood and agreed that neither this Lease nor any interest herein or hereunder, nor any estate hereby created in favor of Tenant, shall pass by operation of law under any state or federal insolvency, bankruptcy or inheritance act, or any similar law now or hereafter in effect, to any trustee, receiver, assignee for the benefit of creditors, heir, legatee, devisee, or any other person whomsoever without the express written consent of Landlord first had and obtained therefor.

16.02. Assumption or Rejection of Unexpired Lease. Landlord and Tenant hereby acknowledge and recognize that Section 365 of Title 11 of the United States Code (the "Bankruptcy Code") provides that a debtor-in-possession or a trustee, with court approval, may assume or reject an unexpired lease and that in a case under Chapter 11 of the Bankruptcy Code, the court, on request of a party to such unexpired lease, may order the trustee or debtor-in-possession to determine within a specified period of time whether to assume or reject such unexpired lease. Because of the fact that time is of the essence to this Lease, Tenant expressly covenants, agrees and bargains to file or cause to be filed a motion either to assume or to reject this Lease within forty-five (45) days of the filing of a voluntary petition under the Bankruptcy Code or the entry of an order for relief in the event of the filing of an involuntary petition.

16.03. Assumption and Assignment of Unexpired Lease. Landlord and Tenant further recognize that Section 365 of the Bankruptcy Code provides for the assumption and assignment, subject to court approval, of unexpired leases. Court approval of such assumption and assignment is pre-conditioned on, among other things, the provision of adequate assurance of future performance. In view of the foregoing, Landlord and Tenant do hereby bargain, covenant and agree that the following, and each of them, specifically and without limiting Tenant's obligations to continue to perform all of the terms of this Lease, are conditions and covenants the fulfillment of which are necessary to provide Landlord with adequate assurance of future performance:

(a) The assumption and assignment of this Lease will not breach any provision, such as a radius, location use or exclusive use provision, in any other lease, financing agreement or master agreement (including any covenants, conditions and restrictions encumbering the Project) relating to the Project;

(b) The proposed assignee will not increase the burden on the common area and will not use the Leased Premises in violation of the terms of this Lease and any restrictive covenant applicable to the Project then in force;

(c) The proposed assignee will, in Landlord's reasonable opinion, be a suitable tenant for the Project; and

(d) The proposed assignee has adequate financial resources to pay all rent and other consideration due under this Lease and to assume all other obligations of Tenant under this Lease.

SECTION 17 CONDEMNATION

17.01. Awards Payable. Should the whole or any part of the Leased Premises be condemned or taken by a competent authority for any public or quasi-public purpose, all awards payable on account of such condemnation and taking shall be payable to Landlord, and Tenant hereby waives any and all interest therein.

17.02. Complete and Partial Takings. If the whole of the Leased Premises shall be so condemned and taken, then this Lease shall terminate upon such taking. If greater than one-third (1/3) of the floor space of the Leased Premises is condemned or taken, and if the remaining portion thereof will not be reasonably adequate for the operation of Tenant's business after Landlord completes such repairs or alterations as Landlord elects to make, either Landlord or Tenant shall have the option to terminate this Lease by notifying the other party hereto of such election in writing within twenty (20) days after such taking. If by such condemnation and taking one-third (1/3) or less of the floor space of the Leased Premises has been taken, or if only a part of the Leased Premises is taken and the remaining part thereof is suitable for the purposes for which Tenant has leased the Leased Premises, this Lease shall continue in

full force and effect, but the minimum rent shall be reduced in an amount equal to that proportion of the minimum rent which the floor space of the portion taken bears to the total floor space of the Leased Premises. In the event a partial taking does not terminate this Lease, Tenant, at Tenant's sole cost and expense, shall make repairs and restorations in the nature of Landlord's Work to the remaining Leased Premises and shall also repair or replace its fixtures, furniture, furnishings, floor coverings and equipment and if Tenant has closed shall promptly reopen for business. If any part of the Project other than the Leased Premises shall be so taken or appropriated, Landlord shall have the right, at its option to terminate this Lease by notifying Tenant within six (6) months of such taking.

17.03. Compensation. Tenant shall in no case be entitled to compensation from Landlord for damage on account of any annoyance or inconvenience in making repairs hereunder. If this Lease is terminated pursuant to this Section 17 and Tenant is not in default hereunder, rent shall be prorated as of the date of termination, any security deposited with Landlord shall be returned to Tenant and all rights and obligations hereunder shall cease and terminate. Except to the extent provided for in this Section 17, neither the rent payable by Tenant nor any of Tenant's other obligations under any provision of this Lease shall be affected by any condemnation or taking of the Leased Premises or the Project or any portion of either.

17.04. Deed in Lieu of Condemnation. For the purposes hereof, a deed in lieu of condemnation shall be deemed a taking.

SECTION 18 DESTRUCTION OF LEASED PREMISES

18.01. Complete and Partial Destruction of Leased Premises. In the case of total destruction of the Leased Premises, or any portion thereof substantially interfering with Tenant's use of the Leased Premises, whether by fire or other casualty, not caused by the fault or negligence of Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees, this Lease shall terminate except as herein provided. If Landlord notifies Tenant in writing within forty-five (45) days of such destruction of Landlord's election to repair said damage, and if Landlord proceeds to and does repair such damage with reasonable dispatch, this Lease shall not terminate, but shall continue in full force and effect, except that Tenant shall be entitled to a reduction in the minimum rent in an amount equal to that proportion of the minimum rent which the number of square feet of floor space in the unusable portion bears to the total number of square feet of floor space in the Leased Premises. Said reduction shall be prorated so that the rent shall only be reduced for those days any given area is actually unusable. In determining what constitutes reasonable dispatch, consideration shall be given to delays caused by labor disputes, civil commotion, war, warlike operations, invasion, rebellion, hostilities, military or usurped power, sabotage, governmental regulations or control, fire or other casualty, inability to obtain any materials or services, acts of God and other causes beyond Landlord's control. If this Lease is terminated pursuant to this Section 18 and if Tenant is not in default hereunder, rent shall be prorated as of the date of termination, any security deposited with Landlord shall be returned to Tenant, and all rights and obligations hereunder shall cease and terminate.

18.02. Fault or Negligence of Tenant. Notwithstanding the foregoing provisions, in the event the Leased Premises, or any portion thereof, shall be damaged by fire or other casualty due to the fault or negligence of Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees, then, without prejudice to any other rights and remedies of Landlord, this Lease shall not terminate, the damage shall be repaired by Tenant, and there shall be no apportionment or abatement of any rent.

18.03. Nature of Repairs. The provisions of this Section 18 with respect to Landlord shall be limited to such repairs and restorations in the nature of the work described in Section 1.1 of Exhibit D and when placed in such condition the Leased Premises shall be deemed restored and rendered tenantable promptly following which time Tenant, at Tenant's sole cost and expense, shall make repairs and restorations in the nature of Landlord's Work and Tenant shall also repair or replace its fixtures, furniture, furnishings, floor coverings and equipment, and if Tenant has closed, Tenant shall promptly reopen for business.

18.04. Compensation. All insurance proceeds payable under any fire and/or rental insurance shall be payable solely to Landlord and Tenant shall have no interest therein. Tenant shall in no case be entitled to compensation for damages on account of any annoyance or inconvenience in making repairs under any provision of this Lease. Except to the extent provided for in this Section 18, neither the rent payable by Tenant nor any of Tenant's other obligations under any provision of this Lease shall be affected by any damage to or destruction of the Leased Premises or any portion thereof by any cause whatsoever.

SECTION 19 RIGHT OF ACCESS

19.01. Scope of Access. Landlord and its authorized agents and representatives shall be entitled to enter the Leased Premises at any reasonable time for the purpose of observing, posting or keeping posted thereon notices provided for hereunder, and such other notices as Landlord may deem necessary or appropriate for protection of Landlord, its interest or the Leased Premises; for the purpose of inspecting the Leased Premises or any portion thereof; and for the purpose of making repairs to the Leased Premises or any other portion of the Project and performing any work therein or thereon which Landlord may elect or be required to make hereunder, or which may be necessary to comply with any laws, ordinances, rules, regulations or requirements of any public authority or any applicable standards that may, from time to time, be established by the Insurance Services Office or any similar body, or which Landlord may deem necessary or appropriate to prevent waste, loss, damage or deterioration to or in connection with the Leased Premises or any other portion of the Project or for any other lawful purpose. Landlord shall have the right to use any means that Landlord may deem proper to open all doors in the Leased Premises in an emergency. Entry into the Leased Premises obtained by Landlord by any such means shall not be deemed to be forcible or unlawful entry into, or a detainer of, the Leased Premises, or an eviction of Tenant from the Leased Premises or any portion thereof. Nothing contained herein shall impose any duty on the part of Landlord to do any work or repair, maintenance, reconstruction or restoration, which under any provision of this Lease is required to be done by Tenant; and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to do the same.

19.02. Access for Repair Work. Landlord may, during the progress of any work on the Leased Premises, keep and store upon the Leased Premises all necessary materials, tools and equipment and may erect scaffolding and other similar structures. Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business or quiet enjoyment, or other damage or loss to Tenant by reason of making any such repairs or performing any such work upon the Leased Premises, or on account of bringing materials, supplies and equipment into, upon or through the Leased Premises during the course thereof or erecting such structures, and the obligations of Tenant under this Lease shall not thereby be affected in any manner whatsoever. Landlord shall, however, in connection with the performance of such work, cause as little inconvenience, disturbance or other damage or loss to Tenant as may be reasonably possible under the circumstances.

19.03. Right to Exhibit Leased Premises. Landlord and its authorized agents and representatives shall be entitled to enter the Leased Premises at all reasonable times for the purpose of exhibiting the same to prospective purchasers and lenders and, during the final six (6) months of the term of this Lease, Landlord shall be entitled to exhibit the Leased Premises for lease and post signs therein announcing the same

19.04. Protected Health Information. Landlord acknowledges and agrees that from time to time during the Term, Landlord and/or its employees, agent, and representatives may be exposed to, or have access to, Protected Health Information ("PHI"), as defined by Health Insurance Portability and Accountability Act of 1996, as amended ("HIPAA"), 45 CFR Parts 160 and 164. Landlord agrees that it will not use or disclose, and Landlord shall cause its employees, agents, and representatives not to use or disclose, PHI for any purpose in accordance with the requirements of HIPAA and all other applicable medical privacy laws. Landlord further agrees that, notwithstanding the rights granted to Landlord pursuant to this Lease, including without limitation Sections 19.01 through 19.03 above, except when accompanied by an authorized representative of Tenant, neither Landlord nor its employees, agents, representatives or contractors shall be permitted to enter areas of the Leased Premises designated by Tenant as location where patient medical records are kept or stored or where such entry is prohibited by applicable state or federal health care privacy laws. The terms and conditions of this Section 19.04 shall only apply if the Permitted Use as set forth in Section 1 is and/or includes medical use.

SECTION 20 EXPENDITURES BY LANDLORD

Whenever under any provision of this Lease Tenant shall be obligated to make any payment or expenditure, or to do any act or thing, or to incur any liability whatsoever, and Tenant fails, refuses or neglects to perform as herein required, Landlord shall be entitled, but shall not be obligated, to make any such payment or to do any such act or thing, or to incur any such liability, all on behalf of and at the cost and for the account of Tenant. In such event, the amount thereof, together with ten percent (10%) of the amount due and interest thereon at the Default Rate, shall constitute and be collectable as additional rent on demand.

SECTION 21
ESTOPPEL CERTIFICATE

Tenant agrees that within ten (10) days of any demand therefor by Landlord, Tenant will execute and deliver to Landlord and/or Landlord's designee a recordable certificate stating that this Lease is unmodified and in full force and effect, such defenses or offsets as are claimed by Tenant, if any, the date to which all rentals have been paid, and such other information concerning this Lease, the Leased Premises and Tenant as Landlord or said designee may request.

SECTION 22
DEFAULT

22.01. Events of Default

22.01.1. Tenant's compliance with each and every covenant and obligation hereof on its part to be performed hereunder is a condition precedent to each and every covenant and obligation of Landlord hereunder.

22.01.2. Landlord shall have all the rights and remedies provided in this Section or elsewhere herein, in the event that:

(a) Tenant shall default in the payment of any sum of money required to be paid hereunder and such default continues for five (5) days after written notice thereof from Landlord to Tenant; or

(b) Tenant shall default in the performance of any other term, covenant or condition of this Lease on the part of Tenant to be kept and performed and such default continues for ten (10) days after written notice thereof from Landlord to Tenant; provided, however, that if the default complained of in such notice is of such a nature that the same can be rectified or cured, but cannot with reasonable diligence be done within said ten (10) day period, then such default shall be deemed to be rectified or cured if Tenant shall, within said ten (10) day period, commence to rectify and cure the same and shall thereafter complete such rectification and cure with all due diligence, and in any event, within twenty (20) days from the date of giving of such notice; or

(c) Tenant should vacate or abandon the Leased Premises during the term of this Lease. Tenant shall be deemed to have "vacated" or "abandoned" the Leased Premises if Tenant fails to open its business to the public for _____ consecutive days, except, with Landlord's prior written consent, closure due to renovation, remodeling, force majeure, or damage or destruction as set forth in Section 18 hereof; or

(d) Tenant should default under any other agreement with, or for the benefit of, Landlord; or

(e) There is commenced any case in bankruptcy against the original named Tenant, any assignee or sublessee of the original named Tenant, any then occupant of the Leased Premises or any guarantor of all or any of Tenant's obligations hereunder (each, a "Key Person") or an order for relief is entered with respect to any Key Person or there is appointed a receiver or trustee to take possession of any of the assets of any Key Person or the Leased Premises or any Key Person applies for or consents to such appointment, or there is a general assignment by any Key Person for the benefit of creditors, or any action is taken by or against any Key Person under any state or federal insolvency or bankruptcy act, or any similar law now or hereafter in effect or any property of any Key Person is taken or seized under levy of execution or attachment, or any Key Person admits in writing its inability to pay its debts as they mature; provided, however, that the filing of a petition in bankruptcy or any other action taken against any Key Person without the Key Person's consent by an independent third party adverse in interest to the Key Person, except seizure under levy of execution or attachment, shall not be a default hereunder unless the same shall continue in effect for sixty (60) days.

