Adventist HealthCare, Inc. and Controlled Entities

Financial Statements and
Supplementary Information

December 31, 2017 and 2016

BAKER TILLY

Candor. Insight. Results.

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December 31, 2017 and 2016

BAKER TILLY

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, 2017 and 2016, 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, 2017 and 2016, 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 42 to 46 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 25, 2018

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 40,714,884	$ 30,198,079
Short-term investments	197,803,029	188,594,181
Assets whose use is limited	2,923,796	2,870,341
Patient accounts receivable, net of estimated allowance for doubtful collections of $22,487,000 in 2017 and $27,415,000 in 2016	93,209,946	91,827,593
Other receivables, net of estimated allowance for doubtful collections of $628,000 in 2017 and $2,436,000 in 2016	16,070,981	15,244,017
Inventories	9,410,777	10,211,601
Prepaid expenses and other current assets	7,653,048	7,366,320
Total current assets	367,786,461	346,312,132
Property and Equipment, Net	511,609,795	431,961,901
Assets Whose Use is Limited		
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	244,332,570	269,595,205
Professional liability trust fund	11,878,591	12,233,224
Deferred compensation fund	1,403,371	1,466,041
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	2,322,753	2,264,115
Investments and Investments in Unconsolidated Subsidiaries	15,665,245	13,283,684
Land Held for Healthcare Development	47,660,070	48,706,305
Intangible Assets, Net	8,343,130	8,966,166
Deposits and Other Noncurrent Assets	5,610,693	5,784,836
Total assets	$ 1,216,612,679	$ 1,140,573,609

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Balance Sheets
December 31, 2017 and 2016

	2017	2016
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 86,818,184	$ 83,843,748
Accrued compensation and related items	37,260,446	34,851,454
Interest payable	9,747,294	2,021,390
Due to third party payors	17,818,402	18,665,027
Estimated self-insured professional liability	1,179,664	1,150,302
Current maturities of long-term obligations	13,019,860	12,749,886
Total current liabilities	165,843,850	153,281,807
Construction Payable	14,828,539	3,027,323
Long-Term Obligations, Net		
Bonds payable	551,211,489	515,091,030
Notes payable	22,089,282	26,381,525
Capital lease obligations	11,229,970	16,263,001
Derivative Financial Instruments	1,145,303	2,073,079
Other Liabilities	11,963,765	14,864,817
Estimated Self-Insured Professional Liability	13,082,881	11,715,201
Total liabilities	791,395,079	742,697,783
Net Assets		
Unrestricted	417,328,975	391,327,657
Temporarily restricted	7,547,204	6,206,748
Permanently restricted	341,421	341,421
Total net assets	425,217,600	397,875,826
Total liabilities and net assets	$ 1,216,612,679	$ 1,140,573,609

See notes to consolidated financial statements

Consolidated Statements of Operations
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenues		
Net patient service revenue	$ 801,836,667	$ 773,827,332
Provision for doubtful collections	(31,782,541)	(35,002,586)
Net patient service revenue less provision for doubtful collections	770,054,126	738,824,746
Other revenue	38,064,322	41,106,399
Total unrestricted revenues	808,118,448	779,931,145
Expenses		
Salaries and wages	360,720,746	345,296,234
Employee benefits	68,630,252	65,852,367
Contract labor	39,039,683	36,319,743
Medical supplies	103,013,363	100,324,519
General and administrative	122,036,220	117,809,537
Building and maintenance	41,922,317	42,794,430
Insurance	5,674,763	5,297,256
Interest	10,353,452	10,362,411
Depreciation and amortization	36,463,353	36,746,661
Total expenses	787,854,149	760,803,158
Income from operations	20,264,299	19,127,987
Other Income (Expense)		
Investment income	8,232,502	3,129,171
Loss on extinguishment of debt	-	(686,357)
Other (expense) income	(1,994,397)	44,281
Total other income	6,238,105	2,487,095
Revenues in excess of expenses from continuing operations	26,502,404	21,615,082
Change in net unrealized gains (losses) on investments other than trading securities	2,582,625	(1,430,441)
Change in net unrealized gain on derivative financial instruments	700,697	2,352,325
Net assets released from restriction for purchase of property and equipment	1,152,590	1,217,796
Deferred compensation plan liability adjustment	(512,305)	(521,260)
Other unrestricted net asset activity	(1,762,971)	(1,458,904)
Increase in unrestricted net assets from continuing operations	28,663,040	21,774,598
Loss from discontinued operations	(2,661,722)	(20,227,038)
Increase in unrestricted net assets	$ 26,001,318	$ 1,547,560

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenues in excess of expenses from continuing operations	$ 26,502,404	$ 21,615,082
Change in net unrealized gains (losses) on investments other than trading securities	2,582,625	(1,430,441)
Change in net unrealized gain on derivative financial instruments	700,697	2,352,325
Net assets released from restriction for purchase of property and equipment	1,152,590	1,217,796
Deferred compensation plan liability adjustment	(512,305)	(521,260)
Other unrestricted net asset activity	(1,762,971)	(1,458,904)
Increase in unrestricted net assets from continuing operations	28,663,040	21,774,598
Loss from discontinued operations	(2,661,722)	(20,227,038)
Increase in unrestricted net assets	26,001,318	1,547,560
Temporarily Restricted Net Assets		
Restricted gifts and donations	4,933,934	3,438,671
Net assets released from restriction for purchase of property and equipment	(1,152,590)	(1,217,796)
Net assets released from restriction used for operations	(2,480,828)	(2,075,440)
Change in value of beneficial interest in trusts and charitable gift annuity obligation	18,397	(30,449)
Change in discount of pledges receivable and provision for doubtful pledges	11,309	(496,776)
Donor restricted investment income	10,234	4,098
Increase (decrease) in temporarily restricted net assets	1,340,456	(377,692)
Permanently Restricted Net Assets		
Other permanently restricted net asset activity	-	(410,000)
Increase in net assets	27,341,774	759,868
Net Assets, Beginning	397,875,826	397,115,958
Net Assets, Ending	$ 425,217,600	$ 397,875,826

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 27,341,774	$ 759,868
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	31,782,541	36,284,410
Depreciation and amortization	36,453,533	38,098,970
Amortization of deferred financing costs	200,349	189,890
Deferred compensation plan liability adjustment	512,305	521,260
Loss on extinguishment of debt	-	686,357
Restricted contributions and grants	(3,782,795)	(1,878,488)
Earnings recognized from unconsolidated subsidiaries and affiliates	(2,040,340)	(2,335,147)
Amortization of physician income guarantees	9,105	31,530
Net realized (gain) loss on investments	(3,628,355)	710,869
Change in net unrealized (gains) losses on investments other than trading securities	(2,582,625)	1,430,441
Change in net unrealized gain on derivative financial instruments	(700,697)	(2,352,325)
Change in value of beneficial interest in trusts and charitable gift annuity	(18,397)	30,449
Change in discount on pledges receivable and provision for doubtful pledges	(11,309)	496,776
Loss on disposal of BH&WS Eastern Shore	2,911,706	-
Loss on sale of HRMC	-	16,967,178
Changes in assets and liabilities:		
Patient accounts receivable, net	(33,960,881)	(26,011,792)
Other receivables, net	(836,069)	628,056
Inventories, prepaid expenses and other current assets	514,096	(2,229,881)
Accounts payable and accrued expenses	2,880,926	(3,167,435)
Accrued compensation and related items	2,408,992	1,749,437
Interest payable	7,725,904	(309,870)
Estimated self-insured professional liability	1,397,042	573,922
Due to third party payors	(846,625)	(1,495,631)
Other noncurrent assets and liabilities	(3,415,492)	(3,889,927)
Net cash provided by operating activities	$ 62,314,688	$ 55,488,917

