

**THE BATH COMMUNITY HOSPITAL
FOUNDATION**

FINANCIAL REPORT

December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Bath Community Hospital Foundation
Hot Springs, Virginia

We have audited the accompanying financial statements of The Bath Community Hospital Foundation (a nonprofit organization hereinafter referred to as the "Foundation"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Your Success is Our Focus

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bath Community Hospital Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 27, 2017

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS	
Cash and cash equivalents	\$ 300,376
Contributions receivable, net (Note 3)	83,315
Note receivable (Note 6)	11,728,559
Investments (Note 4)	<u>12,108,100</u>
 Total assets	 <u><u>\$ 24,220,350</u></u>
 LIABILITIES AND NET ASSETS	
Accounts payable	<u>\$ 23,933</u>
 Total liabilities	 <u>23,933</u>
Net assets	
Unrestricted	24,113,102
Temporarily Restricted (Note 5)	<u>83,315</u>
 Total net assets	 <u>24,196,417</u>
 Total liabilities and net assets	 <u><u>\$ 24,220,350</u></u>

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, other support and reclassifications:			
Contribution revenue	\$ 41,399	\$ -	\$ 41,399
Investment income, net (Note 4)	683,410	-	683,410
Other revenue	30	-	30
Net assets released from restrictions (Note 5)	188,712	(188,712)	-
 Total revenue, gains, other support and reclassifications	 913,551	 (188,712)	 724,839
 Expenses:			
Program	2,767,285	-	2,767,285
Management and administrative	15,150	-	15,150
Fundraising	23,533	-	23,533
 Total expenses	 2,805,968	 -	 2,805,968
 Change in net assets	 (1,892,417)	 (188,712)	 (2,081,129)
 Beginning net assets	 26,005,519	 272,027	 26,277,546
 Ending net assets	 \$ 24,113,102	 \$ 83,315	 \$ 24,196,417

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (2,081,129)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Realized and unrealized gains from investments	(343,435)
Reinvested interest and dividends	(222,385)
Decrease in contributions receivable	188,712
Increase in accounts payable	<u>23,548</u>
Net cash used in operating activities	<u>(2,434,689)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	4,950,871
Purchase of investments	<u>(2,699,274)</u>
Net cash provided by investing activities	<u>2,251,597</u>
Net decrease in cash and cash equivalents	(183,092)

CASH AND CASH EQUIVALENTS

Beginning	<u>483,468</u>
Ending	<u><u>\$ 300,376</u></u>

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 1. Organization and Nature of Business

The Bath Community Hospital Foundation (the Foundation) is a not-for-profit organization formed to support Bath Community Hospital's (the Hospital) plans for development and community programs through philanthropy. The Foundation accomplishes its purposes through fundraising and funds management efforts to benefit the Hospital and its programs. A substantial portion of the Foundation's revenue and support is received in the form of private gifts from friends of the Hospital.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Reporting:

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements present information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated by donor restrictions.

Unrestricted net assets – net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may be met by actions of the Foundation or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. As of December 31, 2016, there were no permanently restricted net assets.

Cash and Cash Equivalents:

The Foundation considers cash in demand deposit accounts to be cash equivalents. The balances in these accounts are subject to electronic transfer for investment purposes and at times exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits. Accounts in the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 2. Summary of Significant Accounting Policies (Continued)

Investments:

Investments in securities are reported at fair value based on readily determinable market values. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Donated investments are recorded at fair value on the date of donation.

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Support and Revenue Recognition:

Gifts of cash and other assets for the general use and benefit of the Foundation are presented as unrestricted support. Other contributions are presented as restricted support if they are received with donor stipulations that further limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions receivable are recognized as revenue when the pledge is received from a donor. Amounts due to be received or paid in more than one year are discounted to their net present value. Changes in discounts are recognized as contribution revenue or expense over the period of the pledge.

Income Taxes:

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and has been determined to be an exempt supporting organization. Donations to the Foundation are charitable contributions for tax purposes.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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, gains and other support and expenses. Accordingly, actual results could differ from those estimates.

