GLENS FALLS HOSPITAL

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

GLENS FALLS HOSPITAL

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Governors
Glens Falls Hospital:

We have audited the accompanying consolidated financial statements of Glens Falls Hospital (the Hospital), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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 U.S. generally accepted accounting principles; 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 auditors' 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 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 Glens Falls Hospital as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Albany, New York
May 24, 2018

GLENS FALLS HOSPITAL

Consolidated Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 4,729,854	6,648,762
Short-term investments	266,358	4,755,532
Patient accounts receivable, less allowance for uncollectibles of $54,242,000 and $16,290,000 in 2017 and 2016, respectively	57,720,247	47,762,595
Other receivables	172,823	110,992
Inventories	5,535,870	4,510,288
Prepaid expenses	3,388,298	4,015,053
Total current assets	71,813,450	67,803,222
Assets whose use is limited:		
By board designation	78,448,003	71,419,447
By contracts for deferred compensation	7,011,917	6,334,434
By professional liability trust agreement	6,725,644	5,685,621
By bond indenture	29,329	3,652,188
By donor and grant restriction	3,219,407	2,923,594
	95,434,300	90,015,284
Interest in net assets of Glens Falls Hospital Foundation	3,586,171	4,081,402
Other assets	8,455,938	6,882,434
Property and equipment, less accumulated depreciation and amortization	122,348,158	119,245,227
Total assets	$ 301,638,017	288,027,569

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	2017	2016
Current liabilities:		
Line of credit	$ 10,000,000	—
Current portion of long-term debt	14,230,020	5,171,426
Accounts payable and accrued expenses	56,212,443	33,111,477
Accrued salaries, wages, and related items	14,266,371	15,346,744
Estimated third-party settlements	6,793,030	2,766,146
Total current liabilities	101,501,864	56,395,793
Long-term debt, net of current portion and deferred debt issuance costs	68,147,538	73,306,870
Other long-term liabilities:		
Deferred compensation	7,998,708	6,827,829
Professional liability	17,175,773	16,876,420
Accrued benefit obligations	282,782	311,472
Estimated third-party settlements	400,000	400,000
Asset retirement obligations	445,289	467,554
	26,302,552	24,883,275
Net assets:		
Unrestricted	98,880,485	126,436,635
Temporarily restricted	5,298,906	5,498,324
Permanently restricted	1,506,672	1,506,672
	105,686,063	133,441,631
Total liabilities and net assets	$ 301,638,017	288,027,569

GLENS FALLS HOSPITAL

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2017 and 2016

	2017	2016
Revenue, gains, and other support:		
Patient service revenue, net of contractual allowances	$ 331,269,635	332,430,795
Less provision for bad debts and uncollectible accounts	39,326,000	13,015,830
Net patient service revenue	291,943,635	319,414,965
Other operating revenue	14,616,836	12,956,561
Net assets released from restrictions	1,192,621	375,063
Total revenue, gains, and other support	307,753,092	332,746,589
Expenses:		
Salaries and wages	154,386,514	156,360,304
Employee benefits	27,757,418	29,245,737
Supplies and other	147,408,010	131,031,188
Depreciation and amortization	16,054,843	15,116,341
Interest	2,750,795	2,528,717
New York State assessment	1,301,901	1,351,276
Total expenses	349,659,481	335,633,563
Operating loss	(41,906,389)	(2,886,974)
Nonoperating gains (losses):		
Net investment income	11,556,134	6,596,177
Gain (loss) on disposal of assets, net	119,512	(1,657,174)
Total nonoperating gains, net	11,675,646	4,939,003
Revenue (under) over expenses	(30,230,743)	2,052,029
Unrestricted net assets:		
Revenue (under) over expenses	(30,230,743)	2,052,029
Net actuarial gain on accrued postretirement benefit obligations	(80,217)	47,153
Net assets released from restrictions used for purchases of property and equipment	2,754,810	1,323,047
(Decrease) increase in unrestricted net assets	(27,556,150)	3,422,229
Temporarily restricted net assets:		
Restricted gifts and distribution from Glens Falls Hospital Foundation	3,820,802	1,921,705
Change in interest in net assets of Glens Falls Hospital Foundation	(495,231)	106,743
Restricted income	80,363	147,617
Net assets released from restrictions	(3,947,431)	(1,698,110)
Change in net unrealized gains and losses on investments	342,079	6,441
(Decrease) increase in temporarily restricted net assets	(199,418)	484,396
Change in net assets	(27,755,568)	3,906,625
Net assets, beginning of year	133,441,631	129,535,006
Net assets, end of year	$ 105,686,063	133,441,631

See accompanying notes to consolidated financial statements.

