

# **Evangelical Community Hospital and Controlled Entities**

Consolidated Financial Statements  
and Supplementary Information

June 30, 2017 and 2016



Candor. Insight. Results.

# **Evangelical Community Hospital and Controlled Entities**

---

## Table of Contents

June 30, 2017 and 2016

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
<b>Supplementary Information</b>	
Consolidating Schedules for 2017:	
Consolidating Schedule, Balance Sheet	41
Consolidating Schedule, Statement of Operations	43
Consolidating Schedule, Statement of Changes in Net Assets (Deficit)	44
Consolidating Schedules for 2016:	
Consolidating Schedule, Balance Sheet	45
Consolidating Schedule, Statement of Operations	47
Consolidating Schedule, Statement of Changes in Net Assets (Deficit)	48

## **Independent Auditors' Report**

Board of Directors  
Evangelical Community Hospital

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Evangelical Community Hospital and controlled entities, which comprise the consolidated balance sheet as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evangelical Community Hospital and controlled entities as of June 30, 2017 and 2016, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 44 - 51 are presented for purposes of additional analysis rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Williamsport, Pennsylvania  
September 25, 2017

**Evangelical Community Hospital and Controlled Entities**

Consolidated Balance Sheet

June 30, 2017 and 2016

	2017	2016		2017	2016
Assets			Liabilities and Net Assets		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 38,069,891	\$ 36,174,783	Current maturities of:		
Short term investments	-	305,323	Hospital revenue bonds	\$ 2,119,958	\$ 2,028,852
Assets whose use is limited under trust indenture, held by trustee	1,981,034	1,941,174	Notes payable	552,262	403,417
Accounts receivable:			Capital lease obligations	483,553	530,651
Patients (net of estimated allowance for doubtful accounts of \$9,177,000 in 2017 and \$9,581,000 in 2016)	18,922,059	20,147,511	Accounts payable	5,123,073	5,715,688
Other	182,660	166,910	Accrued expenses	18,718,916	19,444,431
Current portion of note receivable	628,195	604,769	Blue Cross current financing advance	1,057,190	1,057,190
Inventories of drugs and supplies	4,755,561	4,192,799	Estimated third-party payor settlements	2,237,675	2,075,123
Prepaid expenses and other current assets	4,567,400	3,964,932	Current portion of accrued postretirement benefit costs	218,682	204,247
Total current assets	69,106,800	67,498,201	Total current liabilities	30,511,309	31,459,599
<b>Assets Whose Use is Limited</b>			<b>Long-Term Debt</b>		
By Board for future capital improvements	80,658,527	73,834,315	Hospital revenue bonds, net	37,056,339	39,134,967
Under trust indenture, held by trustee	2,377,249	2,361,949	Notes payable	936,542	690,487
Board-designated unrestricted contributions	6,256,675	5,720,257	Capital lease obligations	343,314	828,286
<b>Long-Term Investments</b>	20,273,023	17,466,009	<b>Deferred Compensation</b>	22,580,021	19,043,172
<b>Beneficial Interest in Perpetual Trusts</b>	3,967,832	3,721,986	<b>Charitable Gift Annuities Payable</b>	226,569	262,132
<b>Beneficial Interest in Charitable Remainder Trusts</b>	268,025	254,434	<b>Accrued Postretirement Benefit Costs</b>	5,623,136	5,870,473
<b>Pledges Receivable, Net</b>	7,785	24,327	<b>Estimated Medical Malpractice Claims Liability</b>	2,714,459	2,984,395
<b>Property and Equipment, Net</b>	127,992,000	123,543,238	Total liabilities	99,991,689	100,273,511
<b>Goodwill</b>	5,115,229	5,050,915	<b>Net Assets</b>		
			Unrestricted	215,705,304	198,913,299
<b>Estimated Medical Malpractice Insurance Recoveries</b>	1,801,425	2,030,754	Temporarily restricted	1,163,067	1,096,456
			Permanently restricted	5,715,817	5,427,067
<b>Other Assets</b>	4,751,307	4,203,948			
			Total net assets	222,584,188	205,436,822
Total assets	\$ 322,575,877	\$ 305,710,333	Total liabilities and net assets	\$ 322,575,877	\$ 305,710,333

See notes to consolidated financial statements

**Evangelical Community Hospital and Controlled Entities**

## Consolidated Statement of Operations

Years Ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>Unrestricted Revenues, Gains, and Other Support</b>		
Patient service revenues (net of contractual allowances and discounts)	\$ 233,703,668	\$ 224,633,061
Provision for bad debts	(11,771,359)	(12,257,502)
Net patient service revenues less provision for bad debts	221,932,309	212,375,559
Other revenues	5,529,664	2,952,362
Net assets released from restrictions	359,286	266,129
Total unrestricted revenues, gains, and other support	227,821,259	215,594,050
<b>Expenses</b>		
Salaries and wages	78,067,173	74,864,343
Physician salaries and fees	34,990,325	31,580,669
Supplies	31,241,932	30,167,871
Employee benefits	27,640,670	21,272,464
Purchased services	22,546,584	22,667,778
Depreciation	12,581,647	12,496,439
Other expenses	4,230,960	4,607,031
Utilities	2,990,300	3,031,266
Insurance	2,165,846	1,626,826
Interest (net of capitalized interest of \$246,468 in 2017 and \$126,102 in 2016)	1,971,563	2,167,170
Contract labor	1,159,133	290,925
Loss on the sale and disposal of property and equipment	87,936	24,518
Total expenses	219,674,069	204,797,300
Operating income	8,147,190	10,796,750
<b>Other Income</b>		
Investment income	7,611,140	1,251,280
Contributions	1,020,101	2,097,148
Equity in (loss) income of investees	(478,850)	80,041
Total other income	8,152,391	3,428,469
Revenues in excess of expenses	16,299,581	14,225,219
<b>Grant Income Used for Long-Term Purposes</b>	231,000	231,000
<b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b>	25,563	90,685
<b>Postretirement Benefit Liability Adjustment</b>	235,861	764,502
Increase in unrestricted net assets	\$ 16,792,005	\$ 15,311,406

See notes to consolidated financial statements

## Evangelical Community Hospital and Controlled Entities

### Consolidated Statement of Changes in Net Assets

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 16,299,581	\$ 14,225,219
Grant income used for long-term purposes	231,000	231,000
Net assets released from restrictions used for purchase of property and equipment	25,563	90,685
Postretirement benefit liability adjustment	<u>235,861</u>	<u>764,502</u>
Increase in unrestricted net assets	<u>16,792,005</u>	<u>15,311,406</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions and grants	429,940	379,760
Investment income	18,109	87,999
Change in value of split-interest agreement	3,411	(10,159)
Net assets released from restrictions	<u>(384,849)</u>	<u>(356,814)</u>
Increase in temporarily restricted net assets	<u>66,611</u>	<u>100,786</u>
<b>Permanently Restricted Net Assets</b>		
Valuation gain (loss)	245,846	(282,119)
Contributions	32,724	11,748
Change in value of split-interest agreement	<u>10,180</u>	<u>(9,378)</u>
Increase (decrease) in permanently restricted net assets	<u>288,750</u>	<u>(279,749)</u>
Increase in net assets	17,147,366	15,132,443
<b>Net Assets, Beginning</b>	<u>205,436,822</u>	<u>190,304,379</u>
<b>Net Assets, Ending</b>	<u><u>\$ 222,584,188</u></u>	<u><u>\$ 205,436,822</u></u>

See notes to consolidated financial statements

**Evangelical Community Hospital and Controlled Entities**

## Consolidated Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 17,147,366	\$ 15,132,443
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,581,647	12,496,439
Amortization of bond financing costs	41,331	41,331
Provision for bad debts	11,771,359	12,257,502
Loss on the sale and disposal of property and equipment	87,936	24,518
Unrestricted net realized and unrealized gains and losses on investments	7,228,384	1,435,270
Equity in income (loss) of investees	478,850	(80,041)
Distributions received from investees	-	372,695
Restricted contributions	(740,210)	(177,851)
Grant income used for long-term purposes	(231,000)	(231,000)
Postretirement benefit liability adjustment	(235,861)	(764,502)
Changes in assets and liabilities:		
Accounts receivable	(10,561,657)	(13,965,147)
Inventories of drugs and supplies	(562,762)	(208,147)
Prepaid expenses and other assets	(373,139)	(995,071)
Accounts payable, trade	(592,615)	(1,963,769)
Accrued expenses and other liabilities	2,508,794	4,681,575
Estimated third-party payor settlements	162,552	(1,046,775)
Net cash provided by operating activities	38,710,975	27,009,470
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(16,685,450)	(11,931,085)
Net purchases of investments	(17,145,865)	(4,822,278)
Increase in other assets	(1,026,209)	(825,901)
Net (advances) repayments of note receivable	(23,426)	202,893
Proceeds from the sale of property and equipment	42,105	1,158
Acquisition of medical practice	(64,314)	-
Net cash used in investing activities	(34,903,159)	(17,375,213)
<b>Cash Flows from Financing Activities</b>		
Repayment of long-term debt	(2,108,953)	(2,372,371)
Repayment of capital lease obligation	(532,070)	(1,340,218)
Proceeds from restricted contributions	497,315	543,248
Grant income used for long-term purposes	231,000	231,000
Net cash used in financing activities	(1,912,708)	(2,938,341)
Net increase in cash and cash equivalents	1,895,108	6,695,916
<b>Cash and Cash Equivalents, Beginning</b>	36,174,783	29,478,867
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 38,069,891</u>	<u>\$ 36,174,783</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid, net of amounts capitalized	<u>\$ 2,177,320</u>	<u>\$ 2,163,041</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>		
Property and equipment acquired through seller financed mortgage obligation	<u>\$ 475,000</u>	<u>\$ 1,002,299</u>
Capital lease obligation incurred for purchase of equipment	<u>\$ -</u>	<u>\$ 1,168,609</u>

See notes to consolidated financial statements



# **Evangelical Community Hospital and Controlled Entities**

---

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

### **1. Nature of Operations and Summary of Significant Accounting Policies**

#### **Nature of Operations**

Evangelical Community Hospital (the "Hospital") is a not-for-profit acute care hospital located in Lewisburg, Pennsylvania. The Hospital provides inpatient, outpatient, and emergency care services for residents of its primary service area which includes Lewisburg, Pennsylvania and surrounding communities in Union, Northumberland, and Snyder Counties, Pennsylvania. The Hospital functions as the parent corporation for a group of affiliated organizations related by way of common ownership and/or control. The affiliated organizations consist of Evangelical Medical Services Organization ("EMSO") and Evangelical Ambulatory Surgical Center, LLC ("EASC").

