Adventist HealthCare, Inc. and Controlled Entities

Financial Statements and
Supplementary Information

December 31, 2016 and 2015

BAKER TILLY

Candor. Insight. Results.

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Independent Auditors' Report

Board of Trustees
Adventist HealthCare, Inc. and Controlled Entities

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Adventist HealthCare, Inc. and controlled entities (collectively, the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adventist HealthCare, Inc. and controlled entities as of December 31, 2016 and 2015, and the results of their operations, changes in net assets and 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 consolidated financial statements as a whole. The consolidating and combining information presented on pages 45 to 49 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
April 27, 2017

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets

December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 30,198,079	$ 45,638,591
Short-term investments	188,594,181	138,418,552
Assets whose use is limited	2,870,341	4,031,128
Patient accounts receivable, net of estimated allowance for doubtful collections of $27,415,000 in 2016 and $25,654,000 in 2015	91,827,593	102,100,614
Other receivables, net of estimated allowance for doubtful collections of $2,436,000 in 2016 and $2,110,000 in 2015	15,244,017	16,022,107
Inventories	10,211,601	10,780,540
Prepaid expenses and other current assets	7,366,320	6,358,773
Total current assets	346,312,132	323,350,305
Property and Equipment, Net	431,961,901	414,113,940
Assets Whose Use is Limited		
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	269,595,205	5,953,215
Professional liability trust fund	12,233,224	10,187,116
Deferred compensation fund	1,466,041	1,473,131
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	2,264,115	3,133,692
Investments and Investments in Unconsolidated Subsidiaries	13,283,684	11,081,925
Land Held for Healthcare Development	48,706,305	91,597,768
Intangible Assets, Net	8,966,166	10,200,288
Deposits and Other Noncurrent Assets	5,784,836	8,661,741
Total assets	$ 1,140,573,609	$ 879,753,121

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 83,843,748	$ 85,048,695
Accrued compensation and related items	34,851,454	33,158,923
Interest payable	2,021,390	2,331,260
Due to third party payors	18,665,027	20,160,658
Estimated self-insured professional liability	1,150,302	2,258,544
Current maturities of long-term obligations	12,749,886	31,540,973
Total current liabilities	153,281,807	174,499,053
Construction Payable	3,027,323	50,410
Long-Term Obligations, Net		
Bonds payable	515,091,030	223,933,403
Notes payable	26,381,525	30,613,911
Capital lease obligations	16,263,001	7,988,423
Derivative Financial Instruments	2,073,079	22,275,775
Other Liabilities	14,864,817	13,243,151
Estimated Self-Insured Professional Liability	11,715,201	10,033,037
Total liabilities	742,697,783	482,637,163
Net Assets		
Unrestricted	391,327,657	389,780,097
Temporarily restricted	6,206,748	6,584,440
Permanently restricted	341,421	751,421
Total net assets	397,875,826	397,115,958
Total liabilities and net assets	$ 1,140,573,609	$ 879,753,121

See notes to consolidated financial statements

Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted Revenues		
Net patient service revenue	$ 773,827,332	$ 733,607,247
Provision for doubtful collections	(35,002,586)	(33,692,615)
Net patient service revenue less provision for doubtful collections	738,824,746	699,914,632
Other revenue	41,106,399	40,698,648
Total unrestricted revenues	779,931,145	740,613,280
Expenses		
Salaries and wages	345,296,234	317,652,919
Employee benefits	65,852,367	63,612,408
Contract labor	36,319,743	34,903,249
Medical supplies	100,324,519	98,430,779
General and administrative	117,809,537	111,635,023
Building and maintenance	42,794,430	41,449,614
Insurance	5,297,256	5,282,490
Interest	10,362,411	9,561,370
Depreciation and amortization	36,746,661	34,524,212
Total expenses	760,803,158	717,052,064
Income from operations	19,127,987	23,561,216
Other Income (Expense)		
Investment income	3,129,171	863,598
Loss on extinguishment of debt	(686,357)	-
Other income (expense)	44,281	(406,795)
Total other income	2,487,095	456,803
Revenues in excess of expenses from continuing operations	21,615,082	24,018,019
Change in net unrealized losses on investments other than trading securities	(1,430,441)	(2,281,694)
Change in net unrealized gain (loss) on derivative financial instruments	2,352,325	(1,644,513)
Net assets released from restriction for purchase of property and equipment	1,217,796	922,266
Deferred compensation plan liability adjustment	(521,260)	(1,575,015)
Other unrestricted net asset activity	(1,458,904)	(649,457)
Increase in unrestricted net assets from continuing operations	21,774,598	18,789,606
Loss from discontinued operations	(20,227,038)	(5,759,673)
Increase in unrestricted net assets	$ 1,547,560	$ 13,029,933

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Revenues in excess of expenses from continuing operations	$ 21,615,082	$ 24,018,019
Change in net unrealized losses on investments other than trading securities	(1,430,441)	(2,281,694)
Change in net unrealized gain (loss) on derivative financial instruments	2,352,325	(1,644,513)
Net assets released from restriction for purchase of property and equipment	1,217,796	922,266
Deferred compensation plan liability adjustment	(521,260)	(1,575,015)
Other unrestricted net asset activity	(1,458,904)	(649,457)
Increase in unrestricted net assets from continuing operations	21,774,598	18,789,606
Loss from discontinued operations	(20,227,038)	(5,759,673)
Increase in unrestricted net assets	1,547,560	13,029,933
Temporarily Restricted Net Assets		
Restricted gifts and donations	3,438,671	4,380,775
Net assets released from restriction for purchase of property and equipment	(1,217,796)	(922,266)
Net assets released from restriction used for operations	(2,075,440)	(2,749,219)
Change in value of beneficial interest in trusts and charitable gift annuity obligation	(30,449)	(194,353)
Change in discount of pledges receivable and provision for doubtful pledges	(496,776)	(121,993)
Donor restricted investment income	4,098	1,748
(Decrease) increase in temporarily restricted net assets	(377,692)	394,692
Permanently Restricted Net Assets		
Other permanently restricted net asset activity	(410,000)	410,000
Increase in net assets	759,868	13,834,625
Net Assets, Beginning	397,115,958	383,281,333
Net Assets, Ending	$ 397,875,826	$ 397,115,958

	2016	2015
Cash Flows from Operating Activities		
Increase in net assets	$ 759,868	$ 13,834,625
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	36,284,410	37,500,712
Depreciation and amortization	38,098,970	39,518,378
Amortization of deferred financing costs	189,890	242,541
Deferred compensation plan liability adjustment	521,260	1,575,015
Loss on extinguishment of debt	686,357	-
Restricted contributions and grants	(1,878,488)	(2,695,169)
Earnings recognized from unconsolidated subsidiaries and affiliates	(2,335,147)	(3,272,652)
Amortization of physician income guarantees	31,530	34,363
Gain on sale of interest in unconsolidated subsidiary	-	(1,664,925)
Net realized loss on investments	710,869	2,766,296
Change in net unrealized gains and losses on investments other than trading securities	1,430,441	2,281,694
Change in net unrealized (gain) loss on derivative financial instruments	(2,352,325)	1,644,513
Change in value of beneficial interest in trusts and charitable gift annuity	30,449	194,353
Change in discount on pledges receivable and provision for doubtful pledges	496,776	121,993
Loss on sale of HRMC	16,967,178	-
Changes in assets and liabilities:		
Patient accounts receivable, net	(26,011,792)	(32,334,820)
Other receivables, net	628,056	(2,672,003)
Inventories, prepaid expenses and other current assets	(2,229,881)	(566,015)
Accounts payable and accrued expenses	(3,167,435)	9,881,623
Accrued compensation and related items	1,749,437	(4,038,781)
Interest payable	(309,870)	23,460
Estimated self-insured professional liability	573,922	665,358
Due to third party payors	(1,495,631)	(426,283)
Other noncurrent assets and liabilities	(3,889,927)	(415,534)
Net cash provided by operating activities	55,488,917	62,198,742

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Investing Activities		
Purchase of property and equipment	$ (45,840,372)	$ (40,688,717)
Increase in investments and investments in unconsolidated subsidiaries	(52,498,944)	(9,742,785)
Additions to land held for healthcare development	(4,729,611)	(13,397,853)
Proceeds from sale of interest in unconsolidated subsidiary	-	3,172,286
Proceeds from sale of land for healthcare development	5,938,458	13,225,064
Proceeds from sale of HRMC	47,000,550	-
Distributions from investments in unconsolidated subsidiaries	389,555	1,032,016
Purchase of investment in unconsolidated subsidiary	(2,435,579)	-
Purchase of radiology company	-	(8,000,000)
(Increase) decrease in trustee held funds and restricted cash	(264,548,939)	1,497,722
Net cash used in investing activities	(316,724,882)	(52,902,267)
Cash Flows from Financing Activities		
Payment of financing costs	(3,509,604)	(140,598)
Proceeds from issuance of bonds	296,979,390	-
Repayments on long-term obligations, net	(32,710,743)	(28,270,988)
Proceeds from capital lease facility	32,922	-
Payment of termination fee for derivative financial instrument	(16,875,000)	-
Proceeds from restricted contributions and grants	1,878,488	2,695,169
Net cash provided by (used in) financing activities	245,795,453	(25,716,417)
Net decrease in cash and cash equivalents	(15,440,512)	(16,419,942)
Cash and Cash Equivalents, Beginning	45,638,591	62,058,533
Cash and Cash Equivalents, Ending	$ 30,198,079	$ 45,638,591
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 12,490,712	$ 12,062,707
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital lease obligation incurred for equipment	$ 14,740,520	$ 4,682,336
Construction payable for property and equipment	$ 3,027,323	$ 50,410
Long-term debt refinanced	$ 110,035,000	$ -

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Adventist HealthCare, Inc. ("AHC") is a nonstock membership corporation organized to effectuate coordinated administration of hospitals and other health care organizations through the provision of key management and administrative services. The mission of AHC is to demonstrate God's care by improving the health of people and communities through a ministry of physical, mental and spiritual healing. AHC is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. AHC is not exempt from income taxes for unrelated business income. AHC's sole corporate member is Mid-Atlantic Adventist HealthCare, Inc. AHC is comprised of several operating divisions and controlled entities, as follows:

Shady Grove Medical Center ("SGMC") is a 256-bed acute care hospital located in Rockville, Maryland.

Washington Adventist Hospital ("WAH") is a 236-bed acute care hospital located in Takoma Park, Maryland.

Hackettstown Community Hospital d.b.a. Hackettstown Regional Medical Center ("HRMC") is a 111-bed not-for-profit acute care hospital organized under the laws of the State of New Jersey. On March 31, 2016, the Corporation sold the operating assets to an unrelated third party, and discontinued the operations of the facility. See Note 3 for further details.

Behavioral Health & Wellness Services ("BH&WS") is comprised of two separate facilities located in Maryland. BH&WS - Rockville is a 117-bed psychiatric hospital. BH&WS - Eastern Shore is an acute care and residential mental health resource for children and adolescents, which had 15 acute care psychiatric beds and 59 residential treatment rooms. In November, 2016, the Corporation made the decision to discontinue the operations of the BH&WS - Eastern Shore location. See Note 3 for further details.

Rehabilitation ("Rehab") operates one inpatient hospital with two sites in Maryland, as well as two outpatient locations. Rehab - Rockville is a 55-bed rehabilitation facility and Rehab - Takoma Park is a 32-bed rehabilitation facility.

The Corporation acquired Shady Grove Radiological Consultants, PA ("SGR") on August 1, 2015 for a purchase price of $8,000,000. SGR was a medical practice specializing in radiological imaging services. During 2016, the imaging sites were renamed Adventist HealthCare Imaging ("Imaging"). Imaging operates six clinical sites and provides inpatient and outpatient imaging services at SGMC and WAH.

Clinical Integration Services ("CIS") is comprised of Adventist Medical Group ("AMG"). AMG is a not-for-profit entity that provides physician professional health services to the communities it serves. AHC has contracted with Medical Faculty Associates, Inc. ("MFA") to employ the AMG employees, through a wholly owned affiliate of MFA, in exchange for certain economic support to facilitate the growth by MFA of the AMG physician practices. In addition, CIS includes the administration needed to facilitate the coordination of patient care across conditions, providers and settings.