22.01.3. All cure periods herein shall run concurrently with any periods provided by law.

22.02. Rights and Remedies. In the event of default as designated in this Section or elsewhere herein, in addition to any other rights or remedies provided for herein or at law or in equity, Landlord, at its sole option, shall have the following rights:

(a) The right to declare the term of this Lease ended and to reenter the Leased Premises and take possession thereof, and to terminate all of the rights of Tenant in and to the Leased Premises;

(b) The right, without declaring the term of this Lease ended, to reenter the Leased Premises and to occupy the same, or any portion thereof, for and on account of Tenant as hereinafter provided, and Tenant shall be liable for and pay to Landlord on demand all such expenses as Landlord may have paid, assumed or incurred in recovering possession of the Leased Premises, including costs, expenses, attorneys' fees, and expenditures of placing the same in good order and condition, or preparing or altering the same for reletting, and all other expenses, commissions and charges paid, assumed or incurred by Landlord in or in connection with reletting the Leased Premises. Any such reletting as provided for herein may be for the remainder of the term of this Lease or for a longer or shorter period. Such reletting shall be for such rent and on such other terms and conditions as Landlord, in its sole discretion, deems appropriate. Landlord may execute any lease made pursuant to the terms hereof either in Landlord's own name or in the name of Tenant, or assume Tenant's interest in and to any existing subleases to any tenant of the Leased Premises, as Landlord may see fit, and Tenant shall have no right or authority whatsoever to collect any rent from such tenants, subtenants, licensees or concessionaires on the Leased Premises. In any case, and whether or not the Leased Premises or any part thereof be relet, Tenant, until the end of what would have been the term of this Lease in the absence of such default and whether or not the Leased Premises or any part thereof shall have been relet, shall be liable to Landlord and shall pay to Landlord monthly an amount equal to the amount due as rent hereunder, less the net proceeds for said month, if any, of any reletting effected for the account of Tenant pursuant to the provisions of this paragraph, after deducting from said proceeds all of Landlord's expenses in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, expenses of employees, alteration costs, and expenses of preparation for such reletting (all said costs are cumulative and shall be applied against proceeds of reletting until paid in full). Landlord reserves the right to bring such actions for the recovery of any deficits remaining unpaid by Tenant to Landlord hereunder as Landlord may deem advisable from time to time without being obligated to await the end of the term hereof for a final determination of Tenant's account and the commencement or maintenance of one or more actions by Landlord in this regard shall not bar Landlord from bringing any subsequent actions for further accruals pursuant to the provisions of this Section 22. In no event shall Tenant be entitled to any excess rental received by Landlord over and above that which Tenant is obligated to pay hereunder; or

(c) The right, even though it may have relet all or any portion of the Leased Premises in accordance with the provisions of subparagraph (b) of this Section, to thereafter at any time elect to terminate this Lease for such previous default on the part of Tenant, and to terminate all of the rights of Tenant in and to the Leased Premises.

22.03. Rights of Re-entry. Pursuant to the rights of re-entry provided above, Landlord may remove all persons from the Leased Premises and may, but shall not be obligated to, remove all property therefrom, and may, but shall not be obligated to, enforce any rights Landlord may have against said property or store the same in any public or private warehouse or elsewhere at the cost and for the account of Tenant or the owner or owners thereof. Tenant agrees to hold Landlord free and harmless from any liability whatsoever for the removal and/or storage of any such property, whether of Tenant or any third party whomsoever. Anything contained herein to the contrary notwithstanding, Landlord shall not be deemed to have terminated this Lease or the liability of Tenant to pay any rent or other sum of money thereafter to accrue hereunder, or Tenant's liability for damages under any of the provisions hereof, by any such reentry, or by any action in unlawful detainer or otherwise to obtain possession of the Leased Premises, unless Landlord shall have specifically, with reference to this Section, notified Tenant in writing that it has so elected to terminate this Lease. Tenant covenants and agrees that the service by Landlord of any notice pursuant to the unlawful detainer statutes of the State of Maryland and the surrender of possession pursuant to such notice shall not (unless Landlord elects to the contrary at the time of, or at any time subsequent to, the service of such notice to Tenant) be deemed to be a termination of this Lease, or the termination of any liability of Tenant hereunder to Landlord.

22.04. Actions to Enforce Landlord's Rights. In any action brought by Landlord to enforce any of its rights under or arising from this Lease, Landlord shall be entitled to receive its costs and legal expenses including reasonable attorneys' fees, whether such action is prosecuted to judgment or not. If Landlord shall engage the services of an attorney for the purpose of collecting any rental due from Tenant, Tenant shall pay the reasonable fees of such attorney for his or her services regardless of the fact that no legal proceeding or action may have been filed or commenced. The parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of landlord and tenant, Tenant's use or occupancy of the Leased Premises, and/or any claim of injury or damage. In the event Landlord commences any proceedings for nonpayment of any rent, Tenant will not interpose any counterclaim of whatever nature or description in any such proceedings. This shall not, however, be construed as a waiver of Tenant's right to assert such claims in any separate action or actions brought by Tenant.

22.05. Waiver and Consent of Landlord. The waiver by Landlord of any default or breach of any of the terms, covenants or conditions hereof on the part of Tenant to be kept and performed shall not

be a waiver of any preceding or subsequent breach of the same or any other term, covenant or condition contained herein. The subsequent acceptance of rent or any other payment hereunder by Tenant to Landlord shall not be construed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease other than the failure of Tenant to pay the particular rental or other payment or portion thereof so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rental or other payment. No payment by Tenant or receipt by Landlord of a lesser amount than the rent herein provided shall be deemed to be other than on account of the earliest rent due and payable hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept any such check or payment without prejudice to Landlord's rights to recover the balance of such rent or pursue any other remedy in or under this Lease. The consent by Landlord to any matter or event requiring Landlord's consent shall not constitute a waiver of the necessity for such consent to any subsequent matter or event. This Section 22.05 may not be waived.

22.06. Waiver of Damages and Indemnification. Nothing contained herein shall constitute a waiver of Landlord's right to recover damages by reason of Landlord's efforts to mitigate the damage to it caused by Tenant's default; nor shall anything in this Section adversely affect Landlord's right, as in this Lease elsewhere provided, to indemnification against liability for injury or damage to persons or property occurring prior to a termination of this Lease.

22.07. Recovery of Unpaid Rent. In the event of termination of this Lease pursuant to this Section, Landlord may recover from Tenant:

(a) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(b) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(d) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

As used in subparagraphs (a) and (b) above, the "worth at the time of award" is computed by allowing interest at the Default Rate per annum. As used in subparagraph (c) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

22.08. Recovery of Abated Rent. If this Lease provides for a period of "free" rent, such "free" rent is called the "Abated Rent" for purposes of this Section 22.08. Tenant shall be credited with having paid all of the Abated Rent on the expiration of the term of this Lease only if Tenant has fully, faithfully and punctually performed all of Tenant's obligations hereunder, including, without limitation, the payment of all rent (other than the Abated Rent) and all other monetary obligations hereunder. Tenant acknowledges that Tenant's right to receive credit for the Abated Rent is absolutely conditioned upon Tenant's full, faithful and punctual performance of Tenant's obligations under this Lease. If Tenant fails to fully, faithfully and punctually perform any of Tenant's obligations hereunder, the Abated Rent shall immediately become due and payable by Tenant in full at the option of Landlord.

SECTION 23 HAZARDOUS WASTE

23.01. Definitions. As used in this Lease, the following terms shall have the following meanings:

(a) The term "Environmental Laws" shall mean any federal, state, county, municipal, local or other statute, ordinance or regulation which relates to or deals with the protection of the environment or wildlife and/or human health and safety, including all regulations promulgated by a regulatory body pursuant to any such statute, ordinance, or regulation, including, the Comprehensive Environmental Response and Liability Act of 1980, as amended, 42 U.S.C. § 9601 *et seq.*, the Resource Conservation and Recovery Act, as amended, 42 U.S.C. § 6901, *et seq.*, the Federal Water Pollution Control Act, as amended, 33 U.S.C. § 1251 *et seq.*, and the Clean Air Act, as amended, 42 U.S.C. § 7401 *et seq.*

(b) The term "Hazardous Waste" shall mean and refer to asbestos, urea formaldehyde, polychlorinated biphenyls, nuclear fuel or materials, radioactive materials, explosives, known carcinogens, petroleum products and by products (including crude oil or any fraction thereof) and any pollutant, contaminant, chemical, material or substance defined as hazardous or as a pollutant or a contaminant in, or the use, manufacture, generation, storage, treatment, transportation, release or disposal of which is regulated by, any Environmental Laws.

23.02. Hazardous Waste. Tenant does not intend to and Tenant will not, nor will Tenant allow any other person (including partnerships, corporations and joint ventures) to, during the term of this Lease, manufacture, process, store, distribute, use, discharge or dispose of any Hazardous Waste in, under or on the Leased Premises, the Project or any property adjacent thereto in violation of the Environmental Laws.

(a) Tenant shall notify Landlord promptly in the event of any spill or release of Hazardous Waste into, on or onto the Leased Premises or the Project regardless of the source of spill or release, whenever Tenant knows or suspects that such a release occurred.

(b) Tenant will not be involved in operations at or near the Leased Premises which could lead to the imposition on Tenant or Landlord of liability or the creation of a lien on the Leased Premises, or the Project under the Environmental Laws.

(c) Tenant shall, upon twenty-four (24) hour prior notice by Landlord, permit Landlord or Landlord's agent access to the Leased Premises to conduct an environmental site assessment with respect to the Leased Premises.

23.03. Indemnification by Tenant. Tenant for itself and its successors and assigns undertakes to protect, indemnify, save and defend Landlord, its agents, employees, directors, officers, managers, stockholders, members, affiliates, consultants, independent contractors, successors and assigns (collectively, the "Indemnitees") harmless from any and all liability, loss, damage and expense, including attorneys' fees, claims, suits and judgments that Landlord or any other Indemnitee, whether as Landlord or otherwise, may suffer in connection with, arising out of, or by reason of, any activities of Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees as they relate to:

(a) Any Environmental Laws, including the assertion of any lien thereunder and any suit brought or judgment rendered regardless of whether the action was commenced by a citizen (as authorized under the Environmental Laws) or by a government agency;

(b) Any spill or release of or the presence of any Hazardous Waste affecting the Leased Premises or the Project, whether or not the same originates or emanates from the Leased Premises or any contiguous real estate, including any loss of value of the Leased Premises, or the Project as a result of a spill or release of or the presence of any Hazardous Waste;

(c) Any other matter affecting the Leased Premises or the Project within the jurisdiction of the United States Environmental Protection Agency, or the Maryland Department of the Environment, including costs of investigations, remedial action, or other response costs whether such costs are incurred by the United States Government, the State of Maryland, or any Indemnitee;

(d) Liability for clean-up costs, fines, damages or penalties incurred pursuant to the provisions of any applicable Environmental Laws; and

(e) Liability for personal injury or property damage arising under any statutory or common-law tort theory, including, without limitation, damages assessed for the maintenance of a public or private nuisance, or for the carrying of an abnormally dangerous activity, and response costs.

23.04. Landlord's Right to Take Corrective Action. In the event of any spill or release of or the presence of any Hazardous Waste affecting the Leased Premises or the Project caused by Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees, whether or not the same originates or emanates from the Leased Premises or any contiguous real estate, and/or if Tenant, its agents, employees, servants, contractors, subtenants, licensees, customers or business invitees shall fail to comply with any of the requirements of any Environmental Laws, Landlord may, without notice to Tenant, at its election, but without obligation so to do, give such notices and/or cause such work to be performed at the Leased Premises or the Project, as the case may be, and/or take any and all other actions as Landlord shall deem necessary or advisable in order to remedy said spill or release of Hazardous Waste or cure said failure of compliance and any amounts paid as a result thereof, together with interest at the Default Rate, from the date of payment by Landlord, shall be immediately due and payable by Tenant to Landlord.

23.05. Landlord's Right to Settle Claims. Landlord upon giving Tenant ten (10) days prior notice, shall have the right in good faith to pay, settle or compromise, or litigate any claim, demand, loss, liability, cost, charge, suit, order, judgment or adjudication under the belief that it is liable therefor, whether liable or not, without the consent or approval of Tenant unless Tenant within said ten (10) day period shall protest in writing and simultaneously with such protest deposit with Landlord collateral satisfactory to Landlord sufficient to pay and satisfy any penalty and/or interest which may accrue as a result of such protest and any judgment or judgments as may result, together with attorneys' fees and expenses, including, but not limited to, environmental consultants.

SECTION 24 QUIET POSSESSION

Tenant, upon paying the rentals and other payments herein required from Tenant, and upon Tenant's performance of all of the terms, covenants and conditions of this Lease on its part to be kept and performed, may quietly have, hold and enjoy the Leased Premises during the term of this Lease without any disturbance from Landlord or from any other person claiming through Landlord.

SECTION 25 SALE BY LANDLORD

In the event of any sale, transfer or exchange of the Leased Premises by Landlord, Landlord shall be and is hereby relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease, arising out of any act, occurrence or omission relating to the Leased Premises occurring after consummation of such sale or exchange. Tenant agrees to attorn to such purchaser or grantee.

SECTION 26 DEFAULT BY LANDLORD

In the event Landlord fails or refuses to perform any of the provisions, covenants or conditions of this Lease on Landlord's part to be kept or performed, Tenant, prior to exercising any right or remedy Tenant may have against Landlord on account of such default, shall give written notice to Landlord of such default, specifying in said notice the default with which Landlord is charged and Landlord shall not be deemed in default if the same is cured within thirty (30) days of receipt of said notice. Notwithstanding any other provision hereof, Tenant agrees that if the default complained of in the notice provided for by this Section 26 is of such a nature that the same can be rectified or cured by Landlord, but cannot with reasonable diligence be rectified or cured within said thirty (30) day period, then such default shall be deemed to be rectified or cured if Landlord within said thirty (30) day period shall commence the rectification and curing thereof and shall continue thereafter with all due diligence to cause such rectification and curing to proceed.

SECTION 27 SIGNS

Tenant may install or otherwise place on the exterior of the Building or in the Project Tenant's Signage. Tenant's Signage shall be constructed and installed promptly and in a good and workmanlike manner by contractors (which shall be approved by Landlord in writing and shall be duly licensed in the State of Maryland) and in compliance with approved plans and specifications and all insurance requirements and with all applicable permits, authorizations, building regulations, zoning laws and all other governmental rules, regulations, ordinances, statutes and laws, now or hereafter in effect pertaining to the Leased Premises and the Project. Tenant shall supervise and direct the installation and construction of Tenant's Signage using its best skill and attention. Tenant shall be solely responsible for all means, methods, techniques, sequences, and procedures used in the installation and construction of Tenant's Signage and shall diligently pursue the same to completion. Tenant shall be solely responsible for the application for and the obtaining of all permits and approvals from all governmental authorities required for Tenant's Signage, and Landlord shall reasonably cooperate with Tenant at no cost or expense to Landlord as necessary to obtain any such permits and approvals. Tenant shall properly maintain at Tenant's sole cost and expense Tenant's Signage, including prompt repairs of any nature. Upon expiration or earlier termination of this Lease, Tenant shall at its sole cost and expense promptly remove all Tenant's Signage. Tenant shall promptly repair at its sole cost and expense all damage caused to the Building or the Project by such removal.

SECTION 28
CONFIDENTIALITY

Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants and any proposed bona fide assignee or sublessee; provided, however, that Tenant may confirm to third parties the fact that it has entered into this Lease.