GLENS FALLS HOSPITAL

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Operating activities:		
Change in net assets	$ (27,755,568)	3,906,625
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,054,843	15,116,341
Nonoperating activities and restricted gifts and income	(8,790,697)	(7,822,213)
Change in net unrealized gains and losses on investments	(7,008,681)	(849,727)
(Gain) loss on disposal of assets, net	(119,512)	1,657,174
Change in interest in net assets of Glens Falls Hospital Foundation	495,231	(106,743)
Change in operating assets:		
Patient and other accounts receivable	(10,019,483)	(15,135,472)
Inventories and prepaid expenses	(398,827)	496,276
Other assets	(437,000)	(779,000)
Change in operating liabilities:		
Accounts payable and accrued expenses	16,007,794	1,556,137
Accrued salaries, wages, and related items	(1,080,373)	(1,897,343)
Estimated third-party settlements	4,026,884	1,059,493
Professional liability reserve	299,353	1,440,569
Asset retirement obligations	(22,265)	(23,377)
Accrued benefit obligations	(28,690)	(78,067)
Deferred compensation liability	493,396	493,395
Net cash used in operating activities	(18,283,595)	(965,932)
Investing activities:		
Cash received from sale of property and equipment	180,841	846,330
Cash paid for property and equipment	(12,125,931)	(21,677,480)
Cash received from investments in joint ventures	1,466,334	1,308,521
Cash paid for purchase of investments	(31,479,348)	(59,415,997)
Cash received from sale of investments	40,522,364	63,094,632
Net cash used in investing activities	(1,435,740)	(15,843,994)
Financing activities:		
Notes payable to bank	19,000,000	—
Issuance of new debt	—	19,350,795
Payments on long-term debt	(5,100,738)	(18,765,274)
Cash received from restricted income and gifts	3,901,165	2,069,323
Net cash provided by financing activities	17,800,427	2,654,844
Net decrease in cash and cash equivalents	(1,918,908)	(14,155,082)
Cash and cash equivalents, beginning of year	6,648,762	20,803,844
Cash and cash equivalents, end of year	$ 4,729,854	6,648,762
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,750,795	2,528,717
Equipment acquired not yet paid	7,093,172	7,885,133

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

Glens Falls Hospital (Hospital), a voluntary, not-for-profit charitable corporation, incorporated in the State of New York, operates a comprehensive healthcare system serving Warren, Washington, Northern Saratoga, Essex and Hamilton counties including a general medical and surgical hospital in Glens Falls, New York. The Hospital established Adirondack Health Services (AHS) as sole member of the Hospital. The Hospital and AHS are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

Effective May 2013, the Hospital formed Pruyn Pavilion, LLC (Pavilion), a single member LLC, to purchase the Pruyn Pavilion, which includes four floors of medical space that is adjoined to the hospital. At the time of the transaction the Hospital was using a portion of space under a capital lease and through the Pavilion purchased the entire facility assuming a loan of the lessor, termination of the existing capital lease and payment of additional consideration. On December 31, 2016, the Hospital dissolved the Pavilion and transferred all assets held and liabilities incurred to the Hospital. The activities of Pruyn Pavilion, LLC have been consolidated into the Hospital's consolidated financial position and its results of operations for the years ended December 31, 2017 and 2016.

Following is a summary of the Hospital's significant accounting policies:

(a) Basis of Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954 which addresses the accounting for healthcare entities. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

The Hospital considers events or transactions that occur after the balance sheet date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on May 24, 2018 and subsequent events have been evaluated through that date (See note 13).

(b) Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates and assumptions include the valuation of investments, the allowance for uncollectible accounts, estimated third-party payor settlements, self-insured reserves, and asset retirement obligations. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

(c) 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. 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 and changes in net assets as net assets released from restrictions.

The New York Prudent Management of Institutional Funds Act (NYPMIFA or Act) provides standards of fund management for those charged with governance of institutional or endowment funds in New York State. Among its various provisions, it requires that those responsible for managing institutional funds adopt a written investment policy; requires diversification of investments; and provides institutions with a process by which donor restrictions can be lifted. The Act allows an institution to determine the appropriate level of endowment expenditure, subject to donor-imposed restrictions expressed in the gift instrument. However, it establishes a rebuttable presumption of imprudence if such expenditure in any year is greater than 7% of the fair market value of an endowment fund.

The Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any.

(d) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding amounts whose use is limited by internal designation or other arrangements under trust agreements or by donors.

(e) Assets Whose Use is Limited by Board Designation

Assets whose use is limited by board designation are investments earmarked by the Board of Governors to be used by the Hospital for future capital improvements. The Board has the discretion to approve any investments to also be used for future operational expenses.

(f) Patient Service Revenue

Patient service revenue and accounts receivable are reported at the estimated net realizable amounts from third-party payors, patients and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(g) Charity Care and Provision for Bad Debts

The Hospital provides care to patients who meet certain criteria under its Patient Financial Assistance Program without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. The cost of charity care was approximately $7,900,000 and $6,788,000 for 2017 and 2016, respectively, as determined based on the application of a ratio of overall Hospital costs to patient charges. Included in patient service revenues for 2017 and 2016 is approximately $2,981,000 and $2,612,000, respectively, from uncompensated care pools and income from restricted endowments.

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party agreements. Additions to the allowance for estimated uncollectible accounts are made by means of the provision for bad debts. Patient accounts receivable are reflected net of an allowance for doubtful accounts. Accounts written off as uncollectible are deducted from the allowance. In evaluating the collectability of patient accounts receivable, the Hospital analyzes its past collection history, business and economic conditions, trends in governmental and employee health care coverage and other collection indicators for each of its major categories of revenue by payor to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major categories of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, the Hospital, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if applicable) and the amounts actually collected against the allowance for doubtful accounts. In addition to the review of the categories of revenue, management monitors the write offs against established allowances to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

The Hospital annually conducts a comprehensive assessment of the community and charitable benefits it provides. The most recent assessment was completed in fall 2017 and culminated with the issuance of the Glens Falls Hospital Community Service Plan, a copy of which is available from management upon request.

(h) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, patient and other accounts receivable, accounts payable, and accrued expenses approximate fair value, given the short term nature of these accounts. Long-term debt instruments are carried at cost. Fair values are estimated based on quoted market prices for same or similar issues of like duration.

(i) Investments and Investment Income

Investments are reported at fair value. ASC 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 4 for a discussion of fair value measurements.

Investment income, including interest, dividends, and realized gains (losses) derived from operating cash, mortgage and bond indenture escrow, professional liability trust and a portion of the board designated funds are included in other operating revenue. Investment income, including interest, dividends, and realized gains (losses) on the remaining portion of board designated funds and the change in unrealized gains (losses) on all unrestricted investments are included in nonoperating gains (losses). All investment income, including changes in unrealized gains (losses) on assets which are associated with temporarily or permanently restricted donor funds are recorded as a component of temporarily restricted net assets.

(j) Revenue over (under) Expenses

The consolidated statements of operations and changes in net assets include a performance indicator, revenue over (under) expenses. Changes in unrestricted net assets which are excluded from the determination of revenue over (under) expenses, consistent with generally accepted accounting principles, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets and changes in the actuarial gains or losses on accrued postretirement benefit obligation).

(k) Property and Equipment

Property and equipment are recorded at cost or, if received as a gift, at fair market value established at the date of the gift. The carrying amount of assets and related accumulated depreciation are removed from the accounts when such assets are disposed of and the resulting gain or loss is included in operations. Depreciation and amortization of property and equipment, including plant and equipment under capital leases, are computed using the straight-line method over the estimated useful lives of the assets or lease periods, ranging from 5 to 40 years, as appropriate. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized in 2017 or 2016.

Gifts of capital 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 capital 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 capital assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired assets are placed in service.

(l) Investments in Joint Ventures

The Hospital has investments in joint ventures to provide ophthalmology, imaging, and group purchasing services. The Hospital’s investments in these joint ventures, which are classified in the consolidated balance sheets as other assets, represent the net amount of its capital contributions to the joint ventures, adjusted for cash distributions, and its equity in the net income of the joint ventures since inception.

(m) Functional Expenses

The Hospital provides general health care services to residents within its geographic location including medical and surgical care, emergency care and outpatient surgery. Expenses related to providing health care services for 2017 and 2016 are approximately $271,625,000 and $263,502,000, respectively.

(n) Tax Status

The Hospital and Pavilion are classified for tax purposes as organizations under 501(c)(3) of the Internal Revenue Code (the Code), and as such are generally exempt from income taxes under the provisions of Section 501(a) of the Code.

