

**Evangelical Community Hospital
and Controlled Entity**

Consolidated Financial Statements
and Supplementary Information

June 30, 2018 and 2017



Candor. Insight. Results.

Evangelical Community Hospital and Controlled Entity

Table of Contents

June 30, 2018 and 2017

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
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
Supplementary Information	
Consolidating Schedules for 2018:	
Consolidating Schedule, Balance Sheet	42
Consolidating Schedule, Statement of Operations	44
Consolidating Schedule, Statement of Changes in Net Assets (Deficit)	45
Consolidating Schedules for 2017:	
Consolidating Schedule, Balance Sheet	46
Consolidating Schedule, Statement of Operations	48
Consolidating Schedule, Statement of Changes in Net Assets (Deficit)	49

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 entity, which comprise the consolidated balance sheet as of June 30, 2018 and 2017, 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 entity as of June 30, 2018 and 2017, 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 42 - 49 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
October 2, 2018

Evangelical Community Hospital and Controlled Entity

Consolidated Balance Sheet

June 30, 2018 and 2017

	2018	2017		2018	2017
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 45,069,567	\$ 38,069,891	Current maturities of:		
Assets whose use is limited under trust indenture, held by trustee	7,350	1,981,034	Hospital revenue bonds	\$ 960,900	\$ 2,119,958
Accounts receivable:			Notes payable	567,660	552,262
Patients (net of estimated allowance for doubtful accounts of \$12,076,000 in 2018 and \$9,177,000 in 2017)	20,070,265	18,922,059	Capital lease obligations	343,314	483,553
Other	133,052	182,660	Accounts payable	6,692,766	5,123,073
Current portion of note receivable	426,546	628,195	Accrued expenses	20,129,077	18,718,916
Inventories of drugs and supplies	4,878,600	4,755,561	Blue Cross current financing advance	1,057,190	1,057,190
Prepaid expenses and other current assets	5,114,138	4,567,400	Estimated third-party payor settlements	2,616,378	2,237,675
			Current portion of accrued postretirement benefit costs	245,553	218,682
Total current assets	75,699,518	69,106,800	Total current liabilities	32,612,838	30,511,309
Assets Whose Use is Limited			Long-Term Debt		
By Board for future capital improvements	85,195,842	80,658,527	Hospital revenue bonds, net	90,476,765	37,056,339
Under trust indenture, held by trustee	53,625,604	2,377,249	Notes payable	368,882	936,542
Board-designated unrestricted contributions	6,566,812	6,256,675	Capital lease obligations	-	343,314
			Deferred Compensation	26,313,903	22,580,021
Long-Term Investments	23,049,545	20,273,023	Charitable Gift Annuities Payable	204,403	226,569
Beneficial Interest in Perpetual Trusts	4,056,468	3,967,832	Accrued Postretirement Benefit Costs	5,071,547	5,623,136
Beneficial Interest in Charitable Remainder Trusts	269,393	268,025	Estimated Medical Malpractice Claims Liability	3,497,030	2,714,459
Pledges Receivable, Net	1,186,889	7,785	Total liabilities	158,545,368	99,991,689
Property and Equipment, Net	132,165,955	127,992,000	Net Assets		
Goodwill	5,139,078	5,115,229	Unrestricted	228,177,638	215,705,304
Estimated Medical Malpractice Insurance Recoveries	2,501,098	1,801,425	Temporarily restricted	2,086,124	1,163,067
Other Assets	5,172,985	4,751,307	Permanently restricted	5,820,057	5,715,817
Total assets	\$ 394,629,187	\$ 322,575,877	Total net assets	236,083,819	222,584,188
			Total liabilities and net assets	\$ 394,629,187	\$ 322,575,877

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entity

Consolidated Statement of Operations

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted Revenues, Gains, and Other Support		
Patient service revenues (net of contractual allowances and discounts)	\$ 250,203,319	\$ 233,703,668
Provision for bad debts	(15,175,326)	(11,771,359)
Net patient service revenues less provision for bad debts	235,027,993	221,932,309
Other revenues	4,312,346	5,529,664
Gain on the sale and disposal of property and equipment	19,411	-
Net assets released from restrictions	710,285	359,286
Total unrestricted revenues, gains, and other support	<u>240,070,035</u>	<u>227,821,259</u>
Expenses		
Salaries and wages	82,928,394	78,067,173
Physician salaries and fees	36,183,135	34,990,325
Supplies	33,785,813	31,241,932
Employee benefits	28,885,527	27,640,670
Purchased services	23,783,574	22,546,584
Depreciation	12,145,383	12,581,647
Other expenses	4,275,575	4,230,960
Utilities	3,086,044	2,990,300
Insurance	2,599,735	2,165,846
Contract labor	2,065,886	1,159,133
Interest (net of capitalized interest of \$205,795 in 2018 and \$246,468 in 2017)	1,935,673	1,971,563
Loss on the sale and disposal of property and equipment	-	87,936
Total expenses	<u>231,674,739</u>	<u>219,674,069</u>
Operating income	<u>8,395,296</u>	<u>8,147,190</u>
Other Income		
Investment income	5,724,460	7,611,140
Contributions	802,277	1,020,101
Equity in loss of investees	(579,968)	(478,850)
Loss on refinancing of debt	(2,887,920)	-
Total other income	<u>3,058,849</u>	<u>8,152,391</u>
Revenues in excess of expenses	11,454,145	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	283,887	25,563
Postretirement Benefit Liability Adjustment	<u>503,302</u>	<u>235,861</u>
Increase in unrestricted net assets	<u>\$ 12,472,334</u>	<u>\$ 16,792,005</u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entity

