



Evangelical Community Hospital and Controlled Entities

Consolidated Financial Statements
and Supplementary Information

June 30, 2019 and 2018

Evangelical Community Hospital and Controlled Entities

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Independent Auditors' Report

To the Board of Directors of
Evangelical Community Hospital

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Evangelical Community Hospital and controlled entities, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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 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 consolidated financial position of Evangelical Community Hospital and controlled entities as of June 30, 2019 and 2018, 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 38 - 45 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 28, 2019

Evangelical Community Hospital and Controlled Entities

Consolidated Balance Sheets

June 30, 2019 and 2018

	2019	2018		2019	2018
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 41,195,517	\$ 45,069,567	Current maturities of:		
Assets whose use is limited under trust indenture, held by trustee	2,005,051	7,350	Hospital revenue bonds	\$ 1,378,519	\$ 960,900
Accounts receivable:			Notes payable	1,082,539	567,660
Patients (net of estimated allowance for doubtful accounts of \$12,076,000 in 2018)	22,507,785	20,070,265	Capital lease obligations	-	343,314
Other	219,461	133,052	Accounts payable	12,839,836	6,692,766
Current portion of note receivable	269,452	426,546	Accrued expenses	23,518,269	20,129,077
Inventories of drugs and supplies	5,565,966	4,878,600	Blue Cross current financing advance	1,057,190	1,057,190
Prepaid expenses and other current assets	5,568,285	5,114,138	Estimated third-party payor settlements	2,594,468	2,616,378
			Current portion of accrued postretirement benefit costs	227,142	245,553
Total current assets	77,331,517	75,699,518	Total current liabilities	42,697,963	32,612,838
Assets Whose Use is Limited			Long-Term Debt		
By Board for future capital improvements	88,558,814	85,195,842	Hospital revenue bonds, net	88,950,320	90,476,765
Under trust indenture, held by trustee	44,506,880	53,625,604	Notes payable	111,343	368,882
Board-designated contributions without donor restrictions	6,029,633	6,566,812	Deferred Compensation		
				29,912,864	26,313,903
Long-Term Investments	26,048,908	23,049,545	Charitable Gift Annuities Payable		
				210,799	204,403
Beneficial Interest in Perpetual Trusts	4,001,927	4,056,468	Accrued Postretirement Benefit Costs		
				5,059,246	5,071,547
Beneficial Interest in Charitable Remainder Trusts	265,272	269,393	Estimated Medical Malpractice Claims Liability		
				3,153,715	3,497,030
Pledges Receivable, Net	2,204,609	1,186,889	Total liabilities	170,096,250	158,545,368
Property and Equipment, Net	171,476,352	132,165,955	Net Assets		
Goodwill	10,893,322	5,139,078	Net assets without donor restrictions	260,865,478	228,177,638
			Net assets with donor restrictions	8,975,689	7,906,181
Estimated Medical Malpractice Insurance Recoveries	2,078,829	2,501,098	Total net assets	269,841,167	236,083,819
Other Assets	6,541,354	5,172,985			
Total assets	\$ 439,937,417	\$ 394,629,187	Total liabilities and net assets	\$ 439,937,417	\$ 394,629,187

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entities

Consolidated Statements of Operations

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains, and Other Support		
Net patient service revenues	\$ 246,409,188	\$ 250,203,319
Provision for bad debts	-	(15,175,326)
Net patient service revenues	246,409,188	235,027,993
Other revenues	4,955,530	4,312,346
Gain on the sale and disposal of property and equipment	55,568	19,411
Net assets released from restrictions	1,658,425	710,285
Total revenues, gains, and other support	<u>253,078,711</u>	<u>240,070,035</u>
Expenses		
Salaries and wages	88,438,453	82,928,394
Physician salaries and fees	38,718,420	36,183,135
Supplies	33,431,493	33,785,813
Employee benefits	28,470,426	28,885,527
Purchased services	26,968,814	23,783,574
Depreciation	12,685,598	12,145,382
Other expenses	5,870,143	4,275,576
Utilities	3,183,204	3,086,044
Insurance	2,378,414	2,599,735
Contract labor	2,150,861	2,065,886
Bad debt	211,384	-
Interest (net of capitalized interest of \$2,523,157 in 2019 and \$205,795 in 2018)	1,306,299	1,935,673
Total expenses	<u>243,813,509</u>	<u>231,674,739</u>
Operating income	<u>9,265,202</u>	<u>8,395,296</u>
Other Income		
Investment income	5,630,290	5,724,460
Contributions	710,355	802,277
Equity in loss of investees	(35,094)	(579,968)
Loss on refinancing of debt	-	(2,887,920)
Total other income	<u>6,305,551</u>	<u>3,058,849</u>
Revenues in excess of expenses	15,570,753	11,454,145
Capital Contribution from Geisinger Health	17,000,000	-
Grant Income Used for Long-Term Purposes	231,000	231,000
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	20,125	283,887
Postretirement Benefit Liability Adjustment	<u>(134,038)</u>	<u>503,302</u>
Change in net assets without donor restrictions	<u>\$ 32,687,840</u>	<u>\$ 12,472,334</u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entities

Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions		
Revenues in excess of expenses	\$ 15,570,753	\$ 11,454,145
Capital contribution from Geisinger Health	17,000,000	-
Grant income used for long-term purposes	231,000	231,000
Net assets released from restrictions used for purchase of property and equipment	20,125	283,887
Postretirement benefit liability adjustment	<u>(134,038)</u>	<u>503,302</u>
Change in net assets without donor restrictions	<u>32,687,840</u>	<u>12,472,334</u>
Changes in Net Assets With Donor Restrictions		
Contributions and grants	2,718,884	1,897,192
Valuation (loss) gain	(54,541)	88,636
Investment income	185,981	30,972
Change in value of split-interest agreement	(4,121)	1,264
Net assets released from restrictions	<u>(1,776,695)</u>	<u>(990,767)</u>
Change in net assets with donor restrictions	<u>1,069,508</u>	<u>1,027,297</u>
Change in net assets	33,757,348	13,499,631
Net Assets, Beginning	<u>236,083,819</u>	<u>222,584,188</u>
Net Assets, Ending	<u><u>\$ 269,841,167</u></u>	<u><u>\$ 236,083,819</u></u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled EntitiesConsolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 33,757,348	\$ 13,499,631
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,685,598	12,145,382
Amortization of bond financing costs	33,136	37,887
Amortization of bond premium	(181,063)	-
Provision for bad debts	-	15,175,326
Gain on the sale and disposal of property and equipment	(55,568)	(19,411)
Loss on refinancing, including write-off of deferred financing costs of \$782,794 in 2018	-	2,887,920
Net realized and unrealized gains and losses on investments	3,091,148	4,546,241
Equity in loss of investees	35,094	579,968
Capital contribution from Geisinger Health	(17,000,000)	-
Donor restricted contributions	(2,900,744)	(2,018,064)
Grant income used for long-term purposes	(231,000)	(231,000)
Postretirement benefit liability adjustment	134,038	(503,302)
Changes in assets and liabilities:		
Accounts receivable	(2,523,929)	(16,273,924)
Inventories of drugs and supplies	(679,692)	(123,039)
Prepaid expenses and other assets	(31,878)	(1,246,411)
Accounts payable, trade	2,617,300	1,569,693
Accrued expenses and other liabilities	6,486,484	5,883,032
Estimated third-party payor settlements	(21,910)	378,703
Net cash provided by operating activities	<u>35,214,362</u>	<u>36,288,632</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(46,081,512)	(16,327,886)
Net purchases of investments	(1,795,281)	(61,444,886)
Increase in other assets	(1,403,463)	(1,001,646)
Net repayments of note receivable	157,094	201,649
Proceeds from the sale of property and equipment	123,222	27,959
Acquisition of medical practices	(7,389,285)	(23,849)
Net cash used in investing activities	<u>(56,389,225)</u>	<u>(78,568,659)</u>
Cash Flows from Financing Activities		
Proceeds from capital contribution from Geisinger Health	17,000,000	-
Proceeds from donor restricted contributions	1,941,686	748,956
Repayment of long-term debt	(1,528,559)	(2,619,819)
Repayment of capital lease obligation	(343,314)	(483,553)
Grant income used for long-term purposes	231,000	231,000
Proceeds from the issuance of long-term debt, including premium of \$5,446,980 in 2018	-	54,349,031
Payment to fund escrow	-	(2,105,126)
Payment of financing costs	-	(840,786)
Net cash provided by financing activities	<u>17,300,813</u>	<u>49,279,703</u>
Net (decrease) increase in cash and cash equivalents	(3,874,050)	6,999,676
Cash and Cash Equivalents, Beginning	<u>45,069,567</u>	<u>38,069,891</u>
Cash and Cash Equivalents, Ending	<u>\$ 41,195,517</u>	<u>\$ 45,069,567</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	<u>\$ 2,443,600</u>	<u>\$ 2,400,583</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Property and equipment acquired through seller financed mortgage obligation	<u>\$ 825,000</u>	<u>\$ -</u>
Purchase of property and equipment in accounts payable	<u>\$ 5,595,112</u>	<u>\$ 2,065,342</u>
Refinancing of long-term debt	<u>\$ -</u>	<u>\$ 37,929,420</u>

See notes to consolidated financial statements

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 organizations related by way of common ownership and/or control. The affiliated organizations are Evangelical Medical Services Organization ("EMSO") and Plaza 15 Realty, LLC ("Plaza 15").

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.

Plaza 15 is a limited liability company that was formed during 2019 to own and hold real estate. The Hospital is the sole member. The Hospital may appoint officers and agents for Plaza 15, who have the power to do any and all acts necessary to, or for the furtherance of, the business and affairs of Plaza 15.

Basis of Consolidation

The consolidated financial statements include the accounts of the Hospital, EMSO, and Plaza 15 (collectively referred to as, the "Corporation"). All significant intercompany transactions and balances have been eliminated in consolidation.

Collaboration Agreement with Geisinger Health

On February 1, 2019, the Corporation entered into a Collaboration Agreement (the "Agreement") with Geisinger Health ("Geisinger") whereby Geisinger committed financial support of \$17 million for the Patient Room Improvement Modernization and Enhancement ("PRIME") project, in addition to commitments of an additional \$73 million of strategic project investment, as defined within the Agreement, in exchange for thirty percent of its membership interest. This membership interest consists only of Geisinger's appointment of thirty percent of community board members who serve on the Corporation's board. The Corporation will appoint a community member to the Geisinger Health Plan board. 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.

The capital contribution related to the PRIME project was received during 2019. The strategic project investments will be received in future years as the collaborative projects continue to progress.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Cash and Cash Equivalents

For purposes of the consolidated statements 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.

Patient Accounts Receivable

The Corporation assesses collectability on patient contracts prior to the recognition of net patient service revenues. Patient accounts receivable are recorded at net realizable value. Accounts are written off through bad debt expense when the Company has exhausted all collection efforts and determines accounts are impaired based on changes in patient credit worthiness.

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 contributions without donor restrictions 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 sheets.

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 sheets. 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 net assets with donor restrictions.

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 sheets 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 statements 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.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions 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.

Impairment of Long-Lived Assets

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recorded equal to the amount by which the carrying value exceeds the fair value of the assets. There were no impairment losses recognized in 2019 and 2018.

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.

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. Pledges are written off when they are determined to be uncollectible based on management's assessment of individual pledges.

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 contributions without donor restrictions, unless otherwise restricted by the donor. Included in assets whose use is limited, Board designated contributions without donor restrictions at June 30, 2019 and 2018 were \$400,000 and \$1,404,000, respectively, related to these charitable gift annuities. The Corporation's liability related to these charitable gift annuities at June 30, 2019 and 2018 was \$210,799 and \$204,403, respectively.

Under the terms of several perpetual trust agreements, the Corporation recorded assets and recognized contributions with donor restrictions 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 statements of operations, unless otherwise restricted by the donor. Subsequent changes in fair values are recorded as valuation gain or loss in net assets with donor restrictions. The fair value of the Corporation's beneficial interest in such perpetual trust assets was \$4,001,927 and \$4,056,468 at June 30, 2019 and 2018, respectively.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Under the terms of charitable remainder trust agreements where the Corporation does not control the assets, the Corporation recorded assets and recognized contributions with donor restrictions 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 trusts. Subsequent changes in fair value are recorded as a change in value of split-interest agreements in net assets with donor restrictions. The fair value of the Corporation's beneficial interest in such charitable remainder trust assets was \$265,272 and \$269,393 at June 30, 2019 and 2018, respectively.

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 \$33,136 and \$37,887 for the years ended June 30, 2019 and 2018, respectively. Such amortization is included in interest expense in the accompanying consolidated statements of operations.

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 sheets at net realizable value.

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 percent and 7 percent, 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 2019 and 2018 allowed for a payout of up to 5 percent of the three-year average balance, which is based on market value.

Net Assets

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

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

Net Assets With Donor Restrictions - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Net Patient Service Revenues

Net patient service revenues are recognized at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including commercial and governmental programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenues for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services. The Corporation measures the performance obligation from admission or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided and the Corporation does not believe it is required to provide additional services to the patient.

All of the Corporation's performance obligations relate to contracts with a duration of less than one year, therefore the Corporation has elected to apply the optional exemptions provided in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606-10-50-14(a) and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Corporation's policies, and/or implicit price concessions provided to uninsured or underinsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimates of implicit price concessions based on its historical collection experience with a respective class of patient using a portfolio approach as a practical expedient to account for patient contracts as a collective group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. The Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year however in these cases the financing component is not deemed to be significant to the contract.