See notes to consolidated financial statements

Adventist HealthCare, Inc. and Controlled Entities

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Investing Activities		
Purchase of property and equipment	$ (105,592,446)	$ (45,840,372)
Increase in investments and investments in unconsolidated subsidiaries	(3,959,138)	(52,498,944)
Additions to land held for healthcare development	(6,675,741)	(4,729,611)
Proceeds from sale of land for healthcare development	7,721,976	5,938,458
Proceeds from sale of HRMC	-	47,000,550
Distributions from investments in unconsolidated subsidiaries	321,113	389,555
Purchase of investment in unconsolidated subsidiary	(674,626)	(2,435,579)
Decrease (increase) in trustee held funds and restricted cash	26,520,312	(264,548,939)
Net cash used in investing activities	(82,338,550)	(316,724,882)
Cash Flows from Financing Activities		
Payment of financing costs	(423,227)	(3,509,604)
Proceeds from issuance of bonds	40,000,000	296,979,390
Repayments on long-term obligations, net	(12,818,901)	(32,710,743)
Proceeds from capital lease facility	-	32,922
Payment of termination fee for derivative financial instrument	-	(16,875,000)
Proceeds from restricted contributions and grants	3,782,795	1,878,488
Net cash provided by financing activities	30,540,667	245,795,453
Net increase (decrease) in cash and cash equivalents	10,516,805	(15,440,512)
Cash and Cash Equivalents, Beginning	30,198,079	45,638,591
Cash and Cash Equivalents, Ending	$ 40,714,884	$ 30,198,079
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 4,138,018	$ 12,490,712
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital lease obligation incurred for equipment	$ 469,249	$ 14,740,520
Construction payable for property and equipment	$ 14,828,539	$ 3,027,323
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 extend God's care through the 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 266-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 107-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, AHC 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.

Adventist HealthCare 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 primary care and specialty care physician professional health services to the communities it serves. AHC 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 December 2017, however, AHC terminated its contract with MFA as it relates to the primary care, physiatry and endocrinology practices. The termination is effective July 2018, at which time the primary care, physiatry and endocrinology practices will be operated by AHC. The remaining specialty care practices will continue to be operated by MFA, with the respective operating results recorded in SGMC and WAH. CIS also 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. The 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.

The Urgent Care operating division is comprised of 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. The operating division started in October 2013 when 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. This agreement was terminated effective October 10, 2017 and going forward an unrelated third party will assist in management of these centers.

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 AHC, including primary care, orthopedics and other community and hospital based specialists.

Mid-Atlantic Primary Care Accountable Care Organization ("ACO") was managed by AHC and cared for approximately 13,500 patients through its 1,000 providers. The ACO was 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 calendar year 2016, with a final distribution of $3,140,869 made to its members in October 2017, after which the ACO no longer existed. AHC's portion of this payment was approximately $1,356,000 and is included in other income in the accompanying consolidated statements of operations in 2017.

The Foundations operating division is comprised of Washington Adventist Hospital Foundation, Inc., Shady Grove Medical Center Foundation, Inc., and Adventist Behavioral Health & Wellness Services Foundation, Inc. (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. Prior to March 31, 2016, the Foundations also included the operations of the Hackettstown Community Hospital Foundation, Inc. ("HRMC Foundation"). On March 31, 2016, however, AHC sold the operating assets of the HRMC Foundation 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 2017 and 2016 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 25, 2018, 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 all entities that fall under the HSCRC's jurisdiction are in compliance with applicable 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 charging authority (i.e. 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 requires rate-regulated hospitals under its jurisdiction 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 $3,043,105 and $4,183,452 as of December 31, 2017 and 2016, respectively. These price variances reflect the variance between actual patient charges and the pro-rata share of 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 charging authority. At the conclusion of the rate year, any over/under charges are amortized on the straight-line basis over the following rate year when the price variance adjustments are actually built into each entity's rate order.

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 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 even 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 2017 and 2016.

BH&WS-Rockville is subject to HSCRC rate setting. For 2016 and 2017, BH&WS-Rockville did not enter into a Global Budget Revenue Agreement. Instead, BH&WS-Rockville continues to generate charging authority based on the volume of services it provides to patients. Unit rates are set for all payers, however Medicare and Medicaid are not required to reimburse at HSCRC rates. Services provided to Medicare beneficiaries are reimbursed under the Inpatient Psychiatric Facility Prospective Payment System. Services provided to Medicaid patients are cost-settled for outpatient services and reimbursed for inpatient services at a rate of 94% percent of charges (as set forth in the Code of Maryland Regulations 10.09.06.09).

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 44% and 52% at December 31, 2017 and 2016, respectively. In addition, the Corporation's self-pay account bad debt writeoffs, net of recoveries, decreased from $31,701,926 in 2016 to $31,495,503 in 2017 which was the result of small positive trends experienced in the collection of amounts from self-pay patients in 2017.

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 net realizable value. 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. 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 2017 or 2016.

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 $221,457 in 2017 and $273,535 in 2016. Accumulated amortization of intangible assets was $3,608,016 and $3,386,559 as of December 31, 2017 and 2016, respectively.

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 $411,579 and $241,359 were written off in 2017 and 2016, respectively, 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

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 $423,227 and $3,509,604 were paid in 2017 and 2016, respectively, 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. Deferred financing costs remaining as of December 31, 2017 and 2016 totaled $5,062,797 and $4,839,919, respectively, and are included in the consolidated balance sheets as a reduction of bonds payable.

Amortization expense was $200,349 and $189,890 in 2017 and 2016, respectively, and is included as a component of interest expense in the consolidated statements of operations. Amortization for HRMC was $5,799 in 2016 and is included in loss from discontinued operations in the consolidated statements of operations. Accumulated amortization of deferred financing costs was $2,861,822 and $2,661,473 at December 31, 2017 and 2016, respectively, and is included as a component of bonds payable in the consolidated balance sheets.

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 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 a net current liability in the accompanying consolidated balance sheets.