Consolidated Statement of Changes in Net Assets
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 11,454,145	\$ 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	283,887	25,563
Postretirement benefit liability adjustment	503,302	235,861
	<u>12,472,334</u>	<u>16,792,005</u>
Increase in unrestricted net assets		
Temporarily Restricted Net Assets		
Contributions and grants	1,884,012	429,940
Investment income	30,972	18,109
Change in value of split-interest agreement	(1,160)	3,411
Net assets released from restrictions	(990,767)	(384,849)
	<u>923,057</u>	<u>66,611</u>
Increase in temporarily restricted net assets		
Permanently Restricted Net Assets		
Valuation gain	88,636	245,846
Contributions	13,180	32,724
Change in value of split-interest agreement	2,424	10,180
	<u>104,240</u>	<u>288,750</u>
Increase in permanently restricted net assets		
Increase in net assets	13,499,631	17,147,366
Net Assets, Beginning	<u>222,584,188</u>	<u>205,436,822</u>
Net Assets, Ending	<u>\$ 236,083,819</u>	<u>\$ 222,584,188</u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled EntityConsolidated Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 13,499,631	\$ 17,147,366
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	12,145,383	12,581,647
Amortization of bond financing costs	37,886	41,331
Provision for bad debts	15,175,326	11,771,359
(Gain) loss on the sale and disposal of property and equipment	(19,411)	87,936
Loss on refinancing, including write-off of deferred financing costs of \$782,794 in 2018	2,887,920	-
Unrestricted net realized and unrealized gains and losses on investments	4,546,241	7,228,384
Equity in loss of investees	579,968	478,850
Restricted contributions	(2,018,064)	(740,210)
Grant income used for long-term purposes	(231,000)	(231,000)
Postretirement benefit liability adjustment	(503,302)	(235,861)
Changes in assets and liabilities:		
Accounts receivable	(16,273,924)	(10,561,657)
Inventories of drugs and supplies	(123,039)	(562,762)
Prepaid expenses and other assets	(1,246,411)	(373,139)
Accounts payable, trade	1,569,693	(592,615)
Accrued expenses and other liabilities	5,883,032	2,508,794
Estimated third-party payor settlements	378,703	162,552
	<u>36,288,632</u>	<u>38,710,975</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(16,327,886)	(16,685,450)
Net purchases of investments	(61,444,886)	(17,145,865)
Increase in other assets	(1,001,646)	(1,026,209)
Net repayments (advances) of note receivable	201,649	(23,426)
Proceeds from the sale of property and equipment	27,959	42,105
Acquisition of medical practice	(23,849)	(64,314)
	<u>(78,568,659)</u>	<u>(34,903,159)</u>
Cash Flows from Financing Activities		
Proceeds from the issuance of long-term debt, including premium of \$5,446,980 in 2018	54,349,031	-
Repayment of long-term debt	(2,619,819)	(2,108,953)
Payment to fund escrow	(2,105,126)	-
Repayment of capital lease obligation	(483,553)	(532,070)
Payment of financing costs	(840,786)	-
Proceeds from restricted contributions	748,956	497,315
Grant income used for long-term purposes	231,000	231,000
	<u>49,279,703</u>	<u>(1,912,708)</u>
Net cash provided by (used in) financing activities		
	6,999,676	1,895,108
Cash and Cash Equivalents, Beginning	<u>38,069,891</u>	<u>36,174,783</u>
Cash and Cash Equivalents, Ending	<u>\$ 45,069,567</u>	<u>\$ 38,069,891</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	<u>\$ 2,400,583</u>	<u>\$ 2,177,320</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Refinancing of long-term debt	<u>\$ 37,929,420</u>	<u>\$ -</u>
Property and equipment acquired through seller financed mortgage obligation	<u>\$ -</u>	<u>\$ 475,000</u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 of the affiliated organization related by way of common ownership and/or control. The affiliated organization is Evangelical Medical Services Organization ("EMSO").

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.

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 October 2, 2018, 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 Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 increased to 80% of self-pay accounts receivable at June 30, 2018, from 79% of self-pay accounts receivable at June 30, 2017. In addition, the Corporation's self-pay account write-offs (net of recoveries) were approximately \$12,276,000 and \$12,176,000 in 2018 and 2017, respectively. The write-offs are comparable from 2017 to 2018. The Corporation did not significantly change its patient financial assistance policy in 2018 or 2017. 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 net realizable value. 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 Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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

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 \$37,886 and \$41,331 for the years ended June 30, 2018 and 2017, respectively.

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.

Other Investments

Other assets includes 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 2018 and 2017.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017 were \$1,404,000 and \$1,345,000, respectively, related to these charitable gift annuities. The Corporation's liability related to these charitable gift annuities at June 30, 2018 and 2017 was \$204,403 and \$226,569, 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 \$4,056,468 and \$3,967,832 at June 30, 2018 and 2017, 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 \$104,647 and \$105,807 at June 30, 2018 and 2017, 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 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 \$164,746 and \$162,322 at June 30, 2018 and 2017, respectively.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 2018 and 2017 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 2018 and 2017 from these major payor sources, are approximately as follows:

	<u>Third-Party Government Payors</u>	<u>Third-Party Commercial Payors</u>	<u>Self-Pay</u>	<u>Total</u>
June 30, 2018	<u>\$ 63,999,000</u>	<u>\$ 174,360,000</u>	<u>\$ 11,844,000</u>	<u>\$ 250,203,000</u>
June 30, 2017	<u>\$ 64,067,000</u>	<u>\$ 162,449,000</u>	<u>\$ 7,188,000</u>	<u>\$ 233,704,000</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to approximately \$702,000 in 2018 and \$721,000 in 2017.

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.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 2017 consolidated financial statements have been reclassified to conform to the current year presentation.

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 its year ending June 30, 2019.

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. The Corporation will be required to adopt ASU No. 2016-14 for its year ending June 30, 2019. ASU No. 2016-14 is to be applied retroactively with transition provisions.

During June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Corporation will be required to adopt ASU No. 2018-08 for its year ending June 30, 2019.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 30), Restricted Cash*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. The Corporation will be required to be retrospectively adopt this guidance in for fiscal years beginning after December 15, 2017 (i.e. its fiscal year ended June 30, 2019), and interim periods within those fiscal years. Early adoption is permitted.

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 the adoption of the above standards on its consolidated financial statements.

