

PENNSYLVANIA MEDICAL SOCIETY

Consolidated Financial Statements with
Supplementary Information

December 31, 2016 and 2015

Kreischer
Miller

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PENNSYLVANIA MEDICAL SOCIETY

December 31, 2016 and 2015

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Independent Auditors' Report

The Members and the Board of Trustees
Pennsylvania Medical Society
Harrisburg, Pennsylvania

We have audited the accompanying consolidated financial statements of the Pennsylvania Medical Society and its subsidiaries and affiliates, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, 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 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 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 auditors consider 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 the Pennsylvania Medical Society and its subsidiaries and affiliates as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, in 2016 the Pennsylvania Medical Society adopted new accounting guidance related to disclosure of investments and presentation of fair value of certain investments. Prior year disclosures have also been revised to reflect the retrospective application of adopting these changes in accounting. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities are presented for the purpose of additional analysis and are 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 audits of the consolidated financial statements and certain other 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.



Horsham, Pennsylvania
August 2, 2017

PENNSYLVANIA MEDICAL SOCIETY

Consolidated Statements of Financial Position December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	\$ 7,004,271	\$ 6,398,098
Accounts and reimbursements receivable, net	446,538	467,356
Prepaid expenses and advances	250,197	287,257
Investments (Notes 2 and 4)	175,643,802	176,758,501
Accrued interest receivable	138,440	147,797
Assets held in charitable remainder trust (Note 8)	108,180	108,055
Loans receivable (Note 5)	4,458,352	4,578,971
Property and equipment, net (Note 2 and 6)	655,594	849,443
Beneficial interest in perpetual trust (Note 7)	680,635	675,062
Contributions receivable from split-interest agreements (Note 8)	112,639	108,892
Assets related to discontinued operations (Note 3)	-	1,902
TOTAL ASSETS	\$ 189,498,648	\$ 190,381,334
LIABILITIES AND NET ASSETS		
Liabilities:		
Membership dues collected in advance (Note 2)	\$ 2,170,058	\$ 2,215,947
Accounts payable and accrued expenses	655,114	357,388
Liabilities under split-interest agreement (Note 8)	196,601	198,833
Pension liability (Notes 2 and 11)	18,185,958	16,940,202
Other liabilities (Note 2)	1,658,363	2,342,658
Postretirement healthcare plan (Notes 2 and 12)	528,925	441,019
Deferred revenue (Note 2)	370,972	438,422
Liabilities related to discontinued operations (Note 3)	-	4,928
Total liabilities	23,765,991	22,939,397
Net assets:		
Unrestricted:		
Board designated endowment fund (Note 14)	116,135,104	117,431,909
Undesignated	46,024,016	46,410,210
	162,159,120	163,842,119
Temporarily restricted	816,807	930,364
Permanently restricted	2,756,730	2,669,454
Total net assets	165,732,657	167,441,937
TOTAL LIABILITIES AND NET ASSETS	\$ 189,498,648	\$ 190,381,334

See accompanying notes to consolidated financial statements.

PENNSYLVANIA MEDICAL SOCIETY

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

	2016	2015
Changes in unrestricted net assets:		
Revenues and other support:		
Membership dues and contributions	\$ 3,159,037	\$ 3,268,957
Contract revenue	176,742	640,110
Fees and payments for services	952,813	900,229
Rental income (Note 10)	-	296,448
Specialty Society Management Services	1,973,384	1,828,169
Physician Services	115,732	110,457
CME Certification/Accreditation	122,798	130,825
Interest income on loans	141,102	133,816
Interest income	11,765	11,985
Contributions, bequests, and fundraising	488,507	488,730
Creative services revenue	-	434
Endorsement agreement (Note 13)	200,000	250,000
County Medical Society Management Services	347,834	360,051
Miscellaneous	174,820	61,146
	<u>7,864,534</u>	<u>8,481,357</u>
Expenses:		
Programs and services:		
Physician Advocacy and Political Affairs	914,381	1,185,083
Specialty Society Management Services	2,111,933	1,861,383
Physician Leadership, Education and Practice Support	2,646,054	2,336,602
Organizational Performance and Operations	4,233,538	6,635,086
Executive Office	2,241,802	2,230,710
Physicians Health Program	811,149	806,347
Student Loan Program	205,626	241,916
Political Action Program	100,545	105,933
Alliance Program	397	583
Member Services Consulting	1,584,501	903,658
Other programs	542,593	159,808
Depreciation	176,094	289,953
Administration and support	45,979	-
Fundraising	176,651	174,867
	<u>15,791,243</u>	<u>16,931,929</u>
Decrease in unrestricted net assets before income from investments and other changes	(7,926,709)	(8,450,572)
Income (loss) from investments (Note 4):		
Net realized and unrealized gains (losses) in fair value of investments	2,368,758	(6,695,853)
Interest and dividend income	3,694,105	3,771,119
	<u>6,062,863</u>	<u>(2,924,734)</u>

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PENNSYLVANIA MEDICAL SOCIETY

Consolidated Statements of Activities, Continued
Years Ended December 31, 2016 and 2015

	2016	2015
Decrease in unrestricted net assets before other changes	(1,863,846)	(11,375,306)
Other changes:		
Net assets released from restrictions	310,381	269,394
Change in net assets from continuing operations	(1,553,465)	(11,105,912)
Discontinued operations		
Gain on the sale of KePRO (Note 3)	1,000,000	-
Gain (loss) from operations of discontinued components PMSCO (Note 3)	113,041	(349,001)
Gain (loss) from discontinued operations	1,113,041	(349,001)
Change in net assets before pension related changes other than net periodic pension costs	(440,424)	(11,454,913)
Pension related changes other than net periodic pension costs (Note 11)	(1,242,575)	432,478
Decrease in unrestricted net assets	(1,682,999)	(11,022,435)
Changes in temporarily restricted net assets:		
Contributions	37,952	37,518
Grants	14,400	165,300
Realized and unrealized gains (losses), net	82,773	(125,694)
Income on long-term investments	63,852	84,494
Change in value of split-interest agreements	(2,153)	(13,763)
Net assets released from restrictions	(310,381)	(269,394)
Decrease in temporarily restricted net assets	(113,557)	(121,539)
Changes in permanently restricted net assets:		
Contributions	81,703	34,345
Unrealized gain (loss) on beneficial trust	5,573	(31,552)
Increase in permanently restricted net assets	87,276	2,793
Decrease in net assets	(1,709,280)	(11,141,181)
Net assets, beginning of year	167,441,937	178,583,118
Net assets, end of year	\$ 165,732,657	\$ 167,441,937

See accompanying notes to consolidated financial statements.

