

**COMMUNITY HOSPITAL HEALTH
SERVICES FOUNDATION**

(A Nonprofit Organization)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

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YEARS ENDED JUNE 30, 2016 AND 2015

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

Board of Trustees
**Community Hospital Health Services
Foundation**
Springfield, Ohio

We have audited the accompanying financial statements of **Community Hospital Health Services Foundation** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, 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.

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Community Hospital Health Services Foundation** as of June 30, 2016 and 2015, 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.

Brady, Ware & Schoenfeld, Inc.

Dayton, Ohio
October 11, 2016

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 534,326	\$ 590,726
Accounts receivable	7,449	13,314
Grant receivable	10,826	11,516
Prepaid expenses	<u>13,094</u>	<u>22,914</u>
	565,695	638,470
PROPERTY, EQUIPMENT AND FURNISHINGS, NET (NOTE B)	3,700,908	3,502,614
BENEFICIAL INTEREST IN FUNDS HELD BY THE SPRINGFIELD FOUNDATION (NOTE C)	17,509,739	18,268,382
OTHER ASSETS (NOTE D)	<u>115,458</u>	<u>114,340</u>
	<u>\$ 21,891,800</u>	<u>\$ 22,523,806</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 27,986	\$ 23,024
Accrued liabilities	<u>38,747</u>	<u>22,694</u>
	<u>66,733</u>	<u>45,718</u>
NET ASSETS		
Unrestricted	21,050,208	21,704,060
Temporarily restricted (Note F)	<u>774,859</u>	<u>774,028</u>
	<u>21,825,067</u>	<u>22,478,088</u>
	<u>\$ 21,891,800</u>	<u>\$ 22,523,806</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION**STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions and grants	\$ 20,620	\$ 52,808	\$ 73,428
Net lease income (Note G)	65,793	-	65,793
Change in beneficial interest in funds held by the Springfield Foundation	(133,051)	(592)	(133,643)
Other income	3,166	-	3,166
Net assets released from restrictions	<u>51,385</u>	<u>(51,385)</u>	<u>-</u>
Total Revenue and Support	<u>7,913</u>	<u>831</u>	<u>8,744</u>
EXPENSES			
Program services	489,604	-	489,604
Management and general	146,939	-	146,939
Fundraising	<u>25,222</u>	<u>-</u>	<u>25,222</u>
Total Functional Expenses	<u>661,765</u>	<u>-</u>	<u>661,765</u>
CHANGE IN NET ASSETS	(653,852)	831	(653,021)
NET ASSETS			
Beginning of year	<u>21,704,060</u>	<u>774,028</u>	<u>22,478,088</u>
End of year	<u>\$ 21,050,208</u>	<u>\$ 774,859</u>	<u>\$ 21,825,067</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION**STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Contributions and grants	\$ 20,210	\$ 76,429	\$ 96,639
Net lease income (Note G)	61,114	-	61,114
Change in beneficial interest in funds held by the Springfield Foundation	1,159,173	14,564	1,173,737
Impairment loss - High Street property	(31,443)	-	(31,443)
Other income	8,551	-	8,551
Net assets released from restrictions	<u>84,726</u>	<u>(84,726)</u>	<u>-</u>
Total Revenue and Support	<u>1,302,331</u>	<u>6,267</u>	<u>1,308,598</u>
EXPENSES			
Program services	531,936	-	531,936
Management and general	149,835	-	149,835
Fundraising	<u>22,959</u>	<u>-</u>	<u>22,959</u>
Total Functional Expenses	<u>704,730</u>	<u>-</u>	<u>704,730</u>
CHANGE IN NET ASSETS	597,601	6,267	603,868
NET ASSETS			
Beginning of year	<u>21,106,459</u>	<u>767,761</u>	<u>21,874,220</u>