The Other Health Services operating division is comprised of two entities. Lifework Strategies (“LWS”) provides employee assistance and employee wellness programs to client employees. LWS’s mission is to help individuals live healthier, happier and more productive lives. Capital Choice Pathology Lab ("CCPL") provides full pathology production services to client hospitals.

The Support Center is comprised of the Corporate Office (“CO”) and the AHC benefit business unit. The CO provides corporate and centralized shared service functions that benefit the entire AHC system. AHC benefit business unit administers the self- insurance health benefit program including health insurance, dental and vision coverage for AHC and controlled entities.

The Lourie Center for Infants and Young Children (“Lourie Center”) is a not-for-profit organization that specializes in the diagnosis, treatment and prevention of developmental and emotional disorders in children from birth through ten years of age.

Adventist Home Care Services, Inc. (“AHCS”) is a nonstock membership corporation organized to provide home health services in Maryland and includes Adventist Home Assistance (“AHA”). AHA provides non clinical assistance to homebound patients who cannot perform certain daily activities on their own.

On October 1, 2013, Adventist HealthCare Urgent Care Centers, Inc. (“Urgent Care”), a Maryland non-profit corporation and Adventist Health System/Sunbelt, Inc. d/b/a Florida Hospital Centra Care, a Florida non-profit corporation, entered into a management services and license agreement to establish free standing urgent care centers in Montgomery and Prince Georges County, Maryland. In 2016, Urgent Care operated three urgent care centers located in Germantown, Laurel, and Rockville, Maryland. These centers provide ambulatory services to patients without life threatening conditions, as well as occupational health screenings to the community.

One Health Quality Alliance (“OHQA”) is a physician-led clinically integrated network designed to deliver value to payors, employers and consumers through the highest quality care at a lower cost. Through this alliance, participating physicians gain access to resources to support the transition to value-based care, while maintaining their independence. Through this collaboration, OHQA aims to improve the health of patient populations and communities, while enhancing the patient experience and reducing the costs of health care. The OHQA currently has over 450 physician members, most of whom are on the medical staff of the Corporation, including primary care, orthopedics and other community and hospital based specialists.

Mid-Atlantic Primary Care Accountable Care Organization (“ACO”) is managed by AHC and cares for approximately 13,500 patients through its 1,000 providers. The ACO is a program designed to provide a high level of access and coordination of care for Medicare fee for service patients. The goal of coordinated care is to ensure that patients, especially the chronically ill, get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. The final performance year for the ACO was 2016. The ACO will cease to exist once the final CMS reports are distributed sometime mid to late 2017.

The Foundations operating division is comprised of Washington Adventist Hospital Foundation, Inc., Shady Grove Medical Center Foundation, Inc., Hackettstown Community Hospital Foundation, Inc., and Adventist Behavioral Health & Wellness Services Foundation (collectively, the “Foundations”). Each are separate nonstock corporations that operate for the furtherance of each named hospital’s health care objectives primarily through the solicitation of contributions, gifts and bequests. The Foundations also exist to help fund new equipment purchases and capital improvement projects for their respective hospitals. On March 31, 2016, the Corporation sold the operating assets of Hackettstown Community Hospital Foundation, Inc. to an unrelated third party, and discontinued the operations of the foundation. See Note 3 for further details.

All of the operating divisions and controlled entities mentioned above are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Principles of Consolidation

The consolidated financial statements for 2016 and 2015 include the accounts of AHC, the controlling parent, SGMC, WAH, HRMC, BH&WS, Rehab, Imaging, CIS, LWS, CCPL the Support Center, the Lourie Center, AHCS, Urgent Care, OHQA, ACO and the Foundations, which include their majority-owned subsidiaries and controlled affiliates (collectively, the “Corporation”). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements of the Corporation.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through April 27, 2017, the date the consolidated financial statements were issued.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Factors

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Corporation, if any, are not presently determinable.

Maryland Health Services Cost Review Commission

Certain hospital charges are subject to review and approval by the Maryland Health Services Cost Review Commission ("HSCRC"). The HSCRC has jurisdiction over hospital reimbursement in Maryland by agreement with the Centers for Medicare and Medicaid Services ("CMS"). This agreement is based on a waiver from the Medicare Prospective Payment System reimbursement principles granted under Section 1814(b) of the Social Security Act. Management has filed the required forms with the Commission and believes SGMC, WAH, and Shady Grove Germanton Emergency Center are in compliance with Commission requirements.

In January 2014, the Centers for Medicare and Medicaid Services approved a modernized waiver that grants Maryland (via the HSCRC) the authority to regulate hospital revenue within a rigorous per capita expenditure limit. Maryland's All Payer Model Agreement builds on decades of innovation and equity in healthcare payment and delivery – with an aim to enhance patient care, improve health outcomes and lower costs.

As a result of the new waiver, the HSCRC introduced new revenue arrangements, including the Global Budget Revenue ("GBR") model. The GBR methodology encourages hospitals to focus on population health strategies by establishing a fixed annual revenue cap for each GBR hospital. The agreement establishes a fixed amount of revenue at the beginning of the rate year. It is evergreen in nature and covers both regulated inpatient and outpatient revenues. Annual Revenue is calculated from a base year and is adjusted annually for inflation, infrastructure requirements, population changes, performance in quality-based programs and changes in levels of uncompensated care. Revenue may also be adjusted annually for market levels and shifts of services from one health system to another and from a regulated setting to an unregulated setting (or vice versa).

In April 2014, Adventist Healthcare entered into a Global Budget Revenue Agreement with the HSCRC for SGMC, WAH and Shady Grove Germantown Emergency Center, retroactive to July 1, 2013. This agreement sets a fixed amount of revenue for each entity for the period July 1, 2013 through June 30, 2014 and is subsequently updated on an annual basis every July 1.

The HSCRC has placed into its methodology a rate system which, among other things, causes SGMC, WAH, and Shady Grove Germanton Emergency Center to calculate the amount of revenue lost or gained due to variances from approved rates. Revenue lost due to undercharges in rates is recouped through increases in prospective rates. Similarly, revenue gained due to overcharges in rates is paid back, wholly or in part, through reductions in prospective rates. The Corporation reported net undercharges of $4,097,913 and $774,097 as of December 31, 2016 and 2015, respectively. These price variances reflect the variance between actual patient charges and the pro-rata share of the approved rate orders. The net amounts are reported as a component of net patient service revenue and patient accounts receivable in the accompanying consolidated financial statements. Since the HSCRC's rate year extends from July 1 through June 30, these amounts will continue to fluctuate until the end of the rate year as actual patient charges deviate from the total approved Global Budget Revenue Agreement amounts at which time any over/under charges are amortized on the straight-line basis over the following rate year.

Under Maryland law, charges of specialty hospitals such as BH&WS and Rehab are subject to review and approval by the HSCRC. HSCRC regulations also include a provision whereby a hospital may apply for an exemption from the requirements to charge for services in accordance with the HSCRC regulations. Certain conditions regarding the percentage of revenue related to Medicare and Medicaid patients and total revenues must be met to receive the initial exemption and must be met each year thereafter. Reporting requirements as established by the HSCRC continue if an exemption regarding charging for services is received. The Corporation's management believes BH&WS-Eastern Shore and Rehab met the conditions for exemption during 2016 and 2015. BH&WS-Rockville is subject to HSCRC rate setting. Unit rates are set for all payers, however Medicare and Medicaid are not required to reimburse at HSCRC rates. Medicare is reimbursed under the Inpatient Psychiatric Prospective payment system and Medicaid is reimbursed as a percent of charges, per COMAR 10.09.06.09, and is currently set at 94% of charges.

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and certificates of deposit purchased with original maturities of less than 90 days, excluding assets whose use is limited.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful collections and provision for doubtful collections. For patient accounts receivable associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful collections and provision for doubtful collections, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Corporation's allowance for doubtful collections for self-pay patients as a percentage of self-pay accounts receivable was 52% and 45% at December 31, 2016 and 2015, respectively. In addition, the Corporation's self-pay account bad debt writeoffs, net of recoveries, increased from $30,099,159 in 2015 to $31,701,926 in 2016 which was the result of increased services provided to self-pay patients and therefore increased revenue from self-pay patients, offset by small positive trends experienced in the collection of amounts from self-pay patients in 2016.

Other Receivables

Other receivables represent amounts due to the Corporation for charges other than providing health care services to patients and pledges from donors. These services include, but are not limited to, fees from educational programs, rental of health care facility space, interest earned, and management services provided to unconsolidated subsidiaries. Other receivables are written off when they are determined to be uncollectible based on management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon historical collection experience and other managerial information.

Assets Whose Use Is Limited

Assets whose use is limited includes assets held by bond trustees under trust indentures, assets set aside as required by the Corporation's self-funded professional liability trust, and assets set aside for deferred compensation agreements. Amounts available to meet current liabilities of the Corporation have been reclassified as current assets in the accompanying consolidated balance sheets.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Cash and cash equivalents and certificates of deposit are carried at cost which approximates fair value. Investments in joint ventures are accounted for using the equity or cost method of accounting depending on the Corporation's ownership interest. Investment income or loss (including realized gains and losses on investments, write-downs of the cost basis of investments due to an other-than-temporary decline in fair value, interest, and dividends) is included in the determination of revenues in excess of expenses from continuing operations unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the determination of revenues in excess of expenses from continuing operations unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets. Investments available for current operations have been classified as short-term investments in the accompanying consolidated balance sheets.

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Inventories

Inventories of drugs, medical supplies and surgical supplies are valued at the lower of cost or market. Cost is determined primarily by the weighted average cost method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment losses are recognized in the consolidated statements of operations as a component of revenues in excess of expenses from continuing operations as they are determined. The Corporation reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In that event, the Corporation calculates the estimated future net cash flows to be generated by the asset. If those future net cash flows are less than the carrying value of the asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. There were no impairment losses reported in 2016 or 2015.

Intangible Assets

The Corporation's intangible assets primarily include costs in excess of net assets acquired related to certain business acquisitions. The Corporation is amortizing certain intangible assets over a period not to exceed 40 years. Amortization of these intangible assets was $273,535 in 2016 and $272,726 in 2015. Accumulated amortization of intangible assets was $3,386,559 and $3,113,024 as of December 31, 2016 and 2015, respectively.

On August 1, 2015, AHC acquired certain assets of SGR, a company that operated a number of radiological imaging centers. The acquisition was accounted for at fair market value as of the acquisition date and goodwill was recorded as the difference between the purchase price paid less the fair value of the assets recorded. The amount of goodwill recorded as a result of the acquisition was approximately $5,435,000. The results from operations of the imaging centers are included in the consolidated financial statements commencing with the acquisition date. Goodwill, which is included in intangible assets in the accompanying consolidated balance sheet, is reviewed annually for impairment or more frequently if events or circumstances indicate the carrying amount of the goodwill will not be recoverable.

Goodwill related to HRMC of $867,660 was written off in 2016 related to the sale of HRMC (Note 3) and is included in loss from discontinued operations in the accompanying consolidated statements of operations.

Goodwill related to BH&WS Eastern Shore of $241,359 was written off in 2016 related to the closure of this location (Note 3) and is included in loss from discontinued operations in the accompanying consolidated statements of operations.

Deferred Financing Costs

Due to the Financial Accounting Standards Board's ("FASB") issuance of Accounting Standards Update ("ASU") No. 2015-03, *Interest-Imputations of Interest: Simplifying the Presentation of Debt Issuance Costs*, the Corporation changed its method of presenting deferred financing costs. Prior to the issuance of ASU No. 2015-03, the Corporation presented deferred financing costs as an asset in its consolidated balance sheets. As required by ASU No. 2015-03, the Corporation now presents deferred financing costs as a direct reduction of its long-term debt. The effect of the required retrospective application of this change in presentation was to decrease the Corporation's deferred financing costs and long-term debt by $2,206,562 as of December 31, 2015. In addition, amortization expense of the deferred financing costs was reclassed to interest expense in accordance with ASU No. 2015-03 which resulted in a decrease in depreciation and amortization and an increase in interest expense of $242,541 in 2015.