PENNSYLVANIA MEDICAL SOCIETY

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

	2016	2015
Cash flows from operating activities, continuing operations:		
Change in net assets	\$ (1,709,280)	\$ (11,141,181)
Change in net assets from discontinued components, net of tax	(1,113,041)	349,001
Change in net assets from continuing operations	(2,822,321)	(10,792,180)
Adjustments to reconcile change in net assets from continuing operations to net cash used in operating activities from continuing operations:		
Depreciation	176,094	289,953
Net gain on sale of investments	(1,807,695)	(5,855,603)
(Gain) loss on assets held in charitable remainder trusts	(125)	12,659
Net loss on sale and disposal of property and equipment	199,850	105,873
Amortization of deferred gain on sales-leaseback transaction	(67,450)	(33,725)
Unrealized (gain) loss on investments	(650,604)	12,679,478
Unrealized (gain) loss on beneficial trust	(5,573)	31,552
Decrease in allowance for doubtful accounts	(30,084)	(65,314)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts and reimbursements receivable	50,902	30,069
Prepaid expenses and advances	37,060	(94,529)
Accrued interest receivable	9,357	6,703
Loans receivable	120,619	72,603
Contributions receivable from split-interest agreements	(3,747)	(2,907)
Increase (decrease) in liabilities:		
Membership dues collected in advance	(45,889)	(110,198)
Accounts payable and accrued expenses	297,726	(107,307)
Liability under split-interest agreement	(2,232)	(13,903)
Pension liability	1,245,756	1,419,884
Postretirement healthcare plan	87,906	(68,168)
Deferred revenue	-	472,147
Other liabilities	(684,295)	314,317
Net adjustments	(1,072,424)	9,083,584
Net cash used in operating activities, continuing operations	(3,894,745)	(1,708,596)
Cash flows from operating activities, discontinued operations:		
Gain (loss) from operations of discontinued components, net of tax	1,113,041	(349,001)
Decrease in:		
Assets related to discontinued operations	1,902	92,788
Decrease in:		
Liabilities related to discontinued operations	(4,928)	(13,980)
Cash provided by (used in) operating activities, discontinued operations	1,110,015	(270,193)
Net cash used in operating activities	(2,784,730)	(1,978,789)

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PENNSYLVANIA MEDICAL SOCIETY

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

	2016	2015
Cash flows from investing activities:		
Purchase of investments	(32,530,069)	(128,639,794)
Proceeds from sale of investments	36,103,067	126,243,301
Purchase of property and equipment	(182,095)	(687,000)
Proceeds from sale of property and equipment	-	6,202,736
Net cash provided by investing activities	3,390,903	3,119,243
Net increase in cash and cash equivalents	606,173	1,140,454
Cash and cash equivalents, beginning of year	6,398,098	5,257,644
Cash and cash equivalents, end of year	\$ 7,004,271	\$ 6,398,098

See accompanying notes to consolidated financial statements.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(1) Principles of Consolidation and Organization

The accompanying consolidated financial statements include the Pennsylvania Medical Society (the Society) and its subsidiary and affiliates: PennMed Member Services Company (PMSCO), the Foundation of the Pennsylvania Medical Society (the Foundation), Pennsylvania Medical Political Action Committee (PAMPAC), Pennsylvania Medical Society Political Action Committee – Federal (PAMSPAC), and Pennsylvania Medical Society Alliance (the Alliance), collectively referred to as the "Organization". Significant intercompany balances and transactions have been eliminated in consolidation.

Effective December 2016, the Society reached an equity contribution agreement with PMSCO, a wholly-owned subsidiary, to fund the initial step of a clinically integrated network (CIN) with a management services organization (MSO) component to enable physicians of all practice types to successfully participate in value-based care. The agreement allows for maximum borrowings of \$15 million from the Society Endowment Fund. As of December 31, 2016, the Society contributed \$1,221,734 to PMSCO of which \$500,000 was from the Society Endowment Fund. The contribution has been eliminated in the accompanying financial statements.

Pennsylvania Medical Society

The Society, a professional membership organization of medical doctors and doctors of osteopathy, is the largest single medical professional organization in Pennsylvania. The Society is affiliated with county medical societies throughout Pennsylvania. Founded in 1848, the Society's mission is to be the voice of Pennsylvania's physicians, advancing quality patient care, the ethical practice of medicine and advocating for the patients they serve.

Wholly-owned subsidiaries and other affiliated entities included in these consolidated financial statements are as follows:

The Foundation of the Pennsylvania Medical Society

The Foundation was created to provide educational loans, scholarships and assistance to medical students and the Pennsylvania medical community. The Foundation provides programs and services for individual physicians and others that improve the well-being of Pennsylvanians and sustain the future of medicine. The Society's Board of Trustees appoints all members of the Foundation's Board of Trustees.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(1) Principles of Consolidation and Organization, Continued

The Foundation of the Pennsylvania Medical Society, Continued

The Foundation of the Pennsylvania Medical Society was created by the Society to improve the well-being of Pennsylvanians and sustain the future of medicine. This includes carrying on the program activities of the Foundation including providing monitoring services to impaired physicians; training for physicians who have left the practice of medicine for a period of time; and providing low cost student loans to those attending medical school. The Foundation has a charitable trust that operates under the name the Pennsylvania Medical Society Charitable Trust (the Trust). The Trust is dedicated to advancing the culture of philanthropy and supporting excellence across programs and services provided by the Foundation of the Pennsylvania Medical Society. The Trust holds the Physicians' Health Programs (PHP) Endowment Fund and will house any future such endowed gifts.

The Medical Legacy Fund (the Fund) is controlled by the Trustees of the Foundation who serve as the Directors of the Fund. It is organized for the exclusive benefit of the Foundation for the purpose of implementing a planned giving program to solicit, accept, and administer funds from donors.

PennMed Member Services Company

PMSCO provides several specialized service lines, each providing resources to physicians, physician networks and other healthcare organizations throughout the healthcare industry. In addition, PMSCO offers insurance products and services to physicians and medical practices.

Pennsylvania Medical Political Action Committee

PAMPAC was established to encourage all individuals to take a more active part in political affairs, disseminate unbiased information on political issues and candidates, and make the voice of medicine a more important factor in government. PAMPAC solicits money for the purpose of making contributions on behalf of candidates for nomination or election to public office. At any given time, 40% of PAMPAC's Board of Directors have been appointed by the Society's Board of Trustees.

Pennsylvania Medical Society Political Action Committee - Federal

PAMSPAC was established to encourage all Pennsylvania Medical Society members to take a more active part in political affairs, disseminate unbiased information on political issues and candidates and make the voice of medicine a more important factor in government. PAMSPAC solicits money for the purpose of making contributions to candidates for nomination or election to public office. At any given time, at least 40% of PAMSPAC's Board of Directors have been appointed by the Society's Board of Trustees.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(1) Principles of Consolidation and Organization, Continued

Pennsylvania Medical Society Alliance

The Alliance was established to assist the programs of the Society and to improve the health and quality of life for all people. The Society normally provides 60% - 70% of the funding of the Alliance, by providing all staffing requirements and significant other costs. The Executive Committee of the Board of Trustees of the Society serves as the liaison to the Board of Directors of the Alliance.