EMSO is operated in connection with and for the benefit of the Hospital. In this capacity, EMSO provides ambulatory healthcare services. The members of EMSO are those individuals who, from time to time, serve as voting members of the Hospital's Board of Directors. In their capacity as members of EMSO, these individuals have the right to, among other things, approve major expenditures, long-term borrowings, and annual operating and capital budgets.

EASC is operated in connection with and for the benefit of the Hospital. In this capacity, EASC provides outpatient surgical healthcare services. The Hospital owns 100% of the outstanding stock of EASC. Effective December 19, 2012, EASC became recognized as a hospital outpatient department by Medicare. Effective July 1, 2016, all operating results from the EASC are reported within the Hospital as a result of finalizing contract negotiations with various third-party payors for hospital-based rates.

#### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Hospital and EMSO (collectively referred to as, the "Corporation"). All significant intercompany transactions and balances have been eliminated in consolidation.

#### **Subsequent Events**

The Corporation evaluated subsequent events for recognition or disclosure through September 25, 2017, the date the consolidated financial statements were issued.

#### **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.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include investments in highly liquid debt instruments purchased with a maturity of three months or less, excluding short-term investments, assets whose use is limited, and long-term investments.

## **Evangelical Community Hospital and Controlled Entities**

---

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### **Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractual amounts due and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Corporation's allowance for doubtful accounts for self-pay patients decreased to 79% of self-pay accounts receivable at June 30, 2017, from 83% of self-pay accounts receivable at June 30, 2016. In addition, the Corporation's self-pay account write-offs (net of recoveries) decreased to approximately \$12,176,000 in 2017, from approximately \$12,366,000 in 2016. The decrease in write-offs was the result of successful collection efforts over the past year. The Corporation did not significantly change its patient financial assistance policy in 2017 or 2016. The Corporation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

#### **Assets Whose Use is Limited**

Assets whose use is limited include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a bond trustee under a trust indenture; and unrestricted contributions set aside by the Board of Directors, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts available to meet current liabilities of the Corporation have been reclassified as current assets in the accompanying consolidated balance sheet.

#### **Inventories of Drugs and Supplies**

Inventories of drugs and supplies are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

#### **Investments and Investment Risk**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Cash surrender value of life insurance policies are valued at contract value. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest, and dividends) is included in the determination of revenues in excess of expenses unless the income or loss is restricted by donor or law. Donor-restricted investment income is reported as an increase in temporarily restricted or permanently restricted net assets depending on the type of restriction.

# Evangelical Community Hospital and Controlled Entities

---

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment managers. The fair values reported in the consolidated balance sheet are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each classification of depreciable asset. Assets under capital lease arrangements are amortized over the shorter of the lease term or the useful life of the asset. Such amortization is included in depreciation expense in the accompanying consolidated statement of operations. Net interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of those constructed assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

### Deferred Financing Costs

Due to the Financial Accounting Standards Board's ("FASB") issuance of Accounting Standards Update ("ASU") No. 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, the Corporation changed its method of presenting deferred financing costs. Prior to the issuance of ASU No. 2015-03, the Corporation presented deferred financing costs as an asset in its consolidated balance sheet. As required by ASU No. 2015-03, the Corporation now presents deferred financing costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Corporation's deferred financing costs and long-term debt by \$862,011 as of June 30, 2016. In addition, amortization expense of the deferred financing costs was reclassified to interest expense in accordance with ASU No. 2015-03 which resulted in a decrease in amortization and an increase in interest expense of \$41,331 in 2016.

Deferred financing costs and bond discount/premium relate to costs incurred in connection with obtaining long-term obligations, which are being amortized over the term of the related obligations, using the straight-line method, which approximates the effective interest method. Amortization expense related to deferred financing costs was \$41,331 for the years ended June 30, 2017 and 2016.

### Goodwill

Goodwill represents the excess of the amount paid to acquire medical practices over the fair value of the net assets purchased. The Corporation follows authoritative guidance regarding goodwill and other intangible assets with indefinite lives, which requires that such assets be reviewed annually or more frequently if impairment indicators arise.

## **Evangelical Community Hospital and Controlled Entities**

---

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### **Other Investments**

Other assets include the Corporation's investment in several entities in which the Corporation has a financial interest. The Corporation follows authoritative guidance in determining whether to record such investments at cost or using the equity method.

#### **Impairment of Long-Lived Assets**

At each balance sheet date, management evaluates whether any property, equipment, or other long-lived assets have been impaired. The Corporation made no impairment related adjustments to the carrying values of long-lived assets in 2017 and 2016.

#### **Pledges Receivable**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using a credit-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution income.

#### **Split-Interest Agreements**

The Corporation has received as contributions various types of split-interest agreements, including charitable gift annuities, perpetual trusts, and charitable remainder trusts.

Under the terms of numerous charitable gift annuity agreements, the Corporation has recorded the donated assets at their fair value as of the date of each agreement and the liabilities to the donors or their beneficiaries at the present value of the estimated future payments to be paid by the Corporation to such individuals. The amount of the contribution is the difference between the fair value of the donated assets and the related liability and is recorded as unrestricted contributions, unless otherwise restricted by the donor. Included in assets whose use is limited, Board designated unrestricted contributions at June 30, 2017 and 2016 were \$1,345,000 and \$1,212,100, respectively, related to these charitable gift annuities. The Corporation's liability related to these charitable gift annuities at June 30, 2017 and 2016 was \$226,569 and \$262,132, respectively.

Under the terms of several perpetual trust agreements, the Corporation recorded assets and recognized permanently restricted contributions at the fair value of the Corporation's beneficial interest in the perpetual trust assets. Income earned on the trust assets and distributed to the Corporation is recorded as investment income in the accompanying consolidated statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair values are recorded as valuation gain or loss in permanently restricted net assets. The fair value of the Corporation's beneficial interest in such perpetual trust assets was \$3,967,832 and \$3,721,986 at June 30, 2017 and 2016, respectively.

Under the terms of a charitable remainder trust agreement where the Corporation does not control the assets, the Corporation recorded an asset and recognized a temporarily restricted contribution at the fair value of the Corporation's beneficial interest in charitable remainder trust assets. Subsequent to certain events, the Corporation is entitled to the principal and income remaining in the trust. Subsequent changes in fair value are recorded as a change in value of split-interest agreement in temporarily restricted net assets. The fair value of the Corporation's beneficial interest in such charitable remainder trust assets was \$105,807 and \$102,396 at June 30, 2017 and 2016, respectively.

## **Evangelical Community Hospital and Controlled Entities**

---

### **Notes to Consolidated Financial Statements**

June 30, 2017 and 2016

Under the terms of a charitable remainder trust agreement where the Corporation does not control the assets, the Corporation recorded an asset and recognized a permanently restricted contribution at the fair value of the Corporation's beneficial interest in charitable remainder trust assets. Subsequent to certain events, the Corporation is entitled to a portion of the principal and income remaining in the trust. Subsequent changes in fair value are recorded as a change in value of split-interest agreement in permanently restricted net assets. The fair value of the Corporation's beneficial interest in such charitable remainder trust assets was \$162,218 and \$152,038 at June 30, 2017 and 2016, respectively.

### **Endowment Spending Policy**

Commonwealth of Pennsylvania law permits the Corporation to allocate to income each year a portion of endowment return. The law allows non-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage, which by law must be between 2% and 7%, is elected by the Board of Directors. The endowment market value is determined based on an average spanning three years. The Corporation's policy for fiscal years 2017 and 2016 allowed for a payout of up to 5% of the three-year average balance, which is based on market value.

### **Revenues in Excess of Expenses**

The consolidated statement of operations includes the determination of revenues in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include postretirement benefit liability adjustment, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and grant income used for long-term purposes.

### **Net Patient Service Revenue**

The Corporation reports net patient service revenue at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits and reviews.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs discounted charges, per diem payments, and contracted amounts. The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenues on the basis of its standard rates, discounted in accordance with the Corporation's policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful accounts), recognized in 2017 and 2016 from these major payor sources, are approximately as follows:

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
June 30, 2017	\$ 64,067,000	\$ 162,449,000	\$ 7,188,000	\$ 233,704,000
June 30, 2016	\$ 56,231,000	\$ 160,817,000	\$ 7,585,000	\$ 224,633,000

### Premium Revenues

The Corporation has agreements with various health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly capitation payments based on the number of participants regardless of services actually performed. Premium revenues are included in net patient service revenues in the accompanying consolidated statement of operations.

### Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care 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 which includes the patient's ability to pay for services rendered. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable.

### Lease Revenue

The Corporation accounts for its real estate leasing activities as operating leases.

### Donor-Restricted Gifts

Unconditional promises to give cash and other assets 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 at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated statement of operations.

### Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

EMSO is subject to federal and state income taxes.

## **Evangelical Community Hospital and Controlled Entities**

---

### **Notes to Consolidated Financial Statements**

June 30, 2017 and 2016

EASC is a limited liability company that is not subject to federal or state income taxes. It has elected not to be treated as a separate entity for federal income tax purposes since the Corporation is the sole member. Accordingly, it is considered a disregarded entity and is reported within the Hospital's Federal Return of Organization Exempt from Income Tax.

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management has determined that there were no tax uncertainties that met the recognition threshold in 2017 and 2016.

The Corporation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

#### **Advertising Costs**

Advertising costs are expensed as incurred. Advertising costs amounted to approximately \$721,000 in 2017 and \$706,000 in 2016.

#### **Estimated Malpractice Costs**

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Corporation's consolidated balance sheet at net realizable value.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

#### **Grant Income Used for Long-Term Purposes**

The Corporation has been awarded various grants associated with its surgical and cardiovascular expansion project. Such grant awards were utilized for debt service payments, site acquisition, site preparation and construction. Such amounts are classified as grant income used for long-term purposes in the accompanying statements of operations and changes in net assets.

#### **Reclassifications**

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year presentation.

# Evangelical Community Hospital and Controlled Entities

---

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

## New Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is permitted. The Corporation has not yet determined the impact of the adoption of the ASU No. 2014-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2016-02 for its year ending June 30, 2020. The Corporation has not yet determined the impact of adoption of the ASU No. 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. No. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. No. ASU 2016-14 is to be applied retroactively with transition provisions. The Corporation has not yet determined the impact of the adoption of the No. ASU 2016-14 on its consolidated financial statements.

## 2. Net Patient Service Revenues

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. A significant portion of the Corporation's net patient service revenues is derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Corporation is reimbursed for cost reimbursable expenditures at tentative interim rates, with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare fiscal intermediary. The Corporation's Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2015.



## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

- **Medical Assistance:** Inpatient acute care services rendered to Medical Assistance program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a published fee schedule.
- **Blue Cross:** Inpatient services rendered to Capital Blue Cross subscribers are reimbursed at prospectively determined rates per case. Outpatient services are paid based on a percentage of established Corporation rates.

The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenues received under certain third-party arrangements are subject to audit and retroactive adjustment. Net patient service revenue was increased by approximately \$221,000 in 2017 and \$1,784,000 in 2016 as a result of adjustments to prior year estimates and settlement of outstanding cost reports, primarily as a result of the Corporation re-opening previously closed cost reports in order to receive disproportionate share payments it was entitled to.

### 3. Charity Care and Community Support

The Corporation maintains records to identify and monitor the level of charity care and community service it provides. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The level of charity care provided by the Corporation amounted to approximately \$143,000 in 2017 and \$141,000 in 2016.

#### Community Support

Support of those in need includes services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured, excluding those who qualify for charity care under the Corporation's policies. Community support also includes governmental program shortfalls, primarily from the Medicare and Medical Assistance programs. The approximate costs associated with Corporation's community support for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Governmental program shortfalls	<u>\$ 21,359,000</u>	<u>\$ 18,797,000</u>
Services provided for which payment was not received	<u>\$ 2,889,000</u>	<u>\$ 2,994,000</u>
Community health education programs	<u>\$ 883,000</u>	<u>\$ 878,000</u>
Volunteer services	<u>\$ 1,217,000</u>	<u>\$ 1,140,000</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Costs associated with governmental program shortfalls and services provided for which payment was not received are estimated by applying a cost-to-charge ratio to the related amount of gross charges. Costs associated with community health education programs are estimated based upon actual costs incurred to provide such programs, including an allocation of overhead costs to provide such programs. The cost of volunteer services, which do not meet the criteria for recognition, is estimated based upon the total number of volunteer hours tracked by the Corporation multiplied by the statewide average wage rate, as published by the Center for Workforce Information and Analysis.

#### 4. Investments

The Corporation's investments are presented on the consolidated balance sheet as follows:

	<u>2017</u>	<u>2016</u>
Short term investments	\$ -	\$ 305,323
Assets whose use is limited:		
Under trust indenture, held by trustee:		
Current portion	1,981,034	1,941,174
Noncurrent portion	2,377,249	2,361,949
By board for future capital improvements	80,658,527	73,834,315
Board-designated unrestricted contributions	6,256,675	5,720,257
Long-term investments	<u>20,273,023</u>	<u>17,466,009</u>
Total	<u>\$ 111,546,508</u>	<u>\$ 101,629,027</u>

#### Short Term Investments

The composition of short term investments at June 30, 2017 and 2016 is set forth in the following table:

	<u>2017</u>	<u>2016</u>
Marketable equity securities:		
Consumer discretionary	\$ -	\$ 18,023
Consumer staples	-	16,328
Financial	-	23,425
Information technology	-	26,264
Healthcare	-	22,178
Industrial	-	14,315
Energy	-	10,147
Other	-	13,964
U.S. government and agency obligations	<u>-</u>	<u>160,679</u>
Total	<u>\$ -</u>	<u>\$ 305,323</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### Assets Whose Use is Limited

The composition of assets whose use is limited ("AWUL") at June 30, 2017 and 2016 is set forth in the following table:

	2017	2016
By Board for future capital improvements:		
Cash and cash equivalents	\$ 2,724,239	\$ 2,740,952
Marketable equity securities:		
Information technology	5,299,357	3,516,352
Consumer discretionary	3,749,225	3,381,378
Financial	3,322,116	2,443,828
Healthcare	3,016,226	3,050,398
Industrial	2,296,453	1,837,123
Consumer staples	1,091,236	1,722,326
Other	775,824	1,423,626
Energy	221,617	1,035,639
Telecommunications	206,100	-
Fixed income mutual funds	16,437,338	13,454,209
Equity mutual funds:		
International	9,429,727	9,760,211
Other	6,775,157	6,230,492
Large cap	4,335,960	2,473,802
Real estate	2,747,799	2,790,044
Small cap	21,841	18,624
Debt securities:		
Corporate, investment grade	9,810,041	9,611,039
Mortgage backed	5,091,129	4,844,701
U.S. government and agency obligations	1,597,716	1,303,380
Other	787,882	1,309,783
Cash surrender value of life insurance policies	921,544	886,408
Total	\$ 80,658,527	\$ 73,834,315

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	2017	2016
Under trust indenture, held by trustee (Note 8):		
Cash and cash equivalents	\$ 2,022,488	\$ 2,114,893
Debt securities:		
Corporate, investment grade	1,267,670	1,218,742
U.S. government and agency obligations	577,685	414,350
Mortgage backed	455,396	519,305
Other	35,044	35,833
Total	4,358,283	4,303,123
Less funds held by trustee available to meet current liabilities	1,981,034	1,941,174
Noncurrent portion of funds held by trustee	\$ 2,377,249	\$ 2,361,949
Board-designated unrestricted contributions:		
Cash and cash equivalents	\$ 194,906	\$ 242,238
Fixed income mutual funds	2,709,180	2,606,127
Equity mutual funds:		
Large cap	2,349,533	2,053,882
International	647,297	531,739
Small cap	355,759	286,271
Total	\$ 6,256,675	\$ 5,720,257

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### Long-Term Investments

The composition of long-term investments at June 30, 2017 and 2016 is set forth in the following table:

	2017	2016
Cash and cash equivalents	\$ 1,351,903	\$ 220,443
Marketable equity securities:		
Information technology	58,390	40,607
Industrial	40,680	28,842
Healthcare	36,278	37,038
Financial	35,663	43,295
Consumer discretionary	26,420	27,472
Consumer staples	22,475	23,920
Energy	22,275	22,595
Other	7,796	10,711
Telecommunications	5,572	-
Fixed income mutual funds	5,151,101	1,916,625
Equity mutual funds:		
Large cap	813,266	903,770
International	1,723,143	1,300,202
Small cap	491,611	1,095,184
Mid cap	71,911	1,048,685
Other	40,369	80,171
Debt securities:		
U.S. Government and agency obligations	60,281	-
Cash surrender value of life insurance policies	10,313,889	10,666,449
Total	<u>\$ 20,273,023</u>	<u>\$ 17,466,009</u>

#### Investment Return

Unrestricted investment income, gains, and losses for assets whose use is limited, cash and cash equivalents and long-term investments, net of spending policy, are comprised of the following in 2017 and 2016:

	2017	2016
Investment return:		
Other revenues (losses):		
Unrealized gains (losses) on trading securities	\$ 1,042,795	\$ (487,680)
Interest and dividend income	215,370	209,946
Realized gains (losses) on sales of securities	780,011	(59,929)
Total other revenues (losses)	2,038,176	(337,663)

