

DEBORAH HOSPITAL FOUNDATION
Financial Statements
December 31, 2017 and 2016
With Independent Auditors' Reports

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-16
Supplementary Information	
Summary of Revenues by Region	17-18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Deborah Hospital Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Deborah Hospital 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 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deborah 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 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 financial statements as a whole. The supplementary summary of revenues by region for the years ended December 31, 2017 and 2016 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



May 29, 2018

Deborah Hospital Foundation
Statements of Financial Position
As of December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 571,419	\$ 527,456
Investments	14,483,008	14,198,673
Prepaid expenses and other assets	306,855	380,330
Assets restricted as to use:		
Annuity and life income	3,991,059	4,423,172
Donor restricted	776,829	1,268,691
Contributions receivable	512,182	1,876,404
Property, plant and equipment, net	3,463,713	3,789,749
Beneficial Interest in perpetual trusts	6,115,034	5,646,674
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 30,220,099</u></u>	<u><u>\$ 32,111,149</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 189,996	\$ 119,153
Accrued expenses	142,878	107,150
Due to Deborah Heart & Lung Center	4,663,394	4,040,115
Annuity and life income reserve	2,578,364	2,694,773
	<u> </u>	<u> </u>
Total liabilities	7,574,632	6,961,191
Net assets		
Unrestricted net assets	15,753,604	18,234,592
Temporarily restricted net assets	6,891,863	6,915,366
	<u> </u>	<u> </u>
Total net assets	<u>22,645,467</u>	<u>25,149,958</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$ 30,220,099</u></u>	<u><u>\$ 32,111,149</u></u>

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

Deborah Hospital Foundation
Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue			
Public support			
Public Donations	\$ 2,338,413	\$ 722,772	\$ 3,061,185
Legacies, bequests, and annuities	1,247,663	2,199,567	3,447,230
Less: amounts raised on behalf of others	--	(3,414,202)	(3,414,202)
Total public support	<u>3,586,076</u>	<u>(491,863)</u>	<u>3,094,213</u>
Other revenue			
Change in fair value of beneficial interest in perpetual trusts	--	468,360	468,360
Investment returns, net	<u>2,262,303</u>	<u>--</u>	<u>2,262,303</u>
Total other revenue	<u>2,262,303</u>	<u>468,360</u>	<u>2,730,663</u>
Total revenue	5,848,379	(23,503)	5,824,876
Expenses			
Program services			
Deborah Heart and Lung Center	5,850,000	--	5,850,000
Other specific purpose programs, including Children of the World	<u>195,972</u>	<u>--</u>	<u>195,972</u>
Total program services	6,045,972	--	6,045,972
Supporting services			
Management, administrative and general	107,344	--	107,344
Fundraising	<u>2,176,051</u>	<u>--</u>	<u>2,176,051</u>
Total supporting services	<u>2,283,395</u>	<u>--</u>	<u>2,283,395</u>
Total expenses	<u>8,329,367</u>	<u>--</u>	<u>8,329,367</u>
Change in net assets	(2,480,988)	(23,503)	(2,504,491)
Net assets, beginning of year	<u>18,234,592</u>	<u>6,915,366</u>	<u>25,149,958</u>
Net assets, end of year	<u>\$ 15,753,604</u>	<u>\$ 6,891,863</u>	<u>\$ 22,645,467</u>