(2) Summary of Significant Accounting Policies

Basis of Accounting

These consolidated financial statements are in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for Not-for-Profit Organizations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These are defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restriction expires during the reporting period in which the support is recognized, then the support is reported as an increase in unrestricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements

In May 2015, FASB issued Accounting Standards Update (ASU) 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize, within the fair value hierarchy (Note 2), all investments for which fair value is measured using the NAV per share practical expedient. However, sufficient information must be provided to permit reconciliation of the fair value of assets categorized within the fair value hierarchy to the amounts presented in the statement of financial position. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The amendments in this update are effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. Upon adoption, the amendments shall be applied retrospectively to all periods presented.

The Society adopted the update for the 2016 year and the update was retroactively applied to December 31, 2015. Prior year disclosures in Note 2 have been revised to reflect retrospective application. The impact of adopting the update is reflected in the consolidated financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and additional disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for the Organization's fiscal year ending December 31, 2018, with early adoption permitted. The Organization has elected to forgo early adoption of ASU 2016-14 for the year ended December 31, 2016.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performed a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as level 3.

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

The fair value of the charitable remainder trust assets and liabilities is the aggregation of all future cash flows discounted to present value at prevailing market returns. The fair value of the beneficial interest in perpetual trusts is based on the fair value of the assets held by the trust.

Commodities are valued based on similar assets which are traded in active markets.

Description	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	\$ 16,765,709	\$ 16,765,709	\$ -	\$ -
U.S. equity mutual funds	36,995,516	36,995,516	-	-
Fixed income mutual funds	50,728,308	50,728,308	-	-
International equity mutual funds	17,563,712	17,563,712	-	-
Emerging markets mutual funds	10,905,524	10,905,524	-	-
Commodities	4,136,685	-	4,136,685	-
Total investments in fair value hierarchy	137,095,454	132,958,769	4,136,685	-
Investments measured at NAV (a)	38,548,348	-	-	-
Total investments at fair value	175,643,802	132,958,769	4,136,685	-
Beneficial interest in perpetual trusts	680,635	-	-	680,635
Charitable remainder trust assets	220,819	-	220,819	-
Total assets at fair value	\$ 176,545,256	\$ 132,958,769	\$ 4,357,504	\$ 680,635
Liabilities:				
Charitable gift annuities liability	\$ 114,292	\$ -	\$ 114,292	\$ -
Charitable remainder trust liability	43,344	-	43,344	-
Planned gift liability	38,965	-	38,965	-
Total liabilities at fair value	\$ 196,601	\$ -	\$ 196,601	\$ -

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

Description	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	\$ 17,387,005	\$ 17,387,005	\$ -	\$ -
U.S. equity mutual funds	34,791,897	34,791,897	-	-
Fixed income mutual funds	49,377,093	49,377,093	-	-
International equity mutual funds	9,758,065	9,758,065	-	-
Emerging markets mutual funds	9,936,628	9,936,628	-	-
Commodities	3,738,043	-	3,738,043	-
Total investments in fair value hierarchy	124,988,731	121,250,688	3,738,043	-
Investments measured at NAV (a)	51,769,770	-	-	-
Total investments at fair value	176,758,501	121,250,688	3,738,043	-
Beneficial interest in perpetual trusts:	675,062	-	-	675,062
Charitable remainder trust assets	216,947	-	216,947	-
Total assets at fair value	\$ 177,650,510	\$ 121,250,688	\$ 7,693,033	\$ 675,062
Liabilities:				
Charitable gift annuities liability	\$ 114,680	\$ -	\$ 114,680	\$ -
Charitable remainder trust liability	44,302	-	44,302	-
Planned gift liability	39,851	-	39,851	-
Total liabilities at fair value	\$ 198,833	\$ -	\$ 198,833	\$ -

(a) The Organization invests in private equity investments and hedge funds which trade at the net asset value (NAV) per share practical expedient of the fund. These funds are not categorized within the fair value hierarchy.

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the years ended December 31, 2016 and 2015:

	Beneficial Interest in Perpetual Trust
Balance as of December 31, 2014	\$ 706,614
Total unrealized losses for assets held at year end included in changes in net assets	(31,552)
Balance as of December 31, 2015	675,062
Total unrealized gains for assets held at year end included in changes in net assets	5,573
Balance as of December 31, 2016	\$ 680,635

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all accounts that are not subject to withdrawal restrictions or penalties, and all investments in highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are recorded as services are provided. An allowance for uncollectible accounts receivable is provided based upon management's judgment including such factors as prior collection history and experience. There is no allowance for uncollectible accounts receivable recorded as of December 31, 2016. There was an allowance in the amount of \$30,084 recorded as of December 31, 2015.

Investments

The Organization's investments are stated at fair value. Fair value is 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Organization periodically reviews its investments in equity securities for impairment and adjusts these investments to their fair value when a decline in market value is deemed other than temporary. See Note 4 for further information on investments.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line and accelerated methods over the estimated useful lives of the assets. Certain office furniture components and equipment which have not yet been placed in service are carried at cost, and are not being depreciated.

Pension Plan

The Organization accounts for pension costs relating to the Pension Plan of the Pennsylvania Medical Society, a defined benefit plan, in accordance with FASB ASC 715, Compensation - Retirement Benefits.

Postretirement Healthcare Plan

The Society accounts for the costs of postretirement healthcare plan other than pensions (health insurance) on the deferred recognition basis in accordance with FASB ASC 715.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenue from contracts at PMSCO is recognized as services are performed. Estimated subcontract costs incurred in connection with providing services are accrued as the related revenue is earned. Fees collected in advance of performing services are recorded as other liabilities.

Membership dues for the Society are recorded in the applicable membership period. Membership dues paid in advance are recorded as deferred revenue.

Contributions and Promises to Give

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated cash flows and are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of the fund-raising activity.

Income Taxes

PMSCO's income taxes in the accompanying consolidated financial statements were computed in accordance with the FASB ASC 740, *Income Taxes*. This standard requires an asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between book and tax basis of assets and liabilities, as well as the estimated future tax consequences attributable to net operating loss and tax credit carryforwards. A valuation allowance is established if, based upon all available information, it is deemed more likely than not that a portion or all of a deferred tax asset will not be realized.