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 revenues or patient accounts receivable.

Lease Revenue

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

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 consolidated statements of operations and consolidated statements of changes in net assets.

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.

Plaza 15 is a for-profit single member limited liability company, which is considered a disregarded entity for tax purposes.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to approximately \$818,000 in 2019 and \$702,000 in 2018.

Measure of Operations

The consolidated statements of operations reflects operating income, which includes all operating revenues and expenses that are an integral part of the Corporation's healthcare services and supporting activities and net assets released from donor restrictions to support operating expenditures. Changes in revenues in excess of expenses that are excluded from operating income, consistent with industry practice, include investment income (including realized and unrealized gains and losses on investments, interest, dividends, and investment expense), contributions, equity in loss of investees, and loss on refinancing of debt.

Evangelical Community Hospital and Controlled Entities

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Revenues in Excess of Expenses

The consolidated statements of operations includes the determination of revenues in excess of expenses. Changes in net assets without donor restrictions 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), grant income used for long-term purposes, and capital contributions from Geisinger.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the current year presentation.

New Accounting Standards

Standards Adopted

In 2019, the Corporation adopted FASB Accounting Standards Update ("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. The core principle under ASU No. 014-09 is that entities 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. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

The Corporation applied the modified retrospective approach to all contracts when adopting ASU No. 2014-09. As a result of the adoption, what was previously classified as the provision for bad debts in the consolidated statements of operations is now reflected as implicit price concessions, as defined in Topic 606, and therefore included as a reduction of net patient service revenues. For changes in transaction price related to changes in patient circumstances, the Corporation will prospectively recognize those amounts as a provision for bad debts within operating expenses on the consolidated statements of operations. For periods prior to July 1, 2018, the provision for bad debts has been presented consistent with the previous revenue recognition standards that required separate presentation of these amounts as a component of net patient service revenues. Additionally, as a result of the adoption of ASU No. 2014-09, the allowance for doubtful accounts of approximately \$12,076,000 as of July 1, 2018 was reclassified as a component of net patient accounts receivable.

In 2019, the Corporation adopted the FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

ASU No. 2016-14 changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets With Donor Restrictions;

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- The financial statements include a disclosure about liquidity and availability of resources (Note 18).
- The functional expense disclosure for 2019 includes expenses reported both by nature and function (Note 19).

Standards Not Yet Adopted

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.

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 retrospectively adopt this guidance for its fiscal year ended June 30, 2020.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU No. 2017-07 was issued to provide guidance on the presentation of net periodic pension/postretirement benefit cost in the statement of operations and the components that are eligible for capitalization in assets. ASU No. 2017-07 requires that an employer report the service cost component of net periodic pension/postretirement benefit cost in the same line item in the statement of operations used to record compensation expense for the related employees during the period. The other components of net periodic pension/postretirement benefit cost are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented, however within the performance indicator. The Corporation will be required to retrospectively adopt this guidance for its fiscal year ended June 30, 2020.

In August 2018, FASB issued ASU No. 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU No. 2018-14 modifies and clarifies the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. These amendments remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2018-14 for years beginning after December 15, 2021 (i.e. its fiscal year ended June 30, 2023), with early adoption permitted.

The Corporation has not yet determined the impact of the adoption of the above standards on its consolidated financial statements.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through October 28, 2019, the date the consolidated financial statements were issued.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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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, 2017.
- **Medical Assistance:** Inpatient acute care services rendered to Medical Assistance program beneficiaries are paid at prospectively determined rates per discharge based on severity of illness. 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/Blue Shield:** Inpatient acute care services rendered to Blue Cross/Blue Shield subscribers are reimbursed at prospectively determined rates per case. Outpatient services are paid based on ambulatory payment classifications or a percentage of established Corporation rates.
- **Other:** The Corporation has also entered into payment arrangements with certain managed care and commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information become available), or as years are settled or no longer subject to such audits, reviews and investigations. Adjustments arising from changes in the transaction price were not significant in 2019 or 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured or underinsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charges by any contractual adjustment, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenues in the period of the change. Subsequent changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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The Corporation disaggregates revenue from contracts with customers by payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. The composition of net patient service revenues by primary payor for the years ended June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Other third party payors	\$ 80,768,459	\$ 79,909,518
Blue Cross/Blue Shield	67,467,444	65,807,838
Medicare	49,163,267	42,305,039
Medicare Managed Care	34,763,689	28,203,359
Medicaid Managed Care	8,804,927	9,401,120
Patients (self-pay)	4,814,250	7,050,840
Medicaid	627,152	2,350,279
Total	<u>\$ 246,409,188</u>	<u>\$ 235,027,993</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

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 \$274,000 in 2019 and \$236,000 in 2018.

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Governmental program shortfalls	<u>\$ 31,465,000</u>	<u>\$ 23,714,000</u>
Services provided for which payment was not received	<u>\$ 2,865,000</u>	<u>\$ 3,425,000</u>
Community health education programs	<u>\$ 870,000</u>	<u>\$ 812,000</u>
Volunteer services	<u>\$ 914,000</u>	<u>\$ 952,000</u>

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.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

4. Investments

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

	<u>2019</u>	<u>2018</u>
Assets whose use is limited:		
Under trust indenture, held by trustee:		
Current portion	\$ 2,005,051	\$ 7,350
Noncurrent portion	44,506,880	53,625,604
By board for future capital improvements	88,558,814	85,195,842
Board-designated contributions without donor restrictions	6,029,633	6,566,812
Long-term investments	<u>26,048,908</u>	<u>23,049,545</u>
Total	<u>\$ 167,149,286</u>	<u>\$ 168,445,153</u>

Assets Whose Use is Limited

The composition of assets whose use is limited ("AWUL") at June 30, 2019 and 2018 is set forth in the following table:

	<u>2019</u>	<u>2018</u>
Under trust indenture, held by trustee (Note 8):		
Cash and cash equivalents	\$ 4,797,729	\$ 53,632,954
Debt securities:		
Corporate, investment grade	30,466,400	-
U.S. government and agency obligations	<u>11,247,802</u>	<u>-</u>
Total	46,511,931	53,632,954
Less funds held by trustee available to meet current liabilities	<u>2,005,051</u>	<u>7,350</u>
Noncurrent portion of funds held by trustee	<u>\$ 44,506,880</u>	<u>\$ (53,618,254)</u>
By Board for future capital improvements:		
Cash and cash equivalents	\$ 6,837,079	\$ 4,075,506
Marketable equity securities	21,019,174	22,556,705
Fixed income mutual funds	20,423,558	16,399,818
Equity mutual funds	21,847,583	24,084,138
Debt securities:		
Corporate, investment grade	9,467,146	9,087,720
Mortgage backed	5,902,425	5,510,532
U.S. government and agency obligations	2,137,397	1,784,972
Other	872,398	739,607
Cash surrender value of life insurance policies	<u>52,054</u>	<u>956,844</u>
Total	<u>\$ 88,558,814</u>	<u>\$ 85,195,842</u>
Board-designated contributions without donor restrictions:		
Cash and cash equivalents	\$ 67,567	\$ 103,584
Fixed income mutual funds	2,909,511	2,930,596
Equity mutual funds	<u>3,052,555</u>	<u>3,532,632</u>
Total	<u>\$ 6,029,633</u>	<u>\$ 6,566,812</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Long-Term Investments