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

Deborah Hospital Foundation
Statement of Activities
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenue			
Public support			
Public Donations	\$ 1,972,651	\$ 1,055,503	\$ 3,028,154
Special events	22,644	--	22,644
Legacies, bequests, and annuities	5,001,182	4,968,332	9,969,514
Less: amounts raised on behalf of others	--	(6,038,613)	(6,038,613)
Total public support	<u>6,996,477</u>	<u>(14,778)</u>	<u>6,981,699</u>
Other revenue			
Change in fair value of beneficial interest in perpetual trusts	--	92,327	92,327
Investment returns, net	791,681	--	791,681
Lease and other income	147,100	--	147,100
Total other revenue	<u>938,781</u>	<u>92,327</u>	<u>1,031,108</u>
Total revenue	<u>7,935,258</u>	<u>77,549</u>	<u>8,012,807</u>
Expenses			
Program services			
Deborah Heart and Lung Center	5,676,996	--	5,676,996
Other specific purpose programs, including Children of the World	200,424	--	200,424
Total program services	<u>5,877,420</u>	<u>--</u>	<u>5,877,420</u>
Supporting services			
Management, administrative and general	113,035		113,035
Fundraising	2,050,056	--	2,050,056
Total supporting services	<u>2,163,091</u>	<u>--</u>	<u>2,163,091</u>
Total expenses	<u>8,040,511</u>	<u>--</u>	<u>8,040,511</u>
Change in net assets	(105,253)	77,549	(27,704)
Net assets, beginning of year	<u>18,339,845</u>	<u>6,837,817</u>	<u>25,177,662</u>
Net assets, end of year	<u>\$ 18,234,592</u>	<u>\$ 6,915,366</u>	<u>\$ 25,149,958</u>

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

Deborah Hospital Foundation
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (2,504,491)	\$ (27,704)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(2,016,368)	(501,136)
Depreciation	326,036	322,306
Deferred lease incentive	--	147,100
Change in beneficial interest in perpetual trusts	(468,360)	(92,327)
Change in deferred revenues	--	(294,202)
Changes in operating assets and liabilities:		
Contributions receivable	1,364,222	(1,397,234)
Prepaid expense and other assets	73,475	139,112
Accounts payable	70,843	67,062
Accrued expenses	35,728	(13,667)
Due to Deborah Heart and Lung Center	623,279	1,510,863
Annuity and life income reserve	(116,409)	(440,168)
	<u>(2,612,045)</u>	<u>(579,995)</u>
Net cash used by operating activities	(2,612,045)	(579,995)
Cash flows from investing activities		
Purchases of property, plant and equipment, net	--	(86,288)
Change in investments and assets restricted as to use	2,656,008	361,073
	<u>2,656,008</u>	<u>274,785</u>
Net cash provided by investing activities	2,656,008	274,785
Increase (decrease) in cash	43,963	(305,210)
Cash and cash equivalents, beginning of period	527,456	832,666
Cash and cash equivalents, end of period	<u>\$ 571,419</u>	<u>\$ 527,456</u>

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

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

1. ORGANIZATION

Deborah Hospital Foundation (the Foundation) is a not-for-profit tax-exempt corporation established to raise funds to support its charitable program services and operations, including various programs of Deborah Heart and Lung Center (the Center), a tax-exempt teaching and tertiary care specialty hospital located in Browns Mills, New Jersey.

The Foundation's Board of Directors currently consists of fifteen (15) members. They are the Chair of the Board of the Foundation, the President and CEO of the Center and thirteen (13) other members. The Chief Operating Officer of the Center serves as the Treasurer of the Foundation, without a vote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets which are defined as follows:

- Unrestricted net assets – net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met by actions of the Foundation or by the passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that will not be met by action of the Foundation or by the passage of time. The donors of these resources permit the Foundation to use all or part of the income earned, including capital appreciation, from the related investments for unrestricted or temporarily restricted purposes. There were no permanently restricted net assets at December 31, 2017 and 2016.

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 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. Accordingly, actual results could differ from those estimates. The most significant management estimates and assumptions related to the determination of allowances for receivables, useful lives of property, plant and equipment, actuarial estimates for the annuity and life income reserves and the reported fair values of certain assets and liabilities.

Cash Equivalents

The Foundation considers all highly liquid debt instruments and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Contributions

Contributions are considered to be available for distribution in accordance with the Foundation's by-laws unless specifically restricted by the donor and are recorded at fair value at date of donation.

Temporarily restricted contributions include contributions and amounts raised on behalf of others. Contributions are recognized as revenue in the period received or promised.

Contributions received where the donor designates that the gift is for a specific nonprofit agency are accounted for as agency transactions. Accordingly, such amounts raised on behalf of others are included in total public support in the accompanying financial statements and deducted prior to reporting total revenue.