The Society is subject to unrelated business income tax. The Society, the Foundation, PAMPAC, PAMSPAC, and the Alliance are otherwise exempt from income taxes under Sections 501(c) and 527 of the Internal Revenue Code (IRC) and file Form 990, *Return of Organization Exempt from Income Tax*, on an annual basis.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

With few exceptions, the Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2013. It is difficult to predict the final timing and resolution of any particular tax position. Based on the Organization's assessment of many factors, including past experience and judgments about future events, the Organization does not currently anticipate significant changes in its tax positions over the next 12 months.

Allocations of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in accordance 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, liabilities and net assets. These estimates and assumptions also include the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses including contributed services and functional allocations during the reporting period. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, investments, split interest agreements (Note 8) and loans receivable (Note 5). The Organization places its cash and temporary cash investments with financial institutions. At times, such balances may be in excess of the FDIC insurance limits. The Board of Trustees has implemented investment guidelines intended to mitigate the investments' interest rate, market, and credit risks. The Organization maintains a reserve for potential credit losses associated with its accounts receivable and such losses have been within management's expectations.

Subsequent Events

The Organization has performed an evaluation of subsequent events through August 2, 2017, which is the date the consolidated financial statements were available to be issued.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(3) Discontinued Operations

On both December 31, 2016 and 2015, PMSCO discontinued certain lines of business. The major categories of discontinued operations for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Current assets:		
Accounts receivable	\$ -	\$ 1,877
Other assets	-	25
Total current assets	-	1,902
Total assets	\$ -	\$ 1,902
Current liabilities:		
Accounts payable	\$ -	\$ 4,851
Accrued expenses	-	77
Total current liabilities	-	4,928
Total liabilities	\$ -	\$ 4,928
Revenues	\$ 128,112	\$ 19,530
Expenses	(15,071)	(368,531)
Gain (loss) from operations of discontinued component, net of tax	\$ 113,041	\$ (349,001)

In May 2014, the Society completed the sale of the equity interest in KePRO in accordance with the Stock Purchase Agreement. Under the terms of the agreement the Society received an additional \$1,000,000 related to the sale as of December 31, 2016.

(4) Investments

The Organization's investments are stated at fair value. See *Fair Value Measurements* in Note 2 for further information on investments.

At December 31, 2016 and 2015, total investments held in a bylaw-designated endowment fund are \$116,135,104 and \$117,431,909 respectively.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(4) Investments, Continued

Unrestricted investment (loss) income for the years ended December 31 consisted of the following:

	2016	2015
Interest and dividends	\$ 3,694,105	\$ 3,771,119
Realized and unrealized gains (losses), net	2,368,758	(6,695,853)
	<u>\$ 6,062,863</u>	<u>\$ (2,924,734)</u>

In August 2005, the Society began investing in Portfolio Advisors (Offshore) Private Equity Fund III, L.P., a Cayman Islands exempted limited partnership. This fund is a "menu-driven" fund of funds that was formed to provide institutional investors the opportunity to participate in high quality managed fund investments in the private equity asset class. Portfolio Advisors, LLC, the Investment Manager, seeks to develop a diversified portfolio of primary fund investments in each Sector. Commitments will be made primarily to North American and European based funds in each of its three Sectors – Buyouts, Venture Capital, and Special Situations. The Society has a total capital commitment of \$10,000,000, of which \$5,000,000 is allocated to Buyouts, \$2,500,000 to Venture Capital, and \$2,500,000 to Special Situations. As of December 31, 2016, there is a remaining capital commitment of \$1,200,000 and inception-to-date distributions are \$10,381,357. The fair value amount of the fund is \$2,373,802 and \$3,459,488 at December 31, 2016 and 2015, respectively. Redemptions of this fund are not permitted.

In October 2007, the Society began investing in Metropolitan Real Estate Partners Global, LLC, a Delaware limited liability company. This company is a real estate fund-of-funds investing approximately sixty percent (60%) of all capital commitments in Metropolitan Real Estate Partners Fund V, L.P. (Fund V) and approximately forty percent (40%) of all capital commitments in Metropolitan Real Estate Partners International II, L.P. (International II). Both funds are Delaware limited partnerships which invest in certain real estate funds, selected by the Manager, that were formed generally for the purpose of investing in office, retail, apartment, industrial or other commercial real estate, or in real estate-related securities. Fund V invests primarily within the United States whereas International II invests primarily within Europe, with a secondary focus on properties located within certain Asian markets. The Society has a total capital commitment of \$15,000,000. As of December 31, 2016, there is a remaining capital commitment of \$1,165,981 and inception-to-date distributions are \$12,441,325. The fair value amount of the fund is \$3,270,095 and \$5,223,868 at December 31, 2016 and 2015, respectively. Redemptions of this fund are not permitted.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(4) Investments, Continued

In March, 2008, the Society began investing in Siguler Guff Distressed Opportunities Fund III, LP, a Delaware limited partnership. This fund is a fund of funds formed to assemble a diversified portfolio of investment funds investing in securities of companies undergoing financial distress, operating difficulties or restructuring, as well as allocate capital to direct investment opportunities in similar situations. The Society has a total capital commitment of \$4,500,000. As of December 31, 2016, there is a remaining capital commitment of \$135,000 and inception-to-date distributions are \$5,322,137. The fair value amount of the fund is \$1,492,663 and \$1,984,767 at December 31, 2016 and 2015, respectively. Redemptions of this fund are not permitted.

In March, 2008, the Society began investing in Siguler Guff BRIC Opportunities Fund II, LP, a Delaware limited partnership. The BRIC Opportunities Fund is a fund of funds formed to assemble a diversified portfolio of investment funds in the large and dynamic emerging economies of Brazil, Russia, India and China, with a primary emphasis on India and China. The fund expects to take advantage of the many opportunities in industries that result from the expanding middle class and growth in per capita gross domestic product (GDP) of these emerging economies. The Society has a total capital commitment of \$4,500,000. As of December 31, 2016, there is a remaining capital commitment of \$90,000 and inception-to-date distributions are \$2,143,958. The fair value amount of the fund is \$4,137,954 and \$4,602,355 at December 31, 2016 and 2015, respectively. Redemptions of this fund are not permitted.

The Society's investments in private investment companies are subject to the terms of their private placement memoranda and other governing agreements. The investments in such private investment companies are also subject to management and performance fees as specified in their agreements.

The Society invests in various hedge funds that are valued at net asset value per share. The fair value amount of the hedge funds was \$27,273,834 and \$27,391,214 at December 31, 2016 and 2015, respectively. There are no unfunded commitments for these funds. The Society may redeem quarterly, with 45 days' notice from the ABS Offshore SPCGlobal Class R Portfolio. The Society may redeem quarterly, with 95 days' notice from the Q-BLK Strategic Partners II, Ltd. US Class - Standard Unrestricted Shares 2015 Series 1.

