

**THE BATH COMMUNITY HOSPITAL  
FOUNDATION**

**FINANCIAL REPORT**

**December 31, 2019**

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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, 2019 and 2018, 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.

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*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, 2019 and 2018, 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, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
April 18, 2020

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 412,986	\$ 288,880
Contributions receivable, net (Note 3)	21,197	24,197
Note receivable (Note 7)	11,728,559	11,728,559
Investments (Note 4)	<u>15,725,142</u>	<u>14,624,266</u>
Total assets	<u>\$ 27,887,884</u>	<u>\$ 26,665,902</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	<u>\$ 6,870</u>	<u>\$ 8,143</u>
Total liabilities	<u>6,870</u>	<u>8,143</u>
Net assets		
Without Donor Restrictions	27,659,814	26,433,559
With Donor Restrictions (Note 5)	<u>221,200</u>	<u>224,200</u>
Total net assets	<u>27,881,014</u>	<u>26,657,759</u>
Total liabilities and net assets	<u>\$ 27,887,884</u>	<u>\$ 26,665,902</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, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue, gains, other support and reclassifications:			
Contribution revenue	\$ 138,436	\$ -	\$ 138,436
Investment return, net (Note 4)	2,386,167	-	2,386,167
Other revenue	5,843	-	5,843
Net assets released from restrictions	3,000	(3,000)	-
 Total revenue, gains, other support and reclassifications	 2,533,446	 (3,000)	 2,530,446
 Expenses:			
Program (Note 8)	6,397,285	-	6,397,285
Management and administrative	9,527	-	9,527
 Total expenses	 6,406,812	 -	 6,406,812
 Revenue, gains, other support and reclassifications under expenses	 (3,873,366)	 (3,000)	 (3,876,366)
Pass through of contributions from Hospital (Note 8)	5,099,621	-	5,099,621
 Change in net assets	 1,226,255	 (3,000)	 1,223,255
 Beginning net assets	 26,433,559	 224,200	 26,657,759
 Ending net assets	 \$ 27,659,814	 \$ 221,200	 \$ 27,881,014

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

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**STATEMENTS OF ACTIVITIES**

**Year Ended December 31, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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 FUNCTIONAL EXPENSES**

**Year Ended June 30, 2019**

	<u>Program</u>	<u>Management &amp; Administration</u>	<u>Total</u>
Hospital contributions	\$ 6,397,285	\$ -	\$ 6,397,285
Bank charges	-	359	359
Interest expense	-	4,961	4,961
Other	-	4,207	4,207
Total functional expenses	<u>\$ 6,397,285</u>	<u>\$ 9,527</u>	<u>\$ 6,406,812</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, 2018**

	<u>Program</u>	<u>Management &amp; 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
Donor recognition	-	-	1,112	1,112
Dues & subscriptions	-	-	3,544	3,544
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 CASH FLOWS**  
**Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,223,255	\$ (1,037,913)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss from investments	(2,342,063)	1,871,445
Non-cash investment expenses	73,181	69,630
Decrease in contributions receivable	3,000	11,127
Increase (decrease) in accounts payable	(1,273)	3,281
	<u>(1,043,900)</u>	<u>917,570</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	9,770,158	5,667,905
Purchase of investments	(8,602,152)	(6,480,865)
	<u>1,168,006</u>	<u>(812,960)</u>
Net cash provided by (used in) investing activities		
Net increase in cash and cash equivalents	124,106	104,610
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>288,880</u>	<u>184,270</u>
Ending	<u>\$ 412,986</u>	<u>\$ 288,880</u>

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

# THE BATH COMMUNITY HOSPITAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019

### 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, 2019**

**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.

Subsequent Events:

Subsequent events have been evaluated through April 18, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen in the stock market which are likely to result in a negative impact on net investment return and the fair value of investments. Other financial impact may occur, but it is uncertain at this time and cannot be reasonably estimated.

(Continued)

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019**

**Note 3. Contributions Receivable**

Contributions are expected to be collected in the following periods:

	<b>2019</b>	<b>2018</b>
One year or less	\$ 9,483	\$ 12,483
Between one and five years	15,000	15,000
	24,483	27,483
Less present value discount (6%)	(3,286)	(3,286)
	<b>\$ 21,197</b>	<b>\$ 24,197</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 Foundation had no investments that met this criteria at December 31, 2019 or 2018.

The summary of inputs used to value the Foundation's investments as of December 31, 2019 is as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	\$ 672,189	\$ -	\$ 672,189
Common stocks and equity funds	10,756,385	165,845	10,922,230
Bonds and fixed income funds	3,921,271	209,452	4,130,723
	<b>\$ 15,349,845</b>	<b>\$ 375,297</b>	<b>\$ 15,725,142</b>

(Continued)

**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019**

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
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
	<b>\$ 12,052,941</b>	<b>\$ 2,571,325</b>	<b>\$ 14,624,266</b>

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:

	<b>2019</b>	<b>2018</b>
Interest on note receivable	\$ 117,285	\$ 117,372
Interest and dividends on investments	230,304	211,621
Realized and unrealized gains (losses)	2,111,759	(2,168,222)
Investment expenses	(73,181)	(71,689)
	<b>\$ 2,386,167</b>	<b>\$ (1,910,918)</b>

**Note 5. Net Assets**

Net assets with donor restrictions available for Hospital capital projects were \$221,200 and \$224,200 for the years ended December 31, 2019 and 2018, respectively.

**Note 6. Liquidity and Availability**

The following table reflects the Foundation's financial assets as of December 31, 2019, 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.

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**THE BATH COMMUNITY HOSPITAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019**

**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	\$ 412,986
Contributions receivable, net	21,197
Notes receivable	11,728,559
Investments	<u>15,725,142</u>
Total financial assets	<u>27,887,884</u>
Less those unavailable for general expenditure within one year:	
Donor restricted funds for capital expenditures or other restricted purpose	(221,200)
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>(11,961,473)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 15,926,411</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 0.89319% 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, and fully intends, 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. Taking this action should, in effect, cancel the debt.

(Continued)

## THE BATH COMMUNITY HOSPITAL FOUNDATION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2019

#### 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 \$6,397,285 and \$5,217,285 during 2019 and 2018 to the Hospital for the purpose of renovations to the Hospital's facilities and other support. In addition, the Foundation had accounts payable to the Hospital in the amount of \$6,870 and \$8,143 as of December 31, 2019 and December 31, 2018 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 2019 and 2018 totaled \$5,099,621 and \$4,913,466 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 ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendment is intended to provide clarity on whether a transfer of assets is a contribution or an exchange transaction. Under the new guidance, this is primarily determined based on whether the donor receives something of value in a reciprocal manner. The second part of the update addresses whether a contribution is conditional based on the barriers that must be overcome for the recipient to be entitled to the resources and whether there are any donor rights remaining in relation to the asset. The effective date for nonpublic entities is annual reporting periods beginning after December 15, 2019.

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, 2020. 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 2020 with the assistance of its accountants.