End of year	<u>\$ 21,704,060</u>	<u>\$ 774,028</u>	<u>\$ 22,478,088</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION**STATEMENT OF FUNCTIONAL EXPENSES****YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Health services	\$ 2,290	\$ -	\$ -	\$ 2,290
Compensation	162,874	79,724	21,368	263,966
Professional fees	-	32,927	-	32,927
Insurance	15,898	8,454	-	24,352
Health benefit plan (Note H)	10,183	-	-	10,183
Depreciation	108,542	6,049	755	115,346
Medical supplies	6,990	-	-	6,990
Office expenses	2,077	1,725	549	4,351
Program expenses	4,121	-	-	4,121
Marketing and publications	33,867	10,037	1,785	45,689
Occupancy expenses	16,068	2,015	645	18,728
Grants	122,649	-	-	122,649
Other	<u>4,045</u>	<u>6,008</u>	<u>120</u>	<u>10,173</u>
Total expenses	<u>\$ 489,604</u>	<u>\$ 146,939</u>	<u>\$ 25,222</u>	<u>\$ 661,765</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION**STATEMENT OF FUNCTIONAL EXPENSES****YEAR ENDED JUNE 30, 2015**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Health services	\$ 3,937	\$ -	\$ -	\$ 3,937
Compensation	169,713	74,146	19,253	263,112
Professional fees	-	45,064	-	45,064
Insurance	15,898	8,054	-	23,952
Health benefit plan (Note H)	2,135	-	-	2,135
Depreciation	114,831	6,488	755	122,074
Medical supplies	15,246	-	-	15,246
Office expenses	4,631	919	1,296	6,846
Program expenses	39,048	-	-	39,048
Marketing and publications	20,438	5,860	1,258	27,556
Occupancy expenses	10,428	3,642	397	14,467
Grants	125,500	-	-	125,500
Other	<u>10,131</u>	<u>5,662</u>	<u>-</u>	<u>15,793</u>
Total expenses	<u>\$ 531,936</u>	<u>\$ 149,835</u>	<u>\$ 22,959</u>	<u>\$ 704,730</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (653,021)	\$ 603,868
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities:		
Change in beneficial interest in funds held by the Springfield Foundation	133,643	(1,171,238)
Change in cash value of life insurance policies	(4,370)	(3,229)
Impairment loss - High Street property	-	31,443
Loss on disposal of property and equipment	2,926	-
Depreciation	<u>184,288</u>	<u>141,058</u>
	<u>(336,534)</u>	<u>(398,098)</u>
 Increase (decrease) in cash and cash equivalents arising from changes in:		
Accounts receivable	5,865	(12,096)
Grant receivable	690	(2,548)
Prepaid expenses	9,820	2,124
Accounts payable	4,962	18,527
Accrued liabilities	16,053	(4,864)
Accrued tax liability	<u>-</u>	<u>(92,726)</u>
 Net Cash and Cash Equivalents Used by Operating Activities	<u>(299,144)</u>	<u>(489,681)</u>
 INVESTING ACTIVITIES		
Distribution from Rocking Horse Children's Health Center Realty LLC	3,443	3,849
Premiums paid on life insurance policy	(192)	(112)
Net transfers from the Springfield Foundation	625,000	700,000
Purchases of property and equipment	<u>(385,507)</u>	<u>(114,638)</u>
 Net Cash and Cash Equivalents Provided by Investing Activities	<u>242,744</u>	<u>589,099</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(56,400)	99,418
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>590,726</u>	<u>491,308</u>
End of year	<u>\$ 534,326</u>	<u>\$ 590,726</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Hospital Health Services Foundation (the "Foundation" or "CHF") was incorporated in 1986, in the State of Ohio as a charitable, not-for-profit 501(c)(3) corporation. In 2009, the Internal Revenue Service further determined CHF to be a 509(a)(1) organization and classified under 170(b)(A)(iii).