Costs incurred in connection with the issuance of long-term obligations have been deferred and are being amortized over the term of the related obligation using the straight-line method. Deferred financing costs of $3,509,604 were paid in relation to the Series 2016A and 2016B Bonds issued in 2016. In addition, deferred financing costs of $686,357 were written-off in 2016 related to redemption of the Series 2005A and 2011B Bonds and are included in the loss on extinguishment of debt in the accompanying consolidated statements of operations in 2016.

Amortization expense was $189,890 and $242,541 in 2016 and 2015, respectively. Amortization for HRMC was $5,799 and $23,194 in 2016 and 2015, respectively, and is included in loss from discontinued operations in the consolidated statements of operations. Accumulated amortization of deferred financing costs was $2,661,473 and $4,505,899 at December 31, 2016 and 2015, respectively.

Due to Third Party Payors

The Corporation receives advances from third party payors to provide working capital for services rendered to the beneficiaries of such services. These advances are principally determined based on the timing differences between the provision of care and the anticipated payment date of the claim for service in accordance with HSCRC's rate regulations. These advances are subject to periodic adjustment.

For HRMC, the Medicare and Medicaid programs pay for primarily all inpatient and outpatient services at predetermined rates. Regulations require annual retroactive settlements for cost-based reimbursement through cost reports filed by HRMC. These retroactive settlements are estimated and recorded in the consolidated financial statements in the year in which they occur. The estimated settlements recorded at December 31, 2016 and 2015 could differ from actual settlements based on the results of cost report audits.

For certain Corporation subsidiaries, services provided on behalf of Medicaid beneficiaries are ultimately reimbursed at cost. For cost reimbursement programs, statements of reimbursable costs are filed with the program to compute the difference between reimbursable cost and interim payments, in order to determine a final settlement for services rendered to patients covered under the Medicaid program. Reimbursements are affected by limitations relating to charges and the reasonableness of costs (subject to limitations) and are subject to audits by the agencies administering the applicable program.

The Corporation's working capital advances and all expected third party payor settlement activity are classified as current liabilities in the accompanying consolidated balance sheets.

Derivative Financial Instruments

The Corporation has entered into two interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate exposure on certain long-term obligations (Note 11). The interest rate swap agreements are reported at fair value in the accompanying consolidated balance sheets. One of the interest rate swap agreements was designated as a cash flow hedge and was terminated in 2016. The related effective changes in fair value for the cash flow hedge are reported in the accompanying consolidated statements of operations as an unrealized gain or loss on cash flow derivative financial instruments and the ineffective portion of the change in fair value is reported as a component of interest expense. For the interest rate swap not designated as a cash flow hedge, changes in fair value are reported as a component of other non-operating income (expense).

Estimated Self-Insured Professional Liability

The provision for estimated self-insured professional liability includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Corporation’s consolidated balance sheets at net realizable value.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose, including the purchase of capital renovations and equipment, providing health education to the community, and designation for the furtherance of programs provided by specific operating departments. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Revenues in Excess of Expenses from Continuing Operations

The consolidated statements of operations include the determination of revenues in excess of expenses from continuing operations. Revenues in excess of expenses from continuing operations is the Corporation’s performance indicator. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses from continuing operations, consistent with industry practice, include the loss from discontinued operations, unrealized gains and losses on investments other than trading securities, the effective portion of the unrealized gain (loss) on derivative financial instruments, the deferred compensation plan liability adjustment, transfers with unconsolidated subsidiaries, contributions of long-lived assets (including contributions which by donor restriction were to be used for the purpose of acquiring such long-lived assets), and other unrestricted net asset activity.

Net Patient Service Revenue

The Corporation reports net patient service revenue at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, review and investigations. Net patient service revenue reported in the accompanying consolidated statements of operations is reduced both by (1) estimated allowances for the excess of charges over anticipated patient or third party payor payments and (2) a provision for doubtful collections. Certain of the health care services provided by the Corporation are reimbursed by third party payors on the basis of the lower of cost or charges, with costs subject to certain imposed limitations.

Patient accounts receivable are reported at net realizable value and include charges for accounts due from Medicare, Medicaid, other commercial and managed care insurers, and self-paying patients (Note 16). Patient accounts receivable also includes management's estimate of the impact of certain undercharges to be recouped or overcharges to be paid back for inpatient and outpatient services in subsequent years rates as discussed earlier. The Corporation also deducts from patient accounts receivable an estimated allowance for doubtful collections related to patients and allowances for the excess of charges over the payments to be received from third party payors.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenues on the basis of its standard rates, discounted in accordance with the Corporation's financial assistance policy. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable to pay for the services provided. Thus, the Corporation records a significant provision for doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in 2016 and 2015 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)				
	Medicare	Medicaid	Other Third Party Payors	Self-Pay and Other	Total
December 31, 2016	$ 304,061,127	$ 67,425,014	$ 396,777,024	$ 33,464,551	$ 801,727,716
December 31, 2015	$ 257,907,521	$ 80,961,064	$ 437,216,900	$ 51,828,507	$ 827,913,992

Patient service revenues (net of contractual allowances and discounts) for HRMC were $22,165,831 in 2016 and $88,604,596 in 2015. Patient service revenues (net of contractual allowances and discounts) for BH&WS - Eastern Shore were $5,734,553 in 2016 and $5,702,149 in 2015. These amounts have been classified in loss from discontinued operations in the consolidated statements of operations.

Income Taxes

The Corporation accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2016 or 2015.

The Corporation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient (or their guarantor) and subsequent analysis which includes the patient's ability to pay for services rendered. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as a component of net patient service revenue or patient accounts receivable.

The Corporation maintains records to identify and monitor the level of charity care it provides. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The level of charity care provided by the Corporation amounted to approximately $9,395,000 in 2016 and $20,515,000 in 2015.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the underlying conditions have been substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Restricted funds to be used for capital acquisitions have been reported as noncurrent assets in the accompanying consolidated balance sheets, while other restricted cash and investments are included with the cash and cash equivalents of unrestricted net assets.

Investment income that is earned on donor restricted net assets and subject to similar restrictions is reported as temporarily restricted net assets. Gifts, grants, and bequests not restricted by donors are reported as other operating income.

Advertising Costs

The Corporation expenses advertising costs as they are incurred.

Reclassifications

Certain amounts relating to 2015 have been reclassified to conform to the 2016 reporting format.

2. Adoption of Accounting Standards

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Hospital will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The Corporation has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Fair Value Measurements

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under Accounting Standards Codification 820. ASU 2015-07 is effective for the Corporation for years beginning after December 15, 2015 with early adoption permitted. ASU No. 2015-03 was retrospectively adopted in 2016 and did not have a material impact on the Corporation’s consolidated financial statements.

Financial Instruments

During January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01: a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. ASU No. 2016-01 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption of certain amendments is permitted for financial statements of fiscal years or interim periods that have not yet been issued. The Corporation is currently assessing the effect that ASU No. 2016-01 will have on its consolidated financial statements.

Statement of Cash Flows

During August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 addresses eight cash flow issues with specific guidance on how certain cash receipts and cash payments should be presented on the statement of cash flows. ASU No. 2016-15 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. Early adoption is permitted. The Corporation is currently assessing the effect that ASU No. 2016-15 will have on its consolidated statement of cash flows.

Not-for-Profit Financial Statement Presentation

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retrospectively with transition provisions. The Corporation is assessing the impact ASU No. 2016-14 will have on its consolidated financial statements.

Lease Accounting

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Corporation's leasing activities. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Corporation has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

3. Discontinued Operations

Effective January 28, 2014, the Corporation entered into an affiliation agreement with an unrelated third party for the future sale of HRMC and Hackettstown Community Hospital Foundation, Inc. pending state regulatory review. In March 2016, the State of New Jersey gave final approval for the sale. On March 31, 2016, the Corporation sold the operating assets to the unrelated third party, and discontinued the operations of the facility. The Corporation received net proceeds from the sale of approximately $44,500,000, which is net of a contribution paid by the Corporation of $2,500,000 to Hackettstown Community Hospital Foundation, Inc. The Corporation recorded a loss on sale of $16,967,178 in 2016 which is included in the loss from discontinued operations in the accompanying consolidated statements of operations. The largest component of the loss on sale is related to the write-off of costs associated with HRMC's electronic medical records system, which totaled approximately $11,518,000. The net carrying value of property and equipment related to HRMC as of December 31, 2015 was $38,683,898 and consisted of the following:

	2015
Land and improvements	$ 2,457,668
Building and improvements	60,751,271
Office furniture and equipment	58,269,238
Computer software and hardware	6,115,260
Equipment under capital leases	19,332
Total	127,612,769
Less accumulated depreciation and amortization	(90,838,703)
	36,774,066
Construction in progress	1,909,832
	$ 38,683,898

The following amounts related to discontinued operations are included in the loss from discontinued operations in the accompanying consolidated statements of operations:

	2016	2015
Total unrestricted revenues	$ 22,901,438	$ 90,608,328
Total expenses	(22,769,646)	(92,885,048)
Other non-operating loss, including loss on sale in 2016 of $16,967,178	(17,063,626)	(591,005)
Revenues less than expenses	$ (16,931,834)	$ (2,867,725)

During November 2016, AHC discontinued operations at the BH&WS - Eastern Shore facility and made the decision to no longer provide services on Maryland's eastern shore. The net carrying value of property and equipment related to BH&WS -Eastern Shore as of December 31, 2015 was $375,975 and consisted of the following:

	2015
Building and improvements	$ 149,450
Office furniture and equipment	542,160
Computer software and hardware	85,678
Total	777,288
Less accumulated depreciation and amortization	(402,908)
	374,380
Construction in progress	1,595
	$ 375,975

The majority of the property and equipment was disposed as a result of the closure and a loss of approximately $358,000 was recognized and included in the loss from discontinued operations in the accompanying consolidated statements of operations. In addition, goodwill of approximately $241,000 related to BH&WS Eastern Shore was written off and included in the loss from discontinued operations in the accompanying consolidated statements of operations.

The following amounts related to discontinued operations are included in loss from discontinued operations in the accompanying consolidated statements of operations:

	2016	2015
Total unrestricted revenues	$ 6,706,337	$ 6,608,852
Total expenses	(10,001,541)	(9,500,800)
Revenues less than expenses	$ (3,295,204)	$ (2,891,948)

4. Investments

Short-Term Investments

The Corporation's short-term investments at December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Cash and cash equivalents	$ 3,653,630	$ 31,151,134
Marketable certificates of deposit	-	489,531
CBAM Resolute Fund Ltd.	-	96,238
Fixed Income:		
Corporate bonds	48,547,456	-
Asset backed securities	29,703,673	102,479,904
U.S. government securities, U.S. treasury notes	83,195,405	4,201,745
Mutual Funds:		-
Equity - balanced	19,683,702	-
Equity - growth	3,810,315	-
Total	$ 188,594,181	$ 138,418,552

Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2016 and 2015 is set forth in the following tables:

	2016	2015
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks:		
Cash and cash equivalents	$ 265,926,780	$ 1,493,090
U.S. government securities,		
U.S. treasury notes	5,388,464	6,232,709
Total	271,315,244	7,725,799
Less funds held for current liabilities	1,720,039	1,772,584
Noncurrent portion of assets held under trust indentures and capital lease purchase financing facilities	$ 269,595,205	$ 5,953,215
Professional liability trust fund:		
Cash and cash equivalents	$ 864,028	$ 311,134
Mutual funds:		
Equity - balanced	9,191,703	9,006,583
Fixed income - multi-sector	3,327,795	3,127,943
Total	13,383,526	12,445,660
Less funds held for current liabilities	1,150,302	2,258,544
Noncurrent portion of professional liability trust fund	$ 12,233,224	$ 10,187,116
Deferred compensation fund:		
Mutual funds,		
Equity - growth	$ 1,466,041	$ 1,473,131

The indenture requirements of certain tax exempt financings provide for the establishment and maintenance of various accounts with a trustee (Note 10). These arrangements require the trustee to control the payment of interest and the ultimate repayment of respective debt to bondholders.