Subsequent Events:

Subsequent events have been evaluated through March 27, 2017, the date the financial statements were available to be issued.

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 3. Contributions Receivable

Contributions are expected to be collected in the following periods:

One year or less	\$	76,195
Between one and five years		18,000
		94,195
Less present value discount (6%)		(880)
Less allowance for doubtful accounts		(10,000)
	\$	83,315

Note 4. Investments and Fair Value Measurements

Generally accepted accounting principles establish a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. These inputs can be readily observable, market corroborated, or generally unobservable inputs. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories based on the inputs used in valuation:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The summary of inputs used to value the Foundation's investments is as follows:

	Level 1	Level 2	Total
Cash and cash equivalents	\$ 749,945	\$ -	\$ 749,945
Common stocks and equity funds	8,053,923	541,463	8,595,386
Bonds and fixed income funds	1,939,077	823,692	2,762,769
	\$ 10,742,945	\$ 1,365,155	\$ 12,108,100

Cash and cash equivalents are reported at cost which approximates fair value.

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 4. Investments and Fair Value Measurements (Continued)

Common stocks, bonds, and mutual funds for which a quoted market price is available on an active market are classified as Level 1 in the fair value hierarchy.

Investments in mutual funds classified as Level 2 are reported at net asset value (NAV), which is based on valuation data provided by fund managers. Investments in mutual funds are actively traded and redeemable on a daily basis.

Investments in bonds and fixed income funds classified as Level 2 are reported at fair value, which is determined by third-party pricing agencies. Investments in bonds and fixed income funds are actively traded and redeemable on a daily basis.

Investment income is comprised of the following:

Interest on note receivable	\$	117,590
Investment interest and dividends		222,385
Investment gains		<u>343,435</u>
	\$	<u>683,410</u>

Investment revenue has been reduced by investment expenses, including custodial fees and investment advisory fees, of \$90,704 for the year ended December 31, 2016.

Note 5. Net Assets

Temporarily restricted net assets are available for Hospital construction in the amount of \$83,315.

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Note 6. Note Receivable

In 2014, in order to finance the renovation of the Hospital, the Foundation participated in a financing in order to make additional funds available to the Hospital through the New Markets Tax Credit (NMTC) Program. The Foundation loaned BCH Investment Fund, LLC (“Fund”) \$11,728,559 (the “Foundation Loan”). The Fund is required to make interest only payments on this note at a fixed rate of 1.00% per annum through April 30, 2021, after which quarterly principal and interest payments are due through July 31, 2044. The Fund combined the proceeds of the Foundation Loan with \$5,066,451 in equity from a NMTC tax credit investor and made Qualified Equity Investments (QEIs) into three Community Development Entities (CDEs). The Fund is the 99.99% owner of each of the CDEs. The CDEs then used the QEIs to make loans to the Hospital totaling \$16,155,350. In connection with making the Foundation Loan, the Foundation entered into an agreement with PNC New Markets Investment Partners, LLC (“PNC”), owner of the Fund. The agreement allows PNC to put its ownership interest in the Fund to the Foundation during a ninety-day period, commencing on the seventh anniversary of the QEIs for \$1,000 plus the value, if any, of obligations remaining outstanding and payable by Foundation to PNC. In the event PNC does not exercise its option, the Foundation has the right to exercise a call option during the following six-month period, to purchase PNC’s ownership interest in the Fund at an amount equal to the fair market value (as determined by an independent appraiser) of PNC’s ownership interest.

Note 7. Affiliated Organizations

The Foundation exists for the purpose of supporting Bath Community Hospital’s plans for development and community programs through philanthropy. During 2016, the Foundation transferred \$2,767,285 to the Hospital for the purpose of renovations to the Hospital’s facilities and other support. The Foundation also reimbursed the Hospital for services provided in the amount of \$3,659. In addition, the Foundation has accounts payable to the Hospital in the amount of \$23,933 as of December 31, 2016.