

**THE BATH COMMUNITY HOSPITAL
FOUNDATION**

FINANCIAL REPORT

December 31, 2018

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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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

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, 2018 and 2017, 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, 2019

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 288,880 | \$ 184,270 |
| Contributions receivable, net (Note 3) | 24,197 | 35,327 |
| Note receivable (Note 7) | 11,728,559 | 11,728,559 |
| Investments (Note 4) | <u>14,624,266</u> | <u>15,752,378</u> |
| Total assets | <u>\$ 26,665,902</u> | <u>\$ 27,700,534</u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable | <u>\$ 8,143</u> | <u>\$ 4,862</u> |
| Total liabilities | <u>8,143</u> | <u>4,862</u> |
| Net assets | | |
| Without Donor Restrictions | 26,433,559 | 27,660,345 |
| With Donor Restrictions (Note 5) | <u>224,200</u> | <u>35,327</u> |
| Total net assets | <u>26,657,759</u> | <u>27,695,672</u> |
| Total liabilities and net assets | <u>\$ 26,665,902</u> | <u>\$ 27,700,534</u> |

The Notes to Financial Statements are an integral part of these statements.

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-------------------|
| Revenue, gains, other support and reclassifications: | | | |
| Contribution revenue | \$ 988,675 | \$ 200,000 | \$ 1,188,675 |
| Investment return, net (Note 4) | (1,910,918) | - | (1,910,918) |
| Other revenue | 5 | - | 5 |
| Net assets released from restrictions | 11,127 | (11,127) | - |
| Total revenue, gains, other support and reclassifications | (911,111) | 188,873 | (722,238) |
| Expenses: | | | |
| Program (Note 8) | 5,217,285 | - | 5,217,285 |
| Management and administrative | 7,200 | - | 7,200 |
| Fundraising | 4,656 | - | 4,656 |
| Total expenses | 5,229,141 | - | 5,229,141 |
| Revenue, gains, other support and reclassifications over (under) expenses | (6,140,252) | 188,873 | (5,951,379) |
| Pass through of contributions from Hospital (Note 8) | 4,913,466 | - | 4,913,466 |
| Change in net assets | (1,226,786) | 188,873 | (1,037,913) |
| Beginning net assets | 27,660,345 | 35,327 | 27,695,672 |
| Ending net assets | \$ 26,433,559 | \$ 224,200 | \$ 26,657,759 |

The Notes to Financial Statements are an integral part of this statement.

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|----------------------|
| Revenue, gains, other support and reclassifications: | | | |
| Contribution revenue | \$ 141,945 | \$ - | \$ 141,945 |
| Investment return, net (Note 4) | 1,697,135 | - | 1,697,135 |
| Other revenue | 1,011 | - | 1,011 |
| Net assets released from restrictions | 47,988 | (47,988) | - |
| | <u>1,888,079</u> | <u>(47,988)</u> | <u>1,840,091</u> |
| Total revenue, gains, other support and reclassifications | | | |
| Expenses: | | | |
| Program (Note 8) | 2,127,285 | - | 2,127,285 |
| Management and administrative | 9,503 | - | 9,503 |
| Fundraising | 4,048 | - | 4,048 |
| | <u>2,140,836</u> | <u>-</u> | <u>2,140,836</u> |
| Total expenses | | | |
| Revenue, gains, other support and reclassifications over (under) expenses | (252,757) | (47,988) | (300,745) |
| Pass through of contributions from Hospital (Note 8) | 3,800,000 | - | 3,800,000 |
| | <u>3,547,243</u> | <u>(47,988)</u> | <u>3,499,255</u> |
| Change in net assets | | | |
| Beginning net assets | 24,113,102 | 83,315 | 24,196,417 |
| | <u>24,113,102</u> | <u>83,315</u> | <u>24,196,417</u> |
| Ending net assets | <u>\$ 27,660,345</u> | <u>\$ 35,327</u> | <u>\$ 27,695,672</u> |

The Notes to Financial Statements are an integral part of this statement.