SECTION 29
SERVICE OF NOTICES

29.01. Manner of Service. Any and all notices and demands by either party hereto to the other party, required or desired to be given hereunder, shall be in writing and shall be validly given only if personally delivered, deposited in the United States mail, certified or registered, postage prepaid, return receipt requested, or if made by Federal Express or similar delivery service which keeps records of deliveries and attempted deliveries. Service shall be conclusively deemed made on the first business day delivery is attempted or upon receipt, whichever is sooner, and addressed as set forth in Section 1 hereof. Email may not be used for any manner of service hereunder; provided, however, that either party may deliver courtesy copies of any such notices or demands via email to the email addresses provided in Section 1.

29.02. Change of Address. Any party hereto may change its address for the purpose of receiving notices or demands as herein provided by a written notice given in the manner aforesaid to the other party hereto, which notice of change of address shall not become effective, however, until the actual receipt thereof by the other party.

SECTION 30
BROKERS

Tenant represents and warrants to Landlord that no broker or finder has been engaged by Tenant in connection with any of the transactions contemplated by this Lease. Tenant will pay, indemnify, save harmless and defend Landlord from any liability, cost or expense arising out of or connected with any claim for any commission or compensation made by any person or entity claiming to have been retained or contacted by Tenant in connection with this transaction.

SECTION 31
MISCELLANEOUS

31.01. Entire Agreement. This Lease (and the exhibits attached hereto) contains the entire agreement between Landlord and Tenant and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between Landlord and Tenant.

31.02. Amendments. This Lease cannot be changed, modified or amended without the consent in writing of both Landlord and Tenant.

31.03. Governing Law. The laws of the State of Maryland shall govern the validity, construction, performance and effect of this Lease.

31.04. Venue. The state and federal courts located in Ocean Pines, Maryland shall have the exclusive jurisdiction over, and shall be the sole venue of, any suit, action or proceeding arising out of or relating to this Lease. Landlord and Tenant hereby irrevocably waive, to the fullest extent permitted by law, any objection to such venue as being an inconvenient forum.

31.05. Neutral Interpretation. This Lease shall not be construed either for or against Landlord or Tenant, but shall be interpreted in accordance with the general tenor of its language. Masculine or feminine pronouns shall be substituted for the neuter form and vice versa, and the plural shall be substituted for the singular form and vice versa, in any place or places herein which the context requires such substitution or substitutions.

31.06. Headings. Headings used in this Lease are descriptive only and for convenience in reference to this Lease and in no way whatsoever define, limit or describe the scope or intent of this Lease, nor in any way affect this Lease.

31.07. Covenants. Whenever in this Lease any words of obligation or duty are used in connection with either party, such words shall have the same force and effect as though framed in the form of express covenants on the part of the party obligated.

31.08. Joint and Several Liability. In the event Tenant now or hereafter shall consist of more than one person, firm or corporation, then and in such event, all such persons, firms or corporations shall be jointly and severally liable hereunder.

31.09. Authorization. If Tenant is a corporation, partnership or limited liability company, each individual executing this Lease on behalf of said entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with: (a) if Tenant is a corporation, a duly adopted resolution of the board of directors of said corporation or in accordance with the bylaws of said corporation, (b) if Tenant is a partnership, the terms of the partnership agreement, and (c) if Tenant is a limited liability company, the terms of its operating agreement, and that this Lease is binding upon said entity in accordance with its terms.

31.10. Personal Obligations. The obligations of Landlord under this Lease do not constitute personal obligations of the individual managers, directors, officers, partners, members or stockholders of Landlord, and Tenant shall not seek recourse against the individual managers, directors, officers, partners, members or stockholders of Landlord or any of their personal assets for satisfaction of any liability in respect to this Lease.

31.11. Notice of Claims and Liens. Should any claim or lien be filed against the Leased Premises, or any action or proceeding be instituted affecting the title to the Leased Premises, Tenant shall give Landlord written notice thereof as soon as Tenant obtains actual or constructive knowledge thereof.

31.12. Costs and Expenses of Litigation. If there is any legal action or proceeding, including any mediation or arbitration proceeding, to enforce or interpret any provision of this Lease or to protect or establish any right or remedy of any party hereto, the unsuccessful party to such action or proceeding, whether such action or proceeding is settled or prosecuted to final judgment, shall pay to the prevailing party as finally determined, all costs and expenses, including reasonable attorneys' fees and costs, incurred by such prevailing party in such action or proceeding, in enforcing such judgment, and in connection with any appeal from such judgment.

31.13. Costs and Expenses of Requests for Landlord's Consent. Tenant shall pay all costs, expenses and reasonable attorneys' fees that may be incurred or paid by Landlord in processing, documenting or administering any request of Tenant for Landlord's consent required pursuant to this Lease, including, without limitation, requests to assign or sublet this Lease.

31.14. Cumulative Rights. The various rights, options, elections and remedies of Landlord contained in this Lease shall be cumulative and no one of them shall be construed as exclusive of any other, or of any right, priority or remedy allowed or provided for by law and not expressly waived in this Lease.

31.15. Successors and Assigns. The terms, provisions, covenants and conditions contained in this Lease shall apply to, bind and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns (where assignment is permitted) of Landlord and Tenant, respectively.

31.16. Severability. If any term, covenant or condition of this Lease, or any application thereof, should be held by a court of competent jurisdiction to be invalid, void or unenforceable, all terms, covenants and conditions of this Lease, and all applications thereof, not held invalid, void or unenforceable, shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

31.17. Time of Essence. Time is of the essence of this Lease and all of the terms, covenants and conditions hereof.

31.18. Binding Effect. Submission of this Lease for examination or execution does not constitute an option for the Leased Premises and becomes a binding and effective lease only upon execution and delivery thereof by Landlord to Tenant. In making and executing this Lease, Tenant acknowledges that neither Landlord nor its employees, representatives or agents has made, and Tenant is not relying upon, any representations, arrangements, agreements or understandings, oral or written, between the parties relating to the subject matter of this Lease which are not fully expressed in writing in this Lease.

31.19. Site Plans. Tenant acknowledges that any site plans for the Project are for the purposes of convenience only and that Landlord reserves the right at any time during initial construction of the Leased Premises and the Project or thereafter to expand, reduce, remove, demolish, change, renovate or construct any existing or new improvements at the Project.

31.20. Force Majeure. Whenever a day is appointed herein on which, or a period of time is appointed in which, either party is required to do or complete any act, matter or thing, the time for the doing or completion thereof shall be extended by a period of time equal to the number of days on or during which such party is prevented from, or is reasonably interfered with, the doing or completion of such act, matter or thing because of labor disputes, civil commotion, war, warlike operation, sabotage, terrorist activity, governmental regulations or control, fire or other casualty, inability to obtain any materials, or to obtain fuel or energy, weather or other acts of God, or other causes beyond such party's reasonable control (financial inability excepted); provided, however, that nothing contained herein shall excuse Tenant from the prompt payment of any rent or charge required of Tenant hereunder.

31.21. Relationship of Landlord and Tenant. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent or of partnership or of joint venture or of any association between Landlord and Tenant. Neither the method of computation of rent nor any other provisions contained in this Lease nor any acts of the parties hereto shall be deemed to create any relationship between Landlord and Tenant other than the relationship of landlord and tenant.

31.22. Financial Statements. Within five (5) days of Landlord's request, Tenant shall provide to Landlord Tenant's financial and credit information, including financial statements, for use by any lenders, financing sources or financial advisers selected by Landlord who require such information as a condition to granting financing or loans to Landlord and for placing a deed of trust or other mortgage encumbrance upon any portion of the Project or the Leased Premises.

31.23. Requirements of Landlord's Lender. Upon Landlord's request, and within thirty (30) days thereof, Tenant agrees to modify this Lease to meet the reasonable requirements of a lender selected by Landlord who demands such modification as a condition precedent to granting a loan and placing a deed of trust or other mortgage encumbrance upon any portion of the Project or the Leased Premises; provided such modification does not increase the minimum rent, or any other monetary obligation of Tenant under this Lease; provided further, that such lender agrees to execute an attornment and non-disturbance agreement in favor of Tenant concurrently with Tenant's execution of any documents required under this Section 31.23.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Lease the day and year first set forth above.

“LANDLORD”

OCEAN PINES MEDICAL OWNERS I, LLC
A Nevada limited liability company

By: OCEAN PINES MEDICAL MANAGERS I, LLC
A Nevada limited liability company

Its: Manager

By: _____
Malcolm or Robert Sina
Its: Manager

“TENANT”

A _____

By: _____

Its: _____

GUARANTY OF LEASE AGREEMENT

THIS GUARANTY OF LEASE AGREEMENT (this "Guaranty") is made by the undersigned guarantor ("Guarantor") on this _____ day of _____, 200__.

WHEREAS, Ocean Pines Medical Owners I, LLC, a Nevada limited liability company, as landlord ("Landlord"), and _____, a _____, as tenant ("Tenant"), entered into that certain Lease Agreement dated as of _____, 200__ (the "Lease").

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, Guarantor unconditionally and irrevocably guarantees the full and faithful performance by Tenant of all the terms, covenants and conditions of the Lease. This Guaranty shall remain in full force and effect regardless of any amendment, modification, extension, compromise or release of any term, covenant or condition of the Lease or of any party thereto, as the case may be.

Guarantor agrees to indemnify Landlord against any and all liability, loss, costs, charges, penalties, obligations, expenses, attorneys' fees, litigation, judgments, damages, claims and demands of any kind whatsoever in connection with, arising out of or by reason of the assertion by Tenant of any defense to its obligations under the Lease or the assertion by Guarantor of any defense to its obligations hereunder. Guarantor waives any right or claim or rights to cause a marshalling of Tenant's assets or to proceed against Tenant or any security for the Lease in any particular order and Guarantor agrees that any payments or performance required to be made hereunder shall become due upon demand in accordance with the terms hereof immediately upon the happening of a default under the Lease, whether or not Guarantor has been given notice of such default, and Guarantor hereby expressly waives and relinquishes all rights and remedies accorded by applicable law to guarantors, including, but not limited to, notice of demand, notice of default, any failure to pursue Tenant or its property, any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation and any defense arising by reason of any defense of Tenant or by reason of the cessation of the liability of Tenant or any defense by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease, or by reason of summary or other proceedings against Tenant.

No delay on Landlord's part in exercising any right, power or privilege under this Guaranty or any other document executed in connection herewith shall operate as a waiver of any such privilege, power or right.

Guarantor agrees that any judgment rendered against Tenant for monies or performance due Landlord shall in every and all respects bind and be conclusive against Guarantor to the same extent as if Guarantor had appeared in any such proceedings and judgment therein had been rendered against Guarantor.

Guarantor subordinates to Tenant's obligations to Landlord all indebtedness of Tenant to Guarantor, whether now existing or hereafter contracted, whether direct or indirect, contingent or determined. With respect to any such indebtedness of Tenant to Guarantor, Guarantor further agrees to make no claim therefor until any and all obligations of Tenant to Landlord shall have been discharged in full and Guarantor further covenants and agrees not to assign all or any part of such indebtedness while this Guaranty remains in effect.

The terms, covenants and conditions contained in this Guaranty shall inure to the benefit of the successors and assigns of Landlord.

If any term, covenant or condition of this Guaranty, or any application thereof, should be held by a court of competent jurisdiction to be invalid, void or unenforceable, all terms, covenants and conditions of this Guaranty, and all applications thereof not held invalid, void or unenforceable shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

In this Guaranty, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural.

This Guaranty shall be construed in accordance with its intent and without regard to any presumption or other rule requiring construction against the party causing the same to be drafted.

The laws of the State of Maryland shall govern the validity, construction, performance and effect of this Guaranty.

Guaranty

Should Guarantor consist of more than one person or entity, then, in such event, all such persons and entities shall be jointly and severally liable hereunder. In any action brought by Landlord to enforce any of its rights under or arising from this Guaranty, Landlord shall be entitled to receive its costs and legal expenses including reasonable attorneys' fees, whether such action is prosecuted to judgment or not.

"GUARANTOR"

EXHIBIT A
DESCRIPTION OF PROJECT

EXHIBIT B
FLOOR PLAN FOR LEASED PREMISES

EXHIBIT C
COMMENCEMENT DATE

The commencement date of that Lease Agreement (the "Lease") dated as of _____, 200__ by and between Ocean Pines Medical Owners I, LLC, a Nevada limited liability company, as Landlord, and _____, a _____, as Tenant, was the _____ of _____, 200_.

Pursuant to the terms and conditions of the Lease, the term of the Lease will expire on _____, 200__, subject to any right to terminate the Lease and any option to extend the term as provided in the Lease.

"LANDLORD"

OCEAN PINES MEDICAL OWNERS I, LLC
A Nevada limited liability company

By: OCEAN PINES MEDICAL MANAGERS I, LLC
A Nevada limited liability company

Its: Manager

By: _____
Malcolm or Robert Sina
Its: Manager

"TENANT"

A _____

By: _____

Its: _____

EXHIBIT D
DESCRIPTION OF LANDLORD'S WORK
(WORK LETTER AGREEMENT)

1. WORK OF IMPROVEMENTS

1.1 Landlord, at its sole cost and expense, shall make the additions, alterations, improvements or changes as more particularly described in the plans and specifications ("Landlord's Plans") for the core and shell of the Building and the on-site/off-site additions, alterations or improvements to the Project. It is understood and agreed by Tenant that any changes, as determined by Landlord within its sole and absolute discretion, from Landlord's Plans which may hereafter be made during construction shall not affect or change the Lease or invalidate the same.

1.2 Subject to Section 1.5 below, Landlord, at the sole cost and expense of Tenant, shall make the additions, alterations, improvements or changes for the Leased Premises as described in this Section 1.2 ("Landlord's Work"). Landlord shall retain an architect and mechanical, plumbing and electrical engineers, together with a general contractor, for Landlord's Work. All contractors, architects and engineers must be retained by Landlord within _____ (____) days after the date of the Lease. Landlord agrees to furnish Tenant, within _____ (____) days after the date of the Lease, with a complete and detailed set of plans and specifications for Landlord's Work ("Tenant's Plans"). Tenant's Plans shall include a timeline schedule specifying deadlines for Landlord to (a) obtain permits for Landlord's Work, (b) start the construction of Landlord's Work, and (c) finish the construction of Landlord's Work. Tenant's Plans shall (i) include tracings and other reproducible drawings, and shall be in a form satisfactory for filing with appropriate governmental authorities, (ii) conform to all applicable codes, rules, regulations and ordinances of all governing authorities, and (iii) be subject to the approval of Tenant (the "Plan Review"). Tenant shall specify in writing any disapproval resulting from the Plan Review. No later than _____ (____) days following written notice of any such disapproval from Tenant, Landlord shall correct Tenant's Plans or indicate in writing the reason for any objection to Tenant's disapproval. If Tenant objects, Landlord and Tenant shall meet as soon as practicable following Tenant's written notice to resolve the matter. If the parties are unable to agree upon Tenant's Plans within _____ (____) days following Tenant's written notice, Landlord may, at Landlord's option in its sole and absolute discretion, either (1) terminate the Lease upon ten (10) days' prior written notice to Tenant, in which case neither Landlord nor Tenant shall have further liability to the other, or (2) submit the matter to conclusive and binding arbitration to the American Arbitration Association in Ocean Pines, Maryland pursuant to its commercial rules. If Landlord terminates the Lease in accordance with this Section 1.2, Tenant shall pay all costs and expenses incurred by Landlord in connection with the preparation of Tenant's Plans.

