

**THE BATH COMMUNITY HOSPITAL  
FOUNDATION**

**FINANCIAL REPORT**

**December 31, 2017**

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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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 audits 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.

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**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, 2017 and 2016, and the changes in its net assets and its cash flows for the years 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  
April 23, 2018

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 184,270	\$ 300,376
Contributions receivable, net (Note 3)	35,327	83,315
Note receivable (Note 6)	11,728,559	11,728,559
Investments (Note 4)	<u>15,752,378</u>	<u>12,108,100</u>
Total assets	<u>\$ 27,700,534</u>	<u>\$ 24,220,350</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	<u>\$ 4,862</u>	<u>\$ 23,933</u>
Total liabilities	<u>4,862</u>	<u>23,933</u>
Net assets		
Unrestricted	27,660,345	24,113,102
Temporarily Restricted (Note 5)	<u>35,327</u>	<u>83,315</u>
Total net assets	<u>27,695,672</u>	<u>24,196,417</u>
Total liabilities and net assets	<u>\$ 27,700,534</u>	<u>\$ 24,220,350</u>

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF ACTIVITIES**

**Year Ended December 31, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenue, gains, other support and reclassifications:			
Contribution revenue	\$ 141,945	\$ -	\$ 141,945
Investment return, net (Note 4)	1,783,643	-	1,783,643
Other revenue	1,011	-	1,011
Net assets released from restrictions (Note 5)	47,988	(47,988)	-
 Total revenue, gains, other support and reclassifications	1,974,587	(47,988)	1,926,599
 Expenses:			
Program (Note 7)	2,127,285	-	2,127,285
Management and administrative	96,011	-	96,011
Fundraising	4,048	-	4,048
 Total expenses	2,227,344	-	2,227,344
 Revenue, gains, other support and reclassifications over (under) expenses	(252,757)	(47,988)	(300,745)
Pass through of contributions from Hospital (Note 7)	3,800,000	-	3,800,000
 Change in net assets	3,547,243	(47,988)	3,499,255
 Beginning net assets	24,113,102	83,315	24,196,417
 Ending net assets	\$ 27,660,345	\$ 35,327	\$ 27,695,672

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF ACTIVITIES**

**Year Ended December 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Revenue, gains, other support and reclassifications:			
Contribution revenue	\$ 41,399	\$ -	\$ 41,399
Investment return, net (Note 4)	774,113	-	774,113
Other revenue	30	-	30
Net assets released from restrictions (Note 5)	188,712	(188,712)	-
	<u>1,004,254</u>	<u>(188,712)</u>	<u>815,542</u>
Total revenue, gains, other support and reclassifications			
Expenses:			
Program (Note 7)	2,767,285	-	2,767,285
Management and administrative	105,853	-	105,853
Fundraising	23,533	-	23,533
	<u>2,896,671</u>	<u>-</u>	<u>2,896,671</u>
Total expenses			
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	<u>\$ 24,113,102</u>	<u>\$ 83,315</u>	<u>\$ 24,196,417</u>

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,499,255	\$ (2,081,129)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains from investments	(1,445,303)	(434,139)
Reinvested interest and dividends	(220,968)	(222,385)
Non-cash investment expenses	86,483	90,704
Decrease in contributions receivable	47,988	188,712
Increase (decrease) in accounts payable	(19,071)	23,548
	<u>1,948,384</u>	<u>(2,434,689)</u>
Net cash provided by (used in) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	4,059,278	4,950,871
Purchase of investments	(6,123,768)	(2,699,274)
	<u>(2,064,490)</u>	<u>2,251,597</u>
Net cash provided by (used in) investing activities		
Net decrease in cash and cash equivalents	(116,106)	(183,092)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>300,376</u>	<u>483,468</u>
Ending	<u>\$ 184,270</u>	<u>\$ 300,376</u>

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**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 fund management efforts to benefit the Hospital and its programs.

**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. There were no permanently restricted net assets for the years ended December 31, 2017 or 2016.

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, 2017**

**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 whose restrictions are met in the year received are reported as unrestricted in the statements of activities.

Contributions receivable are recognized as revenue when a written unconditional promise to give 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.

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 April 23, 2018, the date the financial statements were available to be issued.

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**Note 3. Contributions Receivable**

Contributions are expected to be collected in the following periods:

	<b>2017</b>	<b>2016</b>
One year or less	\$ 11,313	\$ 76,195
Between one and five years	27,300	18,000
	38,613	94,195
Less present value discount (6%)	(3,286)	(880)
Less allowance for doubtful accounts	-	(10,000)
	<b>\$ 35,327</b>	<b>\$ 83,315</b>

**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 as of December 31, 2017 is as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	\$ 3,768,634	\$ -	\$ 3,768,634
Common stocks and equity funds	8,948,926	15,670	8,964,596
Bonds and fixed income funds	1,861,016	1,158,132	3,019,148
	<b>\$ 14,578,576</b>	<b>\$ 1,173,802</b>	<b>\$ 15,752,378</b>

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**Note 4. Investments and Fair Value Measurements (Continued)**

The summary of inputs used to value the Foundation's investments as of December 31, 2016 is as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
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.

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

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 return is comprised of the following:

	<b>2017</b>	<b>2016</b>
Interest on note receivable	\$ 117,372	\$ 117,589
Interest and dividends	220,968	222,385
Realized and unrealized gains	1,445,303	434,139
	\$ 1,783,643	\$ 774,113

Investment expenses, including custodial fees, investment advisory fees, and taxes of \$86,483 and \$90,704 are included in the management administrative expenses on the statements of activities for the years ended December 31, 2017 and 2016 respectively.

**Note 5. Net Assets**

Temporarily restricted net assets available for Hospital capital projects were \$35,327 and \$83,315 for the years ended December 31, 2017 and 2016 respectively.

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**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. The Foundation transferred \$2,127,285 and \$2,767,285 during 2017 and 2016 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 \$30,000 and \$3,659 in 2017 and 2016 respectively. In addition, the Foundation had accounts payable to the Hospital in the amount of \$4,862 and \$23,933 as of December 31, 2017 and December 31, 2016 respectively.

The Hospital is a named perpetual beneficiary of the Lettie Pate Evans Trust. As a named beneficiary, the Hospital receives substantial support on an annual basis. In December 2017, the board of the Hospital chose to begin passing this contribution to the Foundation. The intent of this decision is to grow the Foundation to ensure continued and long term support of the Hospital. Total amounts passed through in 2017 totaled \$3,800,000.