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

| | <u>Program</u> | <u>Management & Administration</u> | <u>Fundraising</u> | <u>Total</u> |
|---------------------------|-----------------------------|--|-----------------------------|-----------------------------|
| Hospital contributions | \$ 5,217,285 | \$ - | \$ - | \$ 5,217,285 |
| Bank charges | | 309 | - | 309 |
| Legal & professional fees | - | 6,500 | - | 6,500 |
| Other | - | 391 | - | 391 |
| Stationary & printing | - | - | - | - |
| Donor recognition | - | - | 1,112 | 1,112 |
| Dues & subscriptions | - | - | 3,544 | 3,544 |
| Meals & entertainment | - | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total functional expenses | <u>\$ 5,217,285</u> | <u>\$ 7,200</u> | <u>\$ 4,656</u> | <u>\$ 5,229,141</u> |

The Notes to Financial Statements are an integral part of these statements.

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

| | <u>Program</u> | <u>Management & Administration</u> | <u>Fundraising</u> | <u>Total</u> |
|---------------------------|---------------------|--|--------------------|---------------------|
| Hospital contributions | \$ 2,127,284 | \$ - | \$ - | \$ 2,127,284 |
| Bank charges | - | 675 | - | 675 |
| Legal & professional fees | - | 7,546 | - | 7,546 |
| Other | - | 490 | - | 490 |
| Stationary & printing | - | - | 793 | 793 |
| Donor recognition | - | - | 45 | 45 |
| Dues & subscriptions | - | - | 3,429 | 3,429 |
| Meals & entertainment | - | - | 574 | 574 |
| | <u>-</u> | <u>-</u> | <u>574</u> | <u>574</u> |
| Total functional expenses | <u>\$ 2,127,284</u> | <u>\$ 8,711</u> | <u>\$ 4,841</u> | <u>\$ 2,140,836</u> |

The Notes to Financial Statements are an integral part of these statements.

THE BATH COMMUNITY HOSPITAL FOUNDATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (1,037,913) | \$ 3,499,255 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Realized and unrealized (gain) loss from investments | 2,082,379 | (1,445,303) |
| Non-cash investment expenses | 69,630 | 86,483 |
| Decrease in contributions receivable | 11,127 | 47,988 |
| Increase (decrease) in accounts payable | 3,281 | (19,071) |
| | <u>1,128,504</u> | <u>2,169,352</u> |
| Net cash provided by operating activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 5,667,905 | 4,059,277 |
| Purchase of investments | (6,480,865) | (6,123,768) |
| Reinvested interest and dividends | (210,934) | (220,967) |
| | <u>(1,023,894)</u> | <u>(2,285,458)</u> |
| Net cash used in investing activities | | |
| Net increase (decrease) in cash and cash equivalents | 104,610 | (116,106) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning | <u>184,270</u> | <u>300,376</u> |
| Ending | <u>\$ 288,880</u> | <u>\$ 184,270</u> |

The Notes to Financial Statements are an integral part of these statements.

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. The two classes are differentiated based on the existence or absence of donor-imposed restrictions:

Net Assets without Donor Restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net Assets with Donor Restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Organization pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

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.

Investments:

Investments in securities are reported at fair value. 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. Investment return also includes the Foundation's gains and losses on investments bought and sold as well as held during the year.

(Continued)

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Support and Revenue Recognition:

Gifts of cash and other assets for the general use and benefit of the Foundation are presented as net assets without restrictions. Other contributions are presented as net assets with restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without restrictions 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.

Functional Allocation of Expenses:

Directly identifiable expenses are charged to programs and supporting services. Expenses that are not directly identifiable are allocated between programs or supporting functions. The Foundation has no such expenses that are attributable to more than one program or supporting function.

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.