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Other income:		
Realized gains on sales of securities	3,072,502	1,727,207
Interest and dividend income	2,605,319	2,509,463
Unrealized gains (losses) on trading securities	2,333,076	(2,614,868)
Investment fees	(399,757)	(370,522)
	<u>7,611,140</u>	<u>1,251,280</u>
Total other income		
	<u>7,611,140</u>	<u>1,251,280</u>
Total	<u>\$ 9,649,316</u>	<u>\$ 913,617</u>

## 5. Fair Value Measurements and Financial Instruments

### Fair Value Measurements

The Corporation measures its trading securities, beneficial interest in perpetual trusts, and beneficial interest in charitable remainder trusts on a recurring basis at fair value in accordance with generally accepted accounting principles.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

# Evangelical Community Hospital and Controlled Entities

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The fair value of financial instruments listed below was determined using the following valuation hierarchy at June 30, 2017 and 2016:

	2017				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets - Recurring fair value measurements:</b>					
Investments and AWUL:					
Cash and cash equivalents	\$ 6,293,536	\$ 6,293,536	\$ 6,293,536	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	3,775,645	3,775,645	3,775,645	-	-
Consumer staples	1,113,711	1,113,711	1,113,711	-	-
Financial	3,357,779	3,357,779	3,357,779	-	-
Information technology	5,357,747	5,357,747	5,357,747	-	-
Healthcare	3,052,504	3,052,504	3,052,504	-	-
Industrial	2,337,133	2,337,133	2,337,133	-	-
Energy	243,892	243,892	243,892	-	-
Telecommunications	211,672	211,672	211,672	-	-
Other	783,620	783,620	783,620	-	-
Fixed income mutual funds	24,297,619	24,297,619	24,297,619	-	-
Equity mutual funds:					
International	11,800,167	11,800,167	11,800,167	-	-
Large cap	7,498,759	7,498,759	7,498,759	-	-
Other	6,815,526	6,815,526	6,815,526	-	-
Real estate	2,747,799	2,747,799	2,747,799	-	-
Small cap	869,211	869,211	869,211	-	-
Mid cap	71,911	71,911	71,911	-	-
Debt Securities:					
Corporate, investment grade	11,077,711	11,077,711	-	11,077,711	-
Mortgage backed	5,546,525	5,546,525	-	5,546,525	-
U.S. government and agency obligations	2,235,682	2,235,682	-	2,235,682	-
Other	822,926	822,926	-	822,926	-
Total	100,311,075	100,311,075	80,628,231	19,682,844	-
Beneficial interest in perpetual trusts	3,967,832	3,967,832	-	-	3,967,832
Beneficial interest in charitable remainder trusts	268,025	268,025	-	-	268,025
Total assets	<u>\$ 104,546,932</u>	<u>\$ 104,546,932</u>	<u>\$ 80,628,231</u>	<u>\$ 19,682,844</u>	<u>\$ 4,235,857</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

		2017			
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets disclosed at fair value:</b>					
Cash and cash equivalents	\$ 38,069,891	\$ 38,069,891	\$ 38,069,891	\$ -	\$ -
Note receivable	628,195	628,195	-	-	628,195
Pledges receivable, net	7,785	7,785	-	-	7,785
Total	<u>\$ 38,705,871</u>	<u>\$ 38,705,871</u>	<u>\$ 38,069,891</u>	<u>\$ -</u>	<u>\$ 635,980</u>
<b>Liabilities disclosed at fair value,</b>					
Long-term debt:					
Hospital revenue bonds	\$ 39,176,297	\$ 42,654,487	\$ -	\$ 42,654,487	\$ -
Notes payable	1,488,804	1,488,804	-	-	1,488,804
Total	<u>\$ 40,665,101</u>	<u>\$ 44,143,291</u>	<u>\$ -</u>	<u>\$ 42,654,487</u>	<u>\$ 1,488,804</u>



# Evangelical Community Hospital and Controlled Entities

## Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	2016				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets - Recurring fair value measurements:</b>					
Investments and AWUL:					
Cash and cash equivalents	\$ 5,318,526	\$ 5,318,526	\$ 5,318,526	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	3,426,873	3,426,873	3,426,873	-	-
Consumer staples	1,762,574	1,762,574	1,762,574	-	-
Financial Information technology	2,510,548	2,510,548	2,510,548	-	-
Healthcare	3,583,223	3,583,223	3,583,223	-	-
Industrial	3,109,614	3,109,614	3,109,614	-	-
Energy	1,880,280	1,880,280	1,880,280	-	-
Other	1,068,381	1,068,381	1,068,381	-	-
Fixed income mutual funds	1,448,301	1,448,301	1,448,301	-	-
Equity mutual funds:					
International	17,976,961	17,976,961	17,976,961	-	-
Large cap	11,592,152	11,592,152	11,592,152	-	-
Other	5,431,454	5,431,454	5,431,454	-	-
Real estate	6,310,663	6,310,663	6,310,663	-	-
Small cap	2,790,044	2,790,044	2,790,044	-	-
Mid cap	1,400,079	1,400,079	1,400,079	-	-
Debt Securities:					
Corporate, investment grade	1,048,685	1,048,685	1,048,685	-	-
Mortgage backed U.S. government and agency obligations	10,829,781	10,829,781	-	10,829,781	-
Other	5,364,006	5,364,006	-	5,364,006	-
	1,878,409	1,878,409	-	1,878,409	-
	1,345,616	1,345,616	-	1,345,616	-
Total	90,076,170	90,076,170	70,658,358	19,417,812	-
Beneficial interest in perpetual trusts	3,721,986	3,721,986	-	-	3,721,986
Beneficial interest in charitable remainder trusts	254,434	254,434	-	-	254,434
Total assets	\$ 94,052,590	\$ 94,052,590	\$ 70,658,358	\$ 19,417,812	\$ 3,976,420

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	2016				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets disclosed at fair value:</b>					
Cash and cash equivalents	\$ 36,174,783	\$ 36,174,783	\$ 36,174,783	\$ -	\$ -
Note receivable	604,769	604,769	-	-	604,769
Pledges receivable, net	24,327	24,327	-	-	24,327
Total	<u>\$ 36,803,879</u>	<u>\$ 36,803,879</u>	<u>\$ 36,174,783</u>	<u>\$ -</u>	<u>\$ 629,096</u>
<b>Liabilities disclosed at fair value,</b>					
Long-term debt:					
Hospital revenue bond	\$ 44,163,819	\$ 45,790,733	\$ -	\$ 45,790,733	\$ -
Notes payable	1,093,904	1,093,904	-	-	1,093,904
Total	<u>\$ 45,257,723</u>	<u>\$ 46,884,637</u>	<u>\$ -</u>	<u>\$ 45,790,733</u>	<u>\$ 1,093,904</u>

Investments also include \$11,235,433 and \$11,552,857 at June 30, 2017 and 2016, respectively, of cash surrender value of life insurance policies. These are excluded from the fair value hierarchy because they are recorded at contract value.

The Corporation measures its beneficial interest in perpetual trusts at fair value based on the fund's underlying investments using unobservable inputs (Level 3) in accordance with accounting principles generally accepted in the United States of America. Changes to the beneficial interest perpetual trusts in 2017 and 2016 were as follows:

	2017	2016
Beginning balance	\$ 3,721,986	\$ 4,004,105
Investment income from beneficial interest in perpetual trust	51,644	184,612
Distributions from beneficial interest in perpetual trust	(51,644)	(184,612)
Valuation gain (loss), net	245,846	(282,119)
Total	<u>\$ 3,967,832</u>	<u>\$ 3,721,986</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Corporation measures its beneficial interest in charitable remainder trusts at fair value based on the fund's underlying investments using unobservable inputs (Level 3) in accordance with accounting principles generally accepted in the United States of America. Changes to the beneficial interest in charitable remainder trusts in 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 254,434	\$ 273,971
Change in value of split interest agreement	<u>13,591</u>	<u>(19,537)</u>
Total	<u>\$ 268,025</u>	<u>\$ 254,434</u>

The following is a description of the valuation methodologies used for assets measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at June 30, 2017 and 2016:

Cash and cash equivalents and certificates of deposit: The carrying amounts approximate fair value because of the short maturity of these financial statements.

Debt securities: Valued based on spreads of published interest rate curves.

Marketable equity securities and mutual funds: Valued at closing prices reported on the active market on which the individual securities are traded.

Cash surrender value of life insurance policies: Recorded at contract value, which approximates fair value. The value is based on quoted prices of the underlying investments in mutual funds held by the policy contract issuer.

Beneficial interest in perpetual trusts and charitable remainder trusts: Valued based on the fair value of the trusts' underlying assets, which represents a proxy for discounted present value of future cash flows.

Note receivable: Estimated using a discount rate that a market participant would demand.

Pledges receivable: Valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation for uncollectible pledges.

Long-term debt: Valued based on current rates offered for similar issues with similar security terms and maturities, or estimated using a discount rate that a market participant would demand.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### 6. Property and Equipment

Property and equipment and accumulated depreciation as of June 30, 2017 and 2016, are as follows:

	2017	2016
Land	\$ 8,669,217	\$ 8,619,667
Land improvements	2,989,569	3,194,988
Buildings	119,959,182	120,263,723
Fixed equipment	16,788,824	24,044,742
Movable equipment	70,213,469	79,890,875
Leasehold improvements	11,158,492	2,216,506
Construction in progress	4,820,999	5,539,138
Total	234,599,752	243,769,639
Less accumulated depreciation and amortization	106,607,752	120,226,401
Property and equipment, net	<u>\$ 127,992,000</u>	<u>\$ 123,543,238</u>

Depreciation expense was \$12,581,647 in 2017 and \$12,496,439 in 2016.