The composition of trustee held and escrow funds at December 31, 2016 and 2015 is as follows:

	2016	2015
Debt service reserve funds	$ 28,118,144	$ 5,829,278
Principal and interest funds	35,363,487	1,896,521
Project fund	207,833,613	-
Total	$ 271,315,244	$ 7,725,799

Unrestricted investment income and gains and losses for investments, assets whose use is limited, and cash and cash equivalents are comprised of the following in 2016 and 2015:

	2016	2015
Investment income:		
Interest and dividends, net	$ 3,853,355	$ 3,678,861
Interest on trustee held funds	62,244	48,179
Net realized losses on sale of investments	(710,869)	(2,766,296)
Total	$ 3,204,730	$ 960,744
Other changes in unrestricted net assets, Change in net unrealized losses on investments other than trading securities	$ (1,430,441)	$ (2,281,694)

Investment income for HRMC was $75,559 and $97,146 in 2016 and 2015, respectively, which is included in loss from discontinued operations in the consolidated statements of operations. Included in these amounts are net realized losses on sale of investments $60,700 and $554,813, interest on trustee held funds of $4,030 and $22,502, and interest and dividends, net of $132,229 and $629,457 in 2016 and 2015, respectively.

5. Fair Value Measurements and Financial Instruments

Fair Value Measurements

The Corporation measures its short-term investments, assets whose use is limited, investments, beneficial interest in trusts, and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The fair value of the Corporation's financial instruments was measured using the following inputs at December 31:

	2016				
	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Reported at Fair Value					
Assets:					
Cash and cash equivalents	$ 270,610,738	$ 270,610,738	$ 270,610,738	$ -	$ -
Mutual funds:					
Fixed income - multi-sector	3,327,795	3,327,795	3,327,795	-	-
Equity - growth	5,284,502	5,284,502	5,284,502	-	-
Equity - other	716,929	716,929	716,929	-	-
Equity - mid-cap	6,803	6,803	6,803	-	-
Equity - balanced	28,875,405	28,875,405	28,875,405	-	-
U.S. government securities:					
U.S. treasury notes	88,583,869	88,583,869	-	88,583,869	-
Mortgage backed securities	29,703,673	29,703,673	-	29,703,673	-
Corporate bonds and other debt securities	48,547,456	48,547,456	-	48,547,456	-
Beneficial interest in trusts	1,310,686	1,310,686	-	-	1,310,686
	$ 476,967,856	$ 476,967,856	$ 308,822,172	$ 166,834,998	$ 1,310,686
Liabilities,					
Derivative financial instruments	$ 2,073,079	$ 2,073,079	$ -	$ 2,073,079	$ -
Disclosed at Fair Value					
Cash and cash equivalents	$ 30,198,079	$ 30,198,079	$ 30,198,079	$ -	$ -
Pledges receivable	3,669,290	3,562,332	-	-	-
Long-term debt, excluding capital leases (Note 10):					
Fixed rate revenue bonds	488,299,967	521,087,175	-	521,087,175	-
Variable rate revenue bonds	23,985,000	23,985,000	-	23,985,000	-
Note payable	23,613,911	23,613,911	-	-	23,613,911
Secured lines of credit	7,032,921	7,032,921	-	-	7,032,921

	2015				
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Reported at Fair Value					
Assets:					
Cash and cash equivalents	$ 33,030,209	$ 33,030,209	$ 33,030,209	$ -	$ -
Marketable certificates of deposit	916,322	916,322	-	916,322	-
Mutual funds:					
Fixed income - multi-sector	3,127,943	3,127,943	3,127,943	-	-
Equity - growth	1,537,557	1,537,557	1,537,557	-	-
Equity - balanced	9,006,583	9,006,583	9,006,583	-	-
U.S. government securities:					
U.S. treasury notes	10,434,454	10,434,454	-	10,434,454	-
Asset backed securities	103,296,953	103,296,953	-	103,296,953	-
Corporate bonds and other debt securities	36,756	36,756	-	36,756	-
Beneficial interest in trusts	1,373,458	1,373,458	-	-	1,373,458
	$ 162,760,235	$ 162,760,235	$ 46,702,292	$ 114,684,485	$ 1,373,458
Liabilities,					
Derivative financial instruments	$ 22,275,775	$ 22,275,775	$ -	$ 22,275,775	$ -
Disclosed at Fair Value					
Cash and cash equivalents	$ 45,638,591	$ 45,638,591	$ 45,638,591	$ -	$ -
Pledges receivable	3,451,711	3,346,687	-	-	3,346,687
Long-term debt, excluding capital leases (Note 10):					
Fixed rate revenue bonds	94,329,029	102,914,580	-	102,914,580	-
Variable rate revenue bonds	141,140,000	141,140,000	-	141,140,000	-
Note payable	24,346,297	24,346,297	-	-	24,346,297
Secured lines of credit	23,000,000	23,000,000	-	-	23,000,000

The following table presents the fair value measurements for beneficial interest in trusts that have unobservable inputs at December 31, 2016 and 2015:

Balance, January 1, 2015	$ 1,567,811
Decrease in value, included in changes in temporarily restricted net assets	(194,353)
Balance, December 31, 2015	1,373,458
Decrease in value, included in changes in temporarily restricted net assets	(30,449)
Write-off of HRMC's beneficial interest in trusts	(32,323)
Balance, December 31, 2016	$ 1,310,686

The following represents a reconciliation of the assets reported at fair value included in the fair value table within the accompanying consolidated balance sheets at December 31:

	2016	2015
Short-term investments (Note 4)	$ 188,594,181	$ 138,418,552
Assets whose use is limited (Note 4):		
Current portion	2,870,341	4,031,128
Under trust indentures, held by trustees	269,595,205	5,953,215
Professional liability trust fund	12,233,224	10,187,116
Deferred compensation fund	1,466,041	1,473,131
Investments held by foundations	898,178	1,419,873
Beneficial interest in trusts	1,310,686	1,373,458
	476,967,856	162,856,473
Less CBAM Resolute Fund Ltd., measured at net asset value	-	96,238
	$ 476,967,856	$ 162,760,235

The Corporation did not have any financial assets or financial liabilities measured at fair value.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at December 31, 2016 and 2015.

Cash and cash equivalents: The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Marketable certificates of deposit and mutual funds: Valued based on quoted market prices.

U.S. government securities, corporate bonds and other debt securities: Valued based on estimated quoted market prices of similar securities.

Beneficial interest in trusts: Beneficial interest in trusts are valued based on the fair value of the trusts underlying assets which represents a proxy for discounted present value of future cash flows. Beneficial interest in trusts are included in deposits and other noncurrent assets in the accompanying consolidated balance sheets.

Pledges receivable: Valued based on the original pledge amount, adjusted by a discount rate that a market participant would demand and an evaluation of uncollectible pledges. Pledges receivables are included in prepaid and other current assets and deposits and other noncurrent assets in the accompanying consolidated balance sheets.

Long-term debt: The fair value of the fixed rate debt is estimated based on market data provided by the Corporation's financial consultants. Fair values of the remaining long-term debt are considered to approximate their carrying amounts in the accompanying consolidated balance sheets.

The Corporation was invested in the CBAM Resolute Fund, Ltd. ("Resolute Fund"). The fund is valued based on the net asset value per share of the fund which is based on the fair value of their underlying assets derived principally from or corroborated by observable market data by correlation or other means. In regards to the Fund, there are no unfunded purchase commitments or restrictions on the sale of the investments. The Corporation liquidated its remaining investment in the Resolute Fund in 2016.

The following represents the investment strategy of the Resolute Fund and the Corporation's investment measured at fair value at December 31, 2015:

Fund	Investment Strategy	2015
CBAM Resolute Fund, Ltd	To create an alternative source of income by harnessing risk premiums in global option markets. In pursuit of this objective, the fund will employ its option income strategy which utilizes actively-managed option-based investment structures to create absolute return profiles. This market-neutral strategy is designed to have minimal correlation to underlying market returns over an extended period of time and may be applied in a range of global markets including equities (both individual stocks and baskets of stocks), commodities, interest rates, foreign currencies and other markets where options are traded. The fund may trade and invest in the underlying instruments, related instruments (e.g. futures, forwards and exchange-traded funds or notes), and long and short call options and put options on the underlying or related instruments. The fund will seek to capitalize on a combination of systemic risk premium in global option markets and yields from active cash management.	$ 96,238

The Corporation measures its derivative financial instruments at fair value based on proprietary models of an independent third-party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument, and considers the credit risk of the Corporation and counterparty. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Corporation would pay to terminate the agreement.

6. Property and Equipment and Accumulated Depreciation and Amortization

Property and equipment and accumulated depreciation and amortization at December 31, 2016 and 2015 consist of the following:

	2016	2015
Land and improvements	$ 27,532,713	$ 16,711,792
Buildings and improvements	448,226,562	488,364,688
Office furniture and equipment	183,173,853	249,979,263
Computer software and hardware	129,964,265	137,582,678
Equipment under capital leases	24,749,717	23,021,853
Total	813,647,110	915,660,274
Less accumulated depreciation and amortization	(440,159,685)	(526,883,809)
Total	373,487,425	388,776,465
Construction in progress	58,474,476	25,337,475
	$ 431,961,901	$ 414,113,940

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. During 2016 and 2015, the Corporation incurred interest expense, including amortization expense related to deferred financing costs, of approximately $12,012,000 and $11,231,000, respectively, of which approximately $1,650,000 was capitalized in 2016 and $1,670,000 in 2015. HRMC incurred interest expense of approximately $337,000, including amortization expense related to deferred financing costs, in 2016 and $1,337,000 in 2015 which is included in loss from discontinued operations in the accompanying consolidated statements of operations. There were no amounts capitalized for HRMC in 2016 and 2015. Investment earnings of approximately $16,000 and $13,000 were offset against capitalized interest in 2016 and 2015, respectively.

Depreciation expense, including amortization of equipment under capital leases, was $37,825,000 in 2016 and $39,287,000 in 2015. Depreciation expense, including amortization of equipment under capital leases, for HRMC was $1,247,000 in 2016 and $4,870,000 in 2015 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. Depreciation expense, including amortization of equipment under capital leases, for BH&WS - Eastern Shore was $54,000 in 2016 and $49,000 in 2015 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. Accumulated amortization of equipment under capital lease as of December 31, 2016 and 2015 was $19,353,513 and $18,188,002, respectively.

Construction in progress as of December 31, 2016 consists primarily of major renovation and expansion projects of clinical facilities. Purchase commitments related to these and other miscellaneous projects were approximately $94,883,000 at December 31, 2016. The cost of these projects is expected to be funded through the construction fund established through bond proceeds as well as transfers from the Corporation’s related foundations and operations.

7. Investments and Investments in Unconsolidated Subsidiaries

The Corporation's investments and investments in unconsolidated subsidiaries include the following at December 31, 2016 and 2015:

	2016	2015
Investment in healthcare entities	$ 5,887,970	$ 4,896,152
Investment in Premier	6,595,929	4,868,701
Investments held by foundations and other	799,785	1,317,072
Total	$ 13,283,684	$ 11,081,925

Investment in Healthcare Entities

The Corporation recognized earnings of $509,587 and $1,371,874 during 2016 and 2015, respectively, related to its ownership interest in the healthcare entities accounted for under the equity method. The Corporation recognized earnings of $98,332 during 2016, which are included in the loss from discontinued operations in the consolidated statement of operations, related to HRMC’s ownership interest in healthcare entities accounted for under the equity method. A brief description of these investments is presented below:

Chesapeake Potomac Regional Cancer Center (“CPRCC”) - CPRCC provides outpatient radiation oncology services to patients in Maryland. The Corporation has a 20% ownership interest in CPRCC.

Doctors Regional Cancer Center (“DRCC”) - DRCC provides outpatient radiation oncology services to patients in Bowie and Lanham, Maryland. The Corporation has a 20% ownership interest in DRCC.