Investments and Assets Restricted as to Use

Investments in debt and equity securities are measured at fair value based on quoted market prices, if available, or estimated quoted market prices for similar securities. Investment income or loss (including realized and unrealized gains and losses, and interest and dividends) is included in investment returns. Realized gains and losses for all investments are determined by the average cost method.

The Foundation's investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Impairment of Investments

Investments are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of investments below cost will be considered other than temporary. There were no such losses reported for the years ended December 31, 2017 and 2016.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in revenue. These unconditional promises to give have been stipulated by the donor, or it is clear that the donor's intention is to support the Foundation's current-period activities, and as such are reported as unrestricted support in the year of the promise. Conditional promises to give are not included as support until such time as the conditions are substantially met. When considered necessary, an allowance is recorded based on management's estimate of uncollectability including such factors as prior collection history, type of contribution and the nature of the fundraising activity. Contributions receivable were considered collectible at December 31, 2017 and 2016, and as such, no allowance for uncollectible contributions receivable was recorded.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

The Foundation periodically evaluates property and equipment for impairment. Management believes that no revision to the remaining useful lives or write-down of long-lived assets was required at December 31, 2017 and 2016.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Beneficial Interest in Perpetual Trusts

The Foundation is an income beneficiary of perpetual trusts and has recorded its portion of the fair value of the trusts. The original corpus of the trusts cannot be violated; however, a contingent beneficiary exists in the event that the Foundation or the Children of the World Program ceases to exist. Therefore, the trusts are reported as temporarily restricted net assets.

Volunteers

A number of volunteers, including the members of the Board, have made significant contributions of time to the Foundation's policymaking, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Allocation of Joint Costs

The Foundation conducts activities that includes requests for contributions, as well as program and management and general components. Management considers all costs of conducting these activities, other than costs directly related to program services for the Center and Children of the World, as joint costs. The allocation of these costs is in the statements of activities.

Income Taxes

The Foundation is a not-for-profit corporation and is exempt from federal and state income taxes under existing provisions of the Internal Revenue Code and the laws of the State of New Jersey.

The Foundation follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation does not believe its financial statements include any material uncertain tax positions. In addition, there have been no tax related interest or penalties for the periods presented in these financial statements. Should any such penalties be incurred, the Foundation's policy would be to recognize them as operating expenses.

New Accounting Pronouncements Not Yet Adopted

Revenue Recognition

Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers was issued by the Financial Accounting Standards Board ("FASB") in May 2014 which is effective for fiscal year beginning after December 15, 2019 with early adoption permitted. The new revenue accounting standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services. The new standard supersedes all U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires significant additional disclosures. The new requirements have not been adopted in these financial statements. Management is currently assessing the impact of this pronouncement on prospective financial statements. However, upon adoption, management does not expect this pronouncement to have a material effect on the financial statements.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Lease Transactions

In February 2016 the FASB issued ASU 2016-02, Leases which is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. In addition to expanded disclosure requirements regarding leasing activities, the new standard significantly changes current lessee accounting for operating leases. Under the new standard all lessees will be required to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases of property and equipment, except for certain leases classified as short-term leases. The Foundation has not adopted the new standard in these financial statements and is presently evaluating the effect adoption will have on prospective financial statements. However, based on the Foundation's present leasing activities, management expects that adoption of the new standard will require the recognition of significant, long-term right-of-use assets and a lease liability which will increase both current and non-current debt.

Financial Statement Presentation

In August 2016 the FASB issued ASU 2016-14 – Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. The ASU also changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. The Foundation is currently evaluating the impact these changes will have on its future financial statements.