The Society invests in various investment securities that are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statements of financial position.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(5) Loans Receivable

Loans are issued and maintained by the Foundation. Individuals who are United States citizens and Pennsylvania residents for at least twelve months prior to registering as a medical student in an accredited United States medical school are eligible to receive student loans for a maximum of \$10,000 per year with an aggregate of \$30,000 per student. The student loans are uncollateralized. The loans bear interest at the 91-day Treasury Bill rate at June 1 plus 3.5% (not to exceed 6%) until student graduates. Upon graduation, loans may be deferred from repayment for up to five years, during completion of internship, residency and fellowship training. Deferment interest is annually adjusted using the 91-day Treasury Bill rate at June 1 plus 3.5% (not to exceed 6%). Repayment terms begin on July 1, after the completion of training, and loans are generally repaid over a ten-year period. Repayment interest is calculated on the 91-day Treasury Bill rate plus 4.5% (not to exceed 8%) as of the preceding June 1 and remains fixed throughout the repayment period. Interest earned on loans is recognized in the consolidated statements of activities.

(6) Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015	Depreciable Lives
Furniture and equipment	\$ 4,162,614	\$ 4,351,077	5-10 years
Leasehold improvements	165,043	-	5-7 years
Other	-	384,022	various
	<u>4,327,657</u>	<u>4,735,099</u>	
Accumulated depreciation	(3,672,063)	(3,885,656)	
Net book value	<u>\$ 655,594</u>	<u>\$ 849,443</u>	

Depreciation expense for 2016 and 2015 amounted to \$176,094 and \$289,953, respectively.

On January 29, 2015, the Society entered into a sale-leaseback agreement with a third party to sell its office building. Gain on the sale, of approximately \$470,000, is deferred and will be amortized over the term of the lease (see Note 15).

(7) Beneficial Interest in Perpetual Trust

The Foundation has a one-fourth beneficial interest in a split interest perpetual trust. The split interest perpetual trust is recorded on the consolidated statements of financial position as a permanently restricted asset with a fair value at December 31, 2016 and 2015 of \$680,635 and \$675,062, respectively. The income distribution from the split interest perpetual trust has no donor-imposed restrictions and is included in unrestricted investment income.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(8) Split-Interest Agreements

A donor established a charitable remainder trust with a bank naming the Foundation as a partial beneficiary. The trustee shall pay the donor and his wife during their lifetimes an amount equal to 5% of the net fair value of the trust assets determined as of the first business day of each taxable year. At the time of the donors' deaths, the trust is to terminate, and the remaining trust assets are to be distributed. The Foundation has recorded a contribution receivable from the remainder trust based on the present value of future benefits expected to be received. Changes in the fair value of the Foundation's beneficial interest, using a discount rate of 7%, are recognized as change in value of split-interest agreements in the accompanying consolidated statements of activities.

A donor established a charitable remainder trust with the Fund naming the Foundation as a beneficiary. The trustee shall pay to the donor and his wife during their lifetimes an amount equal to 7% of the net fair value of the trust assets determined as of the first business day of each taxable year. At the time of the donors' deaths, the trust is to terminate, and the remaining trust assets are to be distributed. The Fund has recorded an asset in the amount of the fair value of the gift and a liability at the present value of the estimated future payments discounted at 7%, to be distributed over the donors' expected lives.

The Fund received title to a plot of land located near Harrisburg, Pennsylvania. In return, the Fund shall pay an amount equal to 7.5% of the appraised value of the land at December 9, 2002, to the donor and his spouse each year during their lifetimes. During 2003, the land was sold, and the cash received was recognized as temporarily restricted. A related annuity liability is recorded at the present value of the estimated future payments, discounted at 7%, to be distributed over the donors' expected lives.

(9) Income Taxes

PMSCO files a Form 1120, *U.S. Corporation Income Tax Return*, on an annual basis.

Income tax expense is reported on the consolidated statements of activities within the program which generated the taxable income. Income taxes include income taxes deferred because of temporary differences between the financial statement and tax bases of assets and liabilities.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(9) Income Taxes, Continued

The tax effects of temporary differences at December 31 are presented below:

	2016	2015
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ -	\$ 12,034
State net operating loss carryforwards	917,100	777,121
Federal net operating loss carryforwards	761,135	501,103
Prepaid insurance	(1,685)	(4,747)
Pension liability	492,077	449,357
Other	-	43,710
	<u>2,168,627</u>	<u>1,778,578</u>
Valuation allowance	<u>(2,168,627)</u>	<u>(1,778,578)</u>
Deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The net change in the valuation allowance for the years ended December 31, 2016 and 2015 was an increase of \$390,049 and \$347,968, respectively.

The estimated state net operating loss carryforwards expire from 2019 through 2036.

(10) Rentals, Unrelated

Unrelated rental income recognized was \$296,448 for the year ended December 31, 2015. There was no unrelated rental income recognized in 2016.

(11) Retirement Plans

Pension Plan

The Society has a noncontributory defined benefit pension plan that previously covered all eligible employees meeting service and age requirements. Effective January 1, 2007, the Society amended its defined benefit plan to freeze participation in the plan. Any employee hired after December 31, 2006, was no longer eligible to participate in the plan. Effective January 1, 2015, the Society amended its defined benefit plan such that no additional benefits will accrue for employees under the plan. Annual contributions are made to the plan equal to amounts allowable under the Employee Retirement Income Security Act (ERISA) of 1974, as amended. Effective December 31, 2006, PMSCO froze participation and accruals for its employees. No new PMSCO participant entered the plan after December 31, 2006 and no PMSCO participant earned benefits for service after December 31, 2006.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(11) Retirement Plans, Continued

Pension Plan, Continued

The following table sets forth the plan's funded status and amounts recognized in the accompanying consolidated statements of financial position as of December 31:

	2016	2015
Benefit obligation	\$ (38,261,388)	\$ (37,341,556)
Plan assets at fair value	20,074,830	20,401,354
Funded status	\$ (18,186,558)	\$ (16,940,202)
Liability included on consolidated statements of financial position	\$ (18,185,958)	\$ (16,940,202)

The measurement date of the pension obligation is December 31, 2016. As of December 31, 2016 and 2015, the accumulated benefit obligation is \$38,261,388 and \$37,341,556, respectively.

Net periodic benefit costs recognized in the consolidated statements of activities for the years ended December 31, were as follows:

	2016	2015
Interest cost	\$ 1,544,948	\$ 1,484,360
Expected return on plan assets	(1,608,054)	(1,706,840)
Amortization of net loss	799,807	1,101,774
	\$ 736,701	\$ 879,294
Immediate recognition of special termination benefits	\$ -	\$ 993,878

Other changes in plan assets and benefit obligations recognized previously in changes in unrestricted net assets:

	2016	2015
Net loss for the period	\$ 1,391,568	\$ 2,337,664
Change due to change in assumptions	650,814	(1,668,368)
Amortization of net loss	(799,807)	(1,101,774)
	\$ 1,242,575	\$ (432,478)

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(11) Retirement Plans, Continued

Pension Plan, Continued

Amounts recognized as changes in unrestricted net assets but not yet included in net periodic benefit costs related to net loss is \$13,497,587 and \$12,225,012 as of December 31, 2016 and 2015, respectively.