Derivative Financial Instruments

The Corporation has an interest rate swap agreement, which is considered a derivative financial instrument, to manage its interest rate exposure on certain long-term obligations (Note 11). The interest rate swap agreement is reported at fair value in the accompanying consolidated balance sheets. The interest rate swap agreement is not designated as a cash flow hedge. Changes in fair value are reported as a component of other non-operating (expense) income. The Corporation had an interest rate swap agreement that was designated as a cash flow hedge and terminated in 2016 (Note 10).

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 they become known, and such amounts are adjusted in future periods as adjustments become finalized 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 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 2017 and 2016 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, 2017	$ 299,641,313	$ 84,024,467	$ 386,516,398	$ 31,654,489	$ 801,836,667
December 31, 2016	$ 304,061,127	$ 67,425,014	$ 396,777,024	$ 33,464,551	$ 801,727,716

Patient service revenues (net of contractual allowances and discounts) for HRMC were $22,165,831 in 2016. Patient service revenues (net of contractual allowances and discounts) for BH&WS - Eastern Shore were $5,734,553 in 2016. 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 2017 or 2016.

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 $7,748,000 in 2017 and $9,395,000 in 2016.

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 2016 have been reclassified to conform to the 2017 reporting format.

2. Adoption of Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Corporation 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 will have on its 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 has not yet determined the impact of adoption of ASU No. 2016-01 will have on its consolidated financial statements.

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 No. 2016-14 is to be applied retrospectively with transition provisions. The Corporation has not yet determined the impact of adoption of ASU No. 2016-14 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 has not yet determined the impact of adoption of ASU No. 2016-15 will have on its consolidated statement of cash flows.

Restricted Cash

During November 2016 the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 30), Restricted Cash.* ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts showing on the statement of cash flows. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The ASU should be applied using the retrospective transition method to each period presented. The Corporation has not yet determined the impact of adoption of ASU No. 2016-18 will have on its consolidated statement of cash flows.

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 will have on its consolidated financial statements.

Goodwill

During January 2017, FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. ASU No. 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU No. 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Corporation does not believe that the adoption of ASU No. 2017-04 will have a material effect on its consolidated financial statements.

3. Discontinued Operations

On March 31, 2016, the Corporation sold the operating assets of HRMC and the HRMC Foundation to an unrelated third party, and discontinued the operations of the facility. The Corporation received net proceeds from the sale of approximately $44,500,000, which was net of a contribution paid by the Corporation of $2,500,000 to the HRMC Foundation. The Corporation recorded a loss on sale of $16,967,178 in 2016 which was included in the loss from discontinued operations in the accompanying consolidated statements of operations. The largest component of the loss on sale in 2016 is related to the write-off of costs associated with HRMC's electronic medical records system, which totaled approximately $11,518,000. During 2017, the Corporation recorded a gain from discontinued operations of $249,984 related to the final settlement of receivables and payables that existed at the time of sale. The amount is included in the net loss from discontinued operations in the accompanying consolidated statements of operations.

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

	2017	2016
Total unrestricted revenues	$ -	$ 22,901,438
Total expenses	-	(22,769,646)
Other non-operating income (loss), including loss on sale in 2016 of $16,967,178	249,984	(17,063,626)
Revenues in excess of (less than) expenses	$ 249,984	$ (16,931,834)

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

	2017	2016
Total unrestricted revenues	$ -	$ 6,706,337
Total expenses	-	(10,001,541)
Other non-operating loss	(2,911,706)	-
Revenues less than expenses	$ (2,911,706)	$ (3,295,204)

The majority of the property and equipment was disposed as a result of the closure and a loss of approximately $1,611,000 and $358,000 for 2017 and 2016, respectively, was recognized and included in the loss from discontinued operations in the accompanying consolidated statements of operations. In addition, goodwill of approximately $412,000 and $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 in 2017 and 2016, respectively.

4. Investments

Short-Term Investments

The Corporation's short-term investments at December 31, 2017 and 2016 are comprised of the following:

	2017	2016
Cash and cash equivalents	$ 827,792	$ 3,653,630
Fixed Income:		
Corporate bonds	72,558,705	48,547,456
Asset backed securities	34,501,068	29,703,673
U.S. government securities, U.S. treasury notes	61,937,170	83,195,405
Mutual Funds:		
Equity - balanced	17,575,243	19,683,702
Equity - growth	10,403,051	3,810,315
Total	$ 197,803,029	$ 188,594,181

Assets Whose Use is Limited

The composition of assets whose use is limited at December 31, 2017 and 2016 is set forth in the following tables:

	2017	2016
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks:		
Cash and cash equivalents	$ 56,604,016	$ 265,926,780
U.S. government securities,		
U.S. treasury notes	166,238,057	5,388,464
U.S. government agency notes	23,234,629	-
Total	246,076,702	271,315,244
Less funds held for current liabilities	1,744,132	1,720,039
Noncurrent portion of assets held under trust indentures and capital lease purchase financing facilities	$ 244,332,570	$ 269,595,205

	2017	2016
Professional liability trust fund:		
Cash and cash equivalents	$ 228,643	$ 864,028
Mutual funds:		
Equity - balanced	801,545	9,191,703
Equity - large value	3,869,027	-
Equity - growth	1,137,927	-
Fixed income - intermediate	3,912,844	-
Fixed income - multi-sector	960,543	-
Fixed income - short term	2,147,726	3,327,795
Total	13,058,255	13,383,526
Less funds held for current liabilities	1,179,664	1,150,302
Noncurrent portion of professional liability trust fund	$ 11,878,591	$ 12,233,224
Deferred compensation fund:		
Mutual funds,		
Equity - growth	$ 1,403,371	$ 1,466,041

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, 2017 and 2016 is as follows:

	2017	2016
Debt service reserve funds	$ 28,224,212	$ 28,118,144
Principal and interest funds	29,448,690	35,363,487
Project fund	188,403,800	207,833,613
Total	$ 246,076,702	$ 271,315,244

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 2017 and 2016:

	2017	2016
Investment income:		
Interest and dividends, net	$ 4,555,234	$ 3,853,355
Interest on trustee held funds	48,913	62,244
Net realized gains (losses) on sale of investments	3,628,355	(710,869)
Total	$ 8,232,502	$ 3,204,730
Other changes in unrestricted net assets,		
Change in net unrealized gains (losses) on investments other than trading securities	$ 2,582,625	$ (1,430,441)

Investment income for HRMC was $75,559 in 2016, 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 of $60,700, interest on trustee held funds of $4,030, and interest and dividends, net of $132,229 in 2016.