The composition of long-term investments at June 30, 2019 and 2018 is set forth in the following table:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 618,809	\$ 959,512
Fixed income mutual funds	7,877,333	6,678,795
Equity mutual funds	4,914,341	4,161,820
Debt securities, corporate investment grade	-	173,874
Cash surrender value of life insurance policies	12,638,425	11,075,544
Total	<u>\$ 26,048,908</u>	<u>\$ 23,049,545</u>

Investment Return

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 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment return:		
Other revenues:		
Unrealized gains on trading securities	\$ 786,689	\$ 861,242
Interest and dividend income	1,293,913	427,237
Realized losses on sales of securities	(321,199)	(67,623)
Total other revenues	<u>1,759,403</u>	<u>1,220,856</u>
Other income:		
Realized gains on sales of securities	2,537,737	2,273,926
Interest and dividend income	3,438,111	2,398,066
Unrealized gains on trading securities	87,921	1,478,696
Investment fees	(433,479)	(426,228)
Total other income	<u>5,630,290</u>	<u>5,724,460</u>
Total	<u>\$ 7,389,693</u>	<u>\$ 6,945,316</u>

Evangelical Community Hospital and Controlled Entities

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5. Fair Value Measurements and Financial Instruments

Fair Value Measurements

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

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

The levels of the fair value hierarchy are as follows:

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

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

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

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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The fair value of financial instruments listed below was determined using the following valuation hierarchy at June 30, 2019 and 2018:

	2019				
	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	\$ 12,321,184	\$ 12,321,184	\$ 12,321,184	\$ -	\$ -
Marketable equity securities:					
Consumer discretionary	665,187	665,187	665,187	-	-
Consumer staples	2,825,575	2,825,575	2,825,575	-	-
Financial	3,404,150	3,404,150	3,404,150	-	-
Information technology	4,911,170	4,911,170	4,911,170	-	-
Healthcare	3,137,859	3,137,859	3,137,859	-	-
Industrial	2,563,810	2,563,810	2,563,810	-	-
Energy	904,776	904,776	904,776	-	-
Telecommunications	756,293	756,293	756,293	-	-
Other	1,850,354	1,850,354	1,850,354	-	-
Fixed income mutual funds	31,210,402	31,210,402	31,210,402	-	-
Equity mutual funds:					
International	11,686,060	11,686,060	11,686,060	-	-
Large cap	8,799,077	8,799,077	8,799,077	-	-
Other	5,406,925	5,406,925	5,406,925	-	-
Real estate	2,532,638	2,532,638	2,532,638	-	-
Small cap	1,195,390	1,195,390	1,195,390	-	-
Mid cap	194,389	194,389	194,389	-	-
Debt Securities:					
Corporate, investment grade	39,933,546	39,933,546	-	39,933,546	-
Mortgage backed	5,902,425	5,902,425	-	5,902,425	-
U.S. government and agency obligations	13,385,199	13,385,199	-	13,385,199	-
Other	872,398	872,398	-	872,398	-
Total	154,458,807	154,458,807	94,365,239	60,093,568	-
Beneficial interest in perpetual trusts	4,001,927	4,001,927	-	-	4,001,927
Beneficial interest in charitable remainder trusts	265,272	265,272	-	-	265,272
Total assets	\$ 158,726,006	\$ 158,726,006	\$ 94,365,239	\$ 60,093,568	\$ 4,267,199

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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	2019				
	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	\$ 41,195,517	\$ 41,195,517	\$ 41,195,517	\$ -	\$ -
Note receivable	269,452	269,452	-	-	269,452
Pledges receivable, net	2,204,609	2,204,609	-	-	2,204,609
Total	<u>\$ 43,669,578</u>	<u>\$ 43,669,578</u>	<u>\$ 41,195,517</u>	<u>\$ -</u>	<u>\$ 2,474,061</u>
Liabilities disclosed at fair value:					
Long-term debt:					
Hospital revenue bonds	\$ 91,136,489	\$ 99,142,244	\$ -	\$ 99,142,244	\$ -
Notes payable	1,193,882	1,193,882	-	-	1,193,882
Total	<u>\$ 92,330,371</u>	<u>\$ 100,336,126</u>	<u>\$ -</u>	<u>\$ 99,142,244</u>	<u>\$ 1,193,882</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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	2018				
	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	\$ 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	4,479,073	4,479,073	4,479,073	-	-
Information technology	5,322,074	5,322,074	5,322,074	-	-
Healthcare	3,408,156	3,408,156	3,408,156	-	-
Industrial	2,500,387	2,500,387	2,500,387	-	-
Energy	1,285,274	1,285,274	1,285,274	-	-
Telecommunications	322,631	322,631	322,631	-	-
Other	2,215,423	2,215,423	2,215,423	-	-
Fixed income mutual funds	26,009,209	26,009,209	26,009,209	-	-
Equity mutual funds:					
International	12,479,714	12,479,714	12,479,714	-	-
Large cap	7,756,153	7,756,153	7,756,153	-	-
Other	7,470,577	7,470,577	7,470,577	-	-
Real estate	2,755,725	2,755,725	2,755,725	-	-
Small cap	1,158,578	1,158,578	1,158,578	-	-
Mid cap	157,843	157,843	157,843	-	-
Debt Securities:					
Corporate, investment grade	9,261,594	9,261,594	-	9,261,594	-
Mortgage backed	5,510,532	5,510,532	-	5,510,532	-
U.S. government and agency obligations	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 Entities

Notes to Consolidated Financial Statements

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	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>

Investments also include \$12,690,479 and \$12,032,388 at June 30, 2019 and 2018, 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 in perpetual trusts in 2019 and 2018 were as follows:

	2019	2018
Beginning balance	\$ 4,056,468	\$ 3,967,832
Investment income from beneficial interest in perpetual trust	152,386	140,520
Distributions from beneficial interest in perpetual trust	(152,386)	(140,520)
Valuation (loss) gain	(54,541)	88,636
Total	<u>\$ 4,001,927</u>	<u>\$ 4,056,468</u>

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 2019 and 2018 were as follows:

	2019	2018
Beginning balance	\$ 269,393	\$ 268,129
Change in value of split interest agreement	(4,121)	1,264
Total	<u>\$ 265,272</u>	<u>\$ 269,393</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements
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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, 2019 and 2018:

Cash and cash equivalents: 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.