3. INVESTMENTS AND ASSETS RESTRICTED AS TO USE

	2017	2016
Investments		
Cash and cash equivalents	\$ 355,330	\$ 374,249
Fixed income securities	3,127,652	3,564,606
Equity securities (including mutual funds)	10,963,236	10,211,919
Accrued interest receivable	<u>36,790</u>	<u>47,899</u>
Total	<u>\$ 14,483,008</u>	<u>\$ 14,198,673</u>
Assets restricted as to use - annuity and life income		
Cash and cash equivalents	\$ 118,969	\$ 72,371
Fixed income securities	2,806,138	2,929,908
Equity securities (including mutual funds)	<u>1,065,952</u>	<u>1,420,893</u>
Total	<u>\$ 3,991,059</u>	<u>\$ 4,423,172</u>
Assets restricted as to use - donor restricted		
Cash and cash equivalents	<u>\$ 776,829</u>	<u>\$ 1,268,691</u>

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

Assets restricted as to use - annuity and life income consist of assets acquired by the Foundation through a deferred giving program, on the condition that the Foundation binds itself to pay stipulated amounts periodically to designated individuals. Payments of such amounts terminate at a time specified in the individual agreements. The present value of the annuities and the life income fund's future payments are recorded as a liability. At December 31, 2017 and 2016, assets acquired by the Foundation and additional discretionary contributions made to the fund by the Foundation exceeded State of New Jersey regulatory funding requirements by \$599,851 and \$952,632, respectively, for the annuity fund. In addition, the Foundation maintained \$600,120 and \$556,236 in investments in excess of the life income fund liability at December 31, 2017 and 2016, respectively.

Investment returns for cash, investments, and assets restricted as to use are comprised of the following:

	2017	2016
Interest and dividend income	\$ 245,935	\$ 290,545
Net realized gains on sales of investments	964,894	304,152
Change in net unrealized gains on investments	<u>1,051,474</u>	<u>196,984</u>
Total investment returns	<u>\$ 2,262,303</u>	<u>\$ 791,681</u>

4. FAIR VALUE MEASUREMENTS

The Foundation measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Foundation uses the fair value hierarchy to determine the fair value based on the following:

- Level 1 - Holdings use quoted (unadjusted) prices for identical assets or liabilities in active markets.
- Level 2 - Holdings use the following methods: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time), inputs other than quoted prices that are observable for the assets or liabilities (e.g., interest rates, yield curves volatilities, default rates, etc.), and inputs that are derived principally from or corroborated by other observable market data.
- Level 3 - Holdings use quoted market prices of the Foundation's beneficial interest in the underlying investments of the perpetual trust.

There have been no changes in valuation techniques for these assets for the years ended December 31, 2017 and 2016.

The following tables present the fair value hierarchy for the Foundation's financial assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,822,547	\$ --	\$ --	\$ 1,822,547
Fixed income securities	--	5,970,580	--	5,970,580
Equity securities (including mutual funds)	11,648,236	380,952	--	12,029,188
Beneficial interest in perpetual trusts	<u>--</u>	<u>--</u>	<u>6,115,034</u>	<u>6,115,034</u>
Total	<u>\$ 13,470,783</u>	<u>\$ 6,351,532</u>	<u>\$ 6,115,034</u>	<u>\$ 25,937,349</u>

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,242,767	\$ --	\$ --	\$ 2,242,767
Fixed income securities	--	6,542,413	--	6,542,413
Equity securities (including mutual funds)	11,251,860	380,952	--	11,632,812
Beneficial interest in perpetual trusts	<u>--</u>	<u>--</u>	<u>5,646,674</u>	<u>5,646,674</u>
Total	<u>\$ 13,494,627</u>	<u>\$ 6,923,365</u>	<u>\$ 5,646,674</u>	<u>\$ 26,064,666</u>

The following table sets forth the change in the fair value of beneficial interest in perpetual trusts measured using unobservable inputs (Level 3):

At January 1, 2016	\$ 5,554,347
Unrealized gains	<u>92,327</u>
At December 31, 2016	5,646,674
Unrealized gains	<u>468,360</u>
At December 31, 2017	<u>\$ 6,115,034</u>

5. CONTRIBUTIONS RECEIVABLE

Included in contributions receivable are the following unconditional promises to give:

	2017	2016
Unrestricted to future periods	\$ 635,089	\$ 1,993,526
Less: unamortized discount	<u>122,907</u>	<u>117,122</u>
	<u>\$ 512,182</u>	<u>\$ 1,876,404</u>
Amounts due in		
Less than one year	\$ 268,216	
One to five years	40,000	
More than five years	<u>326,873</u>	
Total	<u>\$ 635,089</u>	

The interest rate used for discounting is 5%.