1.3 Within _____ (____) days after approval of the Tenant's Plans by Tenant, Landlord shall provide Tenant a budget for Landlord's Work ("Tenant's Budget"). Tenant's Budget shall be subject to the approval of Tenant (the "Budget Review"). Tenant shall specify in writing any disapproval resulting from the Budget Review. No later than _____ (____) days following written notice of any such disapproval from Tenant, Landlord shall correct Tenant's Budget or indicate in writing the reason for any objection to Tenant's disapproval. If Tenant objects, Landlord and Tenant shall meet as soon as practicable following Tenant's written notice to resolve the matter. If the parties are unable to agree upon Tenant's Budget within _____ (____) days following Tenant's written notice, Landlord may, at Landlord's option in its sole and absolute discretion, either (1) terminate the Lease upon ten (10) days' prior written notice to Tenant, in which case neither Landlord nor Tenant shall have further liability to the other, or (2) submit the matter to conclusive and binding arbitration to the American Arbitration Association in Ocean Pines, Maryland pursuant to its commercial rules. If Landlord terminates the Lease in accordance with this Section 1.3, Tenant shall pay all costs and expenses incurred by Landlord in connection with the preparation of Tenant's Plans and Tenant's Budget.

1.4 Landlord's Work shall be constructed in a good and workmanlike manner in accordance with the following: (a) all applicable laws, regulations, codes, and ordinances; (b) all requirements of governmental authorities and other duly qualified bodies having jurisdiction with respect to each portion of Landlord's Work; and (c) Tenant's Plans. Moreover, Landlord's Work shall be constructed utilizing standards of quality and workmanship of no less than those standards used in the construction of similar improvements in the Ocean Pines, Maryland area. Landlord shall supervise and direct Landlord's Work using its commercially reasonable skill and attention. Landlord shall be solely responsible for all means, methods, techniques, sequences, and procedures used in the performance of Landlord's Work and shall diligently pursue the same to completion. Landlord shall be solely responsible for the application for and the obtaining of all permits and approvals from all governmental authorities required for Landlord's Work, and Tenant shall reasonably cooperate with Landlord as necessary to obtain any such permits and approvals.

1.5 All Landlord's Work shall be provided at Tenant's sole cost and expense; provided, however, that Landlord shall provide Tenant with the Improvement Allowance for the actual costs and expenses of Landlord's Work.

2. SETTLEMENT OF DISPUTES

It is understood and agreed that in the event any disagreement or dispute arises between Landlord and Tenant with reference to the work to be performed with respect to the Leased Premises pursuant hereto or with respect to whether or not the Leased Premises is available for Tenant's occupancy, the certification of Landlord's supervising architect, contractor or development agent or representative shall be conclusive and binding upon Landlord and Tenant.

3. COMPLETION OF LANDLORD'S WORK

Tenant agrees that upon completion of Landlord's Work in accordance with this Work Letter Agreement and upon the delivery to and possession by Tenant, Tenant will accept the Leased Premises in the condition delivered by the Landlord. Subject to force majeure, Landlord's Work shall be substantially complete on or before _____ (_____) days after Landlord receives all permits for Landlord's Work and Tenant provides Landlord written notice to proceed after approval of Tenant's Plans and Tenant's Budget (the "Completion Date"). Landlord's Work shall be "substantially complete" on the date Landlord notifies Tenant that a certificate of occupancy has been issued (or temporary certificate of occupancy). When Landlord's Work is substantially complete or about to be substantially completed, Landlord shall notify Tenant as to the date or anticipated date of substantial completion and of a reasonable time and date for inspection of Landlord's Work. If such time and date for inspection are not reasonably acceptable to Tenant, the parties shall mutually agree upon another time and date, provided that Tenant shall not unreasonably delay such inspection. Tenant agrees to inspect Landlord's Work at such time and on such date and to execute at the time of such inspection Landlord's form of inspection report, which shall be prepared by Landlord and shall list items designated by Landlord as not yet completed and any additional items which Tenant identifies as not yet completed (said list is hereafter referred to as a "Punch List"). If Tenant does not appear for inspection on the date designated or agreed upon, Tenant shall be deemed to have accepted Landlord's Work as complete, and Landlord may execute such Punch List on behalf of both parties. Landlord shall complete all of the items on the Punch List within a reasonable time after the Completion Date (but in no event later than _____ (_____) days after the Completion Date).

4. INCONSISTENCIES

In the event that any of the provisions of this Work Letter Agreement are inconsistent with any of the provisions of the Lease as to which this Work Letter Agreement is an exhibit and with reference to which this Work Letter Agreement has been agreed and accepted by the parties, the provisions of the Lease shall control to the extent of such inconsistency.

ATTACHMENT 17

TABLE C. CONSTRUCTION CHARACTERISTICS REVISED

INSTRUCTION: If project includes non-hospital space structures (e.g., parking garages, medical office buildings, or energy plants), complete an additional Table C for each structure.

	NEW CONSTRUCTION	RENOVATION
BASE BUILDING CHARACTERISTICS	Check if applicable	
Class of Construction (for renovations the class of the building being renovated)*		
Class A	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Class B	<input type="checkbox"/>	<input type="checkbox"/>
Class C	<input type="checkbox"/>	<input type="checkbox"/>
Class D	<input type="checkbox"/>	<input type="checkbox"/>
Type of Construction/Renovation*		
Low	<input type="checkbox"/>	<input type="checkbox"/>
Average	<input type="checkbox"/>	<input type="checkbox"/>
Good	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Excellent	<input type="checkbox"/>	<input type="checkbox"/>
Number of Stories		

*As defined by Marshall Valuation Service

PROJECT SPACE	List Number of Feet, if applicable	
Total Square Footage	Total Square Feet	
Basement		
First Floor	13,886	
Second Floor		
Third Floor		
Fourth Floor		
Average Square Feet	13,886	
Perimeter in Linear Feet	Linear Feet	
Basement		
First Floor	484' 11"	
Second Floor		
Third Floor		
Fourth Floor		
Total Linear Feet		
Average Linear Feet		
Wall Height (floor to eaves)	Feet	
Basement		
First Floor	14'	
Second Floor		
Third Floor		
Fourth Floor		
Average Wall Height		
OTHER COMPONENTS		
Elevators	List Number	
Passenger		
Freight		
Sprinklers	Square Feet Covered	
Wet System		
Dry System	13,886	
Other	Describe Type	
Type of HVAC System for proposed project		
Type of Exterior Walls for proposed project		

TABLE E. PROJECT BUDGET REVISED

INSTRUCTION: Estimates for Capital Costs (1.a-e), Financing Costs and Other Cash Requirements (2.a-g), and Working Capital Startup Costs (3) must reflect current costs as of the date of application and include all costs for construction and renovation. Explain the basis for construction cost estimates, renovation cost estimates, contingencies, interest during construction period, and inflation in an attachment to the application.

NOTE: Inflation should only be included in the inflation allowance line A.1.e. The value of donated land for the project should be included on Line A.1.d as a use of funds and on line B.8 as a source of funds

		Hospital Building	Ambulatory Surgery Facility	Total
A. USE OF FUNDS				
1. CAPITAL COSTS				
a. New Construction				
(1)	Building		\$3,250,000	\$3,250,000
(2)	Fixed Equipment			\$0
(3)	Site and Infrastructure		\$677,560	\$677,560
(4)	Architect/Engineering Fees		\$300,000	\$300,000
(5)	Permits (Building, Utilities, Etc.)		\$7,000	\$7,000
	SUBTOTAL	\$0	\$4,234,560	\$4,234,560
b. Renovations				
(1)	Building			
(2)	Fixed Equipment (not included in construction)			\$0
(3)	Architect/Engineering Fees			\$0
(4)	Permits (Building, Utilities, Etc.)			\$0
	SUBTOTAL	\$0		
c. Other Capital Costs				
(1)	Movable Equipment		\$2,035,000	\$2,075,000
(2)	Contingency Allowance - Equipment (10% of Mov. Equip)		\$203,500	\$567,904
	Contingency Allowance - Construction		\$688,823	\$688,823
(3)	Gross interest during construction period			\$0
(4)	Other (IT, Furnisings, Telecomm Equipment)		\$611,944	\$611,944
	SUBTOTAL	\$0	\$3,539,267	\$3,539,267
	TOTAL CURRENT CAPITAL COSTS	\$0	\$7,773,827	\$7,773,827
d. Land Purchase				
e. Inflation Allowance (Construction Costs)				
			\$200,000	\$200,000
	TOTAL CAPITAL COSTS	\$0	\$7,973,827	\$7,973,827
2. Financing Cost and Other Cash Requirements				
a.	Loan Placement Fees			\$0
b.	Bond Discount			\$0
c.	CON Application Assistance		\$50,000	\$50,000
	<i>c1. Legal Fees</i>			\$0
	<i>c2. Other (Specify/add rows if needed)</i>			
d.	Non-CON Consulting Fees			
	<i>d1. Legal Fees</i>			\$0
	<i>d2. Other (Specify/add rows if needed)</i>			\$0
e.	Debt Service Reserve Fund			\$0
f.	Other (Specify/add rows if needed)			\$0
	SUBTOTAL	\$0	\$8,023,827	\$8,023,827
3. Working Capital Startup Costs				
	TOTAL USES OF FUNDS	\$0	\$8,023,827	\$6,242,904
B. Sources of Funds				
1.	Cash		\$2,850,444	\$2,850,444
2.	Philanthropy (to date and expected)			\$0
3.	Authorized Bonds			\$0
4.	Interest Income from bond proceeds listed in #3			\$0
5.	Mortgage			\$0
6.	Working Capital Loans			\$0
7. Grants or Appropriations				
a.	Federal			\$0
b.	State			\$0
c.	Local			\$0
8.	Other (MOB Developer Financing)		\$5,173,383	\$5,173,383
	TOTAL SOURCES OF FUNDS		\$8,023,827	\$8,023,827
		Hospital Building	Ambulatory Surgery Facility	Total
Annual Lease Costs (if applicable)				
1.	Land			\$0
2.	Building		\$690,863	\$690,863
3.	Major Movable Equipment			\$0
4.	Minor Movable Equipment			\$0
5.	Other (Specify/add rows if needed)			\$0

* Describe the terms of the lease(s) below, including information on the fair market value of the item(s), and the number of years, annual cost, and the interest rate for the lease.

TABLE F. STATISTICAL PROJECTIONS - ENTIRE FACILITY REVISED

INSTRUCTIONS: Complete this table for the entire facility, including the proposed project. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). For sections 4 & 5, the number of beds and occupancy

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years (ending at least two years after project completion and full occupancy) Include additional years, if needed in order to			
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
1. DISCHARGES							
a. General Medical/Surgical*	2,819	2,809	2,739	2,712	2,684	2,658	2,631
b. ICU/CCU	450	391	410	406	402	398	394
TOTAL DISCHARGES	3,269	3,200	3,149	3,118	3,086	3,055	3,025
2. PATIENT DAYS							
a. General Medical/Surgical*	10,174	10,274	10,095	9,994	9,894	9,795	9,697
b. ICU/CCU	1,339	1,037	1,084	1,073	1,062	1,052	1,041
TOTAL PATIENT DAYS	11,513	11,311	11,179	11,067	10,957	10,847	10,739
3. AVERAGE LENGTH OF STAY (patient days divided by discharges)							
a. General Medical/Surgical*	3.6	3.7	3.7	3.7	3.7	3.7	3.7
b. ICU/CCU	3.0	2.7	2.6	2.6	2.6	2.6	2.6
TOTAL AVERAGE LENGTH OF STAY	3.5	3.5	3.6	3.6	3.6	3.6	3.6
4. NUMBER OF LICENSED BEDS							
a. General Medical/Surgical*	39	39	38	38	37	37	36
b. ICU/CCU	6	6	6	6	6	6	6
TOTAL LICENSED BEDS	45	45	44	44	43	43	42
<i>reflect 366 days per year.</i>							
a. General Medical/Surgical*	71.5%	72.2%	72.8%	72.1%	73.3%	72.5%	73.8%
b. ICU/CCU	61.1%	47.4%	49.5%	49.0%	48.5%	48.0%	47.5%
TOTAL OCCUPANCY %	70.1%	68.9%	69.6%	68.9%	69.8%	69.1%	70.0%
6. OUTPATIENT SURGERY							
a. OR Cases	2,935	3,415	4,068	4,149	2,823	2,879	2,937
b. OR Procedures	3082	3586	4271	4,356	2964	3,023	3,084
c. OR Minutes	158,114	168,491	187,128	190,871	141,150	143,973	146,852
d. PR Cases	4,144	3,548	1,910	1,948	227	232	236
e. PR Procedures	4289	3672	1977	2,017	230	240	244
f. PR Minutes	89,408	87,933	49,062	50,043	5,831	5,946	6,066

Note:

