

DEBORAH HOSPITAL FOUNDATION
Financial Statements
December 31, 2015 and 2014
With Independent Auditors' Reports

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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, 2015 and 2014, 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, 2015 and 2014, 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.

Other Matter - 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, 2015 and 2014 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 2, 2016

Deborah Hospital Foundation
Statements of Financial Position
As of December 31, 2015 and 2014

| ASSETS | 2015 | 2014 |
|---|--------------------------|--------------------------|
| Cash | \$ 832,666 | \$ 638,887 |
| Investments | 13,683,673 | 14,440,692 |
| Prepaid expenses and other assets | 666,542 | 665,154 |
| Assets restricted as to use: | | |
| Annuity and life income | 4,783,330 | 5,074,861 |
| Donor Restricted | 1,283,470 | 937,287 |
| Contributions receivable | 479,170 | 3,282,425 |
| Property, plant and equipment, net | 4,025,767 | 4,186,216 |
| Beneficial interest in perpetual trusts | 5,554,347 | 6,068,883 |
| | <u>5,554,347</u> | <u>6,068,883</u> |
| Total assets | <u>\$ 31,308,965</u> | <u>\$ 35,294,405</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 52,091 | \$ 77,808 |
| Accrued expenses | 120,817 | 99,474 |
| Due to Deborah Heart and Lung Center | 2,529,252 | 2,440,402 |
| Deferred revenues | 294,202 | 333,370 |
| Annuity and life income reserve | 3,134,941 | 3,681,996 |
| | <u>3,134,941</u> | <u>3,681,996</u> |
| Total liabilities | 6,131,303 | 6,633,050 |
| Net assets | | |
| Unrestricted net assets | 18,339,845 | 21,655,185 |
| Temporarily restricted net assets | 6,837,817 | 7,006,170 |
| | <u>6,837,817</u> | <u>7,006,170</u> |
| Total net assets | <u>25,177,662</u> | <u>28,661,355</u> |
| Total liabilities and net assets | <u>\$ 31,308,965</u> | <u>\$ 35,294,405</u> |

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

Deborah Hospital Foundation
Statement of Activities
Year Ended December 31, 2015

| | Unrestricted | Temporarily restricted | Total |
|--|----------------------|---------------------------|----------------------|
| Revenue | | | |
| Public support | | | |
| Public donations | \$ 2,540,228 | \$ 1,030,152 | \$ 3,570,380 |
| Special events | 403,444 | -- | 403,444 |
| Legacies, bequests, and annuities | 2,794,315 | 4,157,102 | 6,951,417 |
| Less: amounts raised on behalf of others | -- | (4,841,071) | (4,841,071) |
| Total public support | <u>5,737,987</u> | <u>346,183</u> | <u>6,084,170</u> |
| Other revenue (loss) | | | |
| Change in fair value of beneficial interest in perpetual trusts | -- | (514,536) | (514,536) |
| Investment returns, net | (118,498) | -- | (118,498) |
| Lease and other income | 39,168 | -- | 39,168 |
| Total other revenue | <u>(79,330)</u> | <u>(514,536)</u> | <u>(593,866)</u> |
| Total revenue | 5,658,657 | (168,353) | 5,490,304 |
| Expenses | | | |
| Program services | | | |
| Deborah Heart and Lung Center | 6,585,000 | -- | 6,585,000 |
| Other specific purpose programs, including Children of the World | 246,618 | -- | 246,618 |
| Total program services | <u>6,831,618</u> | <u>--</u> | <u>6,831,618</u> |
| Supporting services | | | |
| Management, administrative and general | 123,456 | -- | 123,456 |
| Fundraising | 2,018,923 | -- | 2,018,923 |
| Total supporting services | <u>2,142,379</u> | <u>--</u> | <u>2,142,379</u> |
| Total expenses | <u>8,973,997</u> | <u>--</u> | <u>8,973,997</u> |
| Change in net assets | (3,315,340) | (168,353) | (3,483,693) |
| Net assets, beginning of year | <u>21,655,185</u> | <u>7,006,170</u> | <u>28,661,355</u> |
| Net assets, end of year | <u>\$ 18,339,845</u> | <u>\$ 6,837,817</u> | <u>\$ 25,177,662</u> |