In 2018, the Corporation adopted the FASB's ASU No. 2015-11, *Simplifying the Measurement of Inventory*. As a result of ASU No. 2015-11, the Corporation is required to measure inventory, other than inventory measured using last-in, first-out or retail inventory methods, at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonable predictable cost of completion, disposal, and transportation. The effect of the required prospective application of this change did not have a material effect on the Corporation's 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 Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

- 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 \$293,000 in 2018 and \$221,000 in 2017 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 \$236,000 in 2018 and \$143,000 in 2017.

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Governmental program shortfalls	\$ 23,714,000	\$ 21,359,000
Services provided for which payment was not received	\$ 3,425,000	\$ 2,889,000
Community health education programs	\$ 812,000	\$ 883,000
Volunteer services	\$ 952,000	\$ 1,217,000

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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>2018</u>	<u>2017</u>
Assets whose use is limited:		
Under trust indenture, held by trustee:		
Current portion	\$ 7,350	\$ 1,981,034
Noncurrent portion	53,625,604	2,377,249
By board for future capital improvements	85,195,842	80,658,527
Board-designated unrestricted contributions	6,566,812	6,256,675
Long-term investments	<u>23,049,545</u>	<u>20,273,023</u>
 Total	 <u>\$ 168,445,153</u>	 <u>\$ 111,546,508</u>

Assets Whose Use is Limited

The composition of assets whose use is limited ("AWUL") at June 30, 2018 and 2017 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
Under trust indenture, held by trustee (Note 8):		
Cash and cash equivalents	\$ 53,632,954	\$ 2,022,488
Debt securities:		
Corporate, investment grade	-	1,267,670
U.S. government and agency obligations	-	577,685
Mortgage backed	-	455,396
Other	<u>-</u>	<u>35,044</u>
 Total	 53,632,954	 4,358,283
 Less funds held by trustee available to meet current liabilities	 <u>7,350</u>	 <u>1,981,034</u>
 Noncurrent portion of funds held by trustee	 <u>\$ 53,625,604</u>	 <u>\$ 2,377,249</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
By Board for future capital improvements:		
Cash and cash equivalents	\$ 4,075,506	\$ 2,724,239
Marketable equity securities:		
Information technology	5,322,074	5,299,357
Consumer discretionary	1,504,481	3,749,225
Financial	4,479,073	3,322,116
Healthcare	3,408,156	3,016,226
Industrial	2,500,387	2,296,453
Consumer staples	1,519,206	1,091,236
Other	2,215,423	775,824
Energy	1,285,274	221,617
Telecommunications	322,631	206,100
Fixed income mutual funds	16,399,818	16,437,338
Equity mutual funds:		
International	9,460,548	9,429,727
Other	7,336,166	6,775,157
Large cap	4,506,620	4,335,960
Real estate	2,755,725	2,747,799
Small cap	25,079	21,841
Debt securities:		
Corporate, investment grade	9,087,720	9,810,041
Mortgage backed	5,510,532	5,091,129
U.S. government and agency obligations	1,784,972	1,597,716
Other	739,607	787,882
Cash surrender value of life insurance policies	956,844	921,544
Total	<u>\$ 85,195,842</u>	<u>\$ 80,658,527</u>
Board-designated unrestricted contributions:		
Cash and cash equivalents	\$ 103,584	\$ 194,906
Fixed income mutual funds	2,930,596	2,709,180
Equity mutual funds:		
Large cap	2,427,822	2,349,533
International	698,617	647,297
Small cap	406,193	355,759
Total	<u>\$ 6,566,812</u>	<u>\$ 6,256,675</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Long-Term Investments

The composition of long-term investments at June 30, 2018 and 2017 is set forth in the following table:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 959,512	\$ 1,351,903
Fixed income mutual funds	6,678,795	5,151,101
Equity mutual funds:		
Large cap	821,711	813,266
International	2,320,549	1,723,143
Small cap	727,306	491,611
Mid cap	157,843	71,911
Other	134,411	40,369
Debt securities:		
Corporate, investment grade	173,874	-
U.S. Government and agency obligations		60,281
Cash surrender value of life insurance policies	11,075,544	10,313,889
Marketable equity securities:		
Information technology	-	58,390
Industrial	-	40,680
Healthcare	-	36,278
Financial	-	35,663
Consumer discretionary	-	26,420
Consumer staples	-	22,475
Energy	-	22,275
Other	-	7,796
Telecommunications	-	5,572
Total	<u>\$ 23,049,545</u>	<u>\$ 20,273,023</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment return:		
Other revenues:		
Unrealized gains on trading securities	\$ 861,242	\$ 1,042,795
Interest and dividend income	387,459	215,370
Realized (losses) gains on sales of securities	<u>(67,623)</u>	<u>780,011</u>
Total other revenues	1,181,078	2,038,176
Other income:		
Realized gains on sales of securities	2,273,926	3,072,502
Interest and dividend income	2,398,066	2,605,319
Unrealized gains on trading securities	1,478,696	2,333,076
Investment fees	<u>(426,228)</u>	<u>(399,757)</u>
Total other income	<u>5,724,460</u>	<u>7,611,140</u>
Total	<u>\$ 6,905,538</u>	<u>\$ 9,649,316</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The fair value of financial instruments listed below was determined using the following valuation hierarchy at June 30, 2018 and 2017:

	2018				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	
Assets - Recurring fair value measurements:					
Investments and AWUL:					
Cash and cash equivalents	\$ 58,771,556	\$ 58,771,556	\$ 58,771,556	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	1,504,481	1,504,481	1,504,481	-	-
Consumer staples	1,519,206	1,519,206	1,519,206	-	-
Financial Information technology	4,479,073	4,479,073	4,479,073	-	-
Healthcare	5,322,074	5,322,074	5,322,074	-	-
Industrial	3,408,156	3,408,156	3,408,156	-	-
Energy	2,500,387	2,500,387	2,500,387	-	-
Telecommunications	1,285,274	1,285,274	1,285,274	-	-
Other	322,631	322,631	322,631	-	-
Fixed income mutual funds	2,215,423	2,215,423	2,215,423	-	-
Equity mutual funds:					
International	26,009,209	26,009,209	26,009,209	-	-
Large cap	12,479,714	12,479,714	12,479,714	-	-
Other	7,756,153	7,756,153	7,756,153	-	-
Real estate	7,470,577	7,470,577	7,470,577	-	-
Small cap	2,755,725	2,755,725	2,755,725	-	-
Mid cap	1,158,578	1,158,578	1,158,578	-	-
Debt Securities:					
Corporate, investment grade	157,843	157,843	157,843	-	-
Mortgage backed U.S. government and agency obligations	9,261,594	9,261,594	-	9,261,594	-
Other	5,510,532	5,510,532	-	5,510,532	-
Other	1,784,972	1,784,972	-	1,784,972	-
Other	739,607	739,607	-	739,607	-
Total	156,412,765	156,412,765	139,116,060	17,296,705	-
Beneficial interest in perpetual trusts	4,056,468	4,056,468	-	-	4,056,468
Beneficial interest in charitable remainder trusts	269,393	269,393	-	-	269,393
Total assets	\$ 160,738,626	\$ 160,738,626	\$ 139,116,060	\$ 17,296,705	\$ 4,325,861