In October 2010, the Board of Trustees of CHF adopted the doing-business-as name of Community Health Foundation. Community Health Foundation's mission is to preserve reproductive services, to promote health and wellness and to advocate for quality healthcare through grant making and education.

On July 1, 2004, Community Hospital Health Services Foundation, The Community Hospital of Springfield and Clark County, Mercy Health System Western Ohio, and Mercy Health formed Community Mercy Health Partners (CMHP), as the first step toward a merger of most of the assets of CHF (including The Community Hospital) and Mercy Health's region. In 2008, the hospital subsidiary corporations were dissolved, and Community Mercy Health System (CMHS) was formed with two corporate members - CHF and Mercy Health - as the sole members of CMHP, doing business as Springfield Regional Medical Center.

Effective with the consolidation on July 1, 2004, the Foundation became a 50% corporate member of CMHP and later CMHS (a not-for-profit). Mercy Health consolidates CMHP into its financial statements, recording a non-controlling interest for the Foundation's 50% corporate membership. The value of this non-controlling interest recorded on Mercy Health's financial statements at June 30, 2016 and 2015 was \$95,292,475 and \$86,825,872. This non-controlling interest is not reflected in these financial statements because the Foundation does not effectively have control with respect to CMHP.

Accounting Methods - The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net Asset Classifications - Management has determined that the majority of the Foundation's net assets do not meet the definition of endowment under the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation is governed subject to the governing documents for the Foundation and most contributions are subject to the terms of the governing documents. Certain contributions are received subject to other gift instruments or are subject to specific agreements with the Foundation.

Under the terms of the governing documents, the Board of Directors has the ability to distribute so much of the corpus of any endowment fund or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, the Board of Directors has determined that all contributions received subject to the governing document, and subject to UPMIFA, are classified as temporarily restricted until appropriated, at which time the appropriation is reclassified to unrestricted net assets. Contributions that are subject to other gift instruments may be recorded as permanently restricted, temporarily restricted, or unrestricted, depending on the specific terms of the agreement.

Generally, if the corpus of a contribution will, at some future time, become available for spending, it is recorded as temporarily restricted. In addition, contributions that are promised to be given in a future period are presented as temporarily restricted. If the corpus never becomes available for spending, it will be reported as permanently restricted. Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds. The Foundation had no permanently restricted net assets as of June 30, 2016 and 2015.

Unrestricted net assets include unrestricted resources, including donations, gifts, and bequests, available for the use of the Foundation, over which the Board of Directors has discretionary control.

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Concentration of Credit Risk - Financial instruments which potentially subject the Foundation to a concentration of credit risk include cash and cash equivalents, and the beneficial interest in funds held by the Springfield Foundation. The Foundation has implemented a repurchase arrangement which effectively collateralized \$533,504 and \$590,228 of bank deposits at June 30, 2016 and 2015.

The beneficial interest in funds held by the Springfield Foundation is subject to normal risks associated with financial markets. This risk is managed by the Springfield Foundation's adherence to an investment policy, which requires a strategy to minimize risk while maximizing investment returns.

Cash and Cash Equivalents - For the purpose of determining cash flows, management deems cash on hand, amounts in demand deposits, and certificates of deposit with an original maturity of three months or less to be cash and cash equivalents. The Foundation has a sweep feature with its demand deposit account. This investment feature provides for funds to be invested overnight in repurchase agreements that are collateralized by the bank's investment securities.

Accounts Receivable - Accounts consist primarily of receivables related to the Foundation's lease and shared space lease agreements. Management deemed that no allowance for uncollectible accounts was needed as of June 30, 2016 and 2015.

Property, Equipment and Furnishings - Property, equipment and furnishings are recorded at cost when purchased or at fair value when received as a donation. The Foundation capitalizes purchased or donated property, equipment, and furnishings when the cost or fair value, respectively, exceeds \$1,000 or more, and its estimated useful life exceeds one year. Depreciation is computed using the straight-line method over the useful lives of the assets. Routine repairs and maintenance are charged to expense when incurred. Depreciation expense, excluding the rental properties as noted below, for the years 2016 and 2015 was \$115,346 and \$122,074.

The Foundation's High Street property was leased effective January 2015 (see Note G). However, the lease payments did not begin until July 2015. As part of this lease agreement, the Foundation has committed to a maximum of \$385,507 for tenant build-out costs. The build-out costs were incurred by the Foundation during the year 2016. In addition, the depreciation expense for the High Street property for the year 2016 was \$43,630, which has been included as a component of net lease income in the statement of activities. There was no depreciation expense taken on the rental property for the year ended June 30, 2015 as the building was not yet placed in service.

The first floor of the Foundation's Pavilion rental property was leased effective October 2014 (see Note G). The depreciation expense for the Pavilion rental property for the years 2016 and 2015 was \$25,312 and \$18,984, which has been included as a component of net lease income in the statements of activities.

The second floor of the Foundation's Pavilion rental property is available for lease, but is not yet occupied and has not been placed in service as of June 30, 2016. Therefore, no depreciation expense has been taken on the rental property for the years 2016 and 2015.

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Endowment Spending Policy - The Foundation's spending policy allows for it to annually appropriate for expenditure from its funds for its general operations an amount not to exceed 5% of the funds' fair market value, whether or not the total expenditure from the funds exceeds 5%. This spending policy applies to any investments held by the Foundation, as well as the beneficial interest in funds held by the Springfield Foundation. The "fair market value" of the funds is calculated on the basis of market values that are determined at least quarterly, and averaged over a period of not less than three years immediately preceding the year in which the appropriation for the expenditure was made. Accordingly, over the long-term, the Foundation expects the spending policy will allow its endowment assets to grow, consistent with the objective to maintain the purchasing power of endowment assets, as well as to provide additional real growth through new gifts and investment return.