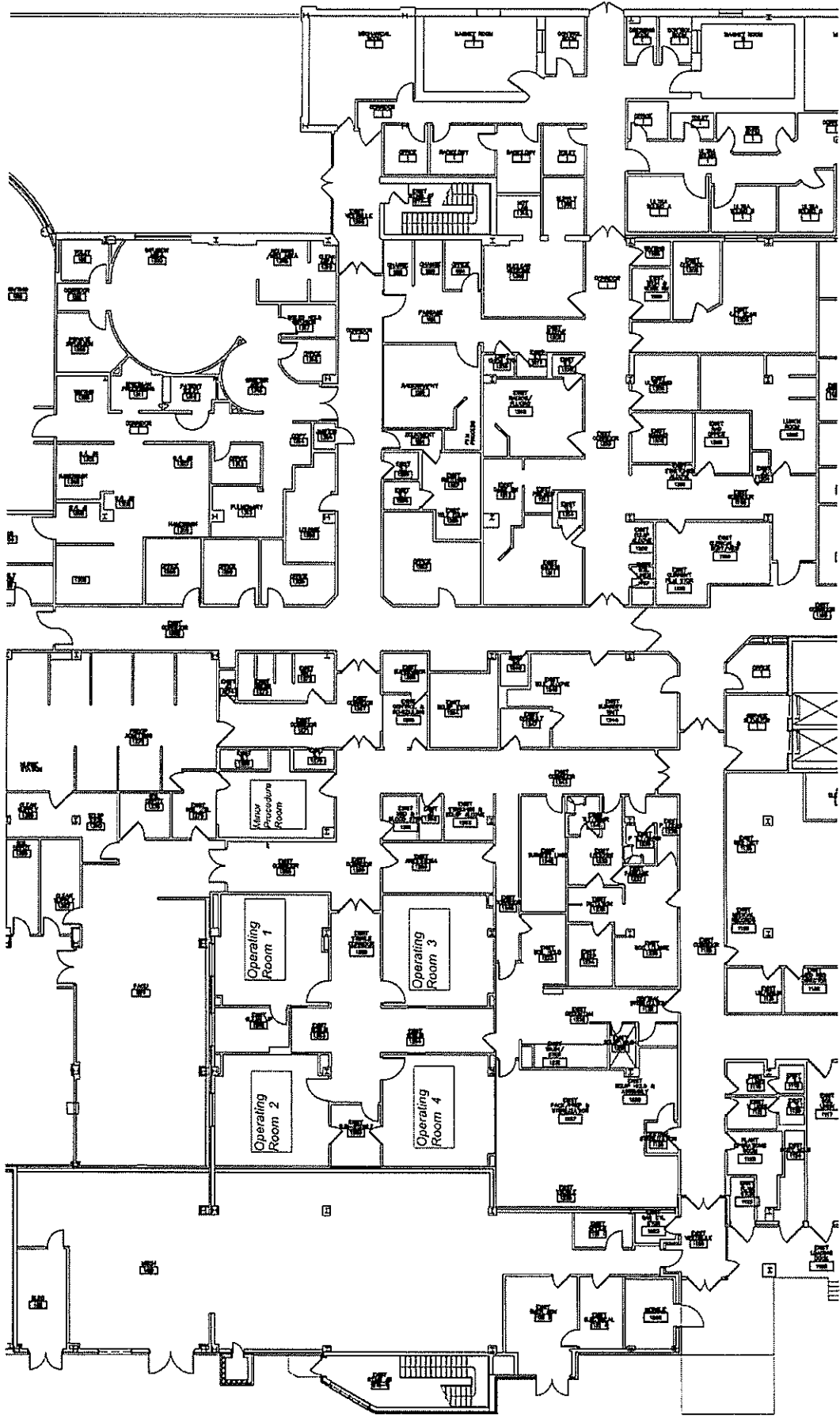
- 1) Discharges reflect a decreasing trend are removed in FY21 and reflected in Schedule I (including recruitment volume)
- 3) All outpatient surgery cases, procedures and minutes reflect ONLY Atlantic General Hospital.

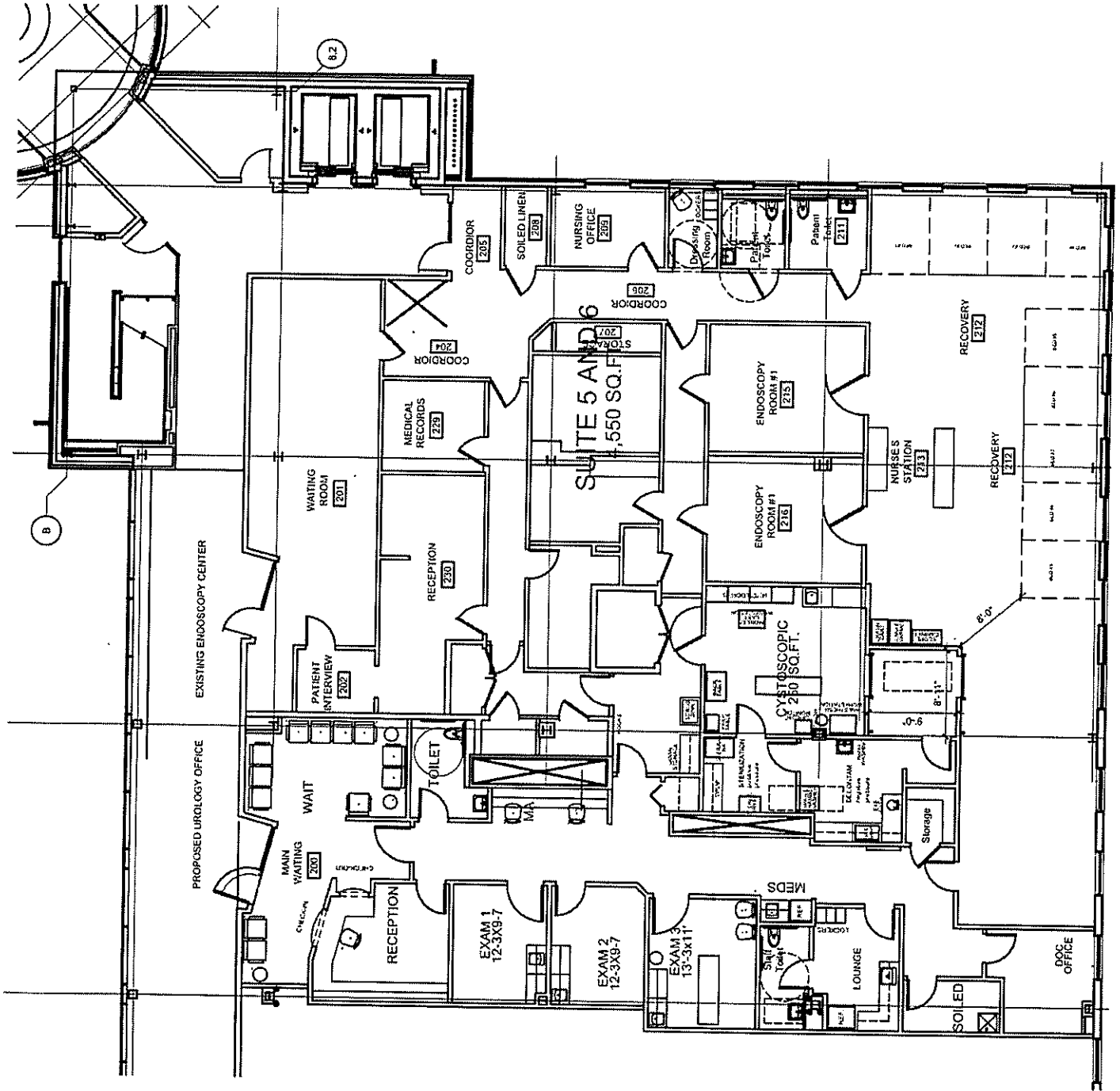
TABLE G. REVENUES & EXPENSES, UNINFLATED - ENTIRE FACILITY REVISED

INSTRUCTION: Complete this table for the entire facility, including the proposed project. Table G should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the projections in Table F and with the costs of Manpower listed in Table L. Manpower. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Specify the sources of non-operating income.

Indicate CY or FY	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	Projected Years (ending at least two years after project completion and full occupancy) Add columns if needed in order to document that the hospital will generate excess revenues over total expenses consistent with the Financial Feasibility standard.				
4. PATIENT MIX												
a. Percent of Total Revenue												
1) Medicare	52.6%	52.6%	52.6%	52.6%	52.6%	52.6%	52.6%	52.6%				
2) Medicaid	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%				
3) Blue Cross	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%				
4) Commercial Insurance	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%				
5) Self-pay	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%				
6) Other	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%				
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%
b. Equivalent Inpatient Days												
1) Medicare	17,172	17,391	17,613	17,525	17,437	17,350	17,263					
2) Medicaid	4,177	4,230	4,284	4,263	4,241	4,220	4,199					
3) Blue Cross	913	924	936	931	927	922	917					
4) Commercial Insurance	9,456	9,577	9,699	9,651	9,602	9,554	9,506					
5) Self-pay	852	863	874	870	865	861	857					
6) Other	53	54	54	54	53	53	53					
TOTAL	32,623	33,039	33,460	33,293	33,126	32,961	32,796					

ATTACHMENT 18





ATTACHMENT 19



Surgical Services

ATTACHMENT 20

LAW OFFICES

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HUGH CROPPER IV
THOMAS C. MARRINER*
ELIZABETH ANN EVINS
ROY B. COWDREY, JR. **

*ADMITTED IN MD & DC

** OF COUNSEL

November 15, 2018

Michael A. Frankin, FACHE
President/CEO
Atlantic General Hospital/Health System
9733 Healthway Drive
Berlin, Maryland 21811

RE: *Proposed Outpatient Center/Ambulatory Surgical Center
Atlantic General Hospital*

Dear Mr. Frankin:

Atlantic General Hospital has proposed to lease an Outpatient Center/Ambulatory Surgical Center on properties located on Racetrack Road (Maryland Route 589) identified as Worcester County Tax Map 21, Parcel 274, Lots 66A and 66B.

I recently applied to amend the Comprehensive Water and Sewerage Plan to reclassify the proposed project to S-1/W-1, which would provide wastewater and domestic water service within two years, as part of the Ocean Pines Sanitary Service Area.

A portion of the Staff Report is attached. The Staff Report confirms that the Planning Area has already been approved under various amendments and the property is appropriately zoned for the proposed uses. The property is zoned C-2, General Commercial District, which permits the proposed uses.

On November 1, 2018, the Worcester County Planning Commission unanimously recommended the amendment to the Comprehensive Water and Sewerage Plan.

November 15, 2018

Page Two

If you require any further information, please do not hesitate to contact me. Thank you, and have a great day.

Very truly yours,

A handwritten signature in black ink, appearing to read "Hugh Cropper IV". The signature is fluid and cursive, with a large initial "H" and "C".

Hugh Cropper IV

HC/tgb

Enclosure

CC: Sina Companies, LLC Attn: Malcolm S. Sina
John H. Burbage, Jr.

Chapter Three, "TMDLs" states:

- "all reasonable opportunities to improve water quality should be undertaken as a part of good faith efforts to meet the TMDL standards." (p.36)

Chapter Six, "Public Infrastructure" states:

- Consistent with the development philosophy, facilities and services necessary for the health, safety, and general welfare shall be cost effectively provided (p.70).
- Require new development "pay its way" by providing adequate public facilities to meet the infrastructure demand it creates (p.70).
- Plan for efficient operation, maintenance, and upgrades to existing sanitary systems as appropriate (p. 73).
- Provide for the safe and environmentally sound water supply and disposal of wastewater generated in Worcester County (p.73).
- Sewer systems should be sized to serve their service areas' planned for land uses (p. 74).

Zoning

The current Ocean Pines *Planning Area* has already been approved under various amendments and is appropriately zoned for the current and proposed uses planned for the existing sanitary area properties, including the subject properties. The proposed expansion properties, which total approximately 30.90 acres in area, have a single zoning designation. They carry a C-2 (General Commercial District) designation. This zoning district is intended to provide for more intense commercial development serving populations of three thousand or more within an approximate ten-to twenty-minute travel time. From the Zoning Code, these commercial centers have a higher parking demand and possess greater visibility. The specific uses proposed by this applicant are permitted in this zoning district.

Staff's Comments

Staff comments are submitted below for your consideration.

1. The Ocean Pines WWTP and water system has adequate available sewer and water capacity to handle this addition.
2. The *Planning Area's* comprehensive plan designation and zoning permits the proposed uses. Any construction in the *Planning Area* would be required to meet the provisions of the storm water program and other local and state requirements.
3. This proposal, while expanding the original service area, does not require the expansion of water or sewer treatment facilities. Additional public infrastructure will be constructed by the applicant and turned over to the county for connections to existing water and sewerage facilities at the south gate of Ocean Pines community.
4. The properties were previously test for onsite sewage and those tests were successful enough to support a large system that could serve commercial uses. The negative effects of serving this proposed development with onsite sewage would be addressed with service from the Ocean Pines WWTP, a plant with exceptional Enhanced Nutrient Reduction (ENR) capability.
5. Appropriate zoning was provided in this area for densities and uses consistent with the character that is normally present in an Existing Developed Area (EDA). This will provide for orderly infill development within this EDA at the southern border of the Ocean Pines community.

§ ZS 1-210. C-2 General Commercial District.

(a) Purpose and intent. This district is intended to provide for more intense commercial development serving populations of three thousand or more within an approximate ten- to twenty-minute travel time. These commercial centers generally have higher parking demand and greater visibility. Consequently, design standards and careful attention to signage, landscaping, perimeter buffers, site layout and architectural design are imperative. Commercial structures and uses must be compatible with the community and the County's character. Strip commercial forms of development are strongly discouraged.

(b) **Permitted principal uses and structures. The following uses and structures are permitted in the C-2 District:**

(1) Motels and hotels. Minimum lot requirements shall be: lot area, forty thousand square feet [see § ZS 1-305(l) hereof]; lot area per unit, one thousand square feet; lot width, sixty feet; front yard setback, twenty-five feet [see § ZS 1-305(b) hereof]; each side yard setback, six feet; and rear yard setback, twenty feet; and subject to the provisions of § ZS 1-325 hereof.

(2) Retail or service establishments.

A. These include:

1. Retail businesses.
2. Personal service businesses.
3. Restaurants, fast-food restaurants, convenience food stores, bars and nightclubs, including entertainment and dancing, but not including dry nightclubs.
4. General and professional offices.
5. Indoor commercial recreation establishments, such as bowling alleys, arcades and theaters.
- 6. Doctors offices and clinics for human outpatient medical treatment.**
7. Bakery, laundry or dry cleaning establishments.
8. Veterinary clinics or kennels, including outside pens and runways.
9. Self-service or full-service car washes.