6. Property and Equipment

Property and equipment and accumulated depreciation as of June 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 21,880,302	\$ 8,669,217
Land improvements	3,172,559	3,150,966
Buildings	137,925,039	125,699,503
Fixed equipment	19,593,234	17,854,269
Movable equipment	78,346,335	75,449,828
Leasehold improvements	14,002,941	12,817,575
Construction in progress	<u>21,575,877</u>	<u>5,042,395</u>
Total	296,496,287	248,683,753
Less accumulated depreciation and amortization	<u>125,019,935</u>	<u>116,517,798</u>
Property and equipment, net	<u>\$ 171,476,352</u>	<u>\$ 132,165,955</u>

Depreciation expense was \$12,685,598 in 2019 and \$12,145,382 in 2018.

Commitments for construction contracts for various projects existing at June 30, 2019 totaled approximately \$43,000,000.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements
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7. Other Assets

Other assets as of June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Community Hospital Alternative for Risk Transfer	\$ 4,820,063	\$ 4,177,942
Evangelical-Geisinger Health, LLC	1,043,514	974,845
Keystone Accountable Care Organization, LLC	<u>677,777</u>	<u>20,198</u>
Total other assets	<u>\$ 6,541,354</u>	<u>\$ 5,172,985</u>

8. Hospital Revenue Bonds

A summary of hospital revenue bonds as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Series 2018A Hospital Revenue Bonds	\$ 16,410,572	\$ 17,371,471
Series 2018B Hospital Revenue Bonds	50,095,000	50,095,000
Series 2018C Hospital Revenue Bonds	<u>19,365,000</u>	<u>19,365,000</u>
Total	85,870,572	86,831,471
Net unamortized bond premium	5,265,917	5,446,980
Net unamortized financing costs	(807,650)	(840,786)
Less current maturities	<u>(1,378,519)</u>	<u>(960,900)</u>
Long-term debt	<u>\$ 88,950,320</u>	<u>\$ 90,476,765</u>

The scheduled principal repayments as of June 30, 2019 are as follows:

Years ending June 30:	
2020	\$ 1,378,519
2021	1,437,370
2022	1,611,143
2023	1,666,127
2024	1,729,856
Thereafter	<u>78,047,557</u>
Total	<u>\$ 85,870,572</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 percent.

Evangelical Community Hospital and Controlled Entities

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June 30, 2019 and 2018

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 percent to 5.00 percent.

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 percent to 4.85 percent.

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 sheets.

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.

9. Notes Payable

A summary of notes payable as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Note payable due in monthly installments of \$7,008, including interest at 1.00% through November 2021; secured by certain equipment	\$ 193,882	\$ 275,599
Note payable due in annual installments of \$345,000, including interest at 3.25% through August 2018, secured by a mortgage	-	335,943
Note payable due in annual installments of \$150,000 to \$175,000, including interest at 2.0% through September 2019, secured by a mortgage	175,000	325,000
Note payable due in one annual installment of \$825,000, including interest at 2.0% through August 2019, secured by a mortgage	<u>825,000</u>	<u>-</u>
Total	1,193,882	936,542
Less current maturities	<u>1,082,539</u>	<u>567,660</u>
Long-term debt	<u>\$ 111,343</u>	<u>\$ 368,882</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

The scheduled principal repayments as of June 30, 2019 are as follows:

Years ending June 30:		
2020	\$	1,082,539
2021		83,368
2022		<u>27,975</u>
Total	\$	<u>1,193,882</u>

10. Accrued Expenses

Accrued expenses at June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 10,214,146	\$ 9,618,749
Paid time off	7,622,317	7,110,098
Employee health and dental insurance coverage	1,810,000	1,430,000
Interest	1,659,343	125,560
Workers' compensation	860,000	710,000
Retirement plan	814,127	766,997
Other	<u>538,336</u>	<u>367,673</u>
Total	<u>\$ 23,518,269</u>	<u>\$ 20,129,077</u>

11. 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 \$3,088,000 in 2019 and \$2,884,000 in 2018.

12. 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 \$29,912,864 and \$26,313,903 at June 30, 2019 and 2018, respectively.

13. Postretirement Benefit Plan

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

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

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The following table sets forth the change in benefit obligation, the fair value of plan assets, and the amounts recognized in the consolidated balance sheets at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 5,317,100	\$ 5,841,818
Service cost	73,051	82,326
Interest cost	189,202	207,148
Change in assumptions	430,611	(569,371)
Actuarial gain	(527,882)	(39,944)
Benefits paid	(195,694)	(204,877)
	<u>5,286,388</u>	<u>5,317,100</u>
Benefit obligation, end of year		
Change in plan assets:		
Employer contribution	195,694	204,877
Benefits paid	(195,694)	(204,877)
	<u>-</u>	<u>-</u>
Fair value of plan assets, end of year		
Funded status, end of year	<u>\$ (5,286,388)</u>	<u>\$ (5,317,100)</u>
Benefit obligation, end of year	<u>\$ (5,286,388)</u>	<u>\$ (5,317,100)</u>
Reconciliation of amounts recognized in the consolidated balance sheets:		
Current portion of accrued postretirement benefit costs	\$ 227,142	\$ 245,553
Accrued postretirement benefit costs	5,059,246	5,071,547
	<u>5,286,388</u>	<u>5,317,100</u>
Total	<u>\$ 5,286,388</u>	<u>\$ 5,317,100</u>

The following table sets forth the components of net periodic pension cost in 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 73,051	\$ 82,326
Interest cost	189,202	207,148
Amortization of prior service cost	(106,013)	(106,013)
Amortization of net (gain) or loss	(125,296)	-
	<u>30,944</u>	<u>183,461</u>
Net periodic benefit cost	<u>\$ 30,944</u>	<u>\$ 183,461</u>

The Corporation's contribution to the plan in 2020 is expected to be approximately \$227,000.

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 net assets without donor restrictions at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Net actuarial gain	\$ (1,050,677)	\$ (1,078,702)
Prior service credit	(481,823)	(587,836)
	<u>(1,532,500)</u>	<u>(1,666,538)</u>
Total	<u>\$ (1,532,500)</u>	<u>\$ (1,666,538)</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Estimated amortization of prior service cost of \$106,013 is expected to be recognized in net periodic postretirement benefit cost in 2019.