Beneficial Interest in Funds Held by the Springfield Foundation - The Foundation established "The Community Health Foundation Endowment Fund" with the Springfield Foundation during the fiscal year ended June 30, 2013. Distributions from the fund to the Foundation are subject to the spending policy of the Springfield Foundation. The Springfield Foundation's investment policy is designed to take into account total return concepts of investment and spending, with the goal of preserving the real spending power of endowments over time, while balancing the need for consistent spending to support the charitable purposes of the endowment. The Community Hospital Health Services Foundation's Board of Directors may also request additional distributions from the fund in excess of the customary payout. The Board of Directors of the Springfield Foundation has the authority to vary donor restrictions if continued adherence to that restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served.

In accordance with accounting standards, the Foundation's statements of financial position reflect this beneficial interest in funds held by the Springfield Foundation at its fair value, and its statements of activities reflect the related change in fair value of the funds.

Contributions - The financial statements are prepared in accordance with generally accepted accounting principles, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of restrictions.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as increases in restricted net assets. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donations with specified time stipulations are recorded as increases in temporarily restricted net assets. The Foundation reclassifies these temporarily restricted net assets to unrestricted net assets each year for the amount based on donor specified time or usage stipulations.

Functional Allocation of Expenses - Expenses by function have been allocated between program and supporting services classifications on the basis of time records and on estimates made by management.

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Taxes - The Internal Revenue Service has ruled that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and that it is classified as a publicly supported organization under Section 509(a)(1). Accordingly, no provision for income taxes is presented in these financial statements for the Foundation. The Foundation is not considered to be a private foundation.

The Foundation was the sole shareholder of CH Venture Co., Inc. (CH Venture), a for-profit organization which ceased operations during the year ended June 30, 2014. CH Venture was an Ohio for-profit company that was liable for federal, state, and local income taxes. As CH Venture ceased operations during the year ended June 30, 2014, there were no taxes for the years 2016 and 2015.

Accounting for Uncertainty in Income Taxes - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Foundation's tax returns, to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. This statement provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. Based on its review, management does not believe the Foundation has taken any material uncertain tax positions, including any position that would place the Foundation's exempt status in jeopardy, as of June 30, 2016.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 11, 2016, the date the financial statements were available to be issued.

NOTE B - PROPERTY, EQUIPMENT AND FURNISHINGS

	<u>2016</u>	<u>2015</u>
Pavilion	\$ 1,972,923	\$ 1,972,923
Equipment and furnishings	568,048	579,018
Land	<u>109,180</u>	<u>109,180</u>
	2,650,151	2,661,121
Less accumulated depreciation	<u>612,924</u>	<u>505,622</u>
	<u>2,037,227</u>	<u>2,155,499</u>
Property under lease:		
High Street	735,507	350,000
Pavilion - 1st floor	<u>636,191</u>	<u>636,191</u>
	1,371,698	986,191
Less accumulated depreciation	<u>87,925</u>	<u>18,984</u>
	<u>1,283,773</u>	<u>967,207</u>
Property held for lease:		
Pavilion - 2nd floor	<u>379,908</u>	<u>379,908</u>
	<u>\$ 3,700,908</u>	<u>\$ 3,502,614</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE B - PROPERTY, EQUIPMENT AND FURNISHINGS - continued

The Foundation owned and leased land located on High Street. Upon expiration of the lease in December 2012, the Foundation assumed possession of the building constructed on the land by the lessor in accordance with the lease agreement. The building was recorded on the Foundation's books at fair market value when received. The Foundation entered into a lease beginning January 2015 (see Note G). Prior to the new lease, any costs related to the property were capitalized and evaluated for impairment on an annual basis.

The first floor of the Foundation's Pavilion was leased beginning October 2014 (see Note G). The second floor of the Foundation's Pavilion rental property is available for lease, but was not yet occupied and had not been placed in service as of June 30, 2016. Management has evaluated the property for impairment and deemed that no impairment charge is necessary.