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:

	2017				
	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	$ 58,471,764	$ 58,471,764	$ 58,471,764	$ -	$ -
Mutual funds:					
Fixed income – intermediate	3,970,702	3,970,702	3,970,702	-	-
Fixed income – multi - sector	960,543	960,543	960,543	-	-
Fixed income – short term	2,147,726	2,147,726	2,147,726	-	-
Equity - growth	12,960,164	12,960,164	12,960,164	-	-
Equity - large value	3,887,685	3,887,685	3,887,685	-	-
Equity - balanced	18,376,788	18,376,788	18,376,788	-	-
U.S. government securities:					
U.S. treasury notes	228,175,227	228,175,227	-	228,175,227	-
U.S. government agency notes	23,234,629	23,234,629	-	23,234,629	-
Asset backed securities	34,501,068	34,501,068		34,501,068	-
Corporate bonds and other debt securities	72,558,705	72,558,705	-	72,558,705	-
Beneficial interest in trusts	1,052,891	1,052,891	-	-	1,052,891
	$ 460,297,892	$ 460,297,892	$ 100,775,372	$ 358,469,629	$ 1,052,891
Liabilities,					
Derivative financial instruments	$ 1,145,303	$ 1,145,303	$ -	$ 1,145,303	$ -

	Carrying Value	Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Disclosed at Fair Value					
Cash and cash equivalents	$ 40,714,884	$ 40,714,884	$ 40,714,884	$	$
Pledges receivable	4,333,990	4,181,880	-	-	-
Long-term debt, excluding capital leases (Note 10):					
Fixed rate revenue bonds	526,076,559	578,746,439	-	578,746,439	-
Variable rate revenue bonds	22,985,000	22,985,000	-	22,985,000	-
Note payable	22,861,750	22,861,750	-	-	22,861,750
Secured line of credit	3,500,000	3,500,000	-	-	3,500,000

	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 – short term	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	-
Asset 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

The following table presents the fair value measurements for beneficial interest in trusts that have unobservable inputs at December 31, 2017 and 2016:

Balance, January 1, 2016	$ 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
Distributions	(276,192)
Increase in value, included in changes in temporarily restricted net assets	18,397
Balance, December 31, 2017	$ 1,052,891

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:

	2017	2016
Short-term investments (Note 4)	$ 197,803,029	$ 188,594,181
Assets whose use is limited (Note 4):		
Current portion	2,923,796	2,870,341
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	244,332,570	269,595,205
Professional liability trust fund	11,878,591	12,233,224
Deferred compensation fund	1,403,371	1,466,041
Investments held by foundations	903,644	898,178
Beneficial interest in trusts	1,052,891	1,310,686
	$ 460,297,892	$ 476,967,856

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, 2017 and 2016.

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 expenses 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 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, 2017 and 2016 consist of the following:

	2017	2016
Land and improvements	$ 32,566,971	$ 27,532,713
Buildings and improvements	457,474,313	448,226,562
Office furniture and equipment	194,126,065	183,173,853
Computer software and hardware	133,864,945	129,964,265
Equipment under capital leases	24,749,717	24,749,717
Total	842,782,011	813,647,110
Less accumulated depreciation and amortization	(474,343,085)	(440,159,685)
Total	368,438,926	373,487,425
Construction in progress	143,170,869	58,474,476
	$ 511,609,795	$ 431,961,901

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 2017 and 2016, the Corporation incurred interest expense, including amortization expense related to deferred financing costs, of approximately $12,064,000 and $12,012,000, respectively, of which approximately $1,711,000 was capitalized in 2017 and $1,650,000 was capitalized in 2016. HRMC incurred interest expense of approximately $337,000, including amortization expense related to deferred financing costs, in 2016 which is included in loss from discontinued operations in the accompanying consolidated statements of operations of which there were no amounts capitalized. Investment earnings of approximately $12,000 and $16,000 were offset against capitalized interest in 2017 and 2016, respectively.

Depreciation expense, including amortization of equipment under capital leases, was approximately $36,604,000 in 2017 and $37,825,000 in 2016. Depreciation expense, including amortization of equipment under capital leases, for HRMC was approximately $1,247,000 in 2016 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. HRMC did not incur depreciation expense in 2017. Depreciation expense, including amortization of equipment under capital leases, for BH&WS - Eastern Shore was approximately $54,000 in 2016 and is included in loss from discontinued operations in the accompanying consolidated statements of operations. BH&WS - Eastern Shore did not incur any depreciation expense in 2017. Accumulated amortization of equipment under capital lease as of December 31, 2017 and 2016 was approximately $20,314,000 and $19,354,000, respectively.

Construction in progress as of December 31, 2017 consists primarily of major renovation and expansion projects of clinical facilities. Purchase commitments related to these and other miscellaneous projects were approximately $155,237,000 at December 31, 2017. The cost of these projects is expected to be funded through the project 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, 2017 and 2016:

	2017	2016
Investment in healthcare entities	$ 6,447,367	$ 5,887,970
Investment in Premier	8,409,290	6,595,929
Investments held by foundations	808,588	799,785
Total	$ 15,665,245	$ 13,283,684

Investment in Healthcare Entities

The Corporation recognized earnings of $258,193 and $509,587 during 2017 and 2016, 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 is 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.

The Corporation has invested $259,100 in Advanced Health Collaborative, LLC for a 25% 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 $2,702,672 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:

	2017	2016
Net revenue	$ 17,682,566	$ 17,258,901
Revenues in excess of expenses	958,934	1,705,494
Total assets	30,265,624	29,861,576
Total liabilities	15,478,915	15,834,676

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 $1,782,147 and $1,727,228 during 2017 and 2016, respectively, based on the market value of the units available for exchange. In addition, the Corporation recognized earnings of $707,426 and $802,812 during 2017 and 2016, 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

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

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 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 to be received upon the completion of certain infrastructure improvements to the property, for which the Corporation and Cabin Branch are collectively responsible. Those infrastructure improvements were made during 2016 and 2017, and the Corporation received the remaining proceeds from the escrow of $4,806,542 and $7,070,374 in 2016 and 2017, respectively, as reimbursement for the infrastructure improvements made to the property.

In April 2017, the Corporation entered into a purchase and sale agreement with an unrelated third party to sell 1.6 acres of the land located in Clarksburg. The Corporation closed on the sale of the land in April 2017 at a purchase price of $1,330,000, the entire proceeds of which were received in April 2017.

The total proceeds received related to the parcels of land sold by the Corporation in June 2015 and April 2017 noted above, was $26,431,980. No gain or loss was recognized on the sale of the parcels of land as of December 31, 2017 and 2016. Total remaining land held for healthcare development in Clarksburg as of December 31, 2017 and 2016, was $47,660,070 and $48,706,305, respectively.

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% (3.06% at December 31, 2017). There were no borrowings outstanding under this line of credit as of December 31, 2017 or 2016.