Not-for-Profit Financial Statement Presentation:

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update 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 Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

(Continued)

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent Events:

Subsequent events have been evaluated through April 23, 2019, the date the financial statements were available to be issued.

Note 3. Contributions Receivable

Contributions are expected to be collected in the following periods:

| | 2018 | 2017 |
|----------------------------------|------------------|------------------|
| One year or less | \$ 12,483 | \$ 11,313 |
| Between one and five years | 15,000 | 27,300 |
| | 27,483 | 38,613 |
| Less present value discount (6%) | (3,286) | (3,286) |
| | \$ 24,197 | \$ 35,327 |

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 Foundation had no investments that met this criteria at December 31, 2018 or 2017.

The summary of inputs used to value the Foundation's investments as of December 31, 2018 is as follows:

| | Level 1 | Level 2 | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| Cash and cash equivalents | \$ 2,458,956 | \$ - | \$ 2,458,956 |
| Common stocks and equity funds | 8,664,352 | 96,688 | 8,761,040 |
| Bonds and fixed income funds | 929,633 | 2,474,637 | 3,404,270 |
| | \$ 12,052,941 | \$ 2,571,325 | \$ 14,624,266 |

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THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 4. Investments and Fair Value Measurements (Continued)

The summary of inputs used to value the Foundation's investments as of December 31, 2017 is as follows:

| | Level 1 | Level 2 | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 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 |
| | \$ 14,578,576 | \$ 1,173,802 | \$ 15,752,378 |

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 and equity 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:

| | 2018 | 2017 |
|--|-----------------------|---------------------|
| Interest on note receivable | \$ 117,372 | \$ 117,372 |
| Interest and dividends on investments | 201,621 | 220,967 |
| Realized and unrealized gains (losses) | (2,168,222) | 1,445,303 |
| Investment expenses | (71,689) | (86,507) |
| | \$ (1,920,918) | \$ 1,697,135 |

Note 5. Net Assets

Net assets with donor restrictions available for Hospital capital projects were \$224,200 and \$35,327 for the years ended December 31, 2018 and 2017 respectively.

Note 6. Liquidity and Availability

The following table reflects the Foundation's financial assets as of December 31, 2018, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action. The Foundation considers general expenditures to be all expenditures related to its ongoing activities of supporting Bath Community Hospital as well as the conduct of services undertaken to support those activities to be general expenditures.

(Continued)

THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 6. Liquidity and Availability (Continued)

The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

| | |
|--|----------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 288,880 |
| Contributions receivable, net | 24,197 |
| Notes receivable | 11,728,559 |
| Investments | 14,587,560 |
| Total financial assets | <u>26,629,196</u> |
| Less those unavailable for general expenditure within one year: | |
| Donor restricted funds for capital expenditures or other restricted purpose | (224,197) |
| Contributions expected to be received after one year | (11,714) |
| Notes receivable to be collected after one year | <u>(11,728,559)</u> |
| Total unavailable assets | <u>(11,964,470)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 14,664,726</u> |

Note 7. 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.

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THE BATH COMMUNITY HOSPITAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

Note 8. 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 \$5,217,285 and \$2,127,285 during 2018 and 2017 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 \$107,181 and \$30,000 in 2018 and 2017 respectively. In addition, the Foundation had accounts payable to the Hospital in the amount of \$8,143 and \$4,862 as of December 31, 2018 and December 31, 2017 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 2018 and 2017 totaled \$4,913,466 and \$3,800,000 respectively.

Note 9. New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued the following Statements which are not yet effective.

The FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The effective date for nonpublic companies is annual reporting periods beginning after December 15, 2018.

The FASB issued ASU 2016-02, Leases. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. Nonpublic entities are required to adopt the new leases standard for reporting periods beginning after December 15, 2019. Early adoption is permitted.

Management has not determined the effects these new FASB Statements may have on prospective financial statements but will be assessing these changes in 2019 with the assistance of its accountants.