NOTE C - FAIR VALUE MEASUREMENTS

Fair values of financial assets at June 30, 2016 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Gains (Losses)</u>
Recurring fair value measurements:					
Assets					
Beneficial interest in funds held by the Springfield Foundation	<u>\$ 17,509,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,509,739</u>	<u>\$ -</u>

Fair values of financial assets at June 30, 2015 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Gains (Losses)</u>
Recurring fair value measurements:					
Assets					
Beneficial interest in funds held by the Springfield Foundation	<u>\$ 18,268,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,268,382</u>	<u>\$ -</u>
Nonrecurring fair value measurement:					
High Street property under lease	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ (31,443)</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE C - FAIR VALUE MEASUREMENTS - continued

Beneficial Interest in Funds Held by the Springfield Foundation - These funds are valued at fair value on a recurring basis, and are considered a Level 3 classification with significant unobservable inputs. The funds are valued and held by the Springfield Foundation.

High Street Property Under Lease - The Foundation has recorded the property on its books at fair value (see Note B). Costs incurred on the property are capitalized and evaluated for impairment by management. Management has determined an impairment loss of \$31,443 for the year 2015.

The following summarizes the change in Level 3 assets for the years 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beneficial Interest in Funds Held by the Springfield Foundation		
Balance, beginning of year	\$ 18,268,382	\$ 17,797,144
Change in value	(133,643)	1,171,238
Distributions	<u>(625,000)</u>	<u>(700,000)</u>
Balance, end of year	<u>\$ 17,509,739</u>	<u>\$ 18,268,382</u>

NOTE D - OTHER ASSETS

	<u>2016</u>	<u>2015</u>
Investment in Rocking Horse Children's Health Center Realty LLC	\$ 16,960	\$ 20,404
Cash value of life insurance policies	<u>98,498</u>	<u>93,936</u>
	<u>\$ 115,458</u>	<u>\$ 114,340</u>

During the fiscal year ended June 30, 2013, the Foundation purchased a 5% interest in Rocking Horse Children's Health Center Realty LLC. This investment is reflected at cost in the statements of financial position.

NOTE E - ENDOWMENT FUNDS AND NET ASSETS

The following is a summary of changes in endowment net assets for the years 2016 and 2015:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 197,207	\$ 310,972	\$ 508,179
Change in beneficial interest in funds held by the Springfield Foundation	(376)	(592)	(968)
Contributions	<u>126</u>	<u>-</u>	<u>126</u>
Endowment net assets, end of year	<u>\$ 196,957</u>	<u>\$ 310,380</u>	<u>\$ 507,337</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE E - ENDOWMENT FUNDS AND NET ASSETS - continued

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 199,730	\$ 296,408	\$ 496,138
Change in beneficial interest in funds held by the Springfield Foundation	9,578	14,564	24,142
Amounts appropriated for expenditure	<u>(12,101)</u>	<u>-</u>	<u>(12,101)</u>
Endowment net assets, end of year	<u>\$ 197,207</u>	<u>\$ 310,972</u>	<u>\$ 508,179</u>

The following is a summary of endowment net asset composition by type of fund as of June 30, 2016 and 2015:

	2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor designated endowment funds	\$ -	\$ 310,380	\$ 310,380
Board designated endowment funds	<u>196,957</u>	<u>-</u>	<u>196,957</u>
	<u>\$ 196,957</u>	<u>\$ 310,380</u>	<u>\$ 507,337</u>

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor designated endowment funds	\$ -	\$ 310,972	\$ 310,972
Board designated endowment funds	<u>197,207</u>	<u>-</u>	<u>197,207</u>
	<u>\$ 197,207</u>	<u>\$ 310,972</u>	<u>\$ 508,179</u>

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following table summarized all net assets as of June 30, 2016 and 2015:

	2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment funds	\$ 196,957	\$ 310,380	\$ 507,337
Non-endowment funds	<u>20,853,251</u>	<u>464,479</u>	<u>21,317,730</u>
	<u>\$ 21,050,208</u>	<u>\$ 774,859</u>	<u>\$ 21,825,067</u>

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE E - ENDOWMENT FUNDS AND NET ASSETS - continued

	2015		
	Unrestricted	Temporarily Restricted	Total
Endowment funds	\$ 197,207	\$ 310,972	\$ 508,179
Non-endowment funds	<u>21,506,853</u>	<u>463,056</u>	<u>21,969,909</u>
	<u>\$ 21,704,060</u>	<u>\$ 774,028</u>	<u>\$ 22,478,088</u>

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net asset class includes assets related to gifts with explicit donor-imposed restrictions that have not been met as to specific purpose, or to later periods of time or after specific dates.