The Hospital and Pavilion recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than fifty percent likely of being realized upon settlement. Changes in recognition in measurement are reflected in the period in which the change in judgment occurs. The Hospital and Pavilion did not recognize the effect of any uncertain income tax positions in either 2017 or 2016.

On December 22, 2017, the President signed into law H.R.I, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations. The Hospital has reviewed these provisions and the potential impact and concluded the enactment of H.R.I will not have a material effect on the operations of the Hospital.

(2) Revenue and Third-Party Reimbursement Agreements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Inpatient acute care services rendered are paid at prospectively determined rates per discharge in accordance with the Federal Prospective Payment System (PPS) for Medicare and generally at negotiated or otherwise pre-determined amounts under the provisions of the New York Health Care Reform Act (HCRA) for all other payors. Inpatient nonacute and outpatient services are paid at various rates under different arrangements with third-party payors, commercial insurance carriers, and health maintenance organizations (HMOs). The basis for payment under these agreements includes prospectively determined per diem rates, discounts from established charges, fee schedules, and reasonable cost. Medicare outpatient services are paid under a prospective payment system whereby services are reimbursed on a predetermined amount for each outpatient procedure, subject to various mandated modifications.

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge varies by payor and applies to a broader array of health care services. Also, certain payors are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the Department of Health (DOH).

The Hospital is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the consolidated financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment to patient service revenue as final adjustments become known or as years are no longer subject to audits, reviews, and investigations. Final Medicare settlements have been determined for all years except 2013 through 2017. During 2017 and 2016, net patient service revenue was impacted positivity by approximately $65,000 and $761,000, respectively, due to actual settlements and changes in assumptions underlying estimated future settlements.

(Continued)

The laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from the Medicare and Medicaid programs. The Hospital believes it is in compliance with applicable laws and regulations and retroactive adjustments, if any, would not be material to the consolidated financial position or results of operations of the Hospital. The Hospital has classified a portion of the accrual for estimated third-party payor settlements as long term liabilities because such amounts, by their nature or by virtue of regulations or legislation will not be paid within one year.

A summary of patient service revenue, net of contractual adjustments and discounts, follows:

		2017	2016
Patient service revenue	$	1,098,567,323	1,093,279,193
Less provisions for contractual adjustments under third-party reimbursement programs and discounts		(767,297,688)	(760,848,398)
	$	331,269,635	332,430,795

Gross patient service revenue by payor type for the year ended December 31 is as follows:

	2017	2016
Medicare	33%	34%
Medicaid	2	4
Blue Cross	11	10
Commercial and HMO insurers	52	49
Self pay and other	2	3
	100%	100%

(3) Patient Accounts Receivable and Related Allowance for Uncollectibles

Patient accounts receivable are reflected net of an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, the Hospital analyzes its past collection history, business and economic conditions, trends in governmental and employee health care coverage and other collection indicators for each of its major categories of revenue by payor to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major categories of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, the Hospital, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if applicable) and the amounts actually collected against the allowance for doubtful accounts. In addition to the review of the categories of revenue, management monitors the write offs against established allowances to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

Patient accounts receivable, prior to adjustment for the allowance for doubtful accounts, is summarized as follows at December 31:

		2017	2016
Patient accounts receivable:			
Patients	$	4,757,587	8,646,920
Commercial		70,468,878	46,381,073
Government		36,295,938	8,395,799
Other		439,844	628,803
	$	111,962,247	64,052,595

Allowance for doubtful accounts is summarized as follows at December 31:

		2017	2016
Allowance for doubtful accounts:			
Patients	$	3,150,000	5,589,000
Third-party payors, including amounts due from patients		51,092,000	10,701,000
	$	54,242,000	16,290,000

The allowance for doubtful accounts increased by $38.0 million from December 31, 2016 to December 31, 2017 due to patient accounts receivable collection issues sustained by the Hospital as a result of a revenue cycle conversion.

(4) 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 table.