10. Long Term Obligations

Long term obligations as of December 31, 2017 and 2016 are comprised of the following:

	2017	2016
Fixed rate revenue bonds	$ 526,076,559	$ 488,299,967
Variable rate revenue bonds	22,985,000	23,985,000
Secured lines of credit	3,500,000	7,032,921
Note payable	22,861,750	23,613,911
Other long term liabilities	16,683,010	21,524,170
Total obligations	592,106,319	564,455,969
Plus bond premium	10,507,079	10,869,392
Less:		
Current maturities	(13,019,860)	(12,749,886)
Deferred financing costs	(5,062,797)	(4,839,919)
Noncurrent portion of long term obligations, net	$ 584,530,741	$ 557,735,556

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	2017	2016
Adventist Healthcare, Inc.:				
Series 2011A	$ 57,205,000	5-6.25%	$ 57,205,000	$ 57,205,000
Series 2013	15,623,500	3.21%	9,886,559	11,384,967
Series 2014A	24,280,000	3.56%	22,840,000	23,565,000
Series 2016A	269,750,000	5.00%	269,750,000	269,750,000
Series 2016B	126,395,000	3.23%	126,395,000	126,395,000
Series 2017	40,000,000	2.77%	40,000,000	-
Total			$ 526,076,559	$ 488,299,967

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, 2017 and 2016. Debt service reserve funds are required on the Series 2011A, Series 2016A and Series 2017 bonds.

Variable Rate Revenue Bonds

The variable rate revenue bonds consist of the Maryland Health and Higher Educational Facilities Authority Revenue Refunding Bonds, Series 2014B, Adventist HealthCare, Inc. which had an outstanding balance of $22,985,000 and $23,985,000 as of December 31, 2017 and 2016, respectively. The Series 2014B Bonds bear interest at a variable rate of one month LIBOR plus 2.3% (3.86% at December 31, 2017). 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, 2017 and 2016.

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.

In December 2016, the variable rate revenue bonds Series 2005A and Series 2011B were refunded with the issuance of the Series 2016B bonds. The Series 2016B bonds were 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 $686,357 which is comprised of the remaining unamortized deferred financing costs related to the Series 2005A and Series 2011B bonds.

Secured Lines of Credit

The Corporation has a secured line of credit for $16,000,000 that bears interest at LIBOR plus 2.00% (3.56% at December 31, 2017) and expires on June 30, 2018. The balance on the line of credit was $3,500,000 and $7,032,921 at December 31, 2017 and 2016, 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% (3.825% as of December 31, 2017). The amortization on the note extends to December 18, 2034, however, the note matures on December 18, 2024. As of December 31, 2017 and 2016, the outstanding balance was $22,861,751 and $23,613,911, respectively.

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 2.70% - 3.40%.

Scheduled principal repayments of long-term obligations at December 31, 2017 are as follows:

Years ending December 31:	
2018	$ 13,019,860
2019	8,547,724
2020	14,048,645
2021	13,385,399
2022	13,758,949
Thereafter	529,345,742
Total	$ 592,106,319

11. Derivative Financial Instruments

The Corporation has one interest rate swap agreement, which is considered a derivative financial instrument. The agreement is for a notional amount of $50,880,000 and requires the Corporation to pay a fixed interest rate of 3.457% while receiving variable interest rates based upon 67% of LIBOR, maturing January 2021. The agreement was entered into in order to manage interest rate exposure. The principal objective of the swap agreement 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. The interest rate swap agreement is reported at fair value in the consolidated balance sheets. At December 31, 2017 and 2016, the fair value of the Corporation's derivative financial instruments was $1,145,303 and $2,073,079, respectively.

During 2016, the Corporation terminated one of its interest rate swap agreements with a notional amount of $78,000,000 that was designated as a cash flow hedge with the counterparty for $16,875,000. The Corporation borrowed the termination fee, which was included as a component of the proceeds for the 2016B bonds. No gain or loss was recognized on the termination of the swap. As of December 31, 2017 and 2016, $12,288,864 and $12,971,579, respectively, remained in unrestricted net assets. Beginning in January 2017, this amount is being amortized over the remaining term of the hedge, or through January 2035.

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 $928,616 in 2017 and $3,791,973 in 2016. For 2016, $2,548,804 is reported as a component of interest expense in the accompanying consolidated statements of operations which represents the net cash paid related to the swap agreement that was accounted for, prior to the termination, using hedge accounting. The remaining amounts for 2017 and 2016 are reported as a component of other (expense) income in the accompanying consolidated statements of operations, which is related to the swap agreement that does not qualify for hedge accounting.

The fair value of the interest rate swap agreement 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 the interest rate swap agreement are entirely recognized as a component of revenues in excess of expenses from continuing operations. The impact on the consolidated statements of operations were gains of $964,909 in 2017 and $1,035,104 in 2016.

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, 2017 and 2016, accumulated amortization of $161,837 and $143,855, 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 $20,924,709 in 2017 and $21,263,623 in 2016. Rental expense for operating leases of HRMC was $540,820 in 2016 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 is included in loss from discontinued operations in the accompanying consolidated statements of operations. 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:	
2018	$ 13,368,551
2019	12,665,499
2020	12,554,912
2021	12,649,566
2022	12,537,323
Thereafter	36,643,188
Total	$ 100,419,039

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 $3,303,484 in 2017 and $4,506,295 in 2016, 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:	
2018	$ 4,166,546
2019	3,580,156
2020	3,299,498
2021	2,922,089
2022	2,499,530
Thereafter	3,284,905
Total	$ 19,752,724

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 $7,983,472 in 2017 and $8,760,252 in 2016. Retirement plan expense for HRMC was $174,378 in 2016 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 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 $404,894 in 2017 and $300,900 in 2016. In addition, a SERP liability adjustment was recorded for $512,305 in 2017 and $521,260 in 2016, which was recognized in other changes in net assets in the consolidated statements of changes in net assets. At December 31, 2017 and 2016, the Corporation's liability for the SERP was $3,811,232 and $2,894,032, respectively, which is included in other liabilities in the consolidated balance sheets.

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 $1,451,249 in 2017 and $1,501,925 in 2016. The Corporation's liability for the 457(F) plan at December 31, 2017 and 2016 was $2,792,809 and $2,975,057, respectively, which is included in other liabilities in the consolidated balance sheets.

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 $3,633,418 in 2017 and $3,293,236 in 2016.

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 $4,000,000 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, 2017, management determined that the fully-funded professional liability reserve reported at December 31, 2017 and 2016 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 $14,262,545 and $12,865,503 at December 31, 2017 and 2016, respectively. The discount rate used in determining these liabilities was 2.5% at both December 31, 2017 and 2016.

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, 2017 and 2016, concentrations of gross receivables from third-party payors and others are as follows:

	2017	2016
Medicare	22 %	22 %
Medicaid	11	12
Other third party payers	39	45
Self-pay and others	28	21
	100 %	100 %

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

	2017	2016
Medicare	37 %	38 %
Medicaid	11	9
Other third party payers	48	49
Self-pay and others	4	4
	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:

	2017	2016
Hospital acute and ambulatory services	$ 559,232,278	$ 545,995,612
Home care services	26,374,013	19,113,770
Other health care services	196,113,197	184,260,531
Other, including general and administrative	5,702,160	10,751,002
Fundraising	432,501	682,243
Total	$ 787,854,149	$ 760,803,158

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. BH&WS Eastern Shore other healthcare services expenses were $10,001,541 in 2016. No operating expenses were incurred in 2017 for HRMC for BH&WS Eastern Shore.