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

Deborah Hospital Foundation
Statement of Activities
Year Ended December 31, 2014

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Total</u> |
|--|----------------------|-----------------------------------|----------------------|
| Revenue | | | |
| Public support | | | |
| Public donations | \$ 2,365,055 | \$ 2,204,538 | \$ 4,569,593 |
| Special events | 221,728 | -- | 221,728 |
| Legacies, bequests, and annuities | 3,617,848 | 7,771,677 | 11,389,525 |
| Less: amounts raised on behalf of others | -- | (11,121,960) | (11,121,960) |
| Total public support | <u>6,204,631</u> | <u>(1,145,745)</u> | <u>5,058,886</u> |
| Other revenue (loss) | | | |
| Change in fair value of beneficial interest in trusts | -- | (4,090) | (4,090) |
| Investment returns, net | 1,041,071 | -- | 1,041,071 |
| Lease and other income | 138,566 | -- | 138,566 |
| Total other revenue | <u>1,179,637</u> | <u>(4,090)</u> | <u>1,175,547</u> |
| Total revenue | 7,384,268 | (1,149,835) | 6,234,433 |
| Expenses | | | |
| Program services | | | |
| Deborah Heart and Lung Center | 5,340,000 | -- | 5,340,000 |
| Other specific purpose programs, including Children of the World | 231,873 | -- | 231,873 |
| Total program services | <u>5,571,873</u> | <u>--</u> | <u>5,571,873</u> |
| Supporting services | | | |
| Management, administrative and general | 143,262 | -- | 143,262 |
| Fundraising | 1,974,056 | -- | 1,974,056 |
| Total supporting services | <u>2,117,318</u> | <u>--</u> | <u>2,117,318</u> |
| Total expenses | <u>7,689,191</u> | <u>--</u> | <u>7,689,191</u> |
| Change in net assets | (304,923) | (1,149,835) | (1,454,758) |
| Net assets, beginning of year | <u>21,960,108</u> | <u>8,156,005</u> | <u>30,116,113</u> |
| Net assets, end of year | <u>\$ 21,655,185</u> | <u>\$ 7,006,170</u> | <u>\$ 28,661,355</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, 2015 and 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (3,483,693) | \$ (1,454,758) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Net realized and unrealized loss (gain) on investments | 413,512 | (681,613) |
| Depreciation | 346,704 | 360,129 |
| Lease income | 19,584 | 69,283 |
| Change in beneficial interest in perpetual trusts | 514,536 | 4,090 |
| Change in deferred revenues | (39,168) | (138,567) |
| Changes in operating assets and liabilities: | | |
| Contributions receivable | 2,803,255 | (909,348) |
| Prepaid expense and other assets | (20,972) | (34,273) |
| Accounts payable | (25,717) | 1,660 |
| Accrued expenses | 21,343 | (109,502) |
| Due to Deborah Heart and Lung Center | 88,850 | (1,988,967) |
| Annuity and life income reserve | (547,055) | (128,447) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) operating activities | 91,179 | (5,010,313) |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (186,255) | (80,663) |
| Change in investments and assets restricted as to use | 288,855 | 6,611,951 |
| | <hr/> | <hr/> |
| Net cash provided by investing activities | 102,600 | 6,531,288 |
| Cash flows from financing activities | | |
| Payments on long term debt | -- | (1,561,424) |
| | <hr/> | <hr/> |
| Increase (decrease) in cash | 193,779 | (40,449) |
| Cash, beginning of period | 638,887 | 679,336 |
| | <hr/> | <hr/> |
| Cash, end of period | \$ 832,666 | \$ 638,887 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$ -- | \$ 37,207 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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. Additionally, the President of the Center holds the position of President of the Foundation, and the Chief Operating Officer of the Center holds the position of Treasurer of the Foundation.