The Corporation has entered into capital lease agreements for the purchase of certain equipment. The net book value of this equipment is included in the above movable equipment. The cost of this equipment was \$6,252,335 at June 30, 2017 and 2016 and accumulated depreciation totaled \$4,168,223 at June 30, 2017 and \$3,126,167 at June 30, 2016.

#### 7. Other Assets

Other assets as of June 30, 2017 and 2016 consists of the following:

	2017	2016
Community Hospital Alternative for Risk Transfer	\$ 3,811,623	\$ 3,309,990
Evangelical-Geisinger Health, LLC	895,849	804,818
Keystone Accountable Care Organization, LLC	43,835	89,140
Total other assets	<u>\$ 4,751,307</u>	<u>\$ 4,203,948</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### 8. Hospital Revenue Bonds

A summary of hospital revenue bonds as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Series 2011 Hospital Revenue Bonds due in varying annual installments through August 1, 2041, plus interest at rates ranging from 4.625% to 7.00%	\$ 22,200,000	\$ 23,640,000
Series 2013 Hospital Revenue Bonds due in varying annual installments through November 1, 2028, plus interest at a fixed rate of 3.79%	<u>17,796,977</u>	<u>18,385,830</u>
Total	39,996,977	42,025,830
Net unamortized financing costs	(820,680)	(862,011)
Less current maturities	<u>(2,119,958)</u>	<u>(2,028,852)</u>
Long-term debt	<u>\$ 37,056,339</u>	<u>\$ 39,134,967</u>

The scheduled principal repayments as of June 30, 2017 are as follows:

Years ending June 30:	
2018	\$ 2,119,958
2019	2,215,882
2020	2,277,260
2021	2,518,083
2022	1,290,182
Thereafter	<u>29,575,612</u>
Total	<u>\$ 39,996,977</u>

#### Series 2011 Hospital Revenue Bonds

In March 2011, the Union County Hospital Authority (the "Authority") issued \$30,235,000 of tax-exempt hospital revenue bonds (the "2011 Bonds") on behalf of the Hospital. The proceeds of the 2011 Bonds were used to fund certain construction and renovation projects, advance refund the then outstanding 2009 Bonds, establish a debt service reserve fund, and pay the costs of issuance of the 2011 Bonds.

## Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements  
June 30, 2017 and 2016

### Series 2013 Hospital Revenue Bonds

In October 2013, the Corporation entered a Refunding Project Agreement (the "2013 Agreement") with the Authority and Siemens Public, Inc. ("Siemens") whereby the Authority issued \$19,694,697 of tax-exempt hospital revenue bonds (the "2013 Bonds") on behalf of the Corporation, which were privately placed with Siemens. Simultaneously with this, the Hospital entered into a note payable with the Authority, the terms of which are identical to the terms payable by the Authority to Siemens. The proceeds of the 2013 Bonds were used to fund capital improvements, advance refund the Series 2004 Hospital Revenue Bonds, and pay for costs of issuance. Monthly principal and interest installments commenced in November 2013.

In connection with the 2013 Agreement, the Master Trust Indenture, dated as of May 1, 2009, has been amended such that the Corporation and its subsidiaries (which include the Hospital, EMSO, and EASC) have agreed to be jointly and severally obligated for repayment. To secure the required debt service payments due on the 2011 Bonds and the 2013 Bonds, the Corporation granted the Authority a security interest in and a first lien on their gross revenues, as such term is defined in the Master Trust Indenture, as amended. Furthermore, a trustee for the Authority holds certain funds for the benefit of the holders of the Bonds. Such funds are included in assets whose use is limited in the accompanying consolidated balance sheet.

The Corporation is required to meet certain financial and operational covenants under the terms of the Master Trust Indenture, as amended. The Master Trust Indenture, as amended, also places limits on the incurrence of additional borrowings and the transfer of funds to affiliates as long as the 2011 Bonds and 2013 Bonds are outstanding.

### 9. Notes Payable

A summary of notes payable as of June 30, 2017 and 2016 is as follows:

	2017	2016
Note payable due in monthly installments of \$7,008, including interest at 1.00% through November 2021; secured by certain equipment	\$ 356,505	\$ 436,605
Note payable due in annual installments of \$345,000, including interest at 3.25% through August 2018, secured by a mortgage	657,299	657,299
Note payable due in annual installments of \$150,000 to \$175,000, including interest at 2.0% through September 2019, secured by a mortgage	475,000	-
Total	1,488,804	1,093,904
Less current maturities	552,262	403,417
Long-term debt	<u>\$ 936,542</u>	<u>\$ 690,487</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The scheduled principal repayments as of June 30, 2017 are as follows:

Years ending June 30:	
2018	\$ 552,262
2019	567,660
2020	257,539
2021	83,368
2022	<u>27,975</u>
Total	<u>\$ 1,488,804</u>

#### 10. Obligations under Capital Leases

The Corporation entered into equipment leases under agreements classified as capital leases. The following is a schedule of the future minimum lease payments under capital leases, together with the present value of the net monthly lease payments, as of June 30, 2017:

Years ending June 30:	
2018	\$ 508,369
2019	<u>351,153</u>
Total minimum lease payments	859,522
Less amount representing interest	<u>32,655</u>
Present value of net minimum lease payments	<u>\$ 826,867</u>

The interest rates on the capitalized leases are imputed based on the lower of the Corporation's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

The present value of the net minimum lease payments under capital leases has been classified in the accompanying consolidated balance sheet as follows at June 30:

	<u>2017</u>	<u>2016</u>
Current maturities of obligations under capital leases	\$ 483,553	\$ 530,651
Long-term debt	<u>343,314</u>	<u>828,286</u>
Total	<u>\$ 826,867</u>	<u>\$ 1,358,937</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### 11. Accrued Expenses

Accrued expenses at June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Salaries and wages	\$ 8,667,713	\$ 8,602,713
Paid time off	6,931,066	6,458,953
Employee health and dental insurance coverage	1,160,000	2,032,000
Workers' compensation	560,000	720,000
Interest	628,356	628,976
Retirement plan	664,298	630,132
Other	107,483	371,657
Total	<u>\$ 18,718,916</u>	<u>\$ 19,444,431</u>

#### 12. Retirement Plan

The Corporation maintains a defined contribution retirement plan covering substantially all employees which incorporates the tax-deferred salary provisions of Section 401(k) of the IRC. The Corporation's expense relating to this plan amounted to approximately \$2,963,000 in 2017 and \$2,722,000 in 2016.

#### 13. Deferred Compensation Plans

The Corporation maintains nonqualified deferred compensation arrangements for certain employees. Benefits payable under the terms of these arrangements are measured and accrued during the years they are earned. The Corporation's obligation related to these plans amounted to \$22,580,021 and \$19,043,172 at June 30, 2017 and 2016, respectively.

#### 14. Postretirement Benefit Plan

The Corporation sponsors a defined benefit postretirement healthcare plan that provides postretirement medical benefits to employees who, as of June 30, 1992, had worked five years and were eligible to receive pension benefits from the Corporation's pension plan upon attainment of age 65. Effective July 1, 1992, the plan contains cost-sharing features which are determined based upon years of service of the participants. The Corporation's policy is to fund the cost of the plan in amounts equal to the Corporation's share of medical benefit costs.



## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The following table sets forth the change in benefit obligation, the fair value of plan assets, and the amounts recognized in the balance sheet at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 6,074,720	\$ 6,770,928
Service cost	93,276	126,541
Interest cost	200,227	229,132
Plan participants' contributions	-	78,926
Change in assumptions	(204,630)	-
Actuarial gain	(137,244)	(870,515)
Benefits paid	<u>(184,531)</u>	<u>(260,292)</u>
Benefit obligation, end of year	<u>5,841,818</u>	<u>6,074,720</u>
Change in plan assets:		
Employer contribution	184,531	181,366
Plan participants' contributions	-	78,926
Benefits paid	<u>(184,531)</u>	<u>(260,292)</u>
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>
Funded status, end of year	<u>\$ (5,841,818)</u>	<u>\$ (6,074,720)</u>
Benefit obligation, end of year	<u>\$ (5,841,818)</u>	<u>\$ (6,074,720)</u>
Reconciliation of amounts recognized in the balance sheet:		
Current portion of accrued postretirement benefit costs	\$ 218,682	\$ 204,247
Accrued postretirement benefit costs	<u>5,623,136</u>	<u>5,870,473</u>
Total	<u>\$ 5,841,818</u>	<u>\$ 6,074,720</u>

The following table sets forth the components of net periodic pension cost in 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 93,276	\$ 126,541
Interest cost	200,227	229,133
Recognized net actuarial gain	-	-
Amortization of prior service cost	<u>(106,013)</u>	<u>(106,014)</u>
Net periodic benefit cost	<u>\$ 187,490</u>	<u>\$ 249,660</u>

The Corporation's contribution to the plan in 2018 is expected to be approximately \$219,000.

The measurement date used to determine the plan asset and benefit obligation information was June 30.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The previously unrecognized components of net periodic postretirement benefits cost included in unrestricted net assets at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Net actuarial gain	\$ (469,387)	\$ (127,513)
Prior service credit	(693,849)	(799,862)
Total	<u>\$ (1,163,236)</u>	<u>\$ (927,375)</u>

Estimated amortization of prior service cost of \$106,013 is expected to be recognized in net periodic postretirement benefit cost in 2018.