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2017

	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	$ 169,434,502	$ (48,120,660)	$ 76,562,848	$ (21,307,114)	$ 15,664,304	$ (24,043,730)	$ (22,721,885)	$ 976,421	$ (102,774,082)	$ -	$ 43,670,604	$ (683,588)	$ 6,073,433	$ (10,347,048)	$ (2,292,572)	$ 1,184,117	$ 3,109,938	$ -	$ 40,714,884
Short-term investments	-	-	-	-	-	-	-	-	197,803,029	-	197,803,029	-	-	-	-	-	-	-	197,803,029
Assets whose use is limited	-	-	-	-	-	-	-	-	2,923,796	-	2,923,796	-	-	-	-	-	-	-	2,923,796
Patient accounts receivable, net of estimated allowance for doubtful collections of $22,487,000	48,088,584	26,969,168	-	4,934,224	4,822,816	3,033,771	642,956	(519)	-	-	88,491,000	-	4,276,085	442,861	-	-	-	-	93,209,946
Other receivables, net of estimated allowance for doubtful collections of $628,000	1,841,050	2,499,566	-	2,117,139	156,162	3,330,207	56,869	652,062	2,171,520	(597,738)	12,226,837	2,751,224	31,141	-	-	-	1,061,779	-	16,070,981
Due from third party payors	-	-	-	115,974	254,469	-	-	-	-	(370,443)	-	-	-	-	-	-	-	-	-
Inventories	5,118,233	3,982,471	-	90,779	93,906	-	-	125,388	-	-	9,410,777	-	-	-	-	-	-	-	9,410,777
Prepaid expenses and other current assets	676,417	861,007	-	56,871	65,765	58,059	19,950	148,175	5,658,068	-	7,544,312	-	52,908	55,828	-	-	-	-	7,653,048
Total current assets	225,158,786	(13,808,448)	76,562,848	(13,992,127)	21,057,422	(17,621,693)	(22,002,110)	1,901,527	105,782,331	(968,181)	362,070,355	2,067,636	10,433,567	(9,848,359)	(2,292,572)	1,184,117	4,171,717	-	367,786,461
Property and Equipment, Net	178,100,768	185,644,026	-	13,145,193	10,299,587	8,494,432	1,203,692	201,174	104,539,932	-	501,628,804	1,617,534	1,667,237	6,696,220	-	-	-	-	511,609,795
Assets Whose Use is Limited																			
Under trust indentures and capital lease purchase financing facilities, held by trustees and banks	841,316	239,237,934	-	490,768	444,028	-	-	-	3,318,524	-	244,332,570	-	-	-	-	-	-	-	244,332,570
Professional liability trust fund	-	-	-	-	-	-	-	-	11,878,591	-	11,878,591	-	-	-	-	-	-	-	11,878,591
Deferred compensation fund	-	-	-	-	-	-	-	-	1,403,371	-	1,403,371	-	-	-	-	-	-	-	1,403,371
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	331,900	-	-	-	96,436	-	-	-	-	-	428,336	694,688	-	-	-	-	1,199,729	-	2,322,753
Investments and Investments in Unconsolidated Subsidiaries	843,836	-	-	-	-	-	-	-	14,012,821	-	14,856,657	-	-	-	-	-	808,588	-	15,665,245
Land Held for Healthcare Development	-	-	-	-	-	-	-	-	47,660,070	-	47,660,070	-	-	-	-	-	-	-	47,660,070
Intangible Assets, Net	1,018,809	-	-	841,587	845,496	5,435,091	-	36,236	7,736	-	8,184,955	-	158,175	-	-	-	-	-	8,343,130
Deposits and Other Noncurrent Assets	1,887,263	31,350	-	26,674	43,000	15,687	46,716	32,754	858,754	-	2,942,198	5,054	30,828	200,582	-	-	2,432,031	-	5,610,693
Total assets	$ 408,182,678	$ 411,104,862	$ 76,562,848	$ 512,095	$ 32,785,969	$ (3,676,483)	$ (20,751,702)	$ 2,171,691	$ 289,462,130	$ (968,181)	$ 1,195,385,907	$ 4,384,912	$ 12,289,807	$ (2,951,557)	$ (2,292,572)	$ 1,184,117	$ 8,612,065	$ -	$ 1,216,612,679

Adventist HealthCare, Inc. and Controlled Entities

Consolidating Schedule, Balance Sheet
December 31, 2017

	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	$ 26,268,407	$ 18,582,280	$ 673,330	$ 2,828,158	$ 1,041,179	$ 1,454,804	$ 1,669,173	$ 526,843	$ 29,413,814	$ -	$ 82,457,988	$ 1,047,774	$ 1,005,852	$ 618,064	$ 128,774	$ 1,408,826	$ 150,906	$ -	$ 86,818,184
Accrued compensation and related items	13,433,344	9,658,349	-	2,523,983	2,764,208	211,138	214,677	236,808	6,595,689	(597,738)	35,040,458	607,017	1,317,213	295,758	-	-	-	-	37,260,446
Interest payable	-	-	-	-	-	-	-	-	9,747,294	-	9,747,294	-	-	-	-	-	-	-	9,747,294
Due to third party payors	10,850,189	7,169,320	67,547	101,789	-	-	-	-	-	(370,443)	17,818,402	-	-	-	-	-	-	-	17,818,402
Estimated self-insured professional liability	-	-	-	-	-	-	-	-	1,179,664	-	1,179,664	-	-	-	-	-	-	-	1,179,664
Current maturities of long-term obligations	5,044,073	2,770,640	-	165,859	-	775,089	-	-	4,109,705	-	12,865,366	-	-	154,494	-	-	-	-	13,019,860
Total current liabilities	55,596,013	38,180,589	740,877	5,619,789	3,805,387	2,441,031	1,883,850	763,651	51,046,166	(968,181)	159,109,172	1,654,791	2,323,065	1,068,316	128,774	1,408,826	150,906	-	165,843,850
Construction Payable	1,786,159	12,402,322	-	92,500	94,556	14,286	-	-	282,306	-	14,672,129	-	152,030	4,380	-	-	-	-	14,828,539
Long-Term Obligations, Net																			
Bonds payable	123,749,836	379,651,523	-	5,954,585	4,293,277	-	-	-	37,577,507	-	551,226,728	-	-	(15,239)	-	-	-	-	551,211,489
Notes payable	-	-	-	-	-	-	-	-	17,688,481	-	17,688,481	-	-	4,400,801	-	-	-	-	22,089,282
Capital lease obligations	2,661,743	1,191,231	-	776,029	-	1,401,975	-	-	5,198,992	-	11,229,970	-	-	-	-	-	-	-	11,229,970
Derivative Financial Instruments	-	-	-	-	-	-	-	-	1,145,303	-	1,145,303	-	-	-	-	-	-	-	1,145,303
Other Liabilities	1,544,428	-	-	-	-	-	549,178	-	9,816,737	-	11,910,343	-	-	-	-	-	53,422	-	11,963,765
Estimated Self-Insured Professional Liability	-	-	-	-	-	-	-	-	13,082,881	-	13,082,881	-	-	-	-	-	-	-	13,082,881
Total liabilities	185,338,179	431,425,665	740,877	12,442,903	8,193,220	3,857,292	2,433,028	763,651	135,838,373	(968,181)	780,065,007	1,654,791	2,475,095	5,458,258	128,774	1,408,826	204,328	-	791,395,079
Net Assets (Deficit)																			
Unrestricted	222,945,080	(21,043,903)	75,821,971	(11,930,808)	24,590,615	(7,533,775)	(23,184,730)	1,408,040	152,816,329	-	413,888,819	2,095,431	9,814,712	(8,409,815)	(2,421,346)	(224,709)	2,585,883	-	417,328,975
Temporarily restricted	(100,581)	723,100	-	-	2,134	-	-	-	807,428	-	1,432,081	293,269	-	-	-	-	5,821,854	-	7,547,204
Permanently restricted	-	-	-	-	-	-	-	-	-	-	-	341,421	-	-	-	-	-	-	341,421
Total net assets (deficit)	222,844,499	(20,320,803)	75,821,971	(11,930,808)	24,592,749	(7,533,775)	(23,184,730)	1,408,040	153,623,757	-	415,320,900	2,730,121	9,814,712	(8,409,815)	(2,421,346)	(224,709)	8,407,737	-	425,217,600
Total liabilities and net assets	$ 408,182,678	$ 411,104,862	$ 76,562,848	$ 512,095	$ 32,785,969	$ (3,676,483)	$ (20,751,702)	$ 2,171,691	$ 289,462,130	$ (968,181)	$ 1,195,385,907	$ 4,384,912	$ 12,289,807	$ (2,951,557)	$ (2,292,572)	$ 1,184,117	$ 8,612,065	$ -	$ 1,216,612,679