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2018				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets disclosed at fair value:					
Cash and cash equivalents	\$ 45,069,567	\$ 45,069,567	\$ 45,069,567	\$ -	\$ -
Note receivable	426,546	426,546	-	-	426,546
Pledges receivable, net	1,186,889	1,186,889	-	-	1,186,889
Total	<u>\$ 46,683,002</u>	<u>\$ 46,683,002</u>	<u>\$ 45,069,567</u>	<u>\$ -</u>	<u>\$ 1,613,435</u>
Liabilities disclosed at fair value,					
Long-term debt:					
Hospital revenue bonds	\$ 92,278,451	\$ 92,692,814	\$ -	\$ 92,692,814	\$ -
Notes payable	936,542	936,542	-	-	936,542
Total	<u>\$ 93,214,993</u>	<u>\$ 93,629,356</u>	<u>\$ -</u>	<u>\$ 92,692,814</u>	<u>\$ 936,542</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2017				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Recurring fair value measurements:					
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 Information technology	3,357,779	3,357,779	3,357,779	-	-
Healthcare	5,357,747	5,357,747	5,357,747	-	-
Industrial	3,052,504	3,052,504	3,052,504	-	-
Energy	2,337,133	2,337,133	2,337,133	-	-
Telecommunications	243,892	243,892	243,892	-	-
Other	211,672	211,672	211,672	-	-
Fixed income mutual funds	783,620	783,620	783,620	-	-
Equity mutual funds:					
International	24,297,619	24,297,619	24,297,619	-	-
Large cap	11,800,167	11,800,167	11,800,167	-	-
Other	7,498,759	7,498,759	7,498,759	-	-
Real estate	6,815,526	6,815,526	6,815,526	-	-
Small cap	2,747,799	2,747,799	2,747,799	-	-
Mid cap	869,211	869,211	869,211	-	-
Debt Securities:					
Corporate, investment grade	11,077,711	11,077,711	-	11,077,711	-
Mortgage backed U.S. government and agency obligations	5,546,525	5,546,525	-	5,546,525	-
Other	2,235,682	2,235,682	-	2,235,682	-
	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	\$ 104,546,932	\$ 104,546,932	\$ 80,628,231	\$ 19,682,844	\$ 4,235,857

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2017				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets disclosed at fair value:					
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>
Liabilities disclosed at fair value,					
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>

Investments also include \$12,032,388 and \$11,235,433 at June 30, 2018 and 2017, 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 2018 and 2017 were as follows:

	2018	2017
Beginning balance	\$ 3,967,832	\$ 3,721,986
Investment income from beneficial interest in perpetual trust	140,520	51,644
Distributions from beneficial interest in perpetual trust	(140,520)	(51,644)
Valuation gain, net	88,636	245,846
Total	<u>\$ 4,056,468</u>	<u>\$ 3,967,832</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 268,025	\$ 254,434
Change in value of split interest agreement	<u>1,368</u>	<u>13,591</u>
Total	<u>\$ 269,393</u>	<u>\$ 268,025</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, 2018 and 2017:

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 Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

6. Property and Equipment

Property and equipment and accumulated depreciation as of June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 8,669,217	\$ 8,669,217
Land improvements	3,150,966	2,989,569
Buildings	125,699,503	119,959,182
Fixed equipment	17,854,269	16,788,824
Movable equipment	75,449,828	70,213,469
Leasehold improvements	12,817,575	11,158,492
Construction in progress	5,042,395	4,820,999
Total	248,683,753	234,599,752
Less accumulated depreciation and amortization	<u>116,517,798</u>	<u>106,607,752</u>
Property and equipment, net	<u>\$ 132,165,955</u>	<u>\$ 127,992,000</u>

Depreciation expense was \$12,145,383 in 2018 and \$12,581,647 in 2017.

7. Other Assets

Other assets as of June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Community Hospital Alternative for Risk Transfer	\$ 4,177,942	\$ 3,811,623
Evangelical-Geisinger Health, LLC	974,845	895,849
Keystone Accountable Care Organization, LLC	20,198	43,835
Total other assets	<u>\$ 5,172,985</u>	<u>\$ 4,751,307</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

8. Hospital Revenue Bonds

A summary of hospital revenue bonds as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Series 2018A Hospital Revenue Bonds	\$ 17,371,471	\$ -
Series 2018B Hospital Revenue Bonds	50,095,000	-
Series 2018C Hospital Revenue Bonds	19,365,000	-
Series 2011 Hospital Revenue Bonds	-	22,200,000
Series 2013 Hospital Revenue Bonds	-	17,796,977
	<hr/>	<hr/>
Total	86,831,471	-
Net unamortized bond premium	5,446,980	-
Net unamortized financing costs	(840,786)	(820,680)
Less current maturities	(960,900)	(2,119,958)
	<hr/>	<hr/>
Long-term debt	<u>\$ 90,476,765</u>	<u>\$ 39,996,977</u>

The scheduled principal repayments as of June 30, 2018 are as follows:

Years ending June 30:	
2019	\$ 960,900
2020	878,519
2021	917,370
2022	1,071,143
2023	3,811,127
Thereafter	79,192,412
	<hr/>
Total	<u>\$ 86,831,471</u>

Series 2018 Hospital Revenue Bonds

In June 2018, the Union County Hospital Authority (the "Authority") issued \$17,371,471 Hospital Revenue Bonds (Evangelical Community Hospital) Series A of 2018 (the "2018A Bonds") on behalf of the Corporation, which were privately placed with Siemens. The 2018A Bonds are tax-exempt. The proceeds of the 2018A Bonds were used to restructure, reissue and refinance the Authority's outstanding Series 2013 Hospital Revenue Bonds and pay costs of issuance of the 2018A Bonds. The 2018A Bonds are due in varying annual installments through August 1, 2032, plus interest at a fixed rate of 3.36%.