The weighted-average assumptions used in computing the benefit obligation at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.64 %	3.43 %
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used in the measurement of net periodic postretirement benefit cost for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.43 %	4.26 %
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

Assumed healthcare costs trend rates at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Health care cost trend rate assumed for next year	6.50 %	7.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.50 %	5.00 %
Year that the rate reaches the ultimate trend rate	2023	2021

The healthcare cost trends were calculated based upon the Corporation's recent history of health insurance costs and projections of future increases of insurance benefits. The Corporation expects these trends in health insurance costs to continue throughout the period that the postretirement benefits are available to eligible employees. However, because of the inherent uncertainties in estimating these costs, it is at least reasonably possible that the estimates used will change in the near term.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The effects of a 1% increase or decrease in the assumed health care cost trend rates for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
1% Increase:		
Effect on total service and interest cost components	\$ 50,479	\$ 69,850
Effect on accumulated postretirement benefit obligation	912,152	1,412,884
1% Decrease:		
Effect on total service and interest cost components	(40,567)	(54,194)
Effect on accumulated postretirement benefit obligation	(742,136)	(1,096,199)

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

Years ending June 30:	
2018	\$ 218,682
2019	260,381
2020	285,002
2021	310,059
2022	305,828
2023-2027	1,660,083

## 15. Temporarily and Permanently Restricted Net Assets

### Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Purchases of property and equipment	\$ 264,736	\$ 202,678
Various operational purposes	898,331	893,778
Total	<u>\$ 1,163,067</u>	<u>\$ 1,096,456</u>

The Corporation released \$384,852 in 2017 and \$356,814 in 2016 of temporarily restricted net assets since the donors' restrictions had been met.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### Permanently Restricted Net Assets

Permanently restricted net assets consist of permanent endowment funds held by the Corporation in perpetuity; the Corporation's beneficial interest in several perpetual trusts held by banks serving as trustee; and the Corporation's permanently restricted beneficial interest in a charitable remainder trust held by a third-party trustee. The terms of the perpetual trusts are such that the Corporation receives a portion of the income earned on the trust assets as earned in perpetuity. The terms of the charitable remainder trust are such that subsequent to certain events, the Corporation is entitled to a portion of the principal and income remaining in the trust. Trust assets consist primarily of marketable equity securities, debt securities, mutual funds, and cash equivalents and are recorded at their fair values as of June 30, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Permanent endowment funds, the income from which is expendable to support various healthcare services and provide nursing scholarships (reported as investment income)	\$ 1,585,663	\$ 1,552,939
Beneficial interest in perpetual trusts, the income from which is expendable to support healthcare services (reported as investment income)	3,967,832	3,721,986
Beneficial interest in charitable remainder trust, to be added to the Corporation's general endowment fund upon distribution	<u>162,322</u>	<u>152,142</u>
Total	<u>\$ 5,715,817</u>	<u>\$ 5,427,067</u>

#### 16. Endowment Funds

The Corporation's endowment consists of 8 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Corporation has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as either temporarily restricted or unrestricted net assets based on the existence of donor restrictions or by law.

## Evangelical Community Hospital and Controlled Entities

---

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

The Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the performance results of Callan's median Balanced Fund database or a weighted index comprised of 35% S&P 500; 5% Russell 2000; 10% MSCI EAFE; 35% Barclays Capital Aggregate; 10% S&P 500 Alternatives; and 5% 90 day T-bills while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

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

The Corporation has a policy of appropriating for distribution each year 5% of its endowment funds' average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average rate of 4% annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Endowment net asset composition by type of fund as of June 30, 2017 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 638,563	\$ 1,585,663	\$ 2,224,226
Board-designated endowment funds	<u>352,214</u>	<u>-</u>	<u>-</u>	<u>352,214</u>
Total endowment funds	<u>\$ 352,214</u>	<u>\$ 638,563</u>	<u>\$ 1,585,663</u>	<u>\$ 2,576,440</u>

Changes in endowment net assets for the year ended June 30, 2017 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 337,341	\$ 620,454	\$ 1,552,939	\$ 2,510,734
Investment returns	114,053	18,109	-	132,162
Contributions	-	-	32,724	32,724
Appropriation of endowment assets for expenditure	<u>(99,180)</u>	<u>-</u>	<u>-</u>	<u>(99,180)</u>
	<u>\$ 352,214</u>	<u>\$ 638,563</u>	<u>\$ 1,585,663</u>	<u>\$ 2,576,440</u>

Endowment net asset composition by type of fund as of June 30, 2016 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 620,454	\$ 1,552,939	\$ 2,173,393
Board-designated endowment funds	<u>337,341</u>	<u>-</u>	<u>-</u>	<u>337,341</u>
Total endowment funds	<u>\$ 337,341</u>	<u>\$ 620,454</u>	<u>\$ 1,552,939</u>	<u>\$ 2,510,734</u>

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Changes in endowment net assets for the year ended June 30, 2016 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 313,173	\$ 532,457	\$ 1,541,191	\$ 2,386,821
Investment returns	106,959	87,997	-	194,956
Contributions	-	-	11,748	11,748
Appropriation of endowment assets for expenditure	(82,791)	-	-	(82,791)
	<u>\$ 337,341</u>	<u>\$ 620,454</u>	<u>\$ 1,552,939</u>	<u>\$ 2,510,734</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets.

## 17. Medical Malpractice Claims Coverage

At June 30, 2017, the Corporation's medical malpractice insurance coverages are provided under the provisions of four insurance arrangements, as follows:

Primary coverage - Primary coverage is provided under the terms of an insurance contract which covers losses, if any, which are reported during the period the contract is in force, "claims-made coverage", subject to the per occurrence and aggregate limits of such contract.

MCARE Fund coverage - The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. MCARE Fund coverage is currently scheduled to be reduced, unless the State Insurance Commissioner determines that additional primary insurance capacity is not available at that time, and to be eliminated in 2018. The Corporation will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage if it is reduced. Depending upon the ultimate resolution of this matter, the Corporation may incur additional insurance costs.

Umbrella coverage - The Corporation has an umbrella liability insurance contract which insures against losses in excess of the primary or MCARE coverage reported during the period of policy coverage.

Excess coverage - The Corporation has an excess liability insurance contract, which insures against losses in excess of the above coverages reported during the period of policy coverage.

## **Evangelical Community Hospital and Controlled Entities**

---

### **Notes to Consolidated Financial Statements**

June 30, 2017 and 2016

The above primary, umbrella, and excess coverages are provided by Community Hospital Alternative for Risk Transfer ("CHART"). CHART has been formed as a reciprocal risk retention group to provide liability insurance, reinsurance, and risk management services for its subscribers. Effective May 1, 2002, the Corporation became a subscriber in CHART. The Corporation had invested \$3,811,623 at June 30, 2017 and \$3,309,990 at June 30, 2016 in CHART and this investment is included in other assets in the accompanying consolidated balance sheet (Note 7). This investment is accounted for using the cost method since the Corporation's ownership interest is less than twenty percent.

The Corporations' estimated future payments of its asserted and unasserted medical malpractice claims liability was \$2,714,459 at June 30, 2017 (of which \$1,801,425 is recorded as insurance recoveries receivable) and \$2,984,395 at June 30, 2016 (of which \$2,030,754 is recorded as insurance recoveries receivable), using a discount rate of 3% at June 30, 2017 and 2016.

The Corporation believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims, which would exceed its insurance coverages.

#### **18. Self-Funded Insurance Plans**

The Corporation self-insures its employee health and dental insurance coverages. The Corporation has accrued the estimated cost of incurred and reported and incurred but not reported claims (Note 11) based upon data provided by the third-party administrators of the program, its historical claims experience, and its individual medical stop-loss insurance coverage. There is no aggregate stop loss insurance coverage.

The Corporation maintains a self-funded plan for workers' compensation insurance costs. The Corporation has accrued the estimated cost of incurred and reported and incurred but not reported claims (Note 11) based upon data provided by the third-party administrator of the program, its historical claims experience, and the terms of its excess workers' compensation insurance policy. Under the terms of this policy, the Corporation is subject to a maximum retention of \$350,000 per occurrence and a per occurrence and aggregate policy limit of \$1,000,000. The Corporation also maintains a \$900,000 surety bond to secure its future obligations under the terms of this self-insurance program.

#### **19. Concentrations of Credit Risk**

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements, primarily with Medicare, Medical Assistance, Capital Blue Cross, Highmark Blue Shield, and various commercial insurance companies. The Corporation maintains allowances for potential credit losses and such losses have historically been within management's expectations.

The Corporation maintains its cash and cash equivalent balances with various financial institutions. Total cash balances in each financial institution are insured up to \$250,000.



## Evangelical Community Hospital and Controlled Entities

---

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

## 20. Commitments

### Operating Leases

The Corporation leases certain real estate and equipment under the terms of noncancelable operating leases.

The following is a schedule by year of the future minimum payments required under operating leases as of June 30, 2017:

Years ending June 30:	
2018	\$ 1,895,874
2019	1,720,144
2020	1,329,228
2021	869,141
2022	715,090
Thereafter	<u>3,995,411</u>
Total	<u>\$ 10,524,888</u>

Rent expense amounted to approximately \$2,040,000 in 2017 and \$1,785,000 in 2016.