The weighted-average assumptions used in computing the benefit obligation at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.32 %	4.04 %
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used in the measurement of net periodic postretirement benefit cost for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	4.04 %	3.64 %
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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</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 %	3.8 %
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 percent increase or decrease in the assumed health care cost trend rates for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
1% Increase:		
Effect on total service and interest cost components	\$ 39,510	\$ 47,657
Effect on accumulated postretirement benefit obligation	783,230	754,131
1% Decrease:		
Effect on total service and interest cost components	(32,459)	(29,644)
Effect on accumulated postretirement benefit obligation	(643,033)	(622,789)

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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

Years ending June 30:	
2020	\$ 227,142
2021	269,371
2022	263,919
2023	290,501
2024	287,384
2025-2029	1,504,167

14. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Use for operations	\$ 4,393,087	\$ 4,450,914
Purchases of property and equipment	<u>2,204,609</u>	<u>1,186,889</u>
Total	6,597,696	5,637,803
Endowment funds, income expendable to support operations	<u>2,377,944</u>	<u>2,268,378</u>
Total net assets with donor restrictions	<u>\$ 8,975,640</u>	<u>\$ 7,906,181</u>

15. 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets with donor restrictions is classified as net assets without donor restrictions.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 percent S&P 500; 5 percent Russell 2000; 10 percent MSCI EAFE; 35 percent Barclays Capital Aggregate; 10 percent S&P 500 Alternatives; and 5 percent 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 percent annually. Actual returns in any given year may vary from this amount.

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

The Corporation has a policy of appropriating for distribution each year 5 percent 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 percent 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, 2019 consists of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,377,995	\$ 2,377,995
Board-designated endowment funds	457,412	-	457,412
Total endowment funds	<u>\$ 457,412</u>	<u>\$ 2,377,995</u>	<u>\$ 2,835,407</u>

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Changes in endowment net assets for the year ended June 30, 2019 consist of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 368,371	\$ 2,268,378	\$ 2,636,749
Investment returns	186,032	83,756	269,788
Contributions	-	25,861	25,861
Appropriation of endowment assets for expenditure	(96,991)	-	(96,991)
	<u>457,412</u>	<u>\$ 2,377,995</u>	<u>\$ 2,835,407</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 2,268,378	\$ 2,268,378
Board-designated endowment funds	368,371	-	368,371
Total endowment funds	<u>\$ 368,371</u>	<u>\$ 2,268,378</u>	<u>\$ 2,636,749</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 352,214	\$ 2,224,226	\$ 2,576,440
Investment returns	106,690	30,972	137,662
Contributions	-	13,180	13,180
Appropriation of endowment assets for expenditure	(90,533)	-	(90,533)
	<u>368,371</u>	<u>\$ 2,268,378</u>	<u>\$ 2,636,749</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 net assets without donor restrictions.

16. Medical Malpractice Claims Coverage

At June 30, 2019, 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.

Evangelical Community Hospital and Controlled Entities

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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 2020. 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 \$4,820,063 at June 30, 2019 and \$4,177,942 at June 30, 2018 in CHART and this investment is included in other assets in the accompanying consolidated balance sheets (Note 7). This investment is accounted for using the cost method since the Corporation's ownership interest is less than 20 percent.

The Corporations' estimated future payments of its asserted and unasserted medical malpractice claims liability was \$3,153,715 at June 30, 2019 (of which \$2,078,829 is recorded as insurance recoveries receivable) and \$3,497,030 at June 30, 2018 (of which \$2,501,098 is recorded as insurance recoveries receivable), using a discount rate of 3 percent at June 30, 2019 and 2018.

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.

17. 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 10) 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 10) 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.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

18. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at June 30, 2019:

Cash and cash equivalents	\$ 41,195,517
Accounts receivable:	
Patients	22,507,785
Other	219,461
Note receivable	<u>269,452</u>
Total	<u>\$ 64,192,215</u>

The Corporation has assets whose use is limited under trust. These assets are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation's Board of Directors designated certain investments for future capital improvements and contributions received without donor restriction, which could be made available as necessary.

A portion of the Corporation's long-term investments includes contributions and endowment funds that have donor-restricted purposes. The remaining amount of long-term investments could be made available, if necessary.

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

19. Functional Expenses

The Corporation provides general health care and related services to individuals within its geographic region. Expenses related to providing these services in 2019 are as follows:

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 71,802,705	\$ 16,334,851	\$ 300,897	\$ 88,438,453
Physician salaries and fees	38,071,269	647,151	-	38,718,420
Supplies	32,753,969	649,127	28,397	33,431,493
Employee benefits	23,552,226	4,849,680	68,520	28,470,426
Purchased services	13,642,966	12,793,996	531,852	26,968,814
Depreciation	10,547,996	2,133,772	3,830	12,685,598
Other expenses	3,414,280	2,419,996	35,867	5,870,143
Utilities	2,224,611	951,413	7,180	3,183,204
Insurance	2,163,101	215,141	172	2,378,414
Contract labor	2,150,738	123	-	2,150,861
Bad debt	211,384	-	-	211,384
Interest, net of capitalized interest	-	1,306,299	-	1,306,299
Total	<u>\$ 200,535,245</u>	<u>\$ 42,301,549</u>	<u>\$ 976,715</u>	<u>\$ 243,813,509</u>

In 2018, approximately \$195,496,000 of expenses related to healthcare services, \$34,599,000 of expenses related to general and administrative and \$580,000 of expenses related to fundraising.

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

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements
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20. 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. The Corporation maintains allowances for potential credit losses and such losses have historically been within management's expectations.

At June 30, 2019 and 2018, concentrations of receivables from third-party payors and others are as follows:

	<u>2019</u>	<u>2018</u>
Other third party payors	37 %	38 %
Blue Cross/Blue Shield	24	20
Medicare	17	15
Medicare Managed Care	9	11
Patients (self-pay)	9	11
Medicaid Managed Care	3	4
Medicaid	1	1
Total	<u>100 %</u>	<u>100 %</u>

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.

21. 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, 2019:

Years ending June 30:	
2020	\$ 1,865,755
2021	1,330,523
2022	1,213,723
2023	919,970
2024	632,364
Thereafter	<u>2,858,039</u>
Total	<u>\$ 8,820,374</u>

Rent expense amounted to approximately \$2,061,000 in 2019 and \$2,176,000 in 2018.

Evangelical Community Hospital and Controlled Entities

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22. Future Rental Income

Plaza 15 has entered into noncancelable operating leases whereby it is leasing office and retail space to outside organizations. Future rental income to be received under the terms of these leases is as follows as of June 30, 2019:

Years ending June 30:	
2020	\$ 1,618,270
2021	1,462,640
2022	1,331,519
2023	1,211,419
2024	1,107,952
Thereafter	<u>2,595,744</u>
Total	<u>\$ 9,327,544</u>

23. 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.