The estimated net loss that is expected to be amortized from net assets into net periodic benefit cost in the next fiscal year is \$960,459.

Weighted average assumptions used by the Society in the determination of pension plan information consist of the following as of December 31:

	2016	2015
Discount rate	3.95 %	4.19 %
Rate of increase in compensation levels	N/A %	N/A %
Expected long-term rate of return on assets	8.00 %	8.00 %

The Society's Board's Finance Committee (the Committee) is responsible for developing and overseeing the investments of the plan. Investment recommendations of the plan's consultant must be approved by the Committee before transactions are made. It is the Committee's expectation that equity securities will outperform debt securities over the long-term. Accordingly, for 2016, the Committee has targeted an allocation of 80% equity securities and 20% debt securities.

Pension plan assets, allocated based on relative fair values, consist of the following at December 31:

	Percentage of Plan Assets	
	2016	2015
Equity securities	79 %	78 %
Debt securities	20	20
Cash	1	2
Total	100 %	100 %

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(11) Retirement Plans, Continued

Pension Plan, Continued

The fair value of the Organization's pension plan assets are as follows:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Money market fund	\$ 166,173	\$ 166,173	\$ -	\$ -
Registered investment companies:				
Fixed income fund	4,105,730	4,105,730	-	-
Growth fund	2,497,447	2,497,447	-	-
Value fund	4,982,538	4,982,538	-	-
Emerging markets fund	1,937,213	1,937,213	-	-
International fund	2,157,371	2,157,371	-	-
Total registered investment companies	15,680,299	15,680,299	-	-
Total assets in fair value heirarchy	15,846,472	15,846,472	-	-
ABS Offshore SPC Global Portfolio, Class R	2,149,192			
Fintan Investments, Ltd. Class A IS 046	2,065,583			
Fintan Investments, Ltd. S7 Medley 1A	13,582			
Investments measured at NAV (a)	4,228,357	-	-	-
Total assets at fair value	\$ 20,074,829	\$ 16,012,645	\$ -	\$ -

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Money market fund	\$ 412,716	\$ 412,716	\$ -	\$ -
Registered investment companies:				
Fixed income fund	4,044,933	4,044,933	-	-
Growth fund	2,491,844	2,491,844	-	-
Value fund	2,292,450	2,292,450	-	-
Emerging markets fund	1,763,546	1,763,546	-	-
International fund	2,537,573	2,537,573	-	-
Total registered investment companies	13,130,346	13,130,346	-	-
Total assets in fair value heirarchy	13,543,062	13,543,062	-	-
ABS Offshore SPC Global Portfolio, Class R	2,244,886			
Fintan Investments, Ltd. Class A IS 046	2,025,380			
Fintan Investments, Ltd. S7 Medley 1A	19,407			
103-12 investement entity	2,568,619			
Investments measured at NAV (a)	6,858,292	-	-	-
Total assets at fair value	\$ 20,401,354	\$ 13,543,062	\$ -	\$ -

(a) The Plan invests in private equity investments and hedge funds which trade at the NAV per share practical expediate of the fund. These funds are not categorized within the fair value heirarchy.

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PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(11) Retirement Plans, Continued

Pension Plan, Continued

Registered investment companies are valued at the closing price reported on the active market on which the individual securities are traded.

The Organization's pension plan invests in various hedge funds that are valued at net asset value per share. The fair value amount of the hedge funds was \$ 4,228,357 and \$ 6,858,292 at December 31, 2016 and 2015, respectively. There are no unfunded commitments for these funds. The plan may redeem quarterly, with 45 days' notice from the ABS Offshore SPC Global Class R Portfolio. The Plan may redeem annually on December 31, with 100 day notice from the Fintan Investments, Ltd. (Fintan), hedge funds, subject to a 1 year lock up provision. In August 2016, the Plan requested a full redemption of the Fintan investments to be received on December 31, 2016 in accordance with the Fintan redemption policy. Fintan suspended redemptions for 2016 due to market conditions and the liquidity of their portfolio. The Plan expects to redeem 66% of their investment throughout 2017 and the remaining 34% from 2018 through 2020. As of August 2, 2017, the Plan has redeemed about \$1,000,000 of its investments in Fintan Investments, Ltd. Class A IS 046, which represents approximately 48% of the December 31, 2016 fair market value at redemption prices ranging from \$1,220 to \$1,229 per redeemed unit, which approximates NAV at December 31, 2016. Management has reviewed the investment for impairment and has concluded no allowance is necessary at December 31, 2016.

The plan made benefit payments of \$1,627,990 and \$1,248,909 for the years ended December 31, 2016 and 2015, respectively. The estimated future benefit payments reflecting expected future service are as follows:

Year Ending December 31,	Amount
2017	\$ 1,849,482
2018	\$ 1,846,963
2019	\$ 1,861,350
2020	\$ 1,931,348
2021	\$ 2,000,970
2022-2026	\$ 10,329,136

The Organization contributed \$732,920 and \$20,810 to the plan for the years ended December 31, 2016 and 2015, respectively, and expects to contribute \$1,008,240 to the pension plan for the year ending December 31, 2017.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(11) Retirement Plans, Continued

Deferred Salary Plans

The Society sponsors a defined contribution plan for all employees meeting certain eligibility requirements. The Foundation participates in the Society's plan. Effective January 1, 2016, eligible participants may defer 1% to 85% of annual compensation. Prior to 2016 the contribution limit was 50% of pretax annual compensation. The employer matching percentage is determined each year by the employer at its own discretion. Matching contributions to the plan aggregated \$243,633 and \$311,891 in 2016 and 2015, respectively. Effective January 1, 2016 employees will receive an employer contribution of 5% of annual compensation. For the year ended December 31, 2015, the employer contribution was equal to 5% of annual compensation, plus 5% of compensation in excess of the social security taxable wage base. The Society's contributions to the plan aggregated \$266,774 and \$301,760 for the years ended December 31, 2016 and 2015, respectively.

PMSCO participates in the Society's 401(k) Retirement Savings Plan. The plan covers all employees who work at least 1,000 hours or more annually. Eligible participants may defer 1% to 85% of annual compensation. PMSCO makes a matching contribution to the plan on behalf of each participant equal to 100% of eligible employee contributions up to a maximum of 5% of annual compensation. Employer contributions were \$7,714 and \$25,005 for the years ended December 31, 2016 and 2015, respectively.