	2016	2015
Non-Endowment Funds		
Birthing center	\$ 38,023	\$ 38,023
Oncology	54,039	54,039
Clark County dialysis	6,082	6,082
Mammograms	6,649	6,649
Educational services	19,020	17,597
Geriatric	329,511	329,511
Faye Flack Health & Wellness Fund	10,060	10,060
Other miscellaneous services	<u>1,095</u>	<u>1,095</u>
	464,479	463,056
Endowment Funds (Note E)		
Indigent services	<u>310,380</u>	<u>310,972</u>
	<u>\$ 774,859</u>	<u>\$ 774,028</u>

NOTE G - LEASES

Shared Space - Effective November 13, 2011, the Foundation entered into a shared space lease agreement with CMHP which expires on December 31, 2031. As part of the agreement, CMHP rents the operating rooms, exam rooms, and equipment owned by the Foundation. During the term of the lease, CMHP will pay the Foundation \$4,661 per month for use of these items, subject to adjustments as equipment becomes fully depreciated or deleted, or as equipment is added due to replacement or new technology. Lease income of \$55,932 associated with this lease is reflected in the statements of activities for the years 2016 and 2015. Future minimum lease payments due over the subsequent five years are \$55,932 per year.

In the shared space lease agreement, the Foundation entered into an agreement by which CMHP provides all operating expenses associated with the Foundation's Pavilion. CMHP then passes along infrastructure, maintenance, and utility costs to the Foundation, which are reduced by any portion of usage by CMHP. Total occupancy expenses related to this agreement were \$54,042 and \$43,527, of which \$10,340 and \$11,322 are reflected in the statements of functional expenses for the years 2016 and 2015. The portion of the total occupancy expenses allocable to the leasing of first and second floors of the Pavilion have been included in net lease income in the statement of activities.

COMMUNITY HOSPITAL HEALTH SERVICES FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE G - LEASES - continued

High Street - The Foundation entered into a lease agreement with Clark County Combined Health District effective January 1, 2015 for its High Street building. The lease is for a ten year period with payments beginning July 2015. As part of this agreement, the Foundation committed to \$385,507 in build-out costs related to the property. The build-out costs were incurred by the Foundation during the year 2016. In addition, the tenant is responsible for reimbursing insurance costs and any property taxes paid by the Foundation. Gross lease income, including the reimbursed operating costs of \$7,489, was \$57,414 for the year 2016.

Pavilion - 1st Floor - The Foundation entered into a lease agreement with CMHP, a related party, effective October 1, 2014 for the first floor of the Pavilion building. The lease is for a three year period. However, the tenant may terminate the lease after two full years with repayment of any undepreciated build-out costs. The lease agreement allows for a renewal for two terms of five years each. The tenant is responsible for their proportionate share of operating costs. Gross lease income, including the proportionate share of operating costs of \$31,674 and \$24,055, was \$73,892 and \$59,553 for the years 2016 and 2015.

NOTE H - HEALTH BENEFIT PLAN COMMITMENT

The Foundation has committed to pay for certain reproductive health benefits for current full-time employees of CMHP who were employed by Community Hospital as of June 30, 2004, and have continuously been covered by a CMHP medical plan. Employees do not contribute to the plan. No liability has been recorded for such expenses incurred as of June 30, 2016 and 2015, because the obligation cannot be reasonably estimated. Benefit plan claims and administrative expenses were \$10,183 and \$2,135 for the years 2016 and 2015.

NOTE I - RELATED-PARTY TRANSACTIONS

The Foundation has transferred assets to the Springfield Foundation for investment. Certain board members of the Foundation also serve on the Springfield Foundation Board of directors or are employed by the Springfield Foundation.

Several members of the Foundation's board also serve as board members for other local non-profit agencies. Some of these non-profit organizations have received grants from the Foundation.

In addition, the Foundation holds a non-controlling interest in Community Mercy Health Partners (CMHP). The Foundation recorded \$129,824 and \$115,485 of rental income from CMHP during the years 2016 and 2015. The Foundation recognized \$54,042 and \$43,527 in occupancy costs to CMHP during the years 2016 and 2015 (see Note G).

NOTE J - SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2016</u>	<u>2015</u>
Cash paid during the year for:		
Income taxes	<u>\$ -</u>	<u>\$ 92,726</u>