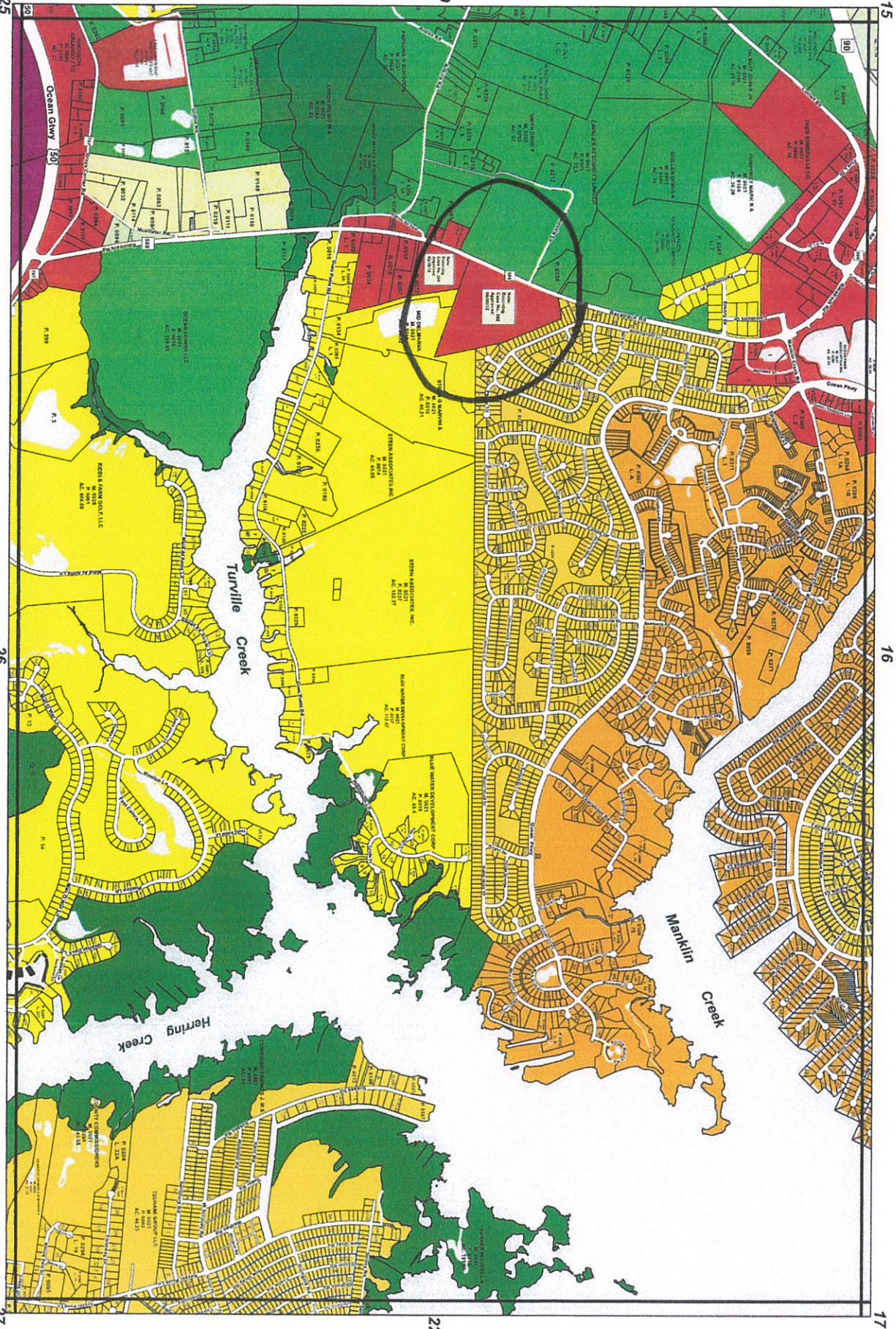
Official Zoning Map

Map prepared by Wakefield County Department of Development Review and Permitting, November 3, 2009.
 Source: Wakefield County Commissioners' APPOINTED Resolution No. 12-01 and 18-01.

	A1		RP		R2		I1		C1		V1
	A2		E1		R3		I2		C2		MUN
	CA		R1		R4		CM		C3		

0 300 600
1,200 Feet

Tax Map 21



Map prepared by Wakefield County Department of Development Review and Permitting, November 3, 2009.
 Source: Wakefield County Commissioners' APPOINTED Resolution No. 12-01 and 18-01.

ATTACHMENT 21

Atlantic General Hospital Corporation

Audited Financial Statements

Years Ended June 30, 2018 and 2017





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Independent Auditors' Report..... 1

Financial Statements:

 Balance Sheets 2

 Statements of Operations..... 4

 Statements of Change in Net Assets 5

 Statements of Cash Flows 6

 Notes to the Financial Statements 7



Independent Auditors' Report

Board of Trustees
Atlantic General Hospital Corporation
Berlin, Maryland

We have audited the accompanying financial statements of Atlantic General Hospital Corporation (the Corporation), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlantic General Hospital Corporation as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Gaithersburg, Maryland
October 29, 2018

Atlantic General Hospital Corporation
Balance Sheets
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,210,003	\$ 12,064,308
Investments	8,801,622	8,358,835
Patient accounts receivable, less uncollectible accounts of \$10,148,028 and \$6,021,643 for 2018 and 2017, respectively	11,039,161	10,080,616
Supply inventory	3,027,402	2,738,539
Current portion of pledges receivable	1,340,407	1,162,554
Prepaid expenses and other current assets	<u>3,146,294</u>	<u>2,431,572</u>
Total current assets	36,564,889	36,836,424
Land, buildings and equipment, net	61,665,021	49,179,310
Other assets:		
Assets whose use is limited:		
Cash and cash equivalents restricted by donor	62,241	84,906
Cash and cash equivalents internally designated for an endowment	209,252	66,913
Investments internally designated for an endowment	3,584,398	3,529,433
Noncurrent pledges receivable, net	1,543,567	1,370,969
Swap contracts	1,134,417	-
Long-term investments	27,696	27,696
Goodwill	2,240,455	49,056
Other noncurrent assets	<u>4,527,369</u>	<u>4,285,459</u>
Total other assets	<u>13,329,395</u>	<u>9,414,432</u>
Total assets	<u>\$ 111,559,305</u>	<u>\$ 95,430,166</u>

See accompanying notes.

Atlantic General Hospital Corporation
Balance Sheets
June 30, 2018 and 2017

(Continued)

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,712,783	\$ 5,856,689
Salaries, wages, and related items	6,696,497	5,915,128
Interest payable	96,315	46,318
Advances from third party payers	1,135,346	934,662
Current portion of long-term obligations	<u>1,564,361</u>	<u>2,398,737</u>
Total current liabilities	16,205,302	15,151,534
Noncurrent liabilities:		
Long-term obligations, less current portion and net of unamortized debt issuance costs	32,467,237	19,280,261
Swap contracts	-	192,373
Other liabilities	<u>6,275,696</u>	<u>6,310,486</u>
Total liabilities	54,948,235	40,934,654
Net assets:		
Unrestricted		
General	48,870,096	47,966,166
Board-designated	3,793,650	3,596,346
Temporarily restricted	<u>3,947,324</u>	<u>2,933,000</u>
Total net assets	<u>56,611,070</u>	<u>54,495,512</u>
Total liabilities and net assets	<u>\$ 111,559,305</u>	<u>\$ 95,430,166</u>

Atlantic General Hospital Corporation
Statements of Operations
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Patient service revenue, net of contractual allowance and discounts	\$ 126,433,804	\$ 119,312,454
Provision for bad debts	<u>(5,169,684)</u>	<u>(4,851,375)</u>
Net patient service revenue, less provision for bad debts	121,264,120	114,461,079
Other operating revenue	<u>3,749,503</u>	<u>3,280,562</u>
Total operating revenue	125,013,623	117,741,641
Operating expenses:		
Salaries	55,361,163	52,285,730
Employee benefits and other related expenses	11,404,532	10,343,440
Professional fees and contracted services	11,176,905	10,969,217
Supplies and other expense	31,486,985	27,144,853
Utilities	1,402,692	1,540,276
Maintenance and repairs	6,880,151	5,907,319
Insurance	1,701,623	1,563,567
Interest	1,169,556	873,994
Depreciation	6,852,427	6,622,664
Amortization	<u>22,248</u>	<u>17,248</u>
Total operating expenses	<u>127,458,282</u>	<u>117,268,308</u>
Income (loss) from operations	(2,444,659)	473,333
Other income:		
Investment income	748,112	469,878
Net unrealized gains on trading portfolio	654,814	1,378,017
Other	<u>2,142,967</u>	<u>872,078</u>
Total other income	<u>3,545,893</u>	<u>2,719,973</u>
Revenue and gains in excess of expenses	<u>\$ 1,101,234</u>	<u>\$ 3,193,306</u>

Atlantic General Hospital Corporation
Statements of Change in Net Assets
Years Ended June 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
Nets assets, beginning of year	\$ 51,562,512	\$ 2,933,000	\$ 54,495,512
Revenue and gains in excess of expenses	1,101,234	-	1,101,234
Restricted contributions	-	1,214,814	1,214,814
Net assets released from restrictions used for operations	-	(200,490)	(200,490)
Change in net assets	<u>1,101,234</u>	<u>1,014,324</u>	<u>2,115,558</u>
Net assets, end of year	<u>\$ 52,663,746</u>	<u>\$ 3,947,324</u>	<u>\$ 56,611,070</u>
	2017		
	Unrestricted	Temporarily Restricted	Total
Net assets, beginning of year	\$ 48,369,206	\$ 117,384	\$ 48,486,590
Revenue and gains in excess of expenses	3,193,306	-	3,193,306
Restricted contributions	-	2,948,520	2,948,520
Net assets released from restrictions used for operations	-	(132,904)	(132,904)
Change in net assets	<u>3,193,306</u>	<u>2,815,616</u>	<u>6,008,922</u>
Net assets, end of year	<u>\$ 51,562,512</u>	<u>\$ 2,933,000</u>	<u>\$ 54,495,512</u>

See accompanying notes.

Atlantic General Hospital Corporation
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities and other gains:		
Change in net assets	\$ 2,115,558	\$ 6,008,922
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities and other gains:		
Depreciation and amortization expense	6,852,427	6,639,912
Amortization of debt issuance costs	108,119	32,318
Provision for bad debts	5,169,684	4,851,375
Recognition of change in fair value of swap contract	(1,326,790)	37,691
Realized gains on sale of investments	(345,714)	(84,255)
Unrealized gains on trading portfolio	(654,814)	(1,378,017)
Loss on extinguishment of debt	365,192	-
Loss on disposal of equipment	-	42,919
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient accounts receivable, net	(6,128,229)	(6,146,953)
Supply inventory	(288,863)	(114,592)
Prepaid expenses and other current assets	(714,722)	(1,635,153)
Increase (decrease) in:		
Accounts payable and accrued expenses	856,094	1,215,879
Salaries, wages and related items	781,369	493,391
Interest payable	49,997	17
Third party advances	200,684	(74,466)
Other liabilities	(627,151)	(1,184,674)
Net cash and cash equivalents provided by operating activities and other gains	<u>6,412,841</u>	<u>8,704,314</u>
Cash flows from investing activities:		
Net purchase of trading investments	502,776	(201,501)
Purchase of land, building, and equipment	(19,029,537)	(7,093,256)
Acquisition of radiation oncology business	(2,500,000)	-
Net cash and cash equivalents used in investing activities	<u>(21,026,761)</u>	<u>(7,294,757)</u>
Cash flows from financing activities:		
Payments on long-term debt	(19,909,237)	(2,459,000)
Proceeds from issuance of long-term debt	32,341,935	-
Payments for debt issuance costs	(553,409)	(483,855)
Net cash and cash equivalents provided by (used) in financing activities	<u>11,879,289</u>	<u>(2,942,855)</u>
Net change in cash and cash equivalents	<u>(2,734,631)</u>	<u>(1,533,298)</u>
Cash and cash equivalents at beginning of year	<u>12,216,127</u>	<u>13,749,425</u>
Cash and cash equivalents at end of year	<u>\$ 9,481,496</u>	<u>\$ 12,216,127</u>
Supplemental cash flow disclosure:		
Interest paid	<u>\$ 1,169,556</u>	<u>\$ 877,766</u>
Supplemental disclosure of noncash investing and financing activities:		
Capital lease obligations issued for equipment	<u>\$ -</u>	<u>\$ 167,485</u>

See accompanying notes.

1. Organization and Nature of Activities

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

2. Summary of Significant Accounting Policies

Use of estimates

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

Basis of presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

Board-designated unrestricted net assets

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

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

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, operations, and capital projects.

Donor-restricted gifts

Unconditional promises to give cash and other assets to the Corporation 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 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 financial statements.

Risk factors

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

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States of America. Such accreditation is based upon a number of requirements including undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payers require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Center for Medicare and Medicaid Services of the U.S. Department of Health and Human Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. In other words, by being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The Hospital has been accredited by the Joint Commission through September 14, 2018. In August 2018, the Joint Commission completed their survey and the Hospital expects to receive accreditation through September 2021.

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

Cash and cash equivalents

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

Atlantic General Hospital Corporation
Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents, classified as a current asset	\$ 9,210,003	\$ 12,064,308
Amounts restricted by donor	62,241	84,906
Amounts internally designated for an endowment	<u>209,252</u>	<u>66,913</u>
Total cash and cash equivalents (as reported in the accompanying statements of cash flows)	<u>\$ 9,481,496</u>	<u>\$ 12,216,127</u>

Investments

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

The composition of investments at June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Investments:		
Common stock	\$ 2,499,350	\$ 2,374,443
Mutual funds - equities	8,580,213	8,153,443
Mutual funds - fixed maturity	<u>1,334,154</u>	<u>1,388,078</u>
	12,413,716	11,915,964
Less investments internally designated for an endowment	3,584,398	3,529,433
Less long-term investments	<u>27,696</u>	<u>27,696</u>
Undesignated investments	<u>\$ 8,801,622</u>	<u>\$ 8,358,835</u>

Investment income for the years ended June 30 consists of:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 402,398	\$ 385,623
Realized gains	<u>345,714</u>	<u>84,255</u>
	<u>\$ 748,112</u>	<u>\$ 469,878</u>

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. Currently, the Corporation maintains a 23% interest (\$20,000) in this joint venture, which is reported using the cost method of accounting in the accompanying financial statements.

Fair value measurements

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

- Level 1:** Quoted prices in active markets for identical assets or liabilities such as debt and equity securities, mutual funds, and money market accounts that are traded in an active market, and other cash equivalents. Level one investments include common stocks, equity mutual funds and money market funds that are traded in an active market.
- Level 2:** Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level two investments include corporate bonds, U.S. government obligations, and asset and mortgage backed securities. A third party pricing service may be used to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level three investments can include limited liability partnerships and limited liability companies. The fair value for these investments are determined by applying the ownership percentage to the net asset value of the investment fund. Underlying investments of the funds can include hedge funds, real estate funds, mortgage backed securities, asset backed securities, and global equity fund of funds.

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

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

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

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

Atlantic General Hospital Corporation
Notes to Financial Statements

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

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

Atlantic General Hospital Corporation
Notes to Financial Statements

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, 2017:

Assets	<u>Level 1</u>	<u>Level 2</u>	<u>Total Fair Value</u>
Mutual funds:			
Fixed maturity:			
High Yield Bond	\$ 291,456	\$ -	\$ 291,456
Inflation-Protected Bond	176,951	-	176,951
Intermediate-term Bond	919,671	-	919,671
Equities:			
Bank Loan	49,771	-	49,771
Commodities Broad Basket	75,000	-	75,000
Diversified Emerging Markets	911,420	-	911,420
Equity Energy	74,496	-	74,496
Foreign Large Blend	824,465	-	824,465
Foreign Large Growth	1,056,915	-	1,056,915
Foreign Large Value	179,638	-	179,638
Foreign Small/Mid Growth	49,325	-	49,325
Large Blend	131,936	-	131,936
Large Growth	1,335,307	-	1,335,307
Large Value	1,246,110	-	1,246,110
Mid-Cap Growth	385,375	-	385,375
Mid-Cap Value	434,722	-	434,722
Option Writing	310,100	-	310,100
Real Estate	303,234	-	303,234
Small Blend	785,629	-	785,629
Common stocks:			
Basic Materials	62,768	-	62,768
Consumer Goods	90,779	-	90,779
Financial	627,814	728,540	1,356,354
Healthcare	426,643	-	426,643
Industrial Goods	84,955	-	84,955
Services	98,325	-	98,325
Technology	209,030	-	209,030
Utilities	25,589	-	25,589
Total	<u>\$ 11,167,424</u>	<u>\$ 728,540</u>	<u>\$ 11,895,964</u>
Liabilities			
Interest rate swaps	\$ -	\$ (192,373)	\$ (192,373)
	<u>\$ 11,167,424</u>	<u>\$ (536,167)</u>	<u>\$ 11,703,591</u>

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2018 and 2017.