24. Acquisitions

Effective August 27, 2018, the Corporation acquired certain of the assets of Central Penn Gastroenterology Associates and CPGI Endoscopy Center, LLC (collectively, "CPGI"), a physician practice and ambulatory surgery center providing gastroenterology services. The overall purpose of the transaction was to enhance the availability and delivery of gastroenterology healthcare services to patients in the communities that are served by the Corporation. The endoscopy center became a department of the Hospital and the physician practice is a specialty practice within EMSO, both of which operate under the name of Gastroenterology of Evangelical.

The purchase price was based upon the agreed-upon sale price between the Corporation and the sellers. The provisions of the acquisition were absent any significant contingency payments, options, or commitments. Consideration consisted of cash payments totaling \$7,255,917 and a seller financed mortgage note in the amount of \$825,000. Such cash payments were made from operating reserves.

Evangelical Community Hospital and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

Assets acquired in the acquisition were recorded in the consolidated financial statements as of the acquisition date based upon their estimated fair values. Such assets included inventory of \$3,337 and property and equipment of \$2,421,322. No liabilities were assumed in this acquisition. Goodwill of \$5,656,258 was recorded in connection with this acquisition, which represents the excess of the consideration paid over the fair value of assets acquired from the acquisition.

The results of operations of these entities have been included in the accompanying consolidated statements of operations and changes in net assets since the acquisition date. Certain financial information related to these entities since the date of acquisition through June 30, 2019 are as follows:

Revenues, gains and other support	<u>\$ 6,556,000</u>
Revenues in excess of expenses	<u>\$ 3,498,000</u>
Increase in net assets:	
Without donor restrictions	\$ 3,498,000
With donor restrictions	<u>-</u>
Total	<u>\$ 3,498,000</u>

The Corporation also entered into another transaction during 2019 to purchase a primary care practice in the Lewisburg area. This transaction resulted in recording additional goodwill totaling \$97,986 during 2019.

The Corporation incurred non-recurring acquisition costs related to these acquisitions which were expensed as incurred during 2018 and 2019.

Evangelical Community Hospital and Controlled EntitiesConsolidating Schedule, Balance Sheet
June 30, 2019

	Evangelical Community Hospital	Evangelical Medical Services Organization	Plaza 15 Realty, LLC	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	\$ 37,487,515	\$ 3,574,668	\$ 133,334	\$ -	\$ 41,195,517
Assets whose use is limited under trust indenture, held by trustee	2,005,051	-	-	-	2,005,051
Accounts receivable:					
Patients	18,864,942	3,642,843	-	-	22,507,785
Other	92,812	129,062	(2,413)	-	219,461
Affiliates	5,632,490	392,012	14,980	(6,039,482)	-
Current portion of note receivable	-	269,452	-	-	269,452
Inventories of drugs and supplies	5,036,901	529,065	-	-	5,565,966
Prepaid expenses and other current assets	4,719,529	835,963	12,793	-	5,568,285
	<u>73,839,240</u>	<u>9,373,065</u>	<u>158,694</u>	<u>(6,039,482)</u>	<u>77,331,517</u>
Total current assets					
Assets Whose Use is Limited					
By Board for future capital improvements	88,558,814	-	-	-	88,558,814
Under trust indenture, held by trustee	44,506,880	-	-	-	44,506,880
Board-designated contributions without donor restrictions	6,029,633	-	-	-	6,029,633
	<u>3,921,787</u>	<u>22,127,121</u>	<u>-</u>	<u>-</u>	<u>26,048,908</u>
Long-Term Investments					
	4,001,927	-	-	-	4,001,927
Beneficial Interest in Perpetual Trusts					
	265,272	-	-	-	265,272
Beneficial Interest in Charitable Remainder Trusts					
	2,204,609	-	-	-	2,204,609
Pledges Receivable, Net					
	150,919,241	358,258	20,198,853	-	171,476,352
Property and Equipment, Net					
	8,659,784	2,233,538	-	-	10,893,322
Goodwill					
	1,000,111	1,078,718	-	-	2,078,829
Estimated Medical Malpractice Insurance Recoveries					
	6,541,354	-	-	-	6,541,354
Other Assets					
	<u>\$ 390,448,652</u>	<u>\$ 35,170,700</u>	<u>\$ 20,357,547</u>	<u>\$ (6,039,482)</u>	<u>\$ 439,937,417</u>
Total assets					

Evangelical Community Hospital and Controlled Entities

Consolidating Schedule, Balance Sheet
June 30, 2019

	Evangelical Community Hospital	Evangelical Medical Services Organization	Plaza 15 Realty, LLC	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Current maturities of:					
Hospital revenue bonds	\$ 1,378,519	\$ -	\$ -	\$ -	\$ 1,378,519
Notes payable	1,082,539	-	-	-	1,082,539
Accounts payable:					
Trade	11,551,656	1,042,923	245,257	-	12,839,836
Affiliates	1,864,990	4,174,492	-	(6,039,482)	-
Accrued expenses	16,434,369	6,886,196	197,704	-	23,518,269
Blue Cross current financing advance	1,057,190	-	-	-	1,057,190
Estimated third-party payor settlements	2,594,468	-	-	-	2,594,468
Current portion of accrued postretirement benefit costs	227,142	-	-	-	227,142
Total current liabilities	36,190,873	12,103,611	442,961	(6,039,482)	42,697,963
Long-Term Debt					
Hospital revenue bonds, net	88,950,320	-	-	-	88,950,320
Notes payable	111,343	-	-	-	111,343
Deferred Compensation	1,742,054	28,170,810	-	-	29,912,864
Charitable Gift Annuities Payable	210,799	-	-	-	210,799
Accrued Postretirement Benefit Costs	5,059,246	-	-	-	5,059,246
Estimated Medical Malpractice Claims Liability	1,418,818	1,734,897	-	-	3,153,715
Total liabilities	133,683,453	42,009,318	442,961	(6,039,482)	170,096,250
Net Assets (Deficit)					
Net assets without donor restrictions	247,789,510	(6,838,618)	19,914,586	-	260,865,478
Net assets with donor restrictions	8,975,689	-	-	-	8,975,689
Total net assets (deficit)	256,765,199	(6,838,618)	19,914,586	-	269,841,167
Total liabilities and net assets	\$ 390,448,652	\$ 35,170,700	\$ 20,357,547	\$ (6,039,482)	\$ 439,937,417