The Foundation's Board of Directors currently consists of sixteen (16) members, including the Chief Operating Officer of the Center, who also serves in a non-voting role of Treasurer of the Foundation Board. The remaining voting members of the Board include the Chairman of the Board of the Foundation, the President of the Center/Foundation and thirteen (13) other members.

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, 2015 and 2014.

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.

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.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

Temporarily restricted contributions include contributions and amounts raised on behalf of others (ARBO). 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.

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. Contribution receivables were considered collectible at December 31, 2015 and 2014, 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, 2015 and 2014.

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.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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 period presented in these financial statements. Should any such penalties be incurred, the Foundation's policy would be to recognize them as operating expenses.

Reclassifications

Certain reclassifications have been made to the accompanying 2014 financial statements in order to conform to the 2015 presentation. These reclassifications had no effect on the net assets of the Foundation.

3. INVESTMENTS AND ASSETS RESTRICTED AS TO USE

| | 2015 | 2014 |
|---|----------------------|----------------------|
| Investments | | |
| Cash and cash equivalents | \$ 521,794 | \$ 519,966 |
| Fixed income securities | 3,448,507 | 2,982,152 |
| Equity securities (including mutual funds) | 9,665,108 | 10,894,972 |
| Accrued interest receivable | <u>48,264</u> | <u>43,602</u> |
| Total | <u>\$ 13,683,673</u> | <u>\$ 14,440,692</u> |
| Assets restricted as to use - annuity and life income | | |
| Cash and cash equivalents | \$ 94,071 | \$ 127,200 |
| Fixed income securities | 3,231,649 | 3,331,448 |
| Equity securities (including mutual funds) | <u>1,457,610</u> | <u>1,616,213</u> |
| Total | <u>\$ 4,783,330</u> | <u>\$ 5,074,861</u> |
| Assets restricted as to use - donor restricted | | |
| Cash and cash equivalents | <u>\$ 1,283,470</u> | <u>\$ 937,287</u> |

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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, 2015 and 2014, 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 \$852,201 and \$504,457, respectively, for the annuity fund. In addition, the Foundation maintained \$548,812 and \$549,812 in investments in excess of the life income fund liability at December 31, 2015 and 2014, respectively.

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

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Interest and dividend income | \$ 295,014 | \$ 359,458 |
| Net realized gains on sales of investments | 635,046 | 2,694,386 |
| Change in net unrealized gains and (losses) on investments | <u>(1,048,558)</u> | <u>(2,012,773)</u> |
| Total investment returns | <u>\$ (118,498)</u> | <u>\$ 1,041,071</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, 2015 and 2014.

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, 2015 and 2014:

| <u>December 31, 2015</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------|---------------------|---------------------|----------------------|
| Cash and cash equivalents | \$ 2,732,002 | \$ -- | \$ -- | \$ 2,732,002 |
| Fixed income securities | -- | 6,728,419 | -- | 6,728,419 |
| Equity securities (including mutual funds) | 11,122,718 | -- | -- | 11,122,718 |
| Beneficial interest in perpetual trusts | <u>--</u> | <u>--</u> | <u>5,554,347</u> | <u>5,554,347</u> |
| Total | <u>\$ 13,854,720</u> | <u>\$ 6,728,419</u> | <u>\$ 5,554,347</u> | <u>\$ 26,137,486</u> |