Adventist Healthcare, Inc. and Controlled Entities
Consolidating Schedule, Statement of Operations
Year Ended December 31, 2017

	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.
Unrestricted Revenues																			
Net patient service revenue	$ 375,793,489	$ 261,758,259	$ -	$ 42,080,118	$ 48,151,057	$ 30,871,761	$ 11,078,330	$ 38,286	$ -	$ (100,874)	$ 769,670,426	$ 818,945	$ 27,207,082	$ 4,156,714	$ -	$ -	$ -	$ (16,500)	$ 801,836,667
Provision for doubtful collections	(13,378,429)	(12,611,472)	-	(1,828,140)	(655,338)	(2,097,280)	(650,236)	(131,895)	-	-	(31,352,790)	(112,355)	(42,553)	(274,843)	-	-	-	-	(31,782,541)
Net patient service revenue less provision for doubtful collections	362,415,060	249,146,787	-	40,251,978	47,495,719	28,774,481	10,428,094	(93,609)	-	(100,874)	738,317,636	706,590	27,164,529	3,881,871	-	-	-	(16,500)	770,054,126
Other revenue	7,490,548	3,755,767	-	6,313,442	3,070,951	1,788,034	220,297	6,866,110	6,113,830	(10,653,269)	24,965,710	10,903,927	260,955	150	-	1,356,468	1,946,154	(1,369,042)	38,064,322
Total unrestricted revenues	369,905,608	252,902,554	-	46,565,420	50,566,670	30,562,515	10,648,391	6,772,501	6,113,830	(10,754,143)	763,283,346	11,610,517	27,425,484	3,882,021	-	1,356,468	1,946,154	(1,385,542)	808,118,448
Expenses																			
Salaries and wages	122,047,800	97,092,286	-	26,452,333	28,307,040	15,571,770	9,608,695	2,333,144	34,239,094	(2,060,361)	333,591,801	5,956,279	17,868,478	2,914,752	340,586	48,850	-	-	360,720,746
Employee benefits	25,662,739	16,874,104	-	5,161,671	5,142,120	2,952,109	351,085	422,926	7,185,299	(351,542)	63,400,511	1,280,600	3,432,002	445,078	63,799	8,262	-	-	68,630,252
Contract labor	18,763,758	13,844,823	-	2,538,947	312,986	531,457	-	747,671	259,318	(64,709)	36,934,251	1,437,866	402,529	418,974	-	-	-	(153,937)	39,039,683
Medical supplies	55,251,030	41,406,956	-	1,360,408	1,566,646	1,142,348	746,210	849,253	49,752	(64,820)	102,307,783	85,141	406,590	213,849	-	-	-	-	103,013,363
General and administrative	33,256,315	27,437,502	-	3,789,842	3,296,744	5,001,846	3,486,150	1,158,968	45,660,458	(5,867,109)	117,220,716	1,725,367	1,158,556	1,232,698	153,593	459,063	1,294,806	(1,208,579)	122,036,220
Building and maintenance	22,580,781	7,805,978	-	2,384,851	1,499,134	5,045,272	376,233	514,655	1,967,342	(2,345,603)	39,828,643	307,054	731,810	1,077,236	300	300	-	(23,026)	41,922,317
Insurance	2,101,469	1,988,032	-	344,492	140,095	630,688	164,407	4,213	43,309	-	5,416,705	28,892	75,738	153,428	-	-	-	-	5,674,763
Interest	5,632,231	1,330,250	-	263,249	158,289	84,581	-	-	2,719,498	-	10,188,098	-	-	165,354	-	-	-	-	10,353,452
Depreciation and amortization	15,188,646	5,205,877	-	1,285,983	906,729	1,312,531	253,095	75,768	11,505,885	-	35,734,514	160,196	251,761	316,882	-	-	-	-	36,463,353
IT depreciation	5,663,083	3,835,214	-	742,097	509,355	94,123	-	30,213	(10,956,906)	-	(82,821)	-	82,821	-	-	-	-	-	-
IT services	19,972,695	12,812,683	-	1,903,545	2,133,066	260,713	-	139,555	(37,940,639)	-	(718,382)	-	718,382	-	-	-	-	-	-
Shared Services	15,063,059	9,385,490	-	1,718,548	1,468,869	442,566	557,721	66,039	(29,398,034)		(695,742)	278,867	368,827	48,048			-	-	-
Management fees	8,656,970	5,857,705	-	1,615,414	1,417,193	20,923	492,538	145,592	(19,571,019)	-	(1,364,684)	338,708	875,479	150,497	-	-	-	-	-
Total expenses	349,840,576	244,876,900	-	49,561,380	46,858,266	33,090,927	16,036,134	6,487,997	5,763,357	(10,754,144)	741,761,393	11,598,970	26,372,973	7,136,796	558,278	516,475	1,294,806	(1,385,542)	787,854,149
Income (loss) from operations	20,065,032	8,025,654	-	(2,995,960)	3,708,404	(2,528,412)	(5,387,743)	284,504	350,473	1	21,521,953	11,547	1,052,511	(3,254,775)	(558,278)	839,993	651,348	-	20,264,299
Other Income (Expense)																			
Investment income (loss)	4,046,655	4,018	-	3,492	349,920	-	-	13,674	3,636,073	-	8,053,832	14,074	135,858	-	-	-	28,738	-	8,232,502
Other (expense) income	(504,187)	(2,209,514)	249,985	(2,838,286)	(16,509)	-	-	-	662,392	2,661,722	(1,994,397)	-	-	-	-	-	-	-	(1,994,397)
Total other income (expense)	3,542,468	(2,205,496)	249,985	(2,834,794)	333,411	-	-	13,674	4,298,465	2,661,722	6,059,435	14,074	135,858	-	-	-	28,738	-	6,238,105
Revenues in excess of (less than) expenses from continuing operations	23,607,500	5,820,158	249,985	(5,830,754)	4,041,815	(2,528,412)	(5,387,743)	298,178	4,648,938	2,661,723	27,581,388	25,621	1,188,369	(3,254,775)	(558,278)	839,993	680,086	-	26,502,404
Change in net unrealized gains (losses) on investments other than trading securities	770,559	(674,580)	-	548	58,735	-	-	(2,025)	2,434,283	-	2,587,520	(9,815)	24,570	-	-	-	(19,650)	-	2,582,625
Change in net unrealized gain on derivative financial instruments	-	-	-	-	-	-	-	-	700,697	-	700,697	-	-	-	-	-	-	-	700,697
Transfer from (to) subsidiaries	648,577	423,286	2,272,747	1,611,358	50,255	-	-	-	(5,065,250)	-	(59,027)	-	-	-	-	-	-	59,027	-
Net assets released from restriction for purchase of property and equipment	30,957	1,078,789	-	-	42,844	-	-	-	-	-	1,152,590	-	-	-	-	-	-	-	1,152,590
Deferred compensation plan liability adjustment	-	-	-	-	-	-	-	-	(512,305)	-	(512,305)	-	-	-	-	-	-	-	(512,305)
Other unrestricted net asset activity	(1)	6	-	2	(185,835)	8	797	-	(1,518,108)	(1)	(1,703,132)	(1)	(4)	(6)	-	(801)	-	(59,027)	(1,762,971)
Increase (decrease) in unrestricted net assets from continuing operations	25,057,592	6,647,659	2,522,732	(4,218,846)	4,007,814	(2,528,404)	(5,386,946)	296,153	688,255	2,661,722	29,747,731	15,805	1,212,935	(3,254,781)	(558,278)	839,192	660,436	-	28,663,040
Loss from discontinued operations	-	-	-	-	-	-	-	-	-	(2,661,722)	(2,661,722)	-	-	-	-	-	-	-	(2,661,722)
Increase (decrease) in unrestricted net assets	$ 25,057,592	$ 6,647,659	$ 2,522,732	$ (4,218,846)	$ 4,007,814	$ (2,528,404)	$ (5,386,946)	$ 296,153	$ 688,255	$ -	$ 27,086,009	$ 15,805	$ 1,212,935	$ (3,254,781)	$ (558,278)	$ 839,192	$ 660,436	$ -	$ 26,001,318