In June 2018, the Authority also issued \$69,460,000 of Hospital Revenue Bonds (Evangelical Community Hospital), Series of 2018, consisting of \$50,095,000 Hospital Revenue Bonds, Series B of 2018 (the "2018B Bonds") and \$19,365,000 Federally Taxable Hospital Revenue Bonds, Series C of 2018 (the "2018C Bonds") on behalf of the Hospital. The 2018B Bonds are tax-exempt. The proceeds of the 2018B Bonds were used to fund certain construction and renovation projects, including a new patient bed tower, and pay costs of issuance of the 2018B Bonds. The 2018B Bonds are due in varying annual installments through August 1, 2048, plus interest at rates ranging from 4.00% to 5.00%.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

costs of issuance of the 2018B Bonds. The 2018B Bonds are due in varying annual installments through August 1, 2048, plus interest at rates ranging from 4.00% to 5.00%.

The proceeds of the 2018C Bonds were used to advance refund the Authority's outstanding Series 2011 Hospital Revenue Bonds and pay costs of issuance of the 2018C Bonds. The 2018C Bonds are due in varying annual installments through August 1, 2041, plus interest at rates ranging from 3.80% to 4.85%.

In connection with the Series 2018 Hospital Revenue Bonds (collectively, the "2018 Bonds"), the Corporation entered into a Master Trust Indenture, dated as of June 1, 2018. Under the terms of the Master Trust Indenture, the Hospital is the sole member of the Obligated Group for the 2018 Bonds. To secure the required debt service payments due on the 2018 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 2018 Bonds are outstanding.

Series 2013 Hospital Revenue Bonds

In October 2013, 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. 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. These bonds were advance refunded with the 2018A Bonds in June 2018.

Series 2011 Hospital Revenue Bonds

In March 2011, 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. These bonds were advance refunded with the 2018C Bonds in June 2018.

In conjunction with the advance refunded 2013 Bonds and 2011 Bonds, a loss on refinancing was recognized in the accompanying consolidated statement of operations, which is comprised of the following:

Write-off deferred financing costs	\$ 782,794
Additional funds required to fund escrow	<u>2,105,126</u>
Loss on refinancing	<u>\$ 2,887,920</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

9. Notes Payable

A summary of notes payable as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Note payable due in monthly installments of \$7,008, including interest at 1.00% through November 2021; secured by certain equipment	\$ 275,599	\$ 356,505
Note payable due in annual installments of \$345,000, including interest at 3.25% through August 2018, secured by a mortgage	335,943	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	<u>325,000</u>	<u>475,000</u>
Total	936,542	1,488,804
Less current maturities	<u>567,660</u>	<u>552,262</u>
Long-term debt	<u>\$ 368,882</u>	<u>\$ 936,542</u>

The scheduled principal repayments as of June 30, 2018 are as follows:

Years ending June 30:	
2019	\$ 567,660
2020	257,539
2021	83,368
2022	<u>27,975</u>
Total	<u>\$ 936,542</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, 2018:

Year ending June 30, 2019	\$	351,153
Less amount representing interest		<u>7,839</u>
Present value of net minimum lease payments	\$	<u>343,314</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>2018</u>	<u>2017</u>
Current maturities of obligations under capital leases	\$ 343,314	\$ 483,553
Long-term debt	<u>-</u>	<u>343,314</u>
Total	<u>\$ 343,314</u>	<u>\$ 826,867</u>

11. Accrued Expenses

Accrued expenses at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 9,618,749	\$ 8,667,713
Paid time off	7,110,098	6,931,066
Employee health and dental insurance coverage	1,430,000	1,160,000
Workers' compensation	710,000	560,000
Interest	125,560	628,356
Retirement plan	766,997	664,298
Other	<u>367,673</u>	<u>107,483</u>
Total	<u>\$ 20,129,077</u>	<u>\$ 18,718,916</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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 \$2,884,000 in 2018 and \$2,963,000 in 2017.

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 \$26,313,903 and \$22,580,021 at June 30, 2018 and 2017, 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.

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 5,841,818	\$ 6,074,720
Service cost	82,326	93,276
Interest cost	207,148	200,227
Change in assumptions	(569,371)	(204,630)
Actuarial gain	(39,944)	(137,244)
Benefits paid	<u>(204,877)</u>	<u>(184,531)</u>
Benefit obligation, end of year	<u>5,317,100</u>	<u>5,841,818</u>
Change in plan assets:		
Employer contribution	204,877	184,531
Benefits paid	<u>(204,877)</u>	<u>(184,531)</u>
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>
Funded status, end of year	<u>\$ (5,317,100)</u>	<u>\$ (5,841,818)</u>
Benefit obligation, end of year	<u>\$ (5,317,100)</u>	<u>\$ (5,841,818)</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

	2018	2017
Reconciliation of amounts recognized in the balance sheet:		
Current portion of accrued postretirement benefit costs	\$ 245,553	\$ 218,682
Accrued postretirement benefit costs	<u>5,071,547</u>	<u>5,623,136</u>
Total	<u>\$ 5,317,100</u>	<u>\$ 5,841,818</u>

The following table sets forth the components of net periodic pension cost in 2018 and 2017:

	2018	2017
Service cost	\$ 82,326	\$ 93,276
Interest cost	207,148	200,227
Amortization of prior service cost	<u>(106,013)</u>	<u>(106,013)</u>
Net periodic benefit cost	<u>\$ 183,461</u>	<u>\$ 187,490</u>

The Corporation's contribution to the plan in 2019 is expected to be approximately \$246,000.