As a result of freezing the noncontributory pension plan as noted above, effective January 1, 2007, all PMSCO's participants receive a profit sharing contribution. Effective January 1, 2016 the contribution is 5% of annual compensation for eligible employees. Employer contributions were \$8,354 and \$27,572 for the years ended December 31, 2016 and 2015, respectively.

(12) Postretirement Healthcare Plan

The Society sponsors a postretirement healthcare plan that covers premiums for health and basic dental insurance for eligible retirees and their spouses, as of January 1, 1995. Plan participation has been frozen as of January 1, 1995. The postretirement healthcare plan is not funded. At December 31, 2016 and 2015, a liability for contingent benefits in the amount of \$528,925 and \$441,019, respectively, has been recorded.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(13) Royalty and Endorsement Agreements

The Society agreed to endorse PMSLIC as a carrier of choice for medical professional liability insurance in Pennsylvania. PMSLIC was permitted to use the Society's endorsement to market medical professional liability insurance in Pennsylvania. The Society signed a nonexclusive endorsement agreement with PMSLIC for \$425,000 on an annual basis. For the years ended December 31, 2016 and 2015, the Society received \$200,000 and \$250,000, respectively, per the terms of the agreement.

(14) Board Designated Net Assets

The Society follows FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Enhanced Disclosures for All Endowment Funds* now incorporated in FASB ASC 958. The Commonwealth of Pennsylvania has not yet adopted the provisions of the UPMIFA, but the Society is required by FASB ASC 958 to disclose certain matters associated with its Endowment Fund. Endowment funds subject to FASB ASC 958 include board designated net assets.

The following is the activity associated with the Board Designated Endowment Fund for the years ended December 31:

	2016	2015
Beginning of year	\$ 117,431,909	\$ 124,551,573
Dividends and interest	2,252,536	2,593,673
Realized and unrealized gains (losses), net	1,771,668	(4,743,748)
Appropriations for expenditure	(5,321,009)	(4,969,589)
End of year	\$ 116,135,104	\$ 117,431,909

Risk Tolerance

The Society recognizes that the primary fiduciary obligation regarding the Endowment Fund is to maximize the inflation-adjusted principal value of the assets to meet current and future needs and obligations of the Society. Assets of the Endowment Fund are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility. The Society recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns. Asset allocation will be structured to minimize downside volatility while maximizing return at an acceptable risk level.

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(14) Board Designated Net Assets, Continued

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for medical education and physicians' health programs in the amount of \$816,807 and \$930,364 at December 31, 2016 and 2015, respectively.

Permanently Restricted Net Assets

Permanently restricted net assets consist of donor restricted endowments for which income is restricted for the purpose of supporting medical education and physicians' health programs in the amount of \$2,756,730 and \$2,669,454 at December 31, 2016 and 2015, respectively.

Investment Strategy

The Endowment Fund utilizes specialist managers (i.e., who manage portfolios oriented to one asset class, such as equities) within each asset class and investment style. Investment managers selected will have demonstrated strong performance within their investment style as well as organizational stability and consistent investment philosophy and process. The Society's asset allocation for the Board Designated Endowment Fund targets a composition of equity investments of 35% to 70% (with up to 35% international equities), fixed income 5% to 20% and alternative investments 15% to 45%.

Spending Policy

The Society uses a spending rule to determine the amount of the Endowment Fund to be allocated to operations. The spending rule, which is subject to review and approval by both the Society's Finance and Executive Committees, was revised in 2011. A hybrid method, two part calculation, is now used. Part one, Banded Inflation, takes the prior year's spending value, inflates it by the Consumer Price Index (CPI), but with a minimum of three percent and a maximum of six percent. Part two, Moving Average Asset, calculates four percent of the average Endowment Fund values of the preceding twenty calendar quarters ending June 30 of the year prior to the year of distribution. The results of the two calculations are weighted, 80% for part one and 20% for part two, and added together to determine the total amount to be distributed. The amount distributed shall pay all Endowment Fund administrative expenses first, before being used to pay other Society expenses.

For the years ended December 31, 2016 and 2015, \$4,795,000 and \$4,750,000, respectively, of the funds were withdrawn and used by the Society for operations.

PENNSYLVANIA MEDICAL SOCIETY

Notes to Consolidated Financial Statements December 31, 2016 and 2015

(15) Commitments

During 2015, the Society sold the building housing its corporate headquarters and operations. As a part of the sale terms, the Society's leasing a portion of the building for a period of seven years with an option to renew, at the Society's choice, for one additional two year period. The agreement also includes leasing terms for a second portion of the building for a term of five years with an option to renew, at the Society's choice, for an additional two periods of two years each. Lease terms commenced in June of 2015. As of December 31, 2016, monthly rentals are for \$59,497 and escalate by 3% on an annual basis. The Society is also responsible for maintaining certain levels of commercial general liability insurance. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2017	\$ 725,577
2018	\$ 749,022
2019	\$ 773,040
2020	\$ 515,813
2021	\$ 250,325
Thereafter	\$ 127,126

(16) Litigation

The Organization is involved in litigation as part of its ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the financial position, statements of activities, or cash flows of the Organization.