## 21. Contingencies

### Healthcare Industry

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Corporation, if any, are not presently determinable.

### Asbestos Removal

The Corporation's facilities, a portion of which were constructed prior to the passage of the Clean Air Act, contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe fashion prior to the demolition and renovation of the facilities. At this time, the Corporation has no plans to demolish or renovate its facilities that contain encapsulated asbestos material, and as such, cannot reasonably estimate the fair value of the liability for such asbestos removal. If plans change with respect to the use of its facilities and information becomes available to estimate such a liability, it will be recognized at that time.

## Evangelical Community Hospital and Controlled Entities

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

#### 22. Functional Expenses

The Corporation provides general acute care and related services to individuals within its geographic region. Expenses related to providing these services in 2017 and 2016 are approximately as follows:

	<u>2017</u>	<u>2016</u>
	(In thousands)	
Healthcare and other related services	\$ 185,315	\$ 174,090
General and administrative	33,871	30,264
Fundraising	488	443
	<u>          </u>	<u>          </u>
Total expenses	<u>\$ 219,674</u>	<u>\$ 204,797</u>

#### 23. Business and Credit Concentrations

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

At June 30, 2017 and 2016, concentrations of receivables from third-party payors and others are as follows:

	<u>2017</u>	<u>2016</u>
Medicare	24 %	27 %
Medicaid	5	4
Blue Cross / Blue Shield	20	23
Other third party payors	41	36
Patients (self-pay)	10	10
	<u>          </u>	<u>          </u>
	100 %	100 %

Net patient service revenues by payor class, for the year ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Medicare	19 %	19 %
Medicare Managed Care	35	32
Medicaid	1	1
Medicaid Managed Care	4	4
Blue Cross / Blue Shield	31	33
Other third party payors	8	8
Patients (self-pay)	2	3
	<u>          </u>	<u>          </u>
	100 %	100 %

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Balance Sheet

June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 35,313,386	\$ 2,756,505	\$ -	\$ 38,069,891
Assets whose use is limited under trust indenture, held by trustee	1,981,034	-	-	1,981,034
Accounts receivable:				
Patients (net of estimated allowance for doubtful accounts of \$9,177,000)	15,154,368	3,767,691	-	18,922,059
Other	89,860	92,800	-	182,660
Affiliates	4,707,832	26,337	(4,734,169)	-
Current portion of note receivable	-	628,195	-	628,195
Inventories of drugs and supplies	4,367,994	387,567	-	4,755,561
Prepaid expenses and other current assets	3,772,597	794,803	-	4,567,400
Total current assets	65,387,071	8,453,898	(4,734,169)	69,106,800
<b>Assets Whose Use is Limited</b>				
By Board for future capital improvements	80,658,527	-	-	80,658,527
Under trust indenture, held by trustee	2,377,249	-	-	2,377,249
Board-designated unrestricted contributions	6,256,675	-	-	6,256,675
<b>Long-Term Investments</b>	4,013,068	16,259,955	-	20,273,023
<b>Beneficial Interest in Perpetual Trusts</b>	3,967,832	-	-	3,967,832
<b>Beneficial Interest in Charitable Remainder Trusts</b>	268,025	-	-	268,025
<b>Pledges Receivable, Net</b>	7,785	-	-	7,785
<b>Property and Equipment, Net</b>	127,740,101	251,899	-	127,992,000
<b>Goodwill</b>	3,175,259	1,939,970	-	5,115,229
<b>Estimated Medical Malpractice Insurance Recoveries</b>	765,638	1,035,787	-	1,801,425
<b>Other Assets</b>	4,751,307	-	-	4,751,307
Total assets	\$ 299,368,537	\$ 27,941,509	\$ (4,734,169)	\$ 322,575,877

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Balance Sheet

June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current maturities of:				
Hospital revenue bonds	\$ 2,119,958	\$ -	\$ -	\$ 2,119,958
Notes payable	552,262	-	-	552,262
Capital lease obligations	483,553	-	-	483,553
Accounts payable:				
Trade	4,613,779	509,294	-	5,123,073
Affiliates	1,408,086	3,326,083	(4,734,169)	-
Accrued expenses	11,983,454	6,735,462	-	18,718,916
Blue Cross current financing advance	1,057,190	-	-	1,057,190
Estimated third-party payor settlements	2,237,675	-	-	2,237,675
Current portion of accrued postretirement benefit costs	218,682	-	-	218,682
Total current liabilities	24,674,639	10,570,839	(4,734,169)	30,511,309
<b>Long-Term Debt</b>				
Hospital revenue bonds, net	37,056,339	-	-	37,056,339
Notes payable	936,542	-	-	936,542
Capital lease obligations	343,314	-	-	343,314
<b>Deferred Compensation</b>	1,875,330	20,704,691	-	22,580,021
<b>Charitable Gift Annuities Payable</b>	226,569	-	-	226,569
<b>Accrued Postretirement Benefit Costs</b>	5,623,136	-	-	5,623,136
<b>Estimated Medical Malpractice Claims Liability</b>	1,093,544	1,620,915	-	2,714,459
Total liabilities	71,829,413	32,896,445	(4,734,169)	99,991,689
<b>Net Assets (Deficit)</b>				
Unrestricted	220,660,240	(4,954,936)	-	215,705,304
Temporarily restricted	1,163,067	-	-	1,163,067
Permanently restricted	5,715,817	-	-	5,715,817
Total net assets (deficit)	227,539,124	(4,954,936)	-	222,584,188
Total liabilities and net assets	\$ 299,368,537	\$ 27,941,509	\$ (4,734,169)	\$ 322,575,877

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains, and Other Support</b>				
Patient service revenues (net of contractual allowances and discounts)	\$ 188,764,539	\$ 44,939,129	\$ -	\$ 233,703,668
Provision for bad debts	(9,787,817)	(1,983,542)	-	(11,771,359)
Net patient service revenues less provision for bad debts	178,976,722	42,955,587	-	221,932,309
Other revenues	7,693,782	2,981,468	(5,145,586)	5,529,664
Net assets released from restrictions	359,286	-	-	359,286
Total unrestricted revenues, gains, and other support	187,029,790	45,937,055	(5,145,586)	227,821,259
<b>Expenses</b>				
Salaries and wages	64,244,290	13,822,883	-	78,067,173
Physician salaries and fees	2,594,736	32,454,852	(59,263)	34,990,325
Supplies	28,663,174	2,585,789	(7,031)	31,241,932
Employee benefits	18,970,952	8,669,718	-	27,640,670
Purchased services	21,375,231	4,852,746	(3,681,393)	22,546,584
Depreciation	12,459,250	122,397	-	12,581,647
Other expenses	3,331,079	2,265,625	(1,365,744)	4,230,960
Utilities	2,848,250	174,205	(32,155)	2,990,300
Insurance	725,047	1,440,799	-	2,165,846
Interest (net of capitalized interest of \$246,468)	1,971,563	-	-	1,971,563
Contract labor	1,159,133	-	-	1,159,133
Loss on the sale and disposal of property and equipment	87,936	-	-	87,936
Total expenses	158,430,641	66,389,014	(5,145,586)	219,674,069
Operating income (loss)	28,599,149	(20,451,959)	-	8,147,190
<b>Other Income (Loss)</b>				
Investment income	7,611,140	-	-	7,611,140
Contributions	1,020,101	-	-	1,020,101
Equity in loss of investees	(478,850)	-	-	(478,850)
Total other income	8,152,391	-	-	8,152,391
Revenues in excess of (less than) expenses	36,751,540	(20,451,959)	-	16,299,581
<b>Grant Income Used for Long-Term Purposes</b>	231,000	-	-	231,000
<b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b>	25,563	-	-	25,563
<b>Postretirement Benefit Liability Adjustment</b>	235,861	-	-	235,861
<b>Transfers</b>	(19,000,000)	19,000,000	-	-
Increase (decrease) in unrestricted net assets	\$ 18,243,964	\$ (1,451,959)	\$ -	\$ 16,792,005

## Evangelical Community Hospital and Controlled Entities

Consolidating Schedule, Statement of Changes in Net Assets (Deficit)  
Year Ended June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
<b>Unrestricted Net Assets</b>				
Revenues in excess of (less than) expenses	\$ 36,751,540	\$ (20,451,959)	\$ -	\$ 16,299,581
Grant income used for long-term purposes	231,000	-	-	231,000
Net assets released from restrictions used for purchase of property and equipment	25,563	-	-	25,563
Postretirement benefit liability adjustment	235,861	-	-	235,861
Transfers	(19,000,000)	19,000,000	-	-
Increase (decrease) in unrestricted net assets	18,243,964	(1,451,959)	-	16,792,005
<b>Temporarily Restricted Net Assets</b>				
Contributions and grants	429,940	-	-	429,940
Investment income	18,109	-	-	18,109
Change in value of split-interest agreement	3,411	-	-	3,411
Net assets released from restrictions	(384,849)	-	-	(384,849)
Increase in temporarily restricted net assets	66,611	-	-	66,611
<b>Permanently Restricted Net Assets</b>				
Valuation gain	245,846	-	-	245,846
Contributions	32,724	-	-	32,724
Change in value of split-interest agreement	10,180	-	-	10,180
Increase in permanently restricted net assets	288,750	-	-	288,750
Increase (decrease) in net assets	18,599,325	(1,451,959)	-	17,147,366
<b>Net Assets (Deficit), Beginning</b>	208,939,799	(3,502,977)	-	205,436,822
<b>Net Assets (Deficit), Ending</b>	<u>\$ 227,539,124</u>	<u>\$ (4,954,936)</u>	<u>\$ -</u>	<u>\$ 222,584,188</u>