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

The previously unrecognized components of net periodic postretirement benefits cost included in unrestricted net assets at June 30, 2018 and 2017 are as follows:

	2018	2017
Net actuarial gain	\$ (1,078,702)	\$ (469,387)
Prior service credit	<u>(587,836)</u>	<u>(693,849)</u>
Total	<u>\$ (1,666,538)</u>	<u>\$ (1,163,236)</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, 2018 and 2017 are as follows:

	2018	2017
Discount rate	4.04 %	3.64 %
Rate of compensation increase	N/A	N/A

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

The weighted-average assumptions used in the measurement of net periodic postretirement benefit cost for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.64 %	3.43 %
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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Health care cost trend rate assumed for next year	5.5 %	5.5 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.8 %	3.9 %
Year that the rate reaches the ultimate trend rate	2075	2075

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.

The effects of a 1% increase or decrease in the assumed health care cost trend rates for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
1% Increase:		
Effect on total service and interest cost components	\$ 47,657	\$ 50,479
Effect on accumulated postretirement benefit obligation	754,131	912,152
1% Decrease:		
Effect on total service and interest cost components	(29,644)	(40,567)
Effect on accumulated postretirement benefit obligation	(622,789)	(742,136)

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

Years ending June 30:	
2019	\$ 245,553
2020	279,608
2021	304,045
2022	298,807
2023	321,544
2024-2028	1,626,613

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purchases of property and equipment	\$ 1,186,889	\$ 264,736
Various operational purposes	899,235	898,331
Total	<u>\$ 2,086,124</u>	<u>\$ 1,163,067</u>

The Corporation released \$990,767 in 2018 and \$384,849 in 2017 of temporarily restricted net assets since the donors' restrictions had been met.

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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Permanent endowment funds, the income from which is expendable to support various healthcare services and provide nursing scholarships (reported as investment income)	\$ 1,598,843	\$ 1,585,663
Beneficial interest in perpetual trusts, the income from which is expendable to support healthcare services (reported as investment income)	4,056,468	3,967,832
Beneficial interest in charitable remainder trust, to be added to the Corporation's general endowment fund upon distribution	164,746	162,322
Total	<u>\$ 5,820,057</u>	<u>\$ 5,715,817</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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.

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.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

Endowment net asset composition by type of fund as of June 30, 2018 consists of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 669,535	\$ 1,598,843	\$ 2,268,378
Board-designated endowment funds	<u>368,371</u>	<u>-</u>	<u>-</u>	<u>368,371</u>
Total endowment funds	<u>\$ 368,371</u>	<u>\$ 669,535</u>	<u>\$ 1,598,843</u>	<u>\$ 2,636,749</u>

Changes in endowment net assets for the year ended June 30, 2018 consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 352,214	\$ 638,563	\$ 1,585,663	\$ 2,576,440
Investment returns	106,690	30,972	-	137,662
Contributions		-	13,180	13,180
Appropriation of endowment assets for expenditure	<u>(90,533)</u>	<u>-</u>	<u>-</u>	<u>(90,533)</u>
	<u>\$ 368,371</u>	<u>\$ 669,535</u>	<u>\$ 1,598,843</u>	<u>\$ 2,636,749</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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 consists 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>

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.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

17. Medical Malpractice Claims Coverage

At June 30, 2018, 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 2019. 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.

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 \$4,177,942 at June 30, 2018 and \$3,811,623 at June 30, 2017 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 \$3,497,030 at June 30, 2018 (of which \$2,501,098 is recorded as insurance recoveries receivable) and \$2,714,459 at June 30, 2017 (of which \$1,801,425 is recorded as insurance recoveries receivable), using a discount rate of 3% at June 30, 2018 and 2017.

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.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

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, 2018:

Years ending June 30:	
2019	\$ 2,383,342
2020	1,983,285
2021	1,376,545
2022	1,205,607
2023	934,831
Thereafter	<u>11,320,236</u>
Total	<u>\$ 19,203,846</u>

Rent expense amounted to approximately \$2,176,000 in 2018 and \$2,040,000 in 2017.

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

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.

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 2018 and 2017 are approximately as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Healthcare and other related services	\$ 196,496	\$ 185,315
General and administrative	34,599	33,871
Fundraising	<u>580</u>	<u>488</u>
Total expenses	<u>\$ 231,675</u>	<u>\$ 219,674</u>

Evangelical Community Hospital and Controlled Entity

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, concentrations of receivables from third-party payors and others are as follows:

	<u>2018</u>	<u>2017</u>
Medicare	15 %	14 %
Medicare Managed Care	11	10
Medicaid	1	-
Medicaid Managed Care	4	5
Blue Cross / Blue Shield	20	20
Other third party payors	38	41
Patients (self-pay)	<u>11</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

Net patient service revenues by payor class, for the year ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Medicare	18 %	19 %
Medicare Managed Care	35	35
Medicaid	1	1
Medicaid Managed Care	4	4
Blue Cross / Blue Shield	28	31
Other third party payors	11	8
Patients (self-pay)	<u>3</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

24. Subsequent Event

The Corporation entered into a letter-of-intent with Geisinger, Inc. ("Geisinger") whereby Geisinger will make a capital investment in the Corporation. The Corporation will continue to remain an independent community hospital yet share in Geisinger's information technology innovations and receive an improved status within Geisinger Health Plan. Geisinger will appoint 30% of community members who serve on the Corporation's board, and the Corporation will appoint a community member to the Geisinger Health Plan board. The final details of the arrangement are in the process of being worked out; however, both boards have approved the letter-of-intent and have publicly announced this partnership.