Supply inventory

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

Atlantic General Hospital Corporation
Notes to Financial Statements

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.

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.

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

	<u>2018</u>	<u>2017</u>
Gross charges for patient service	\$ 174,118,965	\$ 162,112,254
Deductions from gross charges		
Charity care	2,567,556	2,569,515
Contractual and other allowances	<u>45,117,605</u>	<u>40,230,285</u>
Net patient service revenue	126,433,804	119,312,454
Less: provision for bad debts	<u>5,169,684</u>	<u>4,851,375</u>
	<u>\$ 121,264,120</u>	<u>\$ 114,461,079</u>

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. The allowance for doubtful accounts compared to gross patient accounts receivable was 38% and 27% as of June 30, 2018 and 2017, respectively. The increase in allowance for doubtful accounts is the direct result of changes in policies and procedures of self-pay billings.

Goodwill

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

Atlantic General Hospital Corporation Notes to Financial Statements

Charity care

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

Under current accounting standards, the Hospital is required to report the cost of providing charity care. The cost of charity care provided by the Hospital totaled \$1,612,423 and \$1,970,963 for the years ended June 30, 2018 and 2017, respectively. Rates charged by the Hospital for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission (the Commission). For any charity services rendered by the Corporation, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Hospital.

A Maryland hospital either receives payments from or makes payments to the Commission with respect to an Uncompensated Care Fund (UCC) established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care at those hospitals. The Hospital received net payments from the UCC of \$1,005,416 and \$512,458 for the years ended June 30 2018 and 2017, respectively.

Revenue and gains in excess of expenses

The 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 (the Commission)

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

Patient service revenue is recorded at rates established by the Commission. The Hospital entered into the Global Budget Revenue (GBR) agreement with the Commission. The GBR agreement renews each year for a one-year period unless it is cancelled by the Commission or by the Hospital. The GBR agreement provides the Hospital with a fixed revenue amount (CAP) under which it must operate each year. The CAP is adjusted annually for inflation, change in the Hospital's payer mix and uncompensated care, change in population and quality incentives.

Other operating revenue

Majority of other operating revenue is derived from retail pharmacy sales. During 2018 and 2017, the Corporation generated pharmacy revenue totaling \$3,089,215 and \$2,562,637, respectively. Other operating revenue also includes rental income, rebates, physician billing fees and miscellaneous income earned from refunds.

Atlantic General Hospital Corporation Notes to Financial Statements

Advertising and marketing costs

The Corporation expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses were approximately \$1,566,560 and \$1,534,000 for the fiscal years ended June 30, 2018 and 2017, respectively, and are reported as supplies and other expense in the accompanying statements of operations. No advertising or marketing costs have been capitalized in the accompanying balance sheets.

Income taxes

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

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

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

Subsequent events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 29, 2018, the date the financial statements were available to be issued.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which provides a principle-based approach for recognizing revenues through a five-step process. The ASU is effective for the Corporation in fiscal year 2019. The guidance allows for either a full retrospective or a modified retrospective transition method.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The amendments in this ASU are effective for the Corporation in fiscal year 2020 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 August 2016, FASB issued ASU 2016-14, *Not-For-Profit Entities, Presentation of Financial Statements of Not-for-Profit Entities*. Under the new guidance, financial statements and noted disclosures requirements for not-for-profit (NFP) entities include the following:

1. Present on the face of the statement of financial position net assets with and without donor restrictions.
2. Improved disclosures for NFP entities that choose to present an operating measure.
3. Requirement to present information about its expenses by their nature and function either in the statement of activities, a separate statement, or in the notes to the financial statements.
4. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
5. Enhanced disclosures that provide quantitative and qualitative information about liquidity management.

The amendments in ASU 2016-14 are effective for the Corporation in fiscal year 2019.

Atlantic General Hospital Corporation
Notes to Financial Statements

In November 2016, FASB issued ASU 2016-18, *Statement of Cash flow, Restricted Cash*. This ASU addresses the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments in ASU 2016-18 are effective for the Corporation in fiscal year 2019 and should be applied using a retrospective transition method to each period presented.

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

3. Land, Buildings, and Equipment

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

	<u>2018</u>	<u>2017</u>
Land, buildings, and improvements	\$ 56,704,352	\$ 46,838,265
Fixed equipment	24,228,014	20,490,255
Movable equipment	40,010,654	37,143,417
Capital lease equipment	<u>2,978,185</u>	<u>2,978,185</u>
	123,921,205	107,450,122
Less accumulated depreciation	<u>70,514,829</u>	<u>63,912,394</u>
	53,406,376	43,537,728
Construction in process	<u>8,258,645</u>	<u>5,641,582</u>
	<u>\$ 61,665,021</u>	<u>\$ 49,179,310</u>

Accumulated amortization on leased equipment totaling \$1,782,175 and \$1,399,997 is included in the balance of accumulated depreciation as of June 30, 2018 and 2017, respectively. Amortization expense associated with capital lease equipment was \$382,198 and \$355,257 for the years ended June 30, 2018 and 2017, and is included in the balance of depreciation expense in the accompanying statements of operations.

4. Pledges Receivable

Unconditional promises to give cash and others assets are recorded at fair value in the year that they are made net of allowance for uncollectible accounts and discounted to their present value. As of June 30, 2018, promises to give that are expected to be received in less than one year total \$1,340,407, one to five years total \$1,807,729 and more than five years total \$40,000. The promises to give in future years are discounted in the amount of \$228,161 at a rate of 4% at June 30, 2018. Conditional promises to give are recorded at the time they become unconditional and are reported in prepaid expenses and other current assets and noncurrent pledges receivable of the accompanying balance sheet. The allowance for doubtful accounts for pledges receivable was \$76,000 and \$2,233 at December 31, 2018 and 2017, respectively.

Atlantic General Hospital Corporation
Notes to Financial Statements

5. Non-Current Liabilities

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

	<u>2018</u>	<u>2017</u>
\$7,501,000 Series A Bond payable to Maryland Health and Higher Educational Facilities Authority (MHHEFA) with interest of 2.21% per annum for the immediately succeeding interest payment date, with an interest rate based on LIBOR thereafter. The interest rate was 3.32% as of June 30, 2018. Interest payments are due monthly beginning October 1, 2017. Principal and interest payments are due monthly commencing September 1, 2023; matures July 1, 2027.	\$ 7,501,000	\$ -
\$20,013,000 Series B Bond maximum principal amount, payable to MHHEFA with interest of 2.45% per annum for the immediately succeeding interest payment date, with an interest rate based on LIBOR thereafter. The interest rate was 3.65% as of June 30, 2018. Interest payments are due monthly beginning October 1, 2017. Principal and interest payments are due monthly commencing August 2, 2027; matures March 3, 4042.	13,127,935	-
\$10,000,000 Berlin, Maryland Hospital Refunding Revenue Bonds (Atlantic General Hospital Facility), Series 2017; interest is 2.36% for the first LIBOR Interest Period, with an interest rate based on the floating LIBOR rate thereafter. The interest rate was 3.49% as of June 30, 2018. Interest payments are due monthly beginning November 1, 2017. Principal and interest payments are due monthly commencing April 1, 2042; matures July 1, 2047.	10,000,000	-
\$1,713,000 loan payable from M&T Bank for repayment of 2008 loan and transaction costs, with an interest rate of LIBOR + 1.80%. The interest rate was 3.8% as of June 30, 2018. Principal and interest payments are due monthly commencing October 2, 2017; matures August 1, 2019.	1,056,276	-
\$1,950,000 loan payable from Bank of Ocean City, secured by real property, interest of 3.99%; payable in monthly principal and interest installments of \$11,810 commencing June 23, 2014; matures May 23, 2034.	860,629	965,787
\$680,000 loan payable from Bank of Ocean City, secured by real property, with interest of 3.99%; payable in monthly principal and interest installments of \$4,118 commencing July 30, 2015; matures June 30, 2035.	611,250	633,777
\$452,208 loan payable from Bethesda Leasing, LLC for tenant improvements, with interest of 5.00%; payable in monthly principal and interest installments of \$4,796 commencing April 1, 2016; matures March 1, 2026.	369,169	407,228
\$208,522 loan payable for financing of Allscripts Sunrise Mobile MD Software and Sunrise EPSi Software with a fixed interest rate of 3.99% secured by the associated equipment. Principal and interest payments are due annually beginning December 31, 2015 through December 31, 2023.	134,829	190,260

Atlantic General Hospital Corporation
Notes to Financial Statements

<p>\$9,978,700 Berlin, Maryland Hospital Refunding Revenue Bonds (Atlantic General Hospital Facility), Series 2001; interest was determined by taking the weighted BMA index plus 1.65% per annum; principal and interest payments were due monthly commencing December 20, 2001 through December 1, 2026. Paid off in 2018.</p>	-	5,630,963
<p>\$5,000,000 Berlin, Maryland Hospital Revenue Bond (Atlantic General Hospital Facility), Series 2002; interest was 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; maturing September 1, 2027. Paid off in 2018.</p>	-	1,366,667
<p>\$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 bore interest at a rate equal to the Weighted SIFMA Calculation + 1.65%. Principal and interest payments were due monthly commencing August 1, 2010 through July 1, 2025. Paid off in 2018.</p>	-	1,185,556
<p>\$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 were due monthly commencing January 1, 2011 through July 1, 2025. Paid off in 2018</p>	-	1,449,425
<p>\$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 were due monthly commencing August 1, 2011 through July 1, 2025. This loan converted to a fixed rate of 3.48% on January 1, 2013. Paid off in 2018.</p>	-	4,062,935
<p>\$4,154,850 loan payable to M&T Bank with an interest rate of M&T 10 year swap rate; payable in monthly principal installments of \$17,312 maturing on April 9, 2023. The Corporation entered into an interest rate swap that effectively fixed the interest rate at 4.02%. The interest rate swap expired April 9, 2023. Paid off in 2018.</p>	-	3,306,560
<p>\$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; matures April 11, 2034. Paid off in 2018.</p>	-	1,557,060
<p>\$633,753 loans payable for financing of Allscripts Perks Inpatient Clinical System with fixed interest rate of 2.00% secured by the associated equipment. Principal and interest payments were due monthly beginning October 1, 2011 through July 1, 2019. Paid off in 2018.</p>	-	83,229

Atlantic General Hospital Corporation
Notes to Financial Statements

Capital leases payable, with interest ranging from 3.54% to 5.44%, secured by selected equipment.	<u>1,224,920</u>	<u>1,613,863</u>
Total long-term debt	<u>34,886,008</u>	<u>22,453,310</u>
Less – net unamortized debt issuance costs.	<u>(854,410)</u>	<u>(774,312)</u>
Less – current portion	<u>(1,564,361)</u>	<u>(2,398,737)</u>
	<u>\$ 32,467,237</u>	<u>\$ 19,280,261</u>

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

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>After 2023</u>
Future minimum lease payments	\$ 472,869	\$ 472,869	\$ 330,563	\$ 36,427	\$ 6,071	\$ -
Less interest	<u>55,424</u>	<u>30,123</u>	<u>7,406</u>	<u>899</u>	<u>27</u>	<u>-</u>
	417,445	442,746	323,157	35,528	6,044	-
Notes/loans payable	243,542	203,575	212,280	221,359	230,832	864,290
Bonds payable	<u>903,374</u>	<u>865,902</u>	<u>877,000</u>	<u>903,000</u>	<u>929,000</u>	<u>27,206,935</u>
	<u>\$ 1,564,361</u>	<u>\$ 1,512,223</u>	<u>\$ 1,412,437</u>	<u>\$ 1,159,887</u>	<u>\$ 1,165,876</u>	<u>\$28,071,225</u>

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 required monthly payments by the Corporation sufficient to meet the principal and interest requirements of the 2001 Bond through its maturity on December 1, 2026. There was no trustee for the 2001 Bond; the Corporation made all payments of principal and interest on the 2001 Bond directly to the Lender. The bond was paid off in full with the proceeds from 2017 Series B Bond.

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 required 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 1, 2027. Initially, interest was paid at 65% of the prime rate; however, from January 1, 2003 until such time that the Corporation entered into a swap arrangement, the Corporation had 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 was paid in full with the proceeds from the 2017 Series B Bond.

2008 Commercial mortgage loan

During 2008, the Corporation obtained a \$5.172 million commercial mortgage loan from a commercial bank for the purposes of paying pre-existing debt and completing construction on a medical office building. The loan was 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%. The loan was paid off with proceeds from the 2017 Series Bonds and Institution Equity.

Swap agreements

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). 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. The 2008 Swap Agreement expired on April 9, 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 (the 2013 Swap Agreement). Under the 2013 Swap Agreement, the fixed rate is 1.77% and the variable rate is the 30-day LIBOR rate. In connection with the issuance of 2017 Series Bonds, the Corporation entered into forward contracts to lock fixed interest rates ranging from 1.46% to 1.82% on a notional amount of approximately \$30 million. During 2017, the swap agreement connected with the issuance of the 2008 term loan and commercial loan was terminated upon repayment of the respective debt.

The fair value of the swap agreements as of June 30, 2018 and 2017 (as determined after consultation with investment hedging consultants), based on the present value of cash flow differences over the lives of the swap agreements between the interest rate calculated on the swap agreements at inception and rates available on similar swap agreements as of June 30, is \$1,134,417 and (\$192,373), respectively. Payments made to the counterparty to the Swap Agreement were \$115,944 and \$37,691 for the years ended June 30, 2018 and 2017, respectively. The Corporation is exposed to credit loss in the event of nonperformance by the counterparty on the swap agreements, but does not anticipate nonperformance by the counterparty.

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 were used to finance a portion of cost of the acquisition, installation and improvement of various facilities, equipment and furnishings at the main Hospital campus, equipment at the billing office, and equipment at the Atlantic Health Center.