		2017	2016
By board designation:			
Cash and cash equivalents	$	1,901,739	190,751
Equity securities mutual funds:			
Domestic		39,748,870	36,118,868
International		11,590,392	9,355,746
Fixed income mutual funds:			
Domestic		2,256,845	2,007,815
International		—	553,051
Corporate bonds		14,376,446	14,665,622
U.S. government and agency securities		5,537,533	5,247,002
Commingled funds		3,036,178	3,280,592
	$	78,448,003	71,419,447

(Continued)

		2017	2016
By deferred compensation agreement:			
Equity securities mutual funds:			
Domestic	$	7,011,917	6,334,434
	$	7,011,917	6,334,434
By professional liability trust agreement:			
Cash and cash equivalents	$	206,399	230,218
Fixed income mutual funds:			
Domestic		6,519,245	5,455,403
	$	6,725,644	5,685,621
By bond indenture:			
Cash and cash equivalents	$	29,329	3,652,188
	$	29,329	3,652,188
By donor and grant restrictions:			
Cash and cash equivalents	$	111,058	63,122
Equity securities mutual funds:			
Domestic		1,573,479	1,426,488
International		367,675	315,576
Fixed income mutual funds:			
Domestic		757,230	755,526
Commingled funds		409,965	362,882
	$	3,219,407	2,923,594

As a result of various risks and uncertainties associated with certain investment securities maintained by the Hospital, it is possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets.

Unrestricted investment income and net realized and unrealized gains for operating funds and assets whose use is limited are comprised of the following at December 31:

		2017	2016
Income (included in other operating revenue):			
Interest and dividend income	$	227,157	476,390
Net realized losses on sales of securities		(657)	(39,049)
	$	226,500	437,341
Income (included in nonoperating revenue):			
Interest and dividend income	$	1,145,654	1,006,208
Equity in net income of joint ventures		2,602,838	2,232,237
Net realized gains on sales of securities		1,141,040	2,514,446
Net change in unrealized gains on trading investments		6,666,602	843,286
	$	11,556,134	6,596,177

The Hospital estimates fair value based on a valuation framework that uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Financial assets recorded at fair value by the Hospital on a recurring basis are investments. The three levels of fair value hierarchy are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies, and investments determined to have a readily determinable fair value but have limitations as to timing of liquidation.

Level 3: Unobservable inputs that are supported by little or no market activity and require significant management judgment or estimation in the determination of fair value.

Fair values for marketable equity securities and mutual funds are based on quoted market prices on an active exchange (Level 1). The Hospital values certain bonds and notes issued by governmental entities or agencies and corporate bonds using matrix pricing obtained from a third party vendor to determine fair value. Matrix prices are based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security (Level 2).

(Continued)

The Hospital's investment portfolio includes a commingled fund that management values based on the NAV reported by the fund managers, and has been determined by management to have a readily determinable fair value based on access to investment manager pricing for transactions near December 31, 2017.

The following tables set forth the Hospital's financial assets that were accounted for at fair value on a recurring basis at December 31, 2017 and 2016. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurements:

	2017				
	Total	Level 1	Level 2	Redemption frequency	Redemption under period
Cash and cash equivalents	$ 2,262,462	2,262,462	—	daily	1 day
Equity securities mutual funds:					
Domestic	48,334,265	48,334,265	—	daily	1 day
International	11,958,068	11,958,068	—	daily	1 day
Fixed income mutual funds:					
Domestic	9,785,741	9,785,741	—	daily	1 day
Corporate bonds	14,376,446	—	14,376,446	daily	1 day
U.S. government and agency securities	5,537,533	5,537,533	—	daily	1 day
Commingled funds	3,446,143	3,446,143	—	monthly	15 days
Total	$ 95,700,658	81,324,212	14,376,446		

	2016				
	Total	Level 1	Level 2	Redemption frequency	Redemption under period
Cash and cash equivalents	$ 4,594,975	4,594,975	—	daily	1 day
Equity securities mutual funds:					
Domestic	43,879,790	43,879,790	—	daily	1 day
International	9,671,322	9,671,322	—	daily	1 day
Fixed income mutual funds:					
Domestic	12,515,580	12,515,580	—	daily	1 day
International	553,051	553,051	—	daily	1 day
Corporate bonds	14,665,622	—	14,665,622	daily	1 day
U.S. government and agency securities	5,247,002	5,247,002	—	daily	1 day
Commingled funds	3,643,474	—	3,643,474	monthly	15 days
Total	$ 94,770,816	76,461,720	18,309,096		

There were no material transfers between Level 1 and Level 2 fair value measurements in 2017 or 2016 and there were no investments categorized as level 3 at December 31, 2017 or 2016.