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Balance Sheet
December 31, 2017

	Shady Grove Medical Center Foundation, Inc.	Washington Adventist Hospital Foundation, Inc.	Behavioral Health & Wellness Services Foundation, Inc.	Eliminating Entries	Combined Adventist HealthCare, Inc. Foundations
Assets					
Current Assets					
Cash and cash equivalents	$ 2,116,816	$ 755,937	$ 237,185	$ -	$ 3,109,938
Current portion pledges receivable, less allowance for doubtful pledges of $65,000	457,156	551,283	53,340	-	1,061,779
Total current assets	2,573,972	1,307,220	290,525	-	4,171,717
Cash and Cash Equivalents Temporarily Restricted for Capital Acquisitions	-	1,160,963	38,766	-	1,199,729
Investments	802,871	5,717	-	-	808,588
Beneficial Interest in Trusts	95,055	431,162	-	-	526,217
Noncurrent Portion of Pledges Receivable	659,364	1,246,450	-	-	1,905,814
Total assets	$ 4,131,262	$ 4,151,512	$ 329,291	$ -	$ 8,612,065
Liabilities and Net Assets					
Current Liabilities					
Accounts payable and accrued expenses	$ 19,866	$ 131,040	$ -	$ -	$ 150,906
Liability to Charitable Gift Annuitants	53,422	-	-	-	53,422
Total liabilities	73,288	131,040	-	-	204,328
Net Assets					
Unrestricted	2,162,088	276,285	147,510	-	2,585,883
Temporarily restricted	1,895,886	3,744,187	181,781	-	5,821,854
Total net assets	4,057,974	4,020,472	329,291	-	8,407,737
Total liabilities and net assets	$ 4,131,262	$ 4,151,512	$ 329,291	$ -	$ 8,612,065

Adventist HealthCare, Inc. - Foundations

Combining Schedule, Statement of Operations and Changes in Net Assets
Year Ended December 31, 2017

	Shady Grove Medical Center Foundation, Inc.	Washington Adventist 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	$ 630,669	$ 111,425	$ 31,376	$ -	$ 773,470
Investment income	28,500	-	238	-	28,738
Net assets released from restrictions	(219,861)	1,304,552	87,993	-	1,172,684
Total unrestricted revenues, gains, and other support	439,308	1,415,977	119,607	-	1,974,892
Expenses					
General and administrative expenses	90,104	120,306	43,746	-	254,156
In-kind gifts expended	161,164	17,181	-	-	178,345
Total expenses before transfers to the hospitals	251,268	137,487	43,746	-	432,501
Transfers to the hospitals	(314,189)	1,131,494	45,000	-	862,305
Total expenses	(62,921)	1,268,981	88,746	-	1,294,806
Revenues in excess of expenses	502,229	146,996	30,861	-	680,086
Change in net unrealized losses on investments other than trading securities	(19,650)	-	-	-	(19,650)
Increase in unrestricted net assets	482,579	146,996	30,861	-	660,436
Unrestricted net assets, beginning	1,679,509	129,289	116,649	-	1,925,447
Unrestricted net assets, ending	$ 2,162,088	$ 276,285	$ 147,510	$ -	$ 2,585,883
Changes in Temporarily Restricted Net Assets					
Contributions, net	$ 310,736	$ 1,486,275	$ 107,077	$ -	$ 1,904,088
Net assets released from restrictions	219,861	(1,304,552)	(87,993)	-	(1,172,684)
Change in discount of pledges receivable and provision for doubtful pledges	50,057	(38,581)	(167)	-	11,309
Investment income and unrealized gain on investments	10,234	-	-	-	10,234
Increase in temporarily restricted net assets	590,888	143,142	18,917	-	752,947
Temporarily restricted net assets, beginning	1,304,998	3,601,045	162,864	-	5,068,907
Temporarily restricted net assets, ending	$ 1,895,886	$ 3,744,187	$ 181,781	$ -	$ 5,821,854