Evangelical Community Hospital and Controlled Entity

Consolidating Schedule, Balance Sheet

June 30, 2018

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	\$ 41,323,941	\$ 3,745,626	\$ -	\$ 45,069,567
Assets whose use is limited under trust indenture, held by trustee	7,350	-	-	7,350
Accounts receivable:				
Patients (net of estimated allowance for doubtful accounts of \$12,076,000)	16,339,774	3,730,491	-	20,070,265
Other	44,254	88,798	-	133,052
Affiliates	5,293,544	97,341	(5,390,885)	-
Current portion of note receivable	-	426,546	-	426,546
Inventories of drugs and supplies	4,495,761	382,839	-	4,878,600
Prepaid expenses and other current assets	4,308,268	805,870	-	5,114,138
	<u>71,812,892</u>	<u>9,277,511</u>	<u>(5,390,885)</u>	<u>75,699,518</u>
Assets Whose Use is Limited				
By Board for future capital improvements	85,195,842	-	-	85,195,842
Under trust indenture, held by trustee	53,625,604	-	-	53,625,604
Board-designated unrestricted contributions	6,566,812	-	-	6,566,812
	<u>3,845,863</u>	<u>19,203,682</u>	<u>-</u>	<u>23,049,545</u>
Long-Term Investments				
	4,056,468	-	-	4,056,468
Beneficial Interest in Perpetual Trusts				
	269,393	-	-	269,393
Beneficial Interest in Charitable Remainder Trusts				
	1,186,889	-	-	1,186,889
Pledges Receivable, Net				
	132,010,678	155,277	-	132,165,955
Property and Equipment, Net				
	3,175,259	1,963,819	-	5,139,078
Goodwill				
	1,474,725	1,026,373	-	2,501,098
Estimated Medical Malpractice Insurance Recoveries				
	5,172,985	-	-	5,172,985
Other Assets				
	<u>\$ 368,393,410</u>	<u>\$ 31,626,662</u>	<u>\$ (5,390,885)</u>	<u>\$ 394,629,187</u>
Total assets				

Evangelical Community Hospital and Controlled Entity

Consolidating Schedule, Balance Sheet

June 30, 2018

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Liabilities and Net Assets				
Current Liabilities				
Current maturities of:				
Hospital revenue bonds	\$ 960,900	\$ -	\$ -	\$ 960,900
Notes payable	567,660	-	-	567,660
Capital lease obligations	343,314	-	-	343,314
Accounts payable:				
Trade	5,983,462	709,304	-	6,692,766
Affiliates	1,439,655	3,951,230	(5,390,885)	-
Accrued expenses	13,499,510	6,629,567	-	20,129,077
Blue Cross current financing advance	1,057,190	-	-	1,057,190
Estimated third-party payor settlements	2,616,378	-	-	2,616,378
Current portion of accrued postretirement benefit costs	245,553	-	-	245,553
	<u>26,713,622</u>	<u>11,290,101</u>	<u>(5,390,885)</u>	<u>32,612,838</u>
Total current liabilities				
	26,713,622	11,290,101	(5,390,885)	32,612,838
Long-Term Debt				
Hospital revenue bonds, net	90,476,765	-	-	90,476,765
Notes payable	368,882	-	-	368,882
	<u>1,797,857</u>	<u>24,516,046</u>	<u>-</u>	<u>26,313,903</u>
Deferred Compensation				
	1,797,857	24,516,046	-	26,313,903
Charitable Gift Annuities Payable	204,403	-	-	204,403
Accrued Postretirement Benefit Costs	5,071,547	-	-	5,071,547
Estimated Medical Malpractice Claims Liability	1,858,863	1,638,167	-	3,497,030
	<u>126,491,939</u>	<u>37,444,314</u>	<u>(5,390,885)</u>	<u>158,545,368</u>
Total liabilities				
	126,491,939	37,444,314	(5,390,885)	158,545,368
Net Assets (Deficit)				
Unrestricted	233,995,290	(5,817,652)	-	228,177,638
Temporarily restricted	2,086,124	-	-	2,086,124
Permanently restricted	5,820,057	-	-	5,820,057
	<u>241,901,471</u>	<u>(5,817,652)</u>	<u>-</u>	<u>236,083,819</u>
Total net assets (deficit)				
	241,901,471	(5,817,652)	-	236,083,819
Total liabilities and net assets	<u>\$ 368,393,410</u>	<u>\$ 31,626,662</u>	<u>\$ (5,390,885)</u>	<u>\$ 394,629,187</u>

Evangelical Community Hospital and Controlled Entity

 Consolidating Schedule, Statement of Operations
 Year Ended June 30, 2018

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support				
Patient service revenues (net of contractual allowances and discounts)	\$ 202,467,500	\$ 47,735,819	\$ -	\$ 250,203,319
Provision for bad debts	(12,834,563)	(2,340,763)	-	(15,175,326)
Net patient service revenues less provision for bad debts	189,632,937	45,395,056	-	235,027,993
Other revenues	9,869,583	2,102,652	(7,659,889)	4,312,346
Gain (loss) on the sale and disposal of property and equipment	19,875	(464)	-	19,411
Net assets released from restrictions	710,285	-	-	710,285
Total unrestricted revenues, gains, and other support	<u>200,232,680</u>	<u>47,497,244</u>	<u>(7,659,889)</u>	<u>240,070,035</u>
Expenses				
Salaries and wages	67,100,087	15,828,307	-	82,928,394
Physician salaries and fees	2,362,449	33,881,386	(60,700)	36,183,135
Supplies	30,694,112	3,100,626	(8,925)	33,785,813
Employee benefits	20,138,723	8,746,804	-	28,885,527
Purchased services	22,653,393	7,192,177	(6,061,996)	23,783,574
Depreciation	12,014,844	130,539	-	12,145,383
Other expenses	3,360,681	2,411,956	(1,497,062)	4,275,575
Utilities	2,930,725	186,525	(31,206)	3,086,044
Insurance	964,040	1,635,695	-	2,599,735
Contract labor	2,057,852	8,034	-	2,065,886
Interest (net of capitalized interest of \$205,795)	1,935,673	-	-	1,935,673
Total expenses	<u>166,212,579</u>	<u>73,122,049</u>	<u>(7,659,889)</u>	<u>231,674,739</u>
Operating income (loss)	<u>34,020,101</u>	<u>(25,624,805)</u>	<u>-</u>	<u>8,395,296</u>
Other Income (Loss)				
Investment income	5,724,460	-	-	5,724,460
Contributions	802,277	-	-	802,277
Equity in loss of investees	(579,968)	-	-	(579,968)
Loss on refinancing of debt	(2,887,920)	-	-	(2,887,920)
Total other income	<u>3,058,849</u>	<u>-</u>	<u>-</u>	<u>3,058,849</u>
Revenues in excess of (less than) expenses	37,078,950	(25,624,805)	-	11,454,145
Grant Income Used for Long-Term Purposes	231,000	-	-	231,000
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	283,887	-	-	283,887
Postretirement Benefit Liability Adjustment	503,302	-	-	503,302
Transfers	(24,762,089)	24,762,089	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 13,335,050</u>	<u>\$ (862,716)</u>	<u>\$ -</u>	<u>\$ 12,472,334</u>