Shady Grove Medical Building, LLC (“SGMB”) - SGMB was organized for the purpose of developing and constructing a cancer care center on the campus of Shady Grove Medical Center. The Corporation has a 50% ownership interest in SGMB.

Riverside Health, Inc. ("RHI") - RHI is a Medicaid managed care organization providing health services to its members. The Corporation sold its ownership interest on August 18, 2015 and recognized a gain on the sale of $1,664,925, which is included in investment income in the accompanying consolidated statements of operations. The Corporation had a 20% ownership interest in RHI prior to the date of sale.

The Corporation has invested $255,906 in Advanced Health Collaborative, LLC for a 20% ownership interest. This organization was formed to share ideas and explore opportunities to enhance quality of healthcare in the state of Maryland.

The Corporation has invested $2,179,672 in Advanced Health Collaborative II, LLC ("AHC II") for a 25% interest. AHC II was formed to hold a 24% interest in Maryland Health Advantage, LLC which is a Medicare preferred provider network providing health services to its members.

Summarized financial information related to these entities is presented below:

	2016	2015
Net revenue	$ 17,258,901	$ 17,359,701
Revenues in excess of expenses	1,705,494	1,316,138
Total assets	29,861,576	30,758,798
Total liabilities	15,834,676	17,283,483

Investment in Premier

The Corporation is a partner in Premier, Inc. ("Premier"), a health care system group purchasing organization. In 2013, the Corporation recorded its Premier investment under the cost method of accounting. In October 2013, Premier converted from a privately held company to a public company through the issuance of an Initial Public Offering. At the time of conversion, the Corporation was issued 493,810 Class B common units of which 78,946 units were sold.

The remaining 414,864 Class B common units held by the Corporation are exchangeable for Class A common stock over a 7-year quarterly vesting period. The Corporation recognized a gain of $1,727,228 and $1,900,778 during 2016 and 2015, respectively, based on the market value of the units available for exchange. In addition, the Corporation recognized earnings of $802,812 and $832,617 during 2016 and 2015, respectively, related to distributions. Both the gain and the distributions are included in other revenue in the accompanying consolidated statements of operations.

Investments Held by Foundations and Other

The Foundations also hold marketable debt and equity securities for funds not required to be expended in less than 90 days. These marketable securities are subject to credit and market risks.

8. Land Held for Healthcare Development

Land held for healthcare development at December 31, 2016 and 2015 consists of the following:

	2016	2015
Land - Clarksburg, Maryland	$ 48,706,305	$ 49,915,152
Land - Silver Spring, Maryland	-	39,776,601
Land - Laurel, Maryland	-	1,906,015
Total	$ 48,706,305	$ 91,597,768

Land - Clarksburg, Maryland

From 2002 through 2011, the Corporation acquired various parcels of land in Clarksburg, Maryland totaling approximately 200 acres. Several parcels of the land are fully owned by the Corporation, and the remainder is owned by Cabin Branch Commons, LLC ("Cabin Branch"), of which the Corporation owns 45%. In May 2013, the Corporation and Cabin Branch entered into a Purchase and Sale Agreement (the "Sale Agreement") with an unrelated third party to sell 48.8 acres of the land located in Clarksburg. In June 2015, the Corporation and Cabin Branch closed on the sale of the land at a purchase price of $28,250,000. The Corporation's portion of the proceeds was $25,101,980. As of December 31, 2015, the Corporation received $13,225,064 of their portion of the purchase price, with the additional proceeds being held in escrow and received upon the completion of certain infrastructure improvements to the property, for which the Corporation and Cabin Branch are collectively responsible. During 2016, the Corporation received additional proceeds from the escrow totaling $5,938,458 as reimbursement for such infrastructure improvements made to the property during 2016. Total proceeds received through December 31, 2016 totaled $19,163,522.

The total amount of assets related to the parcel of land sold by the Corporation, net of proceeds received, was $17,911,500 and $11,973,042 at December 31, 2016 and 2015, respectively. No gain or loss was recognized on the sale of the land as of December 31, 2016 and 2015.

Land - Silver Spring, Maryland

In July 2006, the Corporation purchased a parcel of land for purposes of building a replacement hospital for Washington Adventist Hospital. The land, which is located near the Calverton-White Oak area of Silver Spring, was purchased for approximately $11,000,000. In December 2015, the Maryland Health Care Commission granted formal approval of the Corporation's plan to build the new facility. As of December 31, 2015, the Corporation had total costs capitalized related to the land and improvements of $39,776,601, which was included in land held for healthcare development in the consolidated balance sheet.

During 2016, the Corporation commenced construction on the new facility and reclassified the costs associated with the land and improvements from land held for healthcare development to property and equipment in the accompanying consolidated balance sheet.

Land - Laurel, Maryland

In January 2014, the Corporation entered into a purchase agreement with an unrelated third party to buy land located in Laurel, Maryland for purposes of constructing an urgent care facility. On June 25, 2015, the Corporation closed on the purchase of the land for a total purchase price of $1,906,015. As of December 31, 2015, the Corporation classified these costs as land held for healthcare development in the consolidated balance sheet.

During 2016, the Corporation commenced and completed construction of the new urgent care facility and reclassified the costs associated with the land from land held for healthcare development to property and equipment in the accompanying consolidated balance sheet.

9. Short-Term Financing

The Corporation has a $3,000,000 unsecured line of credit with a commercial bank, with interest at LIBOR plus 1.50% (2.27 % at December 31, 2016). There were no borrowings outstanding under this line of credit as of December 31, 2016 or 2015.

10. Long Term Obligations

Long term obligations as of December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Fixed rate revenue bonds	$ 488,299,967	$ 94,329,029
Variable rate revenue bonds	23,985,000	141,140,000
Secured lines of credit	7,032,921	23,000,000
Note payable	23,613,911	24,346,297
Capital lease purchase financing facilities	-	144,289
Other long term liabilities	21,524,170	13,323,657
Total obligations	564,455,969	296,283,272
Plus bond premium	10,869,392	-
Less:		
Current maturities	(12,749,886)	(31,540,973)
Deferred financing costs	(4,839,919)	(2,206,562)
Noncurrent portion of long term obligations, net	$ 557,735,556	$ 262,535,737

Fixed Rate Revenue Bonds

Fixed rate revenue bonds consist of the Maryland Health and Higher Educational Facilities Authority Refunding Revenue Bonds. Fixed rate revenue bonds consist of the following at December 31:

	Par Amounts	Interest Rates	2016	2015
Adventist Healthcare, Inc.:				
Series 2011A	$ 57,205,000	5-6.25%	$ 57,205,000	$ 57,205,000
Series 2013	15,623,500	3.21%	11,384,967	12,844,029
Series 2014A	24,280,000	3.56%	23,565,000	24,280,000
Series 2016A	269,750,000	5.00%	269,750,000	-
Series 2016B	126,395,000	3.23%	126,395,000	-
Total			$ 488,299,967	$ 94,329,029

The above bond issues are subject to trust indentures which impose various covenants on SGMC, WAH, HRMC, BH&WS, Rehab, Imaging, CIS, Other Health Services and the Support Center (collectively, the “Obligated Group”) which include restrictions on the transfer or disposition of property, the incurrence of additional liabilities, and the achievement of certain pre-established financial indicators. Management believes it has complied with these required financial covenants for the years ended December 31, 2016 and 2015. Debt service reserve funds are required on the Series 2011A and the Series 2016A bonds.

Variable Rate Revenue Bonds

Variable rate revenue bonds consist of the following at December 31:

	2016	2015
Maryland Health and Higher Educational Facilities Authority Revenue Bonds:		
Series 2005A, Adventist HealthCare, Inc.	$ -	$ 78,000,000
Series 2011B, Adventist HealthCare, Inc.	-	38,155,000
Maryland Health and Higher Educational Facilities Authority Revenue Refunding Bonds,		
Series 2014B, Adventist HealthCare, Inc.	23,985,000	24,985,000
Total	$ 23,985,000	$ 141,140,000

In December 2016, the Series 2005A and 2011B bonds were refunded with the issuance of the Series 2016B Bond. The Series 2016B bond was issued as a direct placement with a commercial bank. As a result of this refunding, a loss on extinguishment of debt was recognized in 2016 for approximately $686,357 which was comprised of the remaining unamortized deferred financing costs related to the Series 2005A and 2011B bonds.

The Series 2014B Bonds bear interest at a variable rate of one month LIBOR plus 2.3% (2.92% at December 31, 2016). The Series 2014B bonds are subject to an Amended and Restated Master Trust Indenture that imposes various covenants on the Obligated Group which include restrictions on the transfer or disposition of property, the incurrence of additional liabilities, and the achievement of certain pre-established financial indicators. Management believes it has complied with these required financial covenants for the years ended December 31, 2016 and 2015.

The bonds subject to the Amended and Restated Master Trust Indenture are secured by the unrestricted revenues of the Obligated Group as well as a mortgage interest in the facilities of SGMC, WAH, HRMC, BH&WS and Rehab. In conjunction with the closing of the transfer of HRMC to Atlantic Health System as of March 31, 2016, HRMC is no longer a member of the Obligated Group, and as such, the mortgage on HRMC was released.

Secured Lines of Credit

The Corporation has secured lines of credit outstanding as follows:

- $20,000,000 line of credit with a commercial bank that bears interest at LIBOR plus 2.00%. The balance on the working capital line was $12,500,000 at December 31, 2015. This line of credit was repaid in June 2016.
- $16,000,000 line of credit that bears interest at LIBOR plus 2.00% (2.87% at December 31, 2016) and expires on June 30, 2018. The balance on the line of credit was $7,032,921 and $10,500,000 at December 31, 2016 and 2015, respectively.

Note Payable

In December 2014, the corporation entered into a taxable term note for $25,000,000 with a commercial bank, which is secured by a Master Note issued under the Amended and Restated Master Trust Indenture dated as of February 1, 2003. The note bears interest at one month LIBOR plus 2.45% (3.14% as of December 31, 2016). The amortization on the note extends to December 18, 2034, however, the note matures on December 18, 2024. As of December 31, 2016 and 2015, the outstanding balance was $23,613,911 and $24,346,297, respectively.

Capital Lease Purchase Financing Facilities

As of December 31, 2015, the Corporation had a capital lease purchase financing facility with a commercial bank. The facility was established in February 2011 for $10,000,000, bears interest at a rate of 3.47% and has a five year repayment period. Under the terms of the agreement, the commercial bank deposited funds into escrow accounts for the purpose of funding future purchases of new or used medical or medical-related equipment. The commercial bank retains title to the equipment and is considered to be the owner; however, the Corporation is responsible for all related expenses, including but not limited to, insurance, maintenance, and taxes. The balance of this facility was $144,289 at December 31, 2015. This facility was repaid in 2016.

Other Long Term Liabilities

This category consists of several capital lease obligations and notes payable on various types of medical and IT equipment. The financed equipment serves as security on these leases. Interest rates on these other long term liabilities range from 3.40% - 6.83%.

Scheduled principal repayments of long-term obligations at December 31, 2016 are as follows:

Years ending December 31:	
2017	$ 12,749,886
2018	12,937,493
2019	7,307,038
2020	12,732,354
2021	12,023,467
Thereafter	506,705,731
Total	$ 564,455,969

11. Derivative Financial Instruments

During 2016, the Corporation had two interest rate swap agreements, which are considered derivative financial instruments. The agreements were entered into in order to manage interest rate exposure. The principal objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in interest rates on its debt portfolio. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable, if any, which may be generated as a result of the swap agreement. One of the Corporation's interest rate swap agreements was terminated during 2016 and the remaining interest rate swap agreement is reported at fair value in the consolidated balance sheets.