Evangelical Community Hospital and Controlled Entities

 Consolidating Schedule, Statement of Operations
 Year Ended June 30, 2019

	Evangelical Community Hospital	Evangelical Medical Services Organization	Plaza 15 Realty, LLC	Eliminations	Consolidated
Revenues, Gains, and Other Support					
Net patient service revenues	\$ 198,136,543	\$ 48,272,645	\$ -	\$ -	\$ 246,409,188
Other revenues	11,152,890	2,024,550	154,164	(8,376,074)	4,955,530
Gain (loss) on the sale and disposal of property and equipment	57,797	(2,229)	-	-	55,568
Net assets released from restrictions	1,658,425	-	-	-	1,658,425
Total revenues, gains, and other support	211,005,655	50,294,966	154,164	(8,376,074)	253,078,711
Expenses					
Salaries and wages	70,497,082	17,941,371	-	-	88,438,453
Physician salaries and fees	2,303,891	36,472,792	-	(58,263)	38,718,420
Supplies	30,193,433	3,246,200	-	(8,140)	33,431,493
Employee benefits	19,081,027	9,389,399	-	-	28,470,426
Purchased services	25,831,162	7,535,054	10,603	(6,408,005)	26,968,814
Depreciation	12,490,696	100,451	94,451	-	12,685,598
Other expenses	4,930,120	2,805,616	-	(1,865,593)	5,870,143
Utilities	3,006,274	211,983	1,020	(36,073)	3,183,204
Insurance	724,250	1,653,351	813	-	2,378,414
Contract labor	2,062,417	88,444	-	-	2,150,861
Bad debt	201,278	10,106	-	-	211,384
Interest (net of capitalized interest of \$2,523,157)	1,306,299	-	-	-	1,306,299
Total expenses	172,627,929	79,454,767	106,887	(8,376,074)	243,813,509
Operating income (loss)	38,377,726	(29,159,801)	47,277	-	9,265,202
Other Income (Loss)					
Investment income	5,630,290	-	-	-	5,630,290
Contributions	710,355	-	-	-	710,355
Equity in loss of investees	(35,094)	-	-	-	(35,094)
Total other income	6,305,551	-	-	-	6,305,551
Revenues in excess of (less than) expenses	44,683,277	(29,159,801)	47,277	-	15,570,753
Capital contributions from Geisinger Health	17,000,000	-	-	-	17,000,000
Grant Income Used for Long-Term Purposes	231,000	-	-	-	231,000
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	20,125	-	-	-	20,125
Postretirement Benefit Liability Adjustment	(134,038)	-	-	-	(134,038)
Transfers	(48,006,144)	28,138,835	19,867,309	-	-
Change in net assets without donor restrictions	<u>\$ 13,794,220</u>	<u>\$ (1,020,966)</u>	<u>\$ 19,914,586</u>	<u>\$ -</u>	<u>\$ 32,687,840</u>

Evangelical Community Hospital and Controlled EntitiesConsolidating Schedule, Statement of Changes in Net Assets (Deficit)
Year Ended June 30, 2019

	Evangelical Community Hospital	Evangelical Medical Services Organization	Plaza 15 Realty, LLC	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions					
Revenues in excess of (less than) expenses	\$ 44,683,277	\$ (29,159,801)	\$ 47,277	\$ -	\$ 15,570,753
Capital contributions from Geisinger Health	17,000,000	-	-	-	17,000,000
Grant income used for long-term purposes	231,000	-	-	-	231,000
Net assets released from restrictions used for purchase of property and equipment	20,125	-	-	-	20,125
Postretirement benefit liability adjustment	(134,038)	-	-	-	(134,038)
Transfers	(48,006,144)	28,138,835	19,867,309	-	-
	<u>13,794,220</u>	<u>(1,020,966)</u>	<u>19,914,586</u>	<u>-</u>	<u>32,687,840</u>
Changes in Net Assets With Donor Restrictions					
Contributions and grants	2,718,884	-	-	-	2,718,884
Valuation loss	(54,541)	-	-	-	(54,541)
Investment income	185,981	-	-	-	185,981
Change in value of split-interest agreement	(4,121)	-	-	-	(4,121)
Net assets released from restrictions	(1,776,695)	-	-	-	(1,776,695)
	<u>1,069,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,069,508</u>
Change in net assets	14,863,728	(1,020,966)	19,914,586	-	33,757,348
Net Assets (Deficit), Beginning	<u>241,901,471</u>	<u>(5,817,652)</u>	<u>-</u>	<u>-</u>	<u>236,083,819</u>
Net Assets (Deficit), Ending	<u>\$ 256,765,199</u>	<u>\$ (6,838,618)</u>	<u>\$ 19,914,586</u>	<u>\$ -</u>	<u>\$ 269,841,167</u>

Evangelical Community Hospital and Controlled Entities

 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
Total current assets	71,812,892	9,277,511	(5,390,885)	75,699,518
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 contributions without donor restrictions	6,566,812	-	-	6,566,812
Long-Term Investments	3,845,863	19,203,682	-	23,049,545
Beneficial Interest in Perpetual Trusts	4,056,468	-	-	4,056,468
Beneficial Interest in Charitable Remainder Trusts	269,393	-	-	269,393
Pledges Receivable, Net	1,186,889	-	-	1,186,889
Property and Equipment, Net	132,010,678	155,277	-	132,165,955
Goodwill	3,175,259	1,963,819	-	5,139,078
Estimated Medical Malpractice Insurance Recoveries	1,474,725	1,026,373	-	2,501,098
Other Assets	5,172,985	-	-	5,172,985
Total 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 EntitiesConsolidating 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 and other current liabilities	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
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
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
Total liabilities	126,491,939	37,444,314	(5,390,885)	158,545,368
Net Assets (Deficit)				
Net assets without donor restrictions	233,995,290	(5,817,652)	-	228,177,638
Net assets with donor restrictions	7,906,181	-	-	7,906,181
Total net assets (deficit)	241,901,471	(5,817,652)	-	236,083,819
Total liabilities and net assets	\$ 368,393,410	\$ 31,626,662	\$ (5,390,885)	\$ 394,629,187

Evangelical Community Hospital and Controlled Entities

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

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
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 revenues, gains, and other support	200,232,680	47,497,244	(7,659,889)	240,070,035
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	12,014,843	130,539	-	12,145,382
Other expenses	3,360,682	2,411,956	(1,497,062)	4,275,576
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	166,212,579	73,122,049	(7,659,889)	231,674,739
Operating income (loss)	34,020,101	(25,624,805)	-	8,395,296
Other Income				
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	3,058,849	-	-	3,058,849
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	-	-
Change in net assets without donor restrictions	\$ 13,335,050	\$ (862,716)	\$ -	\$ 12,472,334

Evangelical Community Hospital and Controlled Entities

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

Year Ended June 30, 2018

	Evangelical Community Hospital	Evangelical Medical Services Organization	Eliminations	Consolidated
Changes in Net Assets Without Donor Restrictions				
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>
Change in net assets without donor restrictions				
Changes in Net Assets With Donor Restrictions				
Contributions and grants	1,897,192	-	-	1,897,192
Valuation gain	88,636	-	-	88,636
Investment income	30,972	-	-	30,972
Change in value of split-interest agreement	1,264	-	-	1,264
Net assets released from restrictions	(990,767)	-	-	(990,767)
	<u>1,027,297</u>	<u>-</u>	<u>-</u>	<u>1,027,297</u>
Changes in net assets with donor restrictions				
Change 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>