Evangelical Community Hospital and Controlled Entity

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

Year Ended June 30, 2018

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Unrestricted Net Assets				
Revenues in excess of (less than) expenses	\$ 37,078,950	\$ (25,624,805)	\$ -	\$ 11,454,145
Grant income used for long-term purposes	231,000	-	-	231,000
Net assets released from restrictions used for purchase of property and equipment	283,887	-	-	283,887
Postretirement benefit liability adjustment	503,302	-	-	503,302
Transfers	(24,762,089)	24,762,089	-	-
	<u>13,335,050</u>	<u>(862,716)</u>	<u>-</u>	<u>12,472,334</u>
Increase (decrease) in unrestricted net assets				
Temporarily Restricted Net Assets				
Contributions and grants	1,884,012	-	-	1,884,012
Investment income	30,972	-	-	30,972
Change in value of split-interest agreement	(1,160)	-	-	(1,160)
Net assets released from restrictions	(990,767)	-	-	(990,767)
	<u>923,057</u>	<u>-</u>	<u>-</u>	<u>923,057</u>
Increase in temporarily restricted net assets				
Permanently Restricted Net Assets				
Valuation gain	88,636	-	-	88,636
Contributions	13,180	-	-	13,180
Change in value of split-interest agreement	2,424	-	-	2,424
	<u>104,240</u>	<u>-</u>	<u>-</u>	<u>104,240</u>
Increase in permanently restricted net assets				
Increase (decrease) in net assets	14,362,347	(862,716)	-	13,499,631
Net Assets (Deficit), Beginning	<u>227,539,124</u>	<u>(4,954,936)</u>	<u>-</u>	<u>222,584,188</u>
Net Assets (Deficit), Ending	<u>\$ 241,901,471</u>	<u>\$ (5,817,652)</u>	<u>\$ -</u>	<u>\$ 236,083,819</u>

Evangelical Community Hospital and Controlled Entity

Consolidating Schedule, Balance Sheet

June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Assets				
Current Assets				
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
	<u>65,387,071</u>	<u>8,453,898</u>	<u>(4,734,169)</u>	<u>69,106,800</u>
Assets Whose Use is Limited				
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
	<u>4,013,068</u>	<u>16,259,955</u>	<u>-</u>	<u>20,273,023</u>
Long-Term Investments				
	3,967,832	-	-	3,967,832
Beneficial Interest in Perpetual Trusts				
	268,025	-	-	268,025
Beneficial Interest in Charitable Remainder Trusts				
	7,785	-	-	7,785
Pledges Receivable, Net				
	127,740,101	251,899	-	127,992,000
Property and Equipment, Net				
	3,175,259	1,939,970	-	5,115,229
Goodwill				
	765,638	1,035,787	-	1,801,425
Estimated Medical Malpractice Insurance Recoveries				
	4,751,307	-	-	4,751,307
Other Assets				
	<u>\$ 299,368,537</u>	<u>\$ 27,941,509</u>	<u>\$ (4,734,169)</u>	<u>\$ 322,575,877</u>

Evangelical Community Hospital and Controlled Entity

Consolidating Schedule, Balance Sheet

June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Liabilities and Net Assets				
Current Liabilities				
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 and other current liabilities	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
Long-Term Debt				
Hospital revenue bonds, net	37,056,339	-	-	37,056,339
Notes payable	936,542	-	-	936,542
Capital lease obligations	343,314	-	-	343,314
Deferred Compensation	1,875,330	20,704,691	-	22,580,021
Charitable Gift Annuities Payable	226,569	-	-	226,569
Accrued Postretirement Benefit Costs	5,623,136	-	-	5,623,136
Estimated Medical Malpractice Claims Liability	1,093,544	1,620,915	-	2,714,459
Total liabilities	71,829,413	32,896,445	(4,734,169)	99,991,689
Net Assets (Deficit)				
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 Entity

Consolidating Schedule, Statement of Operations

Year Ended June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Unrestricted Revenues, Gains, and Other Support				
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
Expenses				
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
Contract labor	1,159,133	-	-	1,159,133
Interest (net of capitalized interest of \$246,468)	1,971,563	-	-	1,971,563
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
Other Income				
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
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

Evangelical Community Hospital and Controlled Entity

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

Year Ended June 30, 2017

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Unrestricted Net Assets				
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	-	-
	<u>18,243,964</u>	<u>(1,451,959)</u>	<u>-</u>	<u>16,792,005</u>
Increase (decrease) in unrestricted net assets				
Temporarily Restricted Net Assets				
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)
	<u>66,611</u>	<u>-</u>	<u>-</u>	<u>66,611</u>
Increase in temporarily restricted net assets				
Permanently Restricted Net Assets				
Valuation gain	245,846	-	-	245,846
Contributions	32,724	-	-	32,724
Change in value of split-interest agreement	10,180	-	-	10,180
	<u>288,750</u>	<u>-</u>	<u>-</u>	<u>288,750</u>
Increase in permanently restricted net assets				
Increase (decrease) in net assets	18,599,325	(1,451,959)	-	17,147,366
Net Assets (Deficit), Beginning	<u>208,939,799</u>	<u>(3,502,977)</u>	<u>-</u>	<u>205,436,822</u>
Net Assets (Deficit), Ending	<u>\$ 227,539,124</u>	<u>\$ (4,954,936)</u>	<u>\$ -</u>	<u>\$ 222,584,188</u>