The interest rate swap agreement with a notional amount of $78,000,000 was designated by the Corporation as a cash flow hedge, which qualified it for hedge accounting treatment under accounting principles generally accepted in the United States of America. The effective portion of the change in fair value of the cash flow hedge is reported in the consolidated statements of operations and changes in net assets as an unrealized gain or loss on cash flow derivative financial instrument. The ineffective portion of the change in fair value is reported in the accompanying consolidated statements of operations as a component of interest expense. On December 9, 2016, the Corporation terminated this swap with the counterparty at a value of $16,875,000. The Corporation borrowed the termination fee, which was included as a component of the proceeds for the 2016B bonds, previously described in Note 10. No gain or loss was recognized on the termination of the swap. As of December 31, 2016, $12,971,579 remained in unrestricted net assets. This amount will be amortized over the remaining term of the hedge, or through January 2035, beginning in January 2017.

The net cash paid or received under the swap agreements is recognized as either an adjustment to interest expense or other income. The net cash paid under the interest rate swap agreements was $3,791,973 in 2016 and $4,200,383 in 2015. For 2016 and 2015, $2,548,804 and $2,686,473, respectively, are reported as a component of interest expense in the accompanying consolidated statements of operations. These amounts represent the net cash paid related to the swap agreement that was accounted for, prior to the termination, using hedge accounting. The remaining amounts for 2016 and 2015 are reported as a component of other income (expense) in the accompanying consolidated statements of operations, which is related to the swap agreement that does not qualifies for hedge accounting.

At December 31, 2016 and 2015, the Corporation's derivative financial instruments and related fair values are as follows:

	2016	2015
Agreement for the notional amount of $50,880,000 requiring the Corporation to pay a fixed interest rate of 3.457% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2021	$ (2,073,079)	$ (3,066,432)
Agreement for the notional amount of $78,000,000 requiring the Corporation to pay a fixed interest rate of 3.567% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2035 and qualifying for cash flow hedge accounting treatment; this agreement was terminated in 2016	-	(19,209,343)
Total	$ (2,073,079)	$ (22,275,775)

The fair value of the interest rate swap agreements is estimated to be the amount the Corporation would receive or pay to terminate the swap agreements at the reporting date and was based on information supplied by an independent third party valuation agent (Note 5). Additionally, the fair value reflects a credit risk assessment required under accounting principles generally accepted in the United States of America. Gains or losses resulting from hedge ineffectiveness are recognized in revenues in excess of expenses from continuing operations. No gains were recognized as of December 31, 2016 and 2015, respectively, as a result of hedge ineffectiveness. Gains or losses resulting from interest rate swap agreements not qualifying for cash flow hedge accounting treatment are entirely recognized as a component of revenues in excess of expenses from continuing operation. The impact of swaps not qualifying for hedge accounting treatment on the consolidated statements of operations were gains of $1,035,104 in 2016 and $909,937 in 2015.

On October 3, 2008, the counterparty for the Corporation's fixed pay swap maturing in January 2035, Lehman Brothers, Inc., commenced proceedings under Chapter 11 of the Bankruptcy Code. This action triggered an Event of Default under the ISDA Master Agreement in effect with said party and gave the Corporation the right to terminate the transaction. On October 16, 2008, the Corporation terminated this agreement and concurrently entered into an agreement with a new counterparty that assumed all existing terms and conditions of the original agreement. The termination of the original swap agreement resulted in a loss of $472,023 which is included in unrestricted net assets in the consolidated balance sheets. This loss is being amortized over the remaining term of the designated period of the hedge, or through January 2035. As of December 31, 2016 and 2015, accumulated amortization of $143,855 and $125,873, respectively, is included in other changes in net assets and interest expense in the consolidated statements of operations and changes in net assets.

12. Leases

The Corporation has entered into various operating leases primarily for office space as well as certain equipment items. Rental expense for operating leases was $21,263,623 in 2016 and $22,130,309 in 2015. Rental expense for operating leases of HRMC was $540,820 in 2016 and $2,103,863 in 2015 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. Rental expense for operating leases of BH&WS - Eastern Shore was $692,074 in 2016 and $678,097 in 2015 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. The building lease for BH&WS Eastern Shore expired in 2016 and was not renewed. Future minimum payments under non-cancelable operating leases with initial terms of one year or more consist of the following during the years ending December 31:

Years ending December 31:	
2017	$ 13,197,057
2018	13,130,331
2019	12,703,135
2020	12,685,006
2021	12,584,572
Thereafter	50,480,996
Total	$ 114,781,097

The Corporation has also entered into various sub-lease agreements with tenants that occupy space in the Corporation's buildings. The terms of these sub-leases vary and extend through 2030. Rental income was $4,506,295 in 2016 and $4,536,740 in 2015, which has been reported as a component of other operating revenue in the consolidated statements of operations. Future rent payments expected to be received by the Corporation during the years ending December 31, are as follows:

Years ending December 31:	
2017	$ 4,020,673
2018	3,594,930
2019	3,115,743
2020	2,766,704
2021	2,381,246
Thereafter	4,303,364
Total	$ 20,182,660

13. Retirement, Health Plan and Life Insurance

Defined Contribution Retirement Plan

The Corporation sponsors a 401(a) defined contribution retirement plan, which covers substantially all full-time employees. After twelve months of full-time or regular part-time employment of at least 1,000 base hours, the Corporation will contribute a total of 2% of eligible employees' compensation, plus a matching employer contribution equal to 50% of employee contributions (to the 403(b) plan) up to 6% of base salary. The Corporation also has a 403(b) retirement savings plan for employees. Employee contributions are made to the 403(b) retirement savings plan. Retirement plan expense was $8,760,252 in 2016 and $8,657,979 in 2015. Retirement plan expense for HRMC was $174,378 in 2016 and $786,073 in 2015 which is included in loss from discontinued operations in the consolidated statements of operations. Retirement plan expense for BH&WS - Eastern Shore was $60,686 in 2016 and $63,748 in 2015 which is included in loss from discontinued operations in the consolidated statements of operations.

Supplemental Executive Retirement Plan

The Corporation also has a Supplemental Executive Retirement Plan (“SERP”) that became effective in 2015 and covers a group of key executives. SERP expense was $300,900 in 2016 and $496,857 in 2015. In addition, a SERP liability adjustment was recorded for $521,260 in 2016 and $1,575,015 in 2015, which was recognized in other changes in net assets in the consolidated statement of changes in net assets. At December 31, 2016 and 2015, the Corporation’s liability for the SERP was $2,894,032 and $2,071,872, respectively, which is included in other liabilities in the consolidated balance sheet.

Executive Retention 457(F) Plan

Effective January 1, 2015, the Corporation established the Executive Retention 457(F) Plan (the “457(F) Plan”). The 457(F) Plan is a tax-deferred plan offered to key executives, whereby annual employer contributions are made to the Plan. Plan participants become vested in the contributions and receive plan payments in the second calendar year after the contribution is made, if the participant is still employed. The final contribution will be made to the Plan for the year in which the plan participant becomes 62. The 457(F) plan expense was $1,501,925 in 2016 and $1,712,760 in 2015. The Corporation’s liability for the 457(F) plan at December 31, 2016 and 2015 was $2,975,057 and $1,473,131, respectively, which is included in other liabilities in the consolidated balance sheet.

Salary Deferral (457(b)) Plan

Employees who contribute the maximum allowable amount to the 403(b) retirement plan have an opportunity to contribute additional funds on a tax-deferred basis to a 457(b) retirement plan up to the maximum tax-sheltered opportunity. There are no employer contributions to this plan.

Health Plan

The Corporation maintains a self-insurance employee program for its health insurance coverage. The Corporation accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of its stop-loss insurance coverage, based upon data provided by the third-party administrator of the program and historical claims experience.

Life Insurance

Full-time and part-time employees are insured, through a third-party carrier, for an amount equal to one times their base salary at time of enrollment up to $450,000 for full-time employees and $10,000 for part-time employees. In addition, if death is caused by accident, the employee is insured for an additional benefit equal to the amount of their life insurance.

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for betterments to plant facilities and purchases of equipment or to support operating programs sponsored by the Corporation and its affiliates.

Permanently restricted net assets have been restricted by donor to be maintained by the Corporation in perpetuity.

Net assets were released from donor restriction by satisfying their restricted purposes in the amount of $3,293,236 in 2016 and $3,671,485 in 2015.

15. Commitments and Contingencies

Litigation and Claims

The Corporation is subject to asserted and unasserted claims (in addition to litigation) encountered in the ordinary course of business. In the opinion of management and after consultation with legal counsel, the Corporation has established adequate reserves related to all known matters. The outcome of any potential investigative, regulatory or prosecutorial activity that may occur in the future cannot be predicted with certainty. However, any associated potential future losses resulting from such activity could have a material adverse effect on the Corporation’s future financial position, results of operations and liquidity.

Insurance

The Corporation's primary coverage for professional liability is provided through a self-funded insurance retention trust (the “Trust”) established on January 1, 1993. The Trust is funded based on actuarial estimates and provides coverage of $2,000,000 per occurrence with no annual aggregate limitation. The Trust also provides general liability coverage up to $1,000,000 per occurrence and $3,000,000 in the aggregate. The Corporation also carries umbrella excess liability insurance on a claims made basis with a commercial carrier, with limits of $20,000,000 per occurrence and in aggregate.

It is the Corporation's policy to accrue for the ultimate cost of uninsured asserted and unasserted malpractice claims, if any, when incidents occur. Based on a review of the Corporation's prior experience and incidents occurring through December 31, 2016, management determined that the fully-funded professional liability reserve reported at December 31, 2016 and 2015 is adequate in light of the program's excess umbrella policy currently in force and historical claims experience. The estimated professional liability for both asserted and unasserted claims was $12,865,503 and $12,291,581 at December 31, 2016 and 2015, respectively. The discount rate used in determining these liabilities was 2.5% at both December 31, 2016 and 2015.

The Corporation is self-insured for unemployment and workers' compensation benefits. The liability for unemployment and worker's compensation claims payable is an estimate based on the Corporation's past experience and is included in the accompanying consolidated balance sheets. It is reasonably possible that the estimates used could change materially in the near term.

Remediation

Certain buildings, which were constructed prior to the passage of the Clean Air Act, contain encapsulated asbestos material. Current law requires that this asbestos be removed in an environmentally safe fashion prior to demolition and renovation of these buildings. At this time, the Corporation has no plans to demolish or renovate these buildings and, as such, cannot reasonably estimate the fair value of the liability for such asbestos removal.

16. Business and Credit Concentrations

The Corporation grants credit to patients, substantially all of whom are local residents. The Corporation generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies.

At December 31, 2016 and 2015, concentrations of gross receivables from third-party payors and others are as follows:

	2016	2015
Medicare	22 %	23 %
Medicaid	12	8
Other third party payers	45	46
Self-pay and others	21	23
	100 %	100 %

Net patient service revenue, by payor class, consisted of the following for the years ended December 31:

	2016	2015
Medicare	38 %	31 %
Medicaid	9	10
Other third party payers	49	53
Self-pay and others	4	6
	100 %	100 %

The Corporation maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured up to $250,000.

17. Functional Expenses

A summary of the Corporation's operating expenses by function for the years ended December 31, is as follows:

	2016	2015
Hospital acute and ambulatory services	$ 545,995,612	$ 541,212,738
Home care services	19,113,770	17,803,358
Other health care services	184,260,531	148,552,492
Other, including general and administrative	10,751,002	8,598,175
Fundraising	682,243	885,301
Total	$ 760,803,158	$ 717,052,064

The Corporation also incurred hospital acute and other health care services expenses related to HRMC and BH&WS Eastern Shore that were included in loss from discontinued operations in the consolidated statements of operations. HRMC hospital acute services expenses were $22,769,646 in 2016 and $92,885,048 in 2015. BH&WS Eastern Shore other healthcare services expenses were $10,001,541 in 2016 and $9,500,800 in 2015.