The Foundation periodically receives indications of an intention to give from individuals through the settlement of the individuals' estates. The anticipated value of these intended gifts has not been established, nor has it been recognized as an asset in the statements of financial position.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

6. PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives	2017	2016
Land		\$ 553,516	\$ 553,516
Land improvements	10 – 20 years	74,884	74,884
Buildings and building improvements	5 – 40 years	8,102,388	8,102,388
Furniture, fixtures, and equipment	3 – 20 years	607,171	591,351
Construction in progress		<u>–</u>	<u>15,820</u>
		9,337,959	9,337,959
Less: accumulated depreciation		<u>5,874,246</u>	<u>5,548,210</u>
		<u>\$ 3,463,713</u>	<u>\$ 3,789,749</u>

Depreciation expense was \$326,036 and \$322,306 for the years ended December 31, 2017 and 2016, respectively.

On October 1, 2011, the Foundation and the Center signed a lease agreement for the first and fourth floors of the Cymrot building. As part of the agreement, in exchange for the Center covering the costs of certain building improvements, the Foundation has agreed to waive the minimum lease payment for a time equivalent to the amount of building improvement costs paid by the Center of \$230,333 (the "Lease Incentive DHLC"). The Foundation has recorded the Lease Incentive DHLC, included in prepaid expenses and other assets, and deferred revenue, for the initial term of the lease. The Lease Incentive DHLC and the deferred revenue were scheduled to be amortized on a straight-line basis until June 2023. In 2016 the Center stopped using the building and the Foundation wrote off the balance of the lease incentive. This resulted in a gain to the Foundation in the amount of \$147,100. The building improvements were being amortized over the expected lease term of fifteen years. Income, including the gain on early termination of the lease, recognized for the year ended December 31, 2016 related to this lease was \$147,100.

7. LONG-TERM DEBT

The Foundation has an agreement for a \$6,425,000 line of credit at an interest rate of LIBOR plus 2.25%, which includes two letters of credit totaling \$1,075,000 and \$980,000 at December 31, 2017 and 2016, respectively, which expire July 23, 2018, that are collateral for potential claims under the Center's workers' compensation insurance policy, benefiting the Center. The maximum amount the Foundation can borrow against this line of credit was \$5,350,000 and \$5,445,000 at December 31, 2017 and 2016, respectively. Although the line of credit is in the Foundation's name, and collateralized by up to approximately \$6,500,000 of Foundation assets based on the outstanding balance, the liability and related interest expense are recorded on the Center's consolidated financial statements. There was no outstanding balance on the line of credit at December 31, 2017 and 2016.

8. RELATED ORGANIZATION

Contributions by the Foundation to the Center for operations amounted to \$5,850,000 and \$5,676,996 in 2017 and 2016, respectively. Funding by the Foundation to the Center for the Children of the World and other specific purpose programs amounted to \$195,972 and \$200,424 in 2017 and 2016, respectively. The Center has an interest in assets held by the Foundation related to the Foundation's interest in perpetual trusts, which is recorded as \$5,896,050 and \$5,900,327 at December 31, 2017 and 2016, respectively, as temporarily restricted net assets. Any future contributions from the Foundation to the Center are at the discretion of the Foundation's Board of Directors. The Foundation budgeted \$4,500,000 in Center support for 2018. The Foundation has pledged to provide its resources to the Center, as necessary, to allow the Center to fund its operations.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