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Balance Sheet

June 30, 2016

	Evangelical Community Hospital	Evangelical Medical Services Organization	Evangelical Ambulatory Surgical Center, LLC	Eliminations	Consolidated
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 33,941,610	\$ 2,233,173	\$ -	\$ -	\$ 36,174,783
Short term investments	305,323	-	-	-	305,323
Assets whose use is limited under trust indenture, held by trustee	1,941,174	-	-	-	1,941,174
Accounts receivable:					
Patients (net of estimated allowance for doubtful accounts of \$9,581,000)	15,858,839	4,288,672	-	-	20,147,511
Other	84,307	82,603	-	-	166,910
Affiliates	4,268,175	64,080	-	(4,332,255)	-
Current portion of note receivable	-	604,769	-	-	604,769
Inventories of drugs and supplies	3,852,503	340,296	-	-	4,192,799
Prepaid expenses and other current assets	3,230,958	733,974	-	-	3,964,932
Total current assets	63,482,889	8,347,567	-	(4,332,255)	67,498,201
<b>Assets Whose Use is Limited</b>					
By Board for future capital improvements	73,834,315	-	-	-	73,834,315
Under trust indenture, held by trustee	2,361,949	-	-	-	2,361,949
Board-designated unrestricted contributions	5,720,257	-	-	-	5,720,257
<b>Long-Term Investments</b>	4,388,209	13,077,800	-	-	17,466,009
<b>Beneficial Interest in Perpetual Trusts</b>	3,721,986	-	-	-	3,721,986
<b>Beneficial Interest in Charitable Remainder Trusts</b>	254,434	-	-	-	254,434
<b>Pledges Receivable, Net</b>	24,327	-	-	-	24,327
<b>Property and Equipment, Net</b>	123,261,411	281,827	-	-	123,543,238
<b>Goodwill</b>	3,175,259	1,875,656	-	-	5,050,915
<b>Estimated Medical Malpractice Insurance Recoveries</b>	789,183	1,241,571	-	-	2,030,754
<b>Other Assets</b>	4,203,948	-	-	-	4,203,948
Total assets	\$ 285,218,167	\$ 24,824,421	\$ -	\$ (4,332,255)	\$ 305,710,333

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Balance Sheet

June 30, 2016

	Evangelical Community Hospital	Evangelical Medical Services Organization	Evangelical Ambulatory Surgical Center, LLC	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Current maturities of:					
Hospital revenue bonds	\$ 2,028,852	\$ -	\$ -	\$ -	\$ 2,028,852
Notes payable	403,417	-	-	-	403,417
Capital lease obligations	530,651	-	-	-	530,651
Accounts payable:					
Trade	5,064,845	650,843	-	-	5,715,688
Affiliates	1,310,139	3,022,116	-	(4,332,255)	-
Accrued expenses and other current liabilities	13,406,342	6,038,089	-	-	19,444,431
Blue Cross current financing advance	1,057,190	-	-	-	1,057,190
Estimated third-party payor settlements	2,075,123	-	-	-	2,075,123
Current portion of accrued postretirement benefit costs	204,247	-	-	-	204,247
Total current liabilities	26,080,806	9,711,048	-	(4,332,255)	31,459,599
<b>Long-Term Debt</b>					
Hospital revenue bonds, net	39,134,967	-	-	-	39,134,967
Notes payable	690,487	-	-	-	690,487
Capital lease obligations	828,286	-	-	-	828,286
<b>Deferred Compensation</b>	2,280,971	16,762,201	-	-	19,043,172
<b>Charitable Gift Annuities Payable</b>	262,132	-	-	-	262,132
<b>Accrued Postretirement Benefit Costs</b>	5,870,473	-	-	-	5,870,473
<b>Estimated Medical Malpractice Claims Liability</b>	1,130,246	1,854,149	-	-	2,984,395
Total liabilities	76,278,368	28,327,398	-	(4,332,255)	100,273,511
<b>Net Assets (Deficit)</b>					
Unrestricted	202,416,276	(3,502,977)	-	-	198,913,299
Temporarily restricted	1,096,456	-	-	-	1,096,456
Permanently restricted	5,427,067	-	-	-	5,427,067
Total net assets (deficit)	208,939,799	(3,502,977)	-	-	205,436,822
Total liabilities and net assets	\$ 285,218,167	\$ 24,824,421	\$ -	\$ (4,332,255)	\$ 305,710,333



**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2016

	Evangelical Community Hospital	Evangelical Medical Services Organization	Evangelical Ambulatory Surgical Center, LLC	Eliminations	Consolidated
<b>Unrestricted Revenues, Gains, and Other Support</b>					
Patient service revenues (net of contractual allowances and discounts)	\$ 183,515,190	\$ 41,120,649	\$ (2,778)	\$ -	\$ 224,633,061
Provision for bad debts	(9,667,826)	(2,595,607)	5,931	-	(12,257,502)
Net patient service revenues less provision for bad debts	173,847,364	38,525,042	3,153	-	212,375,559
Other revenues	6,036,970	984,429	6,158	(4,075,195)	2,952,362
Net assets released from restrictions	266,129	-	-	-	266,129
Total unrestricted revenues, gains, and other support	180,150,463	39,509,471	9,311	(4,075,195)	215,594,050
<b>Expenses</b>					
Salaries and wages	62,673,217	12,191,126	-	-	74,864,343
Physician salaries and fees	2,153,916	29,829,871	-	(403,118)	31,580,669
Supplies	27,992,226	2,266,069	(84,728)	(5,696)	30,167,871
Purchased services	21,650,253	3,593,474	3,636	(2,579,585)	22,667,778
Employee benefits	15,676,976	5,595,488	-	-	21,272,464
Depreciation	12,299,079	111,957	85,403	-	12,496,439
Other expenses	3,598,011	2,063,497	669	(1,055,146)	4,607,031
Utilities	2,847,214	215,702	-	(31,650)	3,031,266
Interest (net of capitalized interest of \$126,102)	2,167,170	-	-	-	2,167,170
Insurance	355,124	1,270,582	1,120	-	1,626,826
Contract labor	290,925	-	-	-	290,925
Gain on the sale and disposal of property and equipment	24,001	517	-	-	24,518
Total expenses	151,728,112	57,138,283	6,100	(4,075,195)	204,797,300
Operating income (loss)	28,422,351	(17,628,812)	3,211	-	10,796,750
<b>Other Income</b>					
Investment income	1,251,280	-	-	-	1,251,280
Contributions	2,097,148	-	-	-	2,097,148
Equity in income of investees	80,041	-	-	-	80,041
Total other income	3,428,469	-	-	-	3,428,469
Revenues in excess of (less than) expenses	31,850,820	(17,628,812)	3,211	-	14,225,219
<b>Grant Income Used for Long-Term Purposes</b>	231,000	-	-	-	231,000
<b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b>	90,685	-	-	-	90,685
<b>Postretirement Benefit Liability Adjustment</b>	764,502	-	-	-	764,502
<b>Transfers</b>	(14,280,114)	15,000,000	(719,886)	-	-
Increase (decrease) in unrestricted net assets	\$ 18,656,893	\$ (2,628,812)	\$ (716,675)	\$ -	\$ 15,311,406

**Evangelical Community Hospital and Controlled Entities**

Consolidating Schedule, Statement of Changes in Net Assets (Deficit)

Year Ended June 30, 2016

	Evangelical Community Hospital	Evangelical Medical Services Organization	Evangelical Ambulatory Surgical Center, LLC	Eliminations	Consolidated
<b>Unrestricted Net Assets</b>					
Revenues in excess of (less than) expenses	\$ 31,850,820	\$ (17,628,812)	\$ 3,211	\$ -	\$ 14,225,219
Grant income used for long-term purposes	231,000	-	-	-	231,000
Net assets released from restrictions used for purchase of property and equipment	90,685	-	-	-	90,685
Postretirement benefit liability adjustment	764,502	-	-	-	764,502
Transfers	(14,280,114)	15,000,000	(719,886)	-	-
Increase (decrease) in unrestricted net assets	18,656,893	(2,628,812)	(716,675)	-	15,311,406
<b>Temporarily Restricted Net Assets</b>					
Contributions and grants	379,760	-	-	-	379,760
Investment income	87,999	-	-	-	87,999
Change in value of split-interest agreement	(10,159)	-	-	-	(10,159)
Net assets released from restrictions	(356,814)	-	-	-	(356,814)
Increase in temporarily restricted net assets	100,786	-	-	-	100,786
<b>Permanently Restricted Net Assets</b>					
Valuation loss	(282,119)	-	-	-	(282,119)
Contributions	11,748	-	-	-	11,748
Change in value of split-interest agreement	(9,378)	-	-	-	(9,378)
Decrease in permanently restricted net assets	(279,749)	-	-	-	(279,749)
Increase (decrease) in net assets	18,477,930	(2,628,812)	(716,675)	-	15,132,443
<b>Net Assets (Deficit), Beginning</b>	190,461,869	(874,165)	716,675	-	190,304,379
<b>Net Assets (Deficit), Ending</b>	<u>\$ 208,939,799</u>	<u>\$ (3,502,977)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,436,822</u>