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2016

	Shady Grove Medical Center	Washington Adventist Hospital	Hackettstown Regional Medical Center	Behavioral Health & Wellness Services	Rehabilitation	Imaging Services	Clinical Integration Services	Other Health Services	Support Center	Eliminating Entries	Total Combined Obligated Group	Lourie Center	Adventist Home Care Services	Urgent Care Centers	One Health Quality Alliance	Mid-Atlantic Primary Care	Adventist HealthCare, Inc. Foundations	Eliminating Entries	Consolidated Adventist HealthCare, Inc.
Assets																			
Cash and cash equivalents	$ 162,569,536	$ (4,375,336)	$ 75,410,198	$ (1,951,584)	$ 15,601,912	$ (19,623,335)	$ (85,598,619)	$ 625,185	$ (111,534,445)	$ -	$ 31,123,512	$ (981,127)	$ 5,488,617	(4,423,066)	$ (1,854,468)	$ (1,060,901)	$ 1,905,512	$ -	$ 30,198,079
Short-term investments	-	-	-	-	-	-	-	-	188,594,181	-	188,594,181	-	-	-	-	-	-	-	188,594,181
Assets whose use is limited	-	-	-	-	-	-	-	-	2,870,341	-	2,870,341	-	-	-	-	-	-	-	2,870,341
Patient accounts receivable, net of estimated allowance for doubtful collections of $27,415,000	46,396,538	22,432,105	1,070,169	3,587,194	4,756,602	4,018,723	4,955,722	(519)	-	-	87,216,534	-	4,138,351	472,708	-	-	-	-	91,827,593
Other receivables, net of estimated allowance for doubtful collections of $2,436,000	2,985,245	3,841,522	193,247	1,046,727	129,762	1,556,722	141,116	632,736	2,570,163	(487,545)	12,609,695	1,687,087	59,067	-	-	-	888,168	-	15,244,017
Due from third party payors	-	-	-	221,343	181,248	-	-	-	-	(402,591)	-	-	-	-	-	-	-	-	-
Inventories	5,503,604	4,403,265	-	90,779	78,202	-	-	135,751	-	-	10,211,601	-	-	-	-	-	-	-	10,211,601
Prepaid expenses and other current assets	637,617	882,581	-	35,592	85,307	111,746	56,638	115,028	5,072,497	-	6,997,006	58,187	266,763	44,364	-	-	-	-	7,366,320
Total current assets	218,092,540	27,184,137	76,673,614	3,030,051	20,833,033	(13,936,144)	(80,445,143)	1,508,181	87,572,737	(890,136)	339,622,870	764,147	9,952,798	(3,905,994)	(1,854,468)	(1,060,901)	2,793,680	-	346,312,132
Property and Equipment, Net	179,666,190	95,103,363	-	13,451,801	9,492,821	8,912,398	1,790,051	245,157	114,286,688	-	422,948,469	1,686,293	1,097,935	6,229,204	-	-	-	-	431,961,901
Assets Whose Use is Limited																			
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	840,466	264,510,715	-	490,272	443,579	-	-	-	3,310,173	-	269,595,205	-	-	-	-	-	-	-	269,595,205
Professional liability trust fund	-	-	-	-	-	-	-	-	12,233,224	-	12,233,224	-	-	-	-	-	-	-	12,233,224
Deferred compensation fund	-	-	-	-	-	-	-	-	1,466,041	-	1,466,041	-	-	-	-	-	-	-	1,466,041
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	331,568	-	-	-	23,377	-	-	-	-	-	354,945	860,371	-	-	-	-	1,048,799	-	2,264,115
Investments and Investments in Unconsolidated Subsidiaries	1,031,001	-	-	-	-	-	-	-	11,452,898	-	12,483,899	-	-	-	-	-	799,785	-	13,283,684
Land Held for Healthcare Development	-	-	-	-	-	-	-	-	48,706,305	-	48,706,305	-	-	-	-	-	-	-	48,706,305
Intangible Assets, Net	1,120,690	-	-	1,307,651	877,706	5,435,091	-	49,740	17,960	-	8,808,838	-	157,328	-	-	-	-	-	8,966,166
Deposits and Other Noncurrent Assets	2,114,370	31,351	-	26,674	32,000	-	43,803	32,754	840,356	-	3,121,308	5,054	30,828	200,582	-	-	2,427,064	-	5,784,836
Total assets	$ 403,196,825	$ 386,829,566	$ 76,673,614	$ 18,306,449	$ 31,702,516	$ 411,345	$ (78,611,289)	$ 1,835,832	$ 279,886,382	$ (890,136)	$ 1,119,341,104	$ 3,315,865	$ 11,238,889	$ 2,523,792	$ (1,854,468)	$ (1,060,901)	$ 7,069,328	$ -	$ 1,140,573,609

Adventist HealthCare, Inc. and Controlled Entities
Consolidating Schedule, Balance Sheet
December 31, 2016

	Shady Grove Medical Center	Washington Adventist Hospital	Hackettstown Regional Medical Center	Behavioral Health & Wellness Services	Rehabilitation	Imaging Services	Clinical Integration Services	Other Health Services	Support Center	Eliminating Entries	Total Combined Obligated Group	Lourie Center	Adventist Home Care Services	Urgent Care Centers	One Health Quality Alliance	Mid-Atlantic Primary Care	Adventist HealthCare, Inc. Foundations	Eliminating Entries	Consolidated Adventist HealthCare, Inc.
Liabilities and Net Assets																			
Current Liabilities																			
Accounts payable and accrued expenses	$ 26,721,885	$ 15,683,170	$ 3,131,004	$ 1,513,246	$ 695,997	$ 2,777,390	$ 2,418,627	$ 504,552	$ 26,244,226	$ -	$ 79,690,097	$ 113,327	$ 1,108,416	$ 2,904,446	$ 8,600	$ 3,000	$ 15,862	$ -	$ 83,843,748
Accrued compensation and related items	11,635,375	8,568,736	-	2,379,754	2,404,534	169,631	961,902	219,393	6,839,312	(487,545)	32,691,092	563,933	1,528,696	67,733	-	-	-	-	34,851,454
Interest payable	-	-	-	-	-	-	-	-	2,021,390	-	2,021,390	-	-	-	-	-	-	-	2,021,390
Due to third party payors	10,695,773	7,270,658	243,371	857,816	-	-	-	-	-	(402,591)	18,665,027	-	-	-	-	-	-	-	18,665,027
Estimated self-insured professional liability	-	-	-	-	-	-	-	-	1,150,302	-	1,150,302	-	-	-	-	-	-	-	1,150,302
Current maturities of long-term obligations	5,018,904	2,696,293	-	161,090	-	712,640	-	-	4,014,482	-	12,603,409	-	-	146,477	-	-	-	-	12,749,886
Total current liabilities	54,071,937	34,218,857	3,374,375	4,911,906	3,100,531	3,659,661	3,380,529	723,945	40,269,712	(890,136)	146,821,317	677,260	2,637,112	3,118,656	8,600	3,000	15,862	-	153,281,807
Construction Payable	1,028,979	1,815,738	-	-	182,606	-	-	-	-	-	3,027,323	-	-	-	-	-	-	-	3,027,323
Long-Term Obligations, Net																			
Bonds payable	(185,565)	287,383,114	-	(63,539)	(57,488)	-	-	-	228,030,643	-	515,107,165	-	-	(16,135)	-	-	-	-	515,091,030
Notes payable	3,500,000	-	-	-	-	-	-	-	18,305,220	-	21,805,220	-	-	4,576,305	-	-	-	-	26,381,525
Capital lease obligations	3,433,823	1,431,695	-	954,463	-	1,757,055	-	-	8,685,965	-	16,263,001	-	-	-	-	-	-	-	16,263,001
Internal debt	125,267,625	55,272,417	-	6,022,769	4,347,854	-	-	-	(190,910,665)	-	-	-	-	-	-	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-	-	-	-	2,073,079	-	2,073,079	-	-	-	-	-	-	-	2,073,079
Other Liabilities	3,168,391	1,311,034	-	-	154,326	-	591,423	-	9,580,531	-	14,805,705	- -	-	-	-	-	59,112	-	14,864,817
Estimated Self-Insured Professional Liability	-	-	-	-	-	-	-	-	11,715,201	-	11,715,201	-	-	-	-	-	-	-	11,715,201
Total liabilities	190,285,190	381,432,855	3,374,375	11,825,599	7,727,829	5,416,716	3,971,952	723,945	127,749,686	(890,136)	731,618,011	677,260	2,637,112	7,678,826	8,600	3,000	74,974	-	742,697,783
Net Assets (Deficit)																			
Unrestricted	212,482,059	4,704,757	73,299,239	6,480,850	24,184,556	(5,005,371)	(82,583,241)	1,111,887	152,128,074	-	386,802,810	2,079,626	8,601,777	(5,155,034)	(1,863,068)	(1,063,901)	1,925,447	-	391,327,657
Temporarily restricted	429,576	691,954	-	-	(209,869)	-	-	-	8,622	-	920,283	217,558	-	-	-	-	5,068,907	-	6,206,748
Permanently restricted	-	-	-	-	-	-	-	-	-	-	-	341,421	-	-	-	-	-	-	341,421
Total net assets (deficit)	212,911,635	5,396,711	73,299,239	6,480,850	23,974,687	(5,005,371)	(82,583,241)	1,111,887	152,136,696	-	387,723,093	2,638,605	8,601,777	(5,155,034)	(1,863,068)	(1,063,901)	6,994,354	-	397,875,826
Total liabilities and net assets	$ 403,196,825	$ 386,829,566	$ 76,673,614	$ 18,306,449	$ 31,702,516	$ 411,345	$ (78,611,289)	$ 1,835,832	$ 279,886,382	$ (890,136)	$ 1,119,341,104	$ 3,315,865	$ 11,238,889	$ 2,523,792	$ (1,854,468)	$ (1,060,901)	$ 7,069,328	$ -	$ 1,140,573,609