In 2014 a new series of bonds was issued to refund and redeem the remaining 1993 issue. The Series 2014 bonds were issued on May 13, 2014 in the amount of \$16,148,000. The principal of bonds mature and/or sinking fund installments become due on July 1 of each year until 2023. The Series 2014 bonds were restructured in 2016 to reduce the rate of interest. Annual payments of the restructured bond principal and/or sinking fund requirements range from \$514,000 to \$1,963,000. The interest rate on the bonds is 2.81% and is due on January 1 and July 1 of each year. In 2016 the Center also borrowed \$14,350,000, using the proceeds to fund its pension plan with the intent to terminate the plan. The principal of this loan becomes due on July 1 of each year until 2023. Annual payments of the principal requirements range from \$1,510,319 to \$2,340,742. The interest rate on this loan is 3.68% and is due on January 1 and July 1 of each year. The Foundation provided several credit enhancements to the Center: a Subsidy Agreement related to the Series 1993 bonds and entered into a rent-free ground lease with the Center for a piece of land to be used by the Center. Under the Subsidy Agreement, the Foundation has guaranteed the principal and interest payments of the Center's bonds. The Subsidy Agreement requires that the Foundation and Center maintain a certain combined financial ratio. The Center and Foundation have complied with the financial covenants related to the Series 2014 bonds at December 31, 2017 and 2016.

A summary of the Center's assets, liabilities and net assets, results of operations, and changes in net assets are as follows:

	2017	2016
Assets	<u>\$ 115,137,724</u>	<u>\$ 100,947,228</u>
Liabilities	\$ 69,190,476	\$ 60,026,064
Net assets		
Unrestricted	37,486,079	32,579,282
Temporarily restricted	<u>8,461,169</u>	<u>8,341,882</u>
Total liabilities and net assets	<u>\$ 115,137,724</u>	<u>\$ 100,947,228</u>
Revenue		
Net patient service revenue	\$ 174,882,211	\$ 171,082,681
Other revenue, gains and losses	<u>9,883,869</u>	<u>11,529,622</u>
Total revenue	184,766,080	182,612,303
Total expenses	<u>187,566,702</u>	<u>179,335,383</u>
Income (loss) from operations	(2,800,622)	3,276,920
Nonoperating gains		
Contributions from the Foundation	<u>5,850,000</u>	<u>5,676,996</u>
Excess of revenue and gains over expenses	3,049,378	8,953,916
Other changes in unrestricted net assets, net	<u>1,857,419</u>	<u>2,270,995</u>
Changes in unrestricted net assets	4,906,797	11,224,911
Changes in temporarily restricted net assets	119,287	86,333
Net assets, beginning of year	<u>40,921,164</u>	<u>29,609,920</u>
Net assets, end of year	<u>\$ 45,947,248</u>	<u>\$ 40,921,164</u>

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

9. PENSION PLANS

The Foundation participates in a defined benefit noncontributory pension plan (the Plan) covering substantially all Foundation employees, sponsored by the Center. The Center froze the Plan as of December 31, 2005. The Foundation contributed to the Center and recognized pension expense of \$0 and \$60,000 for the years ended December 31, 2017 and 2016, respectively.

The Foundation's employees participate in the Center's 401(k) savings plan. Employer contributions to the 401(k) savings plan are based on a formula as defined by the plan document. Expense related to the 401(k) savings plan was \$25,240 and \$21,979 for the years ended December 31, 2017 and 2016, respectively.

10. FUNCTIONAL EXPENSES

Expenses incurred for the years ended December 31, 2017 and 2016 were for:

	Program Services				
	The Center	Other Specific Purpose Programs, Including Children of the World	Management, Administrative and General	Fundraising	Total Expenses
2017					
Salaries, wages, and benefits	\$ --	\$ --	\$ 59,173	\$ 912,863	\$ 972,036
Contributions	5,850,000	195,972	--	--	6,045,972
Supplies and other expenses	--	--	31,870	953,453	985,323
Depreciation	--	--	16,301	309,735	326,036
Total expenses	<u>\$ 5,850,000</u>	<u>\$ 195,972</u>	<u>\$ 107,344</u>	<u>\$ 2,176,051</u>	<u>\$ 8,329,367</u>