(5) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets inclusive of assets held by the Glens Falls Hospital Foundation are available at December 31 for the following purposes:

	2017	2016
Purchases of building improvements and equipment	$ 3,336,313	3,831,544
Health education	393,907	467,367
Dental free care	1,318,828	949,555
Programs and services	249,858	249,858
	$ 5,298,906	5,498,324

Permanently restricted net assets at December 31 are restricted to investments to be held in perpetuity, the income from which is expendable to support the following:

	2017	2016
Dental free care	$ 1,053,285	1,053,285
Indigent care	148,927	148,927
General operating expenses	169,975	169,975
Health education	134,485	134,485
	$ 1,506,672	1,506,672

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of purchasing equipment, health education, dental free care, and general operating costs of $3,947,431 and $1,698,110, respectively.

(a) Spending Policy

The amount of endowment income appropriated for the years ended December 31, 2017 and 2016 was $12,900 and $15,300, respectively.

(b) Return Objectives and Risk Parameters

Investment objectives focus on long-term capital growth through a combination of income and asset appreciation consistent with prudent investment practices and the preservation of capital to ensure availability of funds for future financial needs at the discretion of the Hospital's Investment Committee within its scope of authority. The Investment Committee recognizes that prudent investing includes taking reasonable risks in order to increase the probability of achieving the targeted investment returns. The portfolio of funds will be structured to maintain prudent levels of diversification. In terms of relative risk, the volatility risk of the portfolio should be less than general market conditions.

(6) Glens Falls Hospital Foundation

The Hospital has recorded its interest in the net assets of the Glens Falls Hospital Foundation (Foundation), a financially interrelated organization whose primary purpose is to raise money for the Hospital. The Hospital's interest in the net assets of the Foundation, consists of the following at December 31:

		2017	2016
Cash and cash equivalents	$	460,723	365,854
Investments		2,780,836	3,082,037
Pledges receivable, net		344,612	633,511
	$	3,586,171	4,081,402

(7) Property and Equipment

A summary of property and equipment at December 31 follows:

		2017	2016
Land	$	3,444,948	3,414,948
Land improvements		4,816,987	4,762,221
Buildings		81,073,187	75,451,602
Fixed equipment		102,683,794	97,914,117
Moveable equipment		150,818,939	141,831,815
Projects in progress		2,632,513	4,866,432
		345,470,368	328,241,135
Less accumulated depreciation and amortization		(223,122,210)	(208,995,908)
	$	122,348,158	119,245,227

Net property and equipment includes lease financed assets of approximately $2,157,000 used to expand the Hospital's network capabilities within its campus and offsite locations during 2017.

In November 2016, the Hospital implemented a new billing system which resulted in the disposal of property and equipment with a net book value of approximately $2.1 million.

(8) Long-Term Debt

Long-term debt consists of the following at December 31:

		2017	2016
Glens Falls Civic Tax Exempt Bonds, Series 2015 interest payable monthly and annual principal payments through 2023 at 2.83% (a)	$	56,950,000	60,300,000
Term loan, payable in monthly interest and principal payments through July 2026 at 2.97% (b) with a balloon payment of $5.6M in July 2026 (b)		13,348,626	14,132,549
Term loan with local bank, payable through June 2023 at 3.7% (b)		630,348	721,693
Term loan with local bank, payable through June 2018 at 3.495% (b)		9,000,000	—
Capital lease obligations on equipment requiring monthly installments of $88,597 through April 2021 (net of imputed interest at December 31, 2017 and 2016 of $125,605 and $100,430, respectively) at 3.25% (c)		3,356,885	4,292,075
		83,285,859	79,446,317
Less unamortized debt issuance costs		908,301	968,021
Less current maturities of long-term debt		14,230,020	5,171,426
	$	68,147,538	73,306,870

Future annual principal payments on long-term debt as of December 31, 2017 are as follows:

Year ending December 31:		
2018	$	14,230,020
2019		5,290,676
2020		5,352,233
2021		4,704,816
2022		4,381,621
Thereafter		49,326,493
	$	83,285,859

(a) Civic Facility Tax Exempt Bonds

During September 2015, the Hospital issued Series 2015 Glens Falls Civic Tax Exempt Bonds (Bonds) in the amount of $67,000,000. The proceeds were utilized to refund the Glens Falls Hospital Project Bonds issued by the Counties of Warren and Washington Industrial Development Agency. The proceeds were also utilized to provide funding for future Hospital renovation projects. The Bonds were

issued pursuant to a Loan Agreement dated September 21, 2015 between the Hospital and Glens Falls Civic Development Corporation (CDC). The Bonds were purchased by three financial institutions (the Holders). As security for the repayment of the Bonds, the CDC has assigned its right, title and interest to the Loan Agreement and certain other documents to Key Government Finance (as Administrative Agent) pursuant to a Pledge and Assignment Agreement. The Hospital and Foundation each issued Guaranty Agreements to the CDC and Administrative Agent to provide security for repayment of the Bonds.