Adventist Healthcare, Inc. and Controlled Entities

Consolidating Schedule, Statement of Operations

Year Ended December 31, 2016

	Shady Grove Medical Center	Washington Adventist Hospital	Hackettstown Regional Medical Center	Behavioral Health & Wellness Services	Rehabilitation	Imaging Services	Clinical Integration Services	Other Health Services	Support Center	Eliminating Entries
Unrestricted Revenues										
Net patient service revenue	$ 362,914,412	$ 239,218,642	$ 22,165,831	$ 43,091,390	$ 44,021,961	$ 28,656,889	$ 33,545,337	$ 56,382	$ -	$ (27,963,242)
Provision for doubtful collections	(14,675,131)	(12,093,657)	(1,155,606)	(1,581,367)	(934,241)	(2,634,235)	(2,527,940)	(331,185)	-	1,281,824
Net patient service revenue less provision for doubtful collections	348,239,281	227,124,985	21,010,225	41,510,023	43,087,720	26,022,654	31,017,397	(274,803)	-	(26,681,418)
Other revenue	7,437,662	4,644,770	1,891,213	7,591,109	3,011,361	1,785,187	406,276	7,469,411	8,667,053	(8,579,863)
Total unrestricted revenues	355,676,943	231,769,755	22,901,438	49,101,132	46,099,081	27,807,841	31,423,673	7,194,608	8,667,053	(35,261,281)
Expenses										
Salaries and wages	126,405,576	86,113,070	9,287,373	26,932,370	25,286,569	15,148,683	31,169,143	2,334,815	13,313,907	(15,885,383)
Employee benefits	26,859,253	17,780,406	2,684,781	5,653,270	4,837,552	2,708,447	1,375,106	441,325	3,096,826	(4,257,156)
Contract labor	16,811,763	13,733,546	748,220	1,922,024	918,387	431,228	1,978,082	870,185	(620,504)	(1,844,113)
Medical supplies	54,212,082	38,774,735	3,534,740	1,644,200	1,295,638	1,200,869	2,130,338	832,762	(20,777)	(3,869,228)
General and administrative	36,413,117	27,766,912	1,994,698	4,187,061	4,238,266	4,998,578	10,211,310	1,348,846	31,913,869	(3,423,708)
Building and maintenance	23,225,001	8,312,499	1,402,417	3,390,806	1,724,681	4,651,569	547,107	516,477	1,319,560	(4,591,898)
Insurance	1,952,519	1,368,439	147,816	185,222	91,169	530,194	969,660	4,044	40,124	(150,787)
Interest	5,453,687	1,746,744	336,851	274,690	197,944	72,090	-	-	2,475,287	(336,851)
Depreciation and amortization	15,294,595	4,922,883	1,246,563	1,834,275	1,610,474	826,361	425,380	77,222	11,953,897	(1,946,826)
IT depreciation	5,504,516	3,727,827	324,497	721,318	495,093	-	-	29,367	(10,883,119)	(464,274)
IT services	14,561,748	9,341,513	848,093	1,387,999	1,555,143	-	-	101,705	(28,319,900)	(1,144,487)
Management fees	8,174,833	5,531,471	213,597	1,525,447	1,338,265	19,758	465,107	137,484	(18,685,652)	(509,982)
Total expenses	334,868,690	219,120,045	22,769,646	49,658,682	43,589,181	30,587,777	49,271,233	6,694,232	5,583,518	(38,424,693)
Income (loss) from operations	20,808,253	12,649,710	131,792	(557,550)	2,509,900	(2,779,936)	(17,847,560)	500,376	3,083,535	3,163,412
Other Income (Expense)										
Investment income (loss)	1,459,457	(68,380)	75,559	4,968	116,335	-	-	-	1,513,831	(75,559)
Loss on extinguishment of debt	-	-	-	-	-	-	-	-	(686,357)	-
Other income (expense)	(500,502)	(298,049)	(17,139,185)	(25,123)	(18,809)	-	-	-	886,764	17,139,185
Total other income (expense)	958,955	(366,429)	(17,063,626)	(20,155)	97,526	-	-	-	1,714,238	17,063,626
Revenues in excess of (less than) expenses from continuing operations	21,767,208	12,283,281	(16,931,834)	(577,705)	2,607,426	(2,779,936)	(17,847,560)	500,376	4,797,773	20,227,038
Change in net unrealized gains (losses) on investments other than trading securities	(980,182)	(7,494)	73,435	(4,918)	(87,041)	-	-	184	(373,601)	-
Change in net unrealized gain on derivative financial instruments	-	-	-	-	-	-	-	-	2,352,325	-
Transfer from (to) subsidiaries	-	-	42,671,405	-	-	-	-	-	(42,085,904)	-
Net assets released from restriction for purchase of property and equipment	299,062	828,470	-	90,264	-	-	-	-	-	-
Deferred compensation plan liability adjustment	-	-	-	-	-	-	-	-	(521,260)	-
Other unrestricted net asset activity	-	3	3	(399,872)	(2)	(349,254)	399,883	1,472	(2,686,528)	-
Increase (decrease) in unrestricted net assets from continuing operations	21,086,088	13,104,260	25,813,009	(892,231)	2,520,383	(3,129,190)	(17,447,677)	502,032	(38,517,195)	20,227,038
Loss from discontinued operations	-	-	-	-	-	-	-	-	-	(20,227,038)
Increase (decrease) in unrestricted net assets	$ 21,086,088	$ 13,104,260	$ 25,813,009	$ (892,231)	$ 2,520,383	$ (3,129,190)	$ (17,447,677)	$ 502,032	$ (38,517,195)	$ -

	Total Combined Obligated Group	Lourie Center	Adventist Home Care Services	Urgent Care Centers	One Health Quality Alliance	Mid-Atlantic Primary Care	Adventist HealthCare, Inc. Foundations	Eliminating Entries	Consolidated Adventist HealthCare, Inc.
Unrestricted Revenues									
Net patient service revenue	$ 745,707,602	$ 896,408	$ 25,053,378	$ 2,169,944	$ -	$ -	$ -	$ -	$ 773,827,332
Provision for doubtful collections	(34,651,538)	(117,092)	(129,095)	(104,861)	-	-	-	-	(35,002,586)
Net patient service revenue less provision for doubtful collections	711,056,064	779,316	24,924,283	2,065,083	-	-	-	-	738,824,746
Other revenue	34,324,179	10,601,430	191,038	411	-	-	4,805,842	(8,816,501)	41,106,399
Total unrestricted revenues	745,380,243	11,380,746	25,115,321	2,065,494	-	-	4,805,842	(8,816,501)	779,931,145
Expenses									
Salaries and wages	320,106,123	5,747,450	16,985,724	1,702,691	533,582	220,664	-	-	345,296,234
Employee benefits	61,179,810	1,229,904	2,965,784	358,819	90,458	27,592	-	-	65,852,367
Contract labor	34,948,818	651,582	437,147	273,969	-	-	-	8,227	36,319,743
Medical supplies	99,735,359	103,149	344,913	141,098	-	-	-	-	100,324,519
General and administrative	119,648,949	2,365,467	1,084,843	778,846	27,252	28,552	4,717,377	(10,841,749)	117,809,537
Building and maintenance	40,498,219	730,277	818,856	839,208	300	300	-	(92,730)	42,794,430
Insurance	5,138,400	9,156	72,680	77,020	-	-	-	-	5,297,256
Interest	10,220,442	-	-	141,969	-	-	-	-	10,362,411
Depreciation and amortization	36,244,824	141,119	144,988	215,730	-	-	-	-	36,746,661
IT depreciation	(544,775)	-	80,502	-	-	-	-	464,273	-
IT services	(1,668,186)	-	523,699	-	-	-	-	1,144,487	-
Management fees	(1,789,672)	319,844	826,721	142,116	-	-	-	500,991	-
Total expenses	723,718,311	11,297,948	24,285,857	4,671,466	651,592	277,108	4,717,377	(8,816,501)	760,803,158
Income (loss) from operations	21,661,932	82,798	829,464	(2,605,972)	(651,592)	(277,108)	88,465	-	19,127,987
Other Income (Expense)									
Investment income (loss)	3,026,211	9,020	58,017	-	-	-	35,923	-	3,129,171
Loss on extinguishment of debt	(686,357)	-	-	-	-	-	-	-	(686,357)
Other income (expense)	44,281	-	-	-	-	-	-	-	44,281
Total other income (expense)	2,384,135	9,020	58,017	-	-	-	35,923	-	2,487,095
Revenues in excess of (less than) expenses from continuing operations	24,046,067	91,818	887,481	(2,605,972)	(651,592)	(277,108)	124,388	-	21,615,082
Change in net unrealized gains (losses) on investments other than trading securities	(1,379,617)	3,999	(27,255)	-	-	-	(27,568)	-	(1,430,441)
Change in net unrealized gain on derivative financial instruments	2,352,325	-	-	-	-	-	-	-	2,352,325
Transfer from (to) subsidiaries	585,501	-	-	-	(346,571)	-	-	(238,930)	-
Net assets released from restriction for purchase of property and equipment	1,217,796	-	-	-	-	-	-	-	1,217,796
Deferred compensation plan liability adjustment	(521,260)	-	-	-	-	-	-	-	(521,260)
Other unrestricted net asset activity	(3,034,295)	3	1,336,458	-	-	-	-	238,930	(1,458,904)
Increase (decrease) in unrestricted net assets from continuing operations	23,266,517	95,820	2,196,684	(2,605,972)	(998,163)	(277,108)	96,820	-	21,774,598
Loss from discontinued operations	(20,227,038)	-	-	-	-	-	-	-	(20,227,038)
Increase (decrease) in unrestricted net assets	$ 3,039,479	$ 95,820	$ 2,196,684	$ (2,605,972)	$ (998,163)	$ (277,108)	$ 96,820	$ -	$ 1,547,560

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Balance Sheet
December 31, 2016

	Shady Grove Medical Center Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Community Hospital Foundation, Inc.	Behavioral Health & Wellness Services Foundation, Inc.	Eliminating Entries	Combined Adventist HealthCare, Inc. Foundations
Assets						
Current Assets						
Cash and cash equivalents	$ 948,177	$ 760,061	$ -	$ 197,274	$ -	$ 1,905,512
Current portion pledges receivable, less allowance for doubtful pledges of $132,000	451,794	391,597	-	43,458	-	886,849
Other receivables	-	1,319	-	-	-	1,319
Prepaid expenses and other current assets	-	-	-	-	-	-
Total current assets	1,399,971	1,152,977	-	240,732	-	2,793,680
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	-	1,009,936	-	38,863	-	1,048,799
Investments	794,068	5,717	-	-	-	799,785
Beneficial Interest in Trusts	98,459	707,354	-	-	-	805,813
Noncurrent Portion of Pledges Receivable	766,901	854,350	-	-	-	1,621,251
Total assets	$ 3,059,399	$ 3,730,334	$ -	$ 279,595	$ -	$ 7,069,328
Liabilities and Net Assets						
Current Liabilities						
Accounts payable and accrued expenses	$ 15,780	$ -	$ -	$ 82	$ -	$ 15,862
Liability to Charitable Gift Annuitants	59,112	-	-	-	-	59,112
Total liabilities	74,892	-	-	82	-	74,974
Net Assets						
Unrestricted	1,679,509	129,289	-	116,649	-	1,925,447
Temporarily restricted	1,304,998	3,601,045	-	162,864	-	5,068,907
Permanently restricted	-	-	-	-	-	-
Total net assets	2,984,507	3,730,334	-	279,513	-	6,994,354
Total liabilities and net assets	$ 3,059,399	$ 3,730,334	$ -	$ 279,595	$ -	$ 7,069,328

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Statement of Operations
Year Ended December 31, 2016

	Shady Grove Medical Center Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Hackettstown Community Hospital Foundation, Inc.	Behavioral Health & Wellness Services Foundation, Inc.	Eliminating Entries	Combined Adventist HealthCare, Inc. Foundations
Changes in Unrestricted Net Assets						
Unrestricted Revenues, Gains, And Other Support						
Contributions, net	$ 545,112	$ 222,195	$ 2,541,295	$ 19,736	$ -	$ 3,328,338
Investment income	35,724	-	-	199	-	35,923
Net assets released from restrictions	438,587	336,709	533,803	168,405	-	1,477,504
Total unrestricted revenues, gains, and other support	1,019,423	558,904	3,075,098	188,340	-	4,841,765
Expenses						
General administrative expenses	216,077	106,457	10,083	220	-	332,837
In-kind gifts expended	209,263	140,143	-	-	-	349,406
Total expenses before transfers to the hospitals	425,340	246,600	10,083	220	-	682,243
Transfers to the hospitals	436,367	276,385	3,149,729	172,653	-	4,035,134
Total expenses	861,707	522,985	3,159,812	172,873	-	4,717,377
Revenues in excess of (less than) expenses	157,716	35,919	(84,714)	15,467	-	124,388
Change in net unrealized losses on investments other than trading securities	(27,568)	-	-	-	-	(27,568)
Increase (decrease) in unrestricted net assets	130,148	35,919	(84,714)	15,467	-	96,820
Unrestricted net assets, beginning	1,549,361	93,370	84,714	101,182	-	1,828,627
Unrestricted net assets, ending	$ 1,679,509	$ 129,289	$ -	$ 116,649	$ -	$ 1,925,447
Changes in Temporarily Restricted Net Assets						
Contributions, net	$ 427,381	$ 1,616,782	$ -	$ 72,406	$ -	$ 2,116,569
Net assets released from restrictions	(438,587)	(336,709)	(123,803)	(168,405)	-	(1,067,504)
Change in value of beneficial interest in trusts	-	(15,569)	-	-	-	(15,569)
Change in discount of pledges receivable and provision for doubtful pledges	(422,415)	(74,361)	-	-	-	(496,776)
Investment income and unrealized gain on investments	4,098	-	-	-	-	4,098
Increase (decrease) in temporarily restricted net assets	(429,523)	1,190,143	(123,803)	(95,999)	-	540,818
Temporarily restricted net assets, beginning	1,734,521	2,410,902	123,803	258,863	-	4,528,089
Temporarily restricted net assets, ending	$ 1,304,998	$ 3,601,045	$ -	$ 162,864	$ -	$ 5,068,907
Changes in Permanently Restricted Net Assets						
Contributions, net	$ -	$ -	$ -	$ -	$ -	$ -
Net assets released from restriction	-	-	(410,000)	-	-	(410,000)
Decrease in permanently restricted net assets	-	-	(410,000)	-	-	(410,000)
Permanently restricted net assets, beginning	-	-	410,000	-	-	410,000
Permanently restricted net assets, ending	$ -	$ -	$ -	$ -	$ -	$ -