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

| <u>December 31, 2014</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------------|---------------------|---------------------|----------------------|
| Cash and cash equivalents | \$ 2,223,341 | \$ -- | \$ -- | \$ 2,223,341 |
| Fixed income securities | -- | 6,357,201 | -- | 6,357,201 |
| Equity securities (including mutual funds) | 12,511,185 | -- | -- | 12,511,185 |
| Beneficial interest in perpetual trust | <u>--</u> | <u>--</u> | <u>6,068,883</u> | <u>6,068,883</u> |
| Total | <u>\$ 14,734,526</u> | <u>\$ 6,357,201</u> | <u>\$ 6,068,883</u> | <u>\$ 27,160,610</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, 2014 | \$ 6,072,973 |
| Unrealized losses | <u>(4,090)</u> |
| At December 31, 2014 | 6,068,883 |
| Unrealized losses | <u>(514,536)</u> |
| At December 31, 2015 | <u>\$ 5,554,347</u> |

5. CONTRIBUTIONS RECEIVABLE

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

| | 2015 | 2014 |
|--------------------------------|-------------------|---------------------|
| Unrestricted to future periods | \$ 629,630 | \$ 3,432,885 |
| Less: unamortized discount | <u>(150,460)</u> | <u>(150,460)</u> |
| | <u>\$ 479,170</u> | <u>\$ 3,282,425</u> |
| Amounts due in | | |
| Less than one year | \$ 231,093 | |
| One to five years | -- | |
| More than five years | <u>398,537</u> | |
| Total | <u>\$ 629,630</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, 2015 and 2014

6. PROPERTY, PLANT AND EQUIPMENT

| | Depreciable Lives | 2015 | 2014 |
|-------------------------------------|----------------------|---------------------|---------------------|
| Land | | \$ 553,516 | \$ 553,516 |
| Land improvements | 10 – 20 years | 74,884 | 74,884 |
| Buildings and building improvements | 5 – 40 years | 8,080,288 | 7,896,325 |
| Furniture, fixtures, and equipment | 3 – 20 years | <u>542,983</u> | <u>540,691</u> |
| | | 9,251,671 | 9,065,416 |
| Less: accumulated depreciation | | <u>(5,225,904)</u> | <u>(4,879,200)</u> |
| | | <u>\$ 4,025,767</u> | <u>\$ 4,186,216</u> |

Depreciation expense was \$346,704 and \$360,129 for the years ended December 31, 2015 and 2014, respectively.

On October 1, 2010, the Foundation and Our Lady of Lourdes Healthcare Services, Inc. (OLLHS) signed a lease agreement for the second floor of the Cymrot building. As part of the agreement, beginning March 2011, in exchange for OLLHS 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 OLLHS of \$299,650 (the "Lease Incentive"). The Foundation has recorded the Lease Incentive, included in prepaid expenses and other assets, and unrecognized deferred revenue, for the initial term of the lease. The Lease Incentive and the deferred revenue were being amortized on a straight-line basis until July 2014. The building improvements are being amortized over the lease term of ten years. Income recognized for the years ended December 31, 2015 and 2014 related to this lease was \$0 and \$49,699, 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 are being amortized on a straight-line basis until June 2023. The building improvements are being amortized over the expected lease term of fifteen years. Income recognized for the years ended December 31, 2015 and 2014 related to this lease was \$19,584 each year.

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 \$730,000 at December 31, 2015 and 2014, which expire July 23, 2016, 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 \$5,695,000 at December 31, 2015 and 2014. 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, 2015 and 2014.

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

8. RELATED ORGANIZATION

Contributions by the Foundation to the Center for operations amounted to \$6,585,000 and \$5,340,000 in 2015 and 2014, respectively. Funding by the Foundation to the Center for the Children of the World and other specific purpose programs amounted to \$246,618 and \$231,873 in 2015 and 2014, 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 \$5,809,860 and \$5,827,737 at December 31, 2015 and 2014, 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 \$5,677,000 in Center support for 2016. The Foundation has pledged to provide its resources to the Center, as necessary, to allow the Center to fund its operations.

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. Annual payments of bond principal and/or sinking fund requirements range from \$1,514,000 to \$2,004,000. The interest rate on the bonds is 4.28% 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 entering 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, 2015 and 2014.