The financing required monthly payments by the Corporation directly to the Lender sufficient to meet the principal and interest requirements of the 2010 Bonds through their 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 had interest from the date of their 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 was 5.19% and 5.08%, respectively. Beginning July 1, 2020 to and including their maturity or repayment in full, the Bonds had 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 had interest at the fixed rate of 7-year

Atlantic General Hospital Corporation

Notes to Financial Statements

point on the S43 MUNI Swaps Curve plus 244 basis points, which was 3.48%. From and after July 1, 2020 to and including its maturity or repayment in full, the Series C Bond had interest at a variable rate which was equal to the Weighted SIFMA Calculation plus 165 basis points. The 2010 Loan and Financing Agreement precluded any additional interest rate swaps or other interest rate hedging arrangement with respect to any Series of the Bonds. The bonds were paid in full by the proceeds from the 2017 Series A Bond.

2015 Commercial Mortgage Loan

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

2017 Series revenue bonds

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

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

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

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

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

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

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

2017 Term Loan

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

6. Business Combination

In March 2018, the Company acquired 100% of the equity interest of Berlin Radiation Therapy Treatment Center, LLC (the Center). The Center is in the business of providing cancer care services to Berlin, MD and the surrounding area. The Company paid \$2,500,000 and acquired medical and office equipment of \$308,171. Goodwill of \$2,191,837 was recorded as part of the acquisition and consists primarily of the assembled workforce and noncompete agreements, as well as the Center's brand. Goodwill is not subject to amortization; rather, it will be assessed for impairment at least annually.

7. 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, 2018 financial position or the results of operations for the year then ended.

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

During 2005, the Hospital, in conjunction with eight other Maryland hospitals, (Shareholders) formed Freestate Healthcare Insurance Company, Ltd. (Captive), a Cayman Islands company, to provide claims-made professional and general liability coverage for the risks of the Shareholders, their controlled affiliates, and their respective employees. Each of the Shareholders is a Maryland nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (Code or IRC), as an organization described in Section 501(c)(3) of the Code. The Shareholders are not affiliated with one another through common ownership or control. As of June 30, 2018, the Captive had five Shareholders.

The Captive provides primary coverage to the Shareholders and their affiliates with limits of liability of \$1,000,000 for each and every claim (Retained Layer), and provides an excess policy with various limits of liability which is fully reinsured through commercial carriers. The Corporation has \$10,000,000 of additional reinsurance in the aggregate through such reinsurance arrangements. The estimated unpaid loss liability reserved by the captive for the Hospital was \$4,527,369 and \$4,287,692 at June 30, 2018 and 2017, respectively. In accordance with current accounting standards, the June 30, 2018 and 2017 unpaid loss liability is recorded as a noncurrent liability, and the related insurance recovery was reported as a noncurrent asset, in the accompanying balance sheets. An estimated liability for incurred but not reported professional liability claims has also been recorded in the amount of approximately \$1,748,000 and \$2,023,000 as a noncurrent liability as of June 30, 2018 and 2017, respectively.

Premiums are calculated by an actuary under a retrospectively rated policy and are based primarily on the experience of the Shareholders. The total premium is allocated to each of the Shareholders based on their experience. Premiums for the Corporation's professional and general liability insurance of approximately \$1,260,000 and \$1,098,000 were charged to operations during fiscal years 2018 and 2017. Retrospective premium assessments and credits are calculated based on the aggregate experience of all named insureds under the policy.

Atlantic General Hospital Corporation
Notes to Financial Statements

Each named insured's assessment or credit is based on the percentage of their actual exposure to the actual exposure of all named insureds. In management's opinion, the assets of the Captive are sufficient to meet its obligations as of June 30, 2018. If the financial condition of the Captive were to materially deteriorate in the future, and the Captive was unable to pay its claim obligations, the responsibility to pay those claims would return to the member hospitals.

8. Commitments

Employment agreements

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

Lease agreements

The Corporation has entered into various lease agreements for equipment and facilities. Most lease arrangements contain a renewal option. Total rent expense for the years ended June 30, 2018 and 2017 was approximately \$1,368,000 and \$1,258,000 respectively. Future minimum payments on noncancelable office and equipment leases, with initial or remaining terms of one year or more, for years ending June 30 are as follows:

2019	\$	1,460,502
2020		1,316,442
2021		1,164,351
2023		758,463
2023		604,249
Thereafter		<u>1,298,274</u>
	\$	<u>6,602,281</u>

Retirement plans

The Corporation sponsors a 403(b) retirement covering substantially all employees of the Corporation. Participants may elect to contribute a percentage of their pretax annual compensation, as defined by the Plan, not to exceed the maximum allowable contributions under the Internal Revenue Code (IRC). The Corporation matches 50% of the first 5% of participants' elective deferrals and participants become 100% vested in employer contributions after three years of continuous service. Plan expenses were approximately \$883,921 and \$635,000 for the years ended June 30, 2018 and 2017, respectively.

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

Self-insured plans

Effective May 1, 2002, the Corporation joined the Maryland Hospital Association (MHA) Workers' Compensation Self-Insurance Group to self-insure for worker's compensation benefits. The annual premium for worker's compensation is calculated based on the Corporation's payroll estimate and MHA rates per payroll classification. The MHA rates are determined based on past experience. Amounts charged to operations for workers' compensation expense were \$663,538 and \$468,738 for the years ended June 30, 2018 and 2017, respectively.

In lieu of paying unemployment tax premiums to the State of Maryland, the Corporation secured a letter of credit with M&T Bank, effective May 21, 2004. As of June 30, 2018 the letter of credit was in the amount of \$422,755. Additionally, the Corporation paid actual Maryland unemployment claims in the amount of \$85,949 and \$56,132 for the years ended June 30, 2018 and 2017, respectively.

Atlantic General Hospital Corporation
Notes to Financial Statements

The Corporation maintains an agreement with a third party to administer a self-insured health plan that benefits Hospital employees and their dependents. On behalf of participating employees, the Corporation pays the cost of health claims and an administration fee for each subscriber employee. The participating associates share in the cost by remitting a pre-established premium through payroll deductions. Additionally, the Hospital obtains stop loss insurance to cover possible claims in excess of expected claims. The stop loss insurance agreements are annual agreements, subject to annual renewals. The Corporation submits a claim for reimbursement of stop loss insurance when claims exceed a pre-established ceiling. The Corporation's net health benefit expense for the fiscal years ended June 30, 2018 and 2017, net of premiums received from associates during the fiscal years, (\$1,083,192 and \$1,051,963 respectively), was \$5,752,905 and \$5,460,084, respectively.

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

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, 2018, approximately \$8.4 million has been paid. In December, 2014, the Corporation entered into a nine-year agreement for additional system and support services for approximately \$5.8 million. The 2014 agreement also extended the support and remote hosting services of the 2011 agreement (to begin upon expiration of the 2011 agreement) for an additional time period to continue coterminous with the 2014 agreement for approximately \$6.2 million. As of June 30, 2018, approximately \$3.8 million has been paid. In September 2015, the Corporation entered into 5 year agreement for annual upgrades for approximately \$820,000 in total. Expenditures will be expensed or capitalized in the year they are disbursed.

9. 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:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 103,007,775	\$ 93,181,395
General and administrative	<u>24,450,507</u>	<u>24,086,913</u>
	<u>\$ 127,458,282</u>	<u>\$ 117,268,308</u>

10. 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.

Atlantic General Hospital Corporation
Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Medicare	\$ 7,059,204	\$ 6,295,489
Medicaid	826,565	632,806
Commercial insurance and HMOs	4,257,924	4,427,853
CareFirst	2,966,415	2,789,868
Self-pay and others	<u>11,972,169</u>	<u>7,781,213</u>
	<u>\$ 27,082,277</u>	<u>\$ 21,927,229</u>

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

	<u>2018</u>	<u>2017</u>
Medicare	51%	50%
Medicaid	13%	13%
Commercial insurance and HMOs	14%	14%
CareFirst	18%	18%
Self-pay and others	<u>4%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

11. 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.

Atlantic General Hospital Corporation
Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Beginning fund balance	\$ 1,958,131	\$ 1,833,937
Interest and dividends	80,583	66,954
Net realized and unrealized losses	133,368	171,496
Administrative and management fees	(20,079)	(19,536)
Annual income distributions	<u>(97,616)</u>	<u>(94,720)</u>
Ending fund balance	<u>\$ 2,054,387</u>	<u>\$ 1,958,131</u>

12. Subsequent Event

Effective November 1, 2018, the Corporation will execute a swap agreement ("2018 Swap") to reduce the remaining exposure of future variable cash flow caused by fluctuations in the interest rate relative to the 2017 Series revenue bonds. A change in the corporate tax rate and application of margin rate factor made effective August 29, 2018 caused the bonds to become partially exposed to variable interest rates. The weighted average fixed rate for the bonds will be 3.83% as of November 1, 2018.

ATTACHMENT 22

ATLANTIC GENERAL HOSPITAL/HEALTH SYSTEM
POLICY AND PROCEDURE

TITLE:	TRANSFER OF PATIENTS
DEPARTMENT:	ATLANTIC ENDOSCOPY CENTER (AEC)

Effective Date: 3.15.08 Number: E-79

Revised: 12.20.11,
3/27/15 Pages: Two (2)

Reviewed: _____ Approval Date: 6.2.08

Signature:

Vice President, Patient Care

Director - AEC
Author

Medical Director

PROCEDURE:

All patients with a physician's order to transfer from this facility to Atlantic General Hospital will be managed by an efficient and expedient transfer process. The facility as a department of Atlantic General Hospital will maintain a transfer agreement with Life Start Transport.

1. A physician's order.
2. A Physician Certification Statement of Medical Necessity is to be completed by the nursing staff.
3. The following items should accompany the patient to the transfer facility:
 - A. Patient financial sheet
 - B. Physician Certification Statement of Medical Necessity form (For Life Star transport only).
 - C. Copies of the history and physical, operative report, nursing record, and progress notes

4. For life threatening emergencies, 911 will be activated. The Berlin Fire Department/EMS will respond to all 911 calls.
5. For non-life threatening emergencies,
 - A. Lifestar transport will be notified for patient transport to AGH emergency department by dialing 410-546-0809
 - B. RN will request either a wheelchair or monitored transport from the Atlantic Endoscopy Center
 - C. RN will need to provide Patient's DOB & SS# as well as copy of face sheet for transport.
 - D. Life Star requests to be notified ASAP if transport is required.
 - E. Physician must write a transfer order, as well as a script for any test required at the hospital
 - F. The GI physician will discharge patient from hospital
6. No patients actively being treated will be transferred to AGH in private vehicles.
7. The attending physician or anesthesiologist caring for the patient will call report to AGH Emergency.
8. The referral is planned with the patient and his/her family by the physician ordering the transfer.
9. The patient's belongings will be made ready to transfer or the belongings given to family. Document on patient chart to whom the belongings were given.
10. Give the documents in a sealed envelope to the transport taking the patient to the new facility.

CLINICAL RECORD:

Note on the nurse's notes the date and time of transfer/discharge, how the patient was transferred, and the names of individuals transferring or accompanying patient.

ATTACHMENT 23

Procedures and Services	Additional Information	CPT [®] or HCPCS Codes and/or How to Obtain Prior Authorization			
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Durable medical equipment (DME)
(cont'd)

K0744 K0745 K0746

End-stage renal disease/dialysis services
Services for the treatment of end-stage renal disease (ESRD) require advance notification – Includes outpatient dialysis services

Advance notification is required if a plan member is referred to an out-of-network provider for dialysis services. The purpose of steering to an in-network dialysis center is to avoid high cost-shares for plan members, even when they may have out-of-network benefits.

To enroll or refer a UnitedHealthcare Medicare Advantage plan member to the Optum Kidney Resource Service, please call **866-561-7518**.

Plan exclusions: None

Advance notification isn't required for ESRD when a UnitedHealthcare Medicare Advantage plan member travels outside of the service area.

Note: Your agreement with us may include restrictions on referring plan members outside of the UnitedHealthcare network.

Gender dysphoria treatment

Prior authorization required

55970 55980

Plan exclusions: None

These surgical codes when billed with one of the following DX codes:

Medicare
ADVANTAGE
UHC

F64.0	F64.1	F64.2	F64.8
F64.9	Z87.890		
14000	14001	14041	15734
15738	15750	15757	15758
15775	15776	15780	15781
15782	15783	15788	15789
15792	15793	19303	19304
20926	21899	31599	31899
53410	53420	53425	53430
54125	54400	54401	54405
54408	54520	54660	54690
55175	55180	55866	56625
56800	56805	57106	57110
57291	57292	57295	57296
57335	57426	58661	58720
58940	64856	64892	64896

Hysterectomy (abdominal and laparoscopic surgeries) – inpatient and outpatient procedures

Prior authorization required

Out-of-network or claims submitted by non-participating care providers without a pre-determination will be reviewed for medical necessity following the service and before payment.

58150	58152	58180	58541
58542	58543	58544	58550
58552	58553	58554	58570
58571	58572	58573	

Plan exclusions: None

Hysterectomy (vaginal) – inpatient only

No prior authorization required for outpatient vaginal hysterectomies

58260	58262	58263	58267
58270	58275	58280	58290

Plan exclusions: None

Out-of-network or claims submitted by non-participating care providers without a pre-determination will be reviewed for medical necessity

58291	58292	58293	58294
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Procedures and Services	Additional Information	CPT® or HCPCS Codes and/or How to Obtain Prior Authorization			
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Orthotics (cont'd)

L3201	L3202	L3203	L3204
L3206	L3207	L3208	L3209
L3211	L3212	L3213	L3214
L3215	L3250	L3251	L3252
L3253	L3254	L3255	L3257
L3265	L3320	L3485	L3649
L3674	L3720	L3764	L3765
L3766	L3891	L3900	L3901
L3904	L3921	L3956	L3961
L3967	L3971	L3973	L3975
L3976	L3977	L3978	L4000
L4030	L4040	L4045	L4050
L4055	L4631		

Orthopedic surgeries
Spine and joint surgeries

Prior authorization required

22100	22101	22102	22110
22112	22114	22206	22207
22210	22212	22214	22220
22222	22224	22532	22533
22548	22551	22554	22556
22558	22590	22595	22600
22610	22612	22630	22633
22800	22802	22804	22808
22810	22812	22818	22819
22830	22849	22850	22852
22855	22856	22861	22864
22865	22867	22869	22899
23470	23472	24360	24361
24362	24363	27120	27122
27125	27130	27132	27134
27137	27138	27412	27445
27446	27447	27486	27487
29866	29867	29868	29914
29915	29916	63001	63003
63005	63011	63012	63015
63016	63017	63020	63030
63040	63042	63045	63046
63047	63050	63051	63055
63056	63064	63075	63077
63081	63085	63087	63090
63101	63102	63170	63172
63173	63180	63182	63185
63190	63191	63194	63195
63196	63197	63198	63199
63200	0195T	0196T	0200T
0201T	J7330		

Out-of-network services

A recommendation from a network physician or health care provider to a hospital, physician or other health care provider who isn't contracted with UnitedHealthcare

Please note that your agreement with UnitedHealthcare may include restrictions on directing plan members outside of the UnitedHealthcare network. Plan members who use non-network

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