The Bonds are limited obligations of the Hospital payable solely from and secured by a pledge of payments to be made under a Bond Purchase Agreement, dated September 21, 2015, between the Administrative Agent for and on behalf of the Holders. The Bonds are secured by a first lien mortgage of the Hospital, and personal property financed or refinanced with proceeds of the Bonds.

The Hospital and Glens Falls Hospital Foundation as guaranties must satisfy certain financial performance and reporting requirement covenants annually as long as the Bonds are outstanding.

Under the terms of the Loan Agreement, the Hospital set aside certain proceeds of the Bonds included in the accompanying consolidated financial statements, classified as assets whose use is limited, at December 31, 2017 for the purpose of future Hospital renovations and capital projects.

Issuance costs related to the Bonds have been deferred and are being amortized over the term of the bonds. The amount of issuance costs amortized for 2017 was approximately $60,000 and for 2016 was approximately $50,000.

(b) Term Loans

(1) Pruyn Pavilion

During May 2013, the Pruyn Pavilion, LLC acquired the Pruyn Pavilion building located on its Park Street campus. In connection with the purchase, Pruyn Pavilion, LLC assumed from the lessor of the property a $9.7 million term loan secured by the Pruyn Pavilion building. In addition, at the time, a $5.0 million term loan was executed with a local bank and is being amortized over 15 years with annual principal payments of $163,351 through maturity. Collateral includes two off campus health centers.

During June 2016, the Hospital refinanced these two term loans outstanding. The refinanced term loan has a 10 year amortization with a balloon payment of $5.6 million in 2026. Debt issuance costs of $106,809 were incurred associated with the financing.

(2) Wilton Eye Center

During May 2013, the Hospital obtained a $1.0 million loan with a local bank for the construction of the Wilton eye center. The loan is being amortized over 10 years with annual payments of $125,305 through maturity. Collateral includes pledge of revenues of the Wilton eye center.

(3) Implementation Loan

During December 2017, the Hospital restructured its existing line of credit (note 9) to a term loan payable with $9 million outstanding at December 31, 2017 and installments to made for $3.0 million on March 31, 2018, $1.0 million on April 30, 2018 and $2.5 million on May 31, 2018 and June 30, 2018, respectively.

(c) Capital Lease Obligation

During April 2016, the Hospital obtained two loans totaling a $4.9 million as part of a Master Lease Agreement to finance the implementation of a new network system for the Hospital. The loans are being amortized over 5 years with total annual payments of $1,063,168 through maturity.

The Hospital was not in compliance with certain bond and debt covenant requirements as of December 31, 2017. Subsequent to year end, the Hospital received a waiver from its lenders related to the noncompliant covenants.

(9) Lines of Credit

The Hospital has unsecured lines of credit with available proceeds of $20 million ($20 million unsecured working capital line of credit) maturing on August 1, 2018 for $10 million and the no maturity on the $10 million. There was $10 million in advances outstanding on the lines of credit at December 31, 2017 and no advances outstanding as of December 31, 2016. Interest on these lines of credit is at the Bank's prime rate minus 0.375% or the Wall Street Journal prime rate +250 basis points over LIBOR, depending on the financial institution; at December 31, 2017.

(10) Lease Commitments and Servicing Agreements

The Hospital leases certain medical office space, and medical and nonmedical equipment under cancelable and noncancelable operating leases, with various renewal options.

Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases at December 31, 2017 approximate the following:

Year ending December 31:		
2018	$	2,514,000
2019		2,164,000
2020		1,978,000
2021		1,673,000
2022		1,568,000
Thereafter		7,781,000
	$	17,678,000

Total rent expense for operating leases during 2017 and 2016 was approximately $3,582,000 and $4,135,000, respectively.

Effective March 2015, the Hospital has entered into a ten year agreement for comprehensive information technology services including operations, technical support and technology consulting services in support of system enhancements and upgrades. The Hospital is required to make monthly payments ranging from approximately $8,484,000 to $12,600,000 annually through February 2025. The agreement includes provisions to allow the Hospital to terminate the contract for a material breach or to modify the scope of services in the event of an extraordinary event (financial hardship as defined) or after 84 months to terminate certain services. Total service related expense incurred during 2017 and 2016 under these service agreements was approximately $7,355,000 and $5,318,000, respectively, and capital related cost incurred under the arrangement was approximately $2,612,000 and $11,570,000 in 2017 and 2016, respectively.