A summary of the Center's assets, liabilities and net assets (deficiency), results of operations, and changes in net assets (deficiency) is as follows:

| | 2015 | 2014 |
|----------------------------------|----------------------|----------------------|
| Assets | <u>\$ 93,521,701</u> | <u>\$ 93,102,109</u> |
| Liabilities | \$ 64,027,968 | \$ 75,926,157 |
| Net assets: | | |
| Unrestricted | 21,238,184 | 8,817,772 |
| Temporarily restricted | <u>8,255,549</u> | <u>8,358,180</u> |
| Total liabilities and net assets | <u>\$ 93,521,701</u> | <u>\$ 93,102,109</u> |
| Revenue | | |
| Net patient service revenue | \$ 163,282,795 | \$ 149,473,752 |
| Other revenue, gains and losses | <u>8,590,040</u> | <u>16,234,765</u> |
| Total revenue | 171,872,835 | 165,708,517 |
| Total expenses | <u>165,948,641</u> | <u>159,615,507</u> |
| Income from operations | 5,924,194 | 6,093,010 |

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

| | | |
|---|----------------------------|-----------------------------|
| Nonoperating gains | | |
| Contributions from the Foundation | \$ 6,585,000 | \$ 5,340,000 |
| Gain on early extinguishment of debt | <u> --</u> | <u> 57,769</u> |
| Excess of revenue and gains over expenses | 12,509,194 | 11,490,779 |
| Other changes in unrestricted net assets, net | <u> (88,782)</u> | <u> (4,349,145)</u> |
| Change in unrestricted net assets | 12,420,412 | 7,141,634 |
| Change in temporarily restricted net assets | (102,631) | (1,587,919) |
| Net assets, beginning of year | <u> 17,175,952</u> | <u> 11,622,237</u> |
| Net assets, end of year | <u>\$ 29,493,733</u> | <u>\$ 17,175,952</u> |

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 \$47,120 and \$47,409 for the years ended December 31, 2015 and 2014, 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 \$21,506 and \$20,803 for the years ended December 31, 2015 and 2014, respectively.

10. FUNCTIONAL EXPENSES

Expenses incurred for the years ended December 31, 2015 and 2014 were for:

| 2015 | Program Services | | | | Total Expenses |
|-------------------------------|---------------------|--|--|---------------------|---------------------|
| | The Center | Other Specific Purpose Programs, Including Children of the World | Management, Administrative and General | Fundraising | |
| Salaries, wages, and benefits | \$ -- | \$ -- | \$ 59,173 | \$ 853,480 | \$ 912,653 |
| Contributions | 6,585,000 | 246,618 | -- | -- | 6,831,618 |
| Supplies and other expenses | -- | -- | 43,481 | 839,541 | 883,022 |
| Depreciation | -- | -- | <u>20,802</u> | <u>325,902</u> | <u>346,704</u> |
| Total expenses | <u>\$ 6,585,000</u> | <u>\$ 246,618</u> | <u>\$ 123,456</u> | <u>\$ 2,018,923</u> | <u>\$ 8,973,997</u> |

Deborah Hospital Foundation
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

| 2014 | Program Services | | | | |
|-------------------------------|---------------------|--|--|---------------------|---------------------|
| | The Center | Other Specific Purpose Programs, Including Children of the World | Management, Administrative and General | Fundraising | Total Expenses |
| Salaries, wages, and benefits | \$ -- | \$ -- | \$ 57,728 | \$ 762,355 | \$ 820,083 |
| Contributions | 5,340,000 | 231,873 | -- | -- | 5,571,873 |
| Supplies and other expenses | -- | -- | 60,325 | 876,781 | 937,106 |
| Depreciation | -- | -- | 25,209 | 334,920 | 360,129 |
| Total expenses | <u>\$ 5,340,000</u> | <u>\$ 231,873</u> | <u>\$ 143,262</u> | <u>\$ 1,974,056</u> | <u>\$ 7,689,191</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.

12. SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2015 financial statements for subsequent events through May 2, 2016, 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, 2015

| | Total | National | Special Events | Pennsylvania | New York | New Jersey | Florida |
|--|---------------------|-----------------------|-------------------|-------------------|-------------------|---------------------|------------------|
| Public chapter support | | | | | | | |
| Chapters and miscellaneous | \$ 1,967,456 | \$ 1,418,064 | \$ -- | \$ 36,141 | \$ 118,831 | \$ 342,541 | \$ 51,879 |
| Tree of Life | 92,280 | -- | -- | 4,186 | 3,574 | 76,325 | 8,195 |
| Total public chapter support | 2,059,736 | 1,418,064 | -- | 40,327 | 122,405 | 418,866 | 60,074 |
| Corporate and foundation support | 1,510,644 | 1,383,637 | | 306 | 1,050 | 125,651 | -- |
| Special events | 403,444 | -- | 403,444 | -- | -- | -- | -- |
| Legacies, bequests and annuities | 6,951,417 | 3,058 | -- | 120,693 | 22,278 | 6,783,110 | 22,278 |
| Less: amounts raised on behalf of others | (4,841,071) | (4,841,071) | -- | -- | -- | -- | -- |
| Total public support | 6,084,170 | (2,036,312) | 403,444 | 161,326 | 145,733 | 7,327,627 | 82,352 |
| Change in fair value of beneficial interest in perpetual trusts | (514,536) | (514,536) | -- | -- | -- | -- | -- |
| Investment income, net | (118,498) | (118,498) | -- | -- | -- | -- | -- |
| Lease and other revenue | 39,168 | 39,168 | -- | -- | -- | -- | -- |
| Total revenue | <u>\$ 5,490,304</u> | <u>\$ (2,630,178)</u> | <u>\$ 403,444</u> | <u>\$ 161,326</u> | <u>\$ 145,733</u> | <u>\$ 7,327,627</u> | <u>\$ 82,352</u> |

See Independent Auditors' Report.

Deborah Hospital Foundation
Summary of Revenues by Region
Year Ended December 31, 2014

| | Total | National | Special Events | Pennsylvania | New York | New Jersey | Florida |
|--|---------------------|-----------------------|-------------------|------------------|-------------------|---------------------|------------------|
| Public chapter support | | | | | | | |
| Chapters and miscellaneous | \$ 2,843,321 | \$ 2,237,526 | \$ -- | \$ 25,536 | \$ 98,773 | \$ 388,641 | \$ 92,845 |
| Tree of Life | 81,626 | -- | -- | 5,984 | 6,746 | 62,686 | 6,210 |
| Total public chapter support | 2,924,947 | 2,237,526 | -- | 31,520 | 105,519 | 451,327 | 99,055 |
| Corporate and foundation support | 1,644,646 | 1,437,126 | -- | 400 | 168 | 206,952 | -- |
| Special events | 221,728 | -- | 221,728 | -- | -- | -- | -- |
| Legacies, bequests and annuities | 11,389,525 | 2,785,491 | -- | 24,771 | -- | 8,579,263 | -- |
| Less: amounts raised on behalf of others | (11,121,960) | (11,121,960) | -- | -- | -- | -- | -- |
| Total public support | 5,058,886 | (4,661,817) | 221,728 | 56,691 | 105,687 | 9,237,542 | 99,055 |
| Change in fair value of beneficial interest in perpetual trusts | (4,090) | (4,090) | -- | -- | -- | -- | -- |
| Investment income, net | 1,041,071 | 1,041,071 | -- | -- | -- | -- | -- |
| Lease and other revenue | 138,566 | 138,566 | -- | -- | -- | -- | -- |
| Total revenue | <u>\$ 6,234,433</u> | <u>\$ (3,486,270)</u> | <u>\$ 221,728</u> | <u>\$ 56,691</u> | <u>\$ 105,687</u> | <u>\$ 9,237,542</u> | <u>\$ 99,055</u> |

See Independent Auditors' Report.