	Program Services				
	The Center	Other Specific Purpose Programs, Including Children of the World	Management, Administrative and General	Fundraising	Total Expenses
2016					
Salaries, wages, and benefits	\$ --	\$ --	\$ 59,173	\$ 890,081	\$ 949,254
Contributions	5,676,996	200,424	--	--	5,877,420
Supplies and other expenses	--	--	37,747	853,784	891,531
Depreciation	--	--	16,115	306,191	322,306
Total expenses	<u>\$ 5,676,996</u>	<u>\$ 200,424</u>	<u>\$ 113,035</u>	<u>\$ 2,050,056</u>	<u>\$ 8,040,511</u>

11. CONCENTRATION OF CREDIT RISK

The Foundation maintains a checking account with a local financial institution. The amounts in this account exceed Federal Depository Insurance Corporation limits. However, management believes that the Foundation is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

The Foundation invests its cash in money market funds through brokers. The money market funds are generally investments in U.S. Government and agency obligations. These investments are not insured or guaranteed; however, management believes that the credit risk is minimal.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2017 and 2016

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31,:

	2017	2016
Beneficial interest in perpetual trusts	\$ 6,115,034	\$ 5,646,674
Deborah Heart and Lung Center	<u>776,829</u>	<u>1,268,692</u>
	<u>\$ 6,891,863</u>	<u>\$ 6,915,366</u>

13. SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2017 financial statements for subsequent events through May 29, 2018 the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Deborah Hospital Foundation
Summary of Revenues by Region
Year Ended December 31, 2017

	Total	National	Special Events	Pennsylvania	New York	New Jersey	Florida
Public and chapter support							
Chapters and miscellaneous	\$ 1,897,213	\$ 1,409,781	\$ --	\$ 14,912	\$ 105,846	\$ 328,231	\$ 38,443
Tree of Life	68,322	--	--	4,380	1,932	52,293	9,717
Total public and chapter support	1,965,535	1,409,781	--	19,292	107,778	380,524	48,160
Corporate and foundation support	1,095,650	925,065	--	--	50	165,535	5,000
Legacies, bequests and annuities	3,447,230	103,489	--	26,077	291	3,317,373	--
Less: amounts raised on behalf of others	(3,414,202)	(3,414,202)	--	--	--	--	--
Total public support	3,094,213	(975,867)	--	45,369	108,119	3,863,432	53,160
Change in fair value of beneficial							
Interest in perpetual trusts	468,360	468,360	--	--	--	--	--
Investment income, net	2,262,303	2,262,303	--	--	--	--	--
Total revenue	<u>\$ 5,824,876</u>	<u>\$ 1,754,796</u>	<u>\$ --</u>	<u>\$ 45,369</u>	<u>\$ 108,119</u>	<u>\$ 3,863,432</u>	<u>\$ 53,160</u>

See Independent Auditors' Report.

Deborah Hospital Foundation
Summary of Revenues by Region
Year Ended December 31, 2016

	Total	National	Events	Pennsylvania	New York	New Jersey	Florida
Public and chapter support							
Chapters and miscellaneous	\$ 1,929,317	\$ 1,475,840	\$ --	\$ 20,897	\$ 73,409	\$ 335,343	\$ 23,828
Tree of Life	44,543	--	--	4,140	2,472	32,351	5,580
Total public and chapter support	1,973,860	1,475,840	--	25,037	75,881	367,694	29,408
Corporate and foundation support	1,054,294	905,936	--	--	50	148,308	--
Special events, net	22,644	--	22,644	--	--	--	--
Legacies, bequests and annuities	9,969,514	445,865	--	15,489	--	9,424,239	83,921
Less: amounts raised on behalf of others	(6,038,613)	(6,038,613)	--	--	--	--	--
Total public support	6,981,699	(3,210,972)	22,644	40,526	75,931	9,940,241	113,329
Change in fair value of beneficial							
Interest in perpetual trusts	92,327	92,327	--	--	--	--	--
Investment income, net	791,681	791,681	--	--	--	--	--
Lease and other revenue	147,100	147,100	--	--	--	--	--
Total revenue	<u>\$ 8,012,807</u>	<u>\$ (2,179,864)</u>	<u>\$ 22,644</u>	<u>\$ 40,526</u>	<u>\$ 75,931</u>	<u>\$ 9,940,241</u>	<u>\$ 113,329</u>

See Independent Auditors' Report.