(11) Self Insured Liability Trust Fund

Effective October 1, 1988, the Hospital adopted a policy of self-insuring the primary portion of their professional liability insurance. An irrevocable trust was established for the purpose of setting aside assets based on actuarial funding recommendations. The trust agreement was created to cover liability claims arising from incidents occurring after June 30, 1982 and reported on or after October 1, 1988. The Hospital has purchased a claims made policy effective August 30, 1988, to cover claims in excess of the limits provided by the self-insured trust on a per claim basis and in the aggregate.

Effective October 1, 1995, the Hospital also adopted a policy of self-insuring the primary portion of their general liability insurance on an occurrence basis. Similar to professional liability, the Hospital has a claims made policy to cover claims in excess of the self-insured limits on a per claim basis and in the aggregate.

Management accrues for the professional and general liability reserves and the corresponding charge to operating expenses based on estimates of asserted and currently identifiable unasserted claims, if any, and a provision for unknown incidents. Such claims have been included in the estimated liability for self-insurance claims as determined by the Hospital’s actuary. The Hospital’s management believes that none of these claims will expose the Hospital above the insurance limits applicable at the dates of the alleged incidents or self-insurance reserves.

(12) Employee Benefits

Employee Retirement Plan – The Hospital sponsors a defined contribution plan covering substantially all full-time employees. Through August 31, 2015, the Hospital agreed to make contributions between 2% and 4% of a participant’s gross earnings up to statutory levels based on years of service. The participant may elect to contribute a portion of their salary up to a federally determined limit. The Hospital will match 50% of eligible employee contributions up to 2% of a participant’s gross earnings. Effective September 1, 2015, the Hospital has agreed to make contributions up to 4% of a participant’s gross earnings up to statutory levels based on employee contributions. The Hospital will match 1:1 of eligible employee contributions up to 4% of a participant’s gross earnings, with a two year vesting for employees that enroll in the plan after September 1, 2015. Total expense related to the defined contribution plan for 2017 and 2016 amounted to approximately $4,844,000 and $4,986,000, respectively.

Deferred compensation agreements – The Hospital sponsors a nonqualified deferred compensation plan for certain executives consistent with IRC §457(b)(6). Eligible employees may elect to defer a portion of their compensation in an amount not to exceed the annual limit, which were $18,000 for 2017 and 2016, respectively. The deferred compensation amounts are invested in mutual funds with a corresponding amount included in other long-term liabilities in the accompanying consolidated balance sheets.

Other Postretirement Benefit Plan – The Hospital sponsored a defined benefit health care plan that provided postretirement medical benefits to full-time employees who worked 15 years and attained age 55 while in service with the Hospital. The Hospital subsidized these benefits at different levels depending on the employee's year of retirement. Benefits for retirements prior to 1993 are fully subsidized. The Hospital's contributions for retirements in each year after 1992 are fixed at the 1992 contribution level and phased out by 20% each year. Employees retiring after 1996 receive no benefits under the Plan. The Hospital's policy is not to fund the net periodic postretirement benefit cost accrued. However, the Hospital makes annual contributions toward its portion of the retirees' medical insurance premiums. Annual contributions by the Hospital were $191,000 and $327,000 for 2017 and 2016, respectively.

The estimated amount of net actuarial gain that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2017 and 2016 was $40,928 and $36,054. Additional actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic postretirement benefit cost in the same period will be recognized as a component of unrestricted net assets. These future actuarial gains and losses will be recognized as a component of net periodic postretirement benefit cost on the same basis as the amounts recognized in unrestricted net assets.

(13) Sale of Dialysis Program

On April 20, 2018, the Hospital agreed to sell its licensed outpatient dialysis facility located at 3 Broad Street, Glens Falls, New York, to a third party commercial entity (buyer) that specializes in dialysis care. In connection with the sale, the Hospital also contracted with the buyer to provide certain services to the Hospital in connection with the operation of the Hospital's inpatient unit (collectively, the inpatient and outpatient services are referred to as the "dialysis program"). The purchase price for the program and specified assets was $28.4 million. The transaction was approved by the New York State Department of Health in March 2018.