SUPPLEMENTARY INFORMATION

PENNSYLVANIA MEDICAL SOCIETY

Schedule I

Consolidating Statements of Financial Position
December 31, 2016

	Pennsylvania Medical Society	Pennsylvania Medical Political Action Committee	Pennsylvania Medical Society Political Action Committee	Pennsylvania Medical Society Alliance	PennMed Member Services Company	The Foundation of The Pennsylvania Medical Society Combined	Eliminating Entries	Consolidated Total
ASSETS								
Cash and cash equivalents (Note 2)	\$ 5,694,333	\$ 77,929	\$ 3,010	\$ 91,715	\$ 316,360	\$ 820,924	\$ -	\$ 7,004,271
Accounts and reimbursements receivable, net	232,931	-	-	-	13,877	199,730	-	446,538
Prepaid expenses and advances	234,392	-	-	-	4,213	11,592	-	250,197
Investments (Notes 2 and 4)	169,026,387	-	-	-	-	6,617,415	-	175,643,802
Accrued interest receivable	-	-	-	-	-	138,440	-	138,440
Assets held in charitable remainder trust (Note 8)	-	-	-	-	-	108,180	-	108,180
Loans receivable (Note 5)	-	-	-	-	-	4,458,352	-	4,458,352
Property and equipment, net (Note 2 and 6)	634,483	-	-	-	-	21,111	-	655,594
Beneficial interest in perpetual trust (Note 7)	-	-	-	-	-	680,635	-	680,635
Contributions receivable from split-interest agreements (Note 8)	-	-	-	-	-	112,639	-	112,639
Net assets of controlled not-for-profit organizations	10,731,822	-	-	-	-	-	(10,731,822)	-
Due from related party	58,326	-	-	-	298	8,923	(67,547)	-
Assets related to discontinued operations (Note 3)	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 186,612,674	\$ 77,929	\$ 3,010	\$ 91,715	\$ 334,748	\$ 13,177,941	\$ (10,799,369)	\$ 189,498,648
LIABILITIES AND NET ASSETS								
Liabilities:								
Membership dues collected in advance (Note 2)	\$ 2,161,066	\$ -	\$ -	\$ 8,992	\$ -	\$ -	\$ -	\$ 2,170,058
Accounts payable and accrued expenses	182,192	-	-	-	435,586	46,306	(8,970)	655,114
Liabilities under split-interest agreement (Note 8)	-	-	-	-	-	196,601	-	196,601
Pension liability (Note 11)	14,903,614	-	-	-	1,230,193	2,052,151	-	18,185,958
Due to affiliated company	9,278	94	-	96	29,551	19,558	(58,577)	-
Other liabilities	1,363,388	-	-	1,437	-	293,538	-	1,658,363
Postretirement healthcare plan (Note 12)	528,925	-	-	-	-	-	-	528,925
Deferred revenue (Note 2)	370,972	-	-	-	-	-	-	370,972
Investment in subsidiary	1,360,582	-	-	-	-	-	(1,360,582)	-
Liabilities related to discontinued operations (Note 3)	-	-	-	-	-	-	-	-
Total liabilities	20,880,017	94	-	10,525	1,695,330	2,608,154	(1,428,129)	23,765,991
Net assets / stockholder's deficit:								
Stockholder's deficit:								
Common stock	-	-	-	-	1,100	-	(1,100)	-
Additional paid-in capital	-	-	-	-	10,054,574	-	(10,054,574)	-
Accumulated deficit	-	-	-	-	(10,436,324)	-	10,436,324	-
Accumulated other comprehensive loss	-	-	-	-	(979,932)	-	979,932	-
Total stockholder's deficit	-	-	-	-	(1,360,582)	-	1,360,582	-
Net Assets:								
Unrestricted:								
Board designated endowment fund (Note 14)	116,135,104	-	-	-	-	3,078,587	(3,078,587)	116,135,104
Undesignated	46,024,016	77,835	3,010	81,190	-	3,932,063	(4,094,098)	46,024,016
	162,159,120	77,835	3,010	81,190	-	7,010,650	(7,172,685)	162,159,120
Temporarily restricted:	816,807	-	-	-	-	802,408	(802,408)	816,807
Permanently restricted:	2,756,730	-	-	-	-	2,756,729	(2,756,729)	2,756,730
Total net assets	165,732,657	77,835	3,010	81,190	-	10,569,787	(10,731,822)	165,732,657
Total Liabilities and Net Assets	\$ 186,612,674	\$ 77,929	\$ 3,010	\$ 91,715	\$ 334,748	\$ 13,177,941	\$ (10,799,369)	\$ 189,498,648

PENNSYLVANIA MEDICAL SOCIETY

Schedule II

Consolidating Statements of Activities
Year Ended December 31, 2016

	Pennsylvania Medical Society	Pennsylvania Medical Political Action Committee	Pennsylvania Medical Society Political Action Committee	Pennsylvania Medical Society Alliance	PennMed Member Services Company	The Foundation of The Pennsylvania Medical Society Combined	Eliminating Entries	Consolidated Total
Changes in unrestricted net assets:								
Revenues and other support:								
Membership dues and contributions	\$ 3,013,204	\$ 133,651	\$ -	\$ 12,182	\$ -	\$ -	\$ -	\$ 3,159,037
Contract revenue	-	-	-	-	224,667	-	(47,925)	176,742
Fees and payments for services	-	-	3,732	-	-	949,081	-	952,813
Specialty Society Management Services	1,973,384	-	-	-	-	-	-	1,973,384
Physician Services	115,732	-	-	-	-	-	-	115,732
CME Certification/ Accreditation	122,798	-	-	-	-	-	-	122,798
Interest income on loans	-	-	-	-	-	141,102	-	141,102
Interest income	11,765	-	-	-	-	-	-	11,765
Contributions, bequests, and fundraising	-	-	-	34,433	-	1,005,533	(551,459)	488,507
Creative services revenue	-	-	-	-	-	-	-	-
Royalty income - insurance	99,334	-	-	-	-	-	(99,334)	-
Endorsement agreement (Note 13)	200,000	-	-	-	-	-	-	200,000
County Medical Society Management Services	347,834	-	-	-	-	-	-	347,834
Miscellaneous	170,760	254	-	3,806	-	-	-	174,820
	6,054,811	133,905	3,732	50,421	224,667	2,095,716	(698,718)	7,864,534
Expenses:								
Programs and services:								
Physician Advocacy & Political Affairs	914,381	-	-	-	-	-	-	914,381
Specialty Society Management Services	2,111,933	-	-	-	-	-	-	2,111,933
Physician Leadership, Education & Practice Support	2,646,054	-	-	-	-	-	-	2,646,054
Organizational Performance and Operations	4,378,918	3,036	2,274	40,544	213,019	246,540	(650,793)	4,233,538
Executive Office	2,241,802	-	-	-	-	-	-	2,241,802
Physicians Health Program	-	-	-	-	-	811,149	-	811,149
Student Loan Program	-	-	-	-	-	205,626	-	205,626
Political Action Program	-	100,545	-	-	-	-	-	100,545
Alliance Program	-	-	-	397	-	-	-	397
Member Services Consulting	-	-	-	-	1,584,501	-	-	1,584,501
Other programs	-	-	-	-	-	590,518	(47,925)	542,593
Depreciation	165,244	-	-	-	4,935	5,915	-	176,094
Administration & support	45,979	-	-	-	-	-	-	45,979
Fundraising	-	-	-	-	-	176,651	-	176,651
	12,504,311	103,581	2,274	40,941	1,802,455	2,036,399	(698,718)	15,791,243
Increase (decrease) in unrestricted net assets before income from investments and other changes	(6,449,500)	30,324	1,458	9,480	(1,577,788)	59,317	-	(7,926,709)
Income from investments (Note 4):								
Net realized and unrealized gains in fair value of investments	2,286,036	-	-	-	-	82,722	-	2,368,758
Interest and dividend income	3,516,148	-	7	-	-	177,950	-	3,694,105
	5,802,184	-	7	-	-	260,672	-	6,062,863

Continued...

PENNSYLVANIA MEDICAL SOCIETY

Consolidating Statements of Activities, Continued
Year Ended December 31, 2016

	Pennsylvania Medical Society	Pennsylvania Medical Political Action Committee	Pennsylvania Medical Society Political Action Committee	Pennsylvania Medical Society Alliance	PennMed Member Services Company	The Foundation of The Pennsylvania Medical Society Combined	Eliminating Entries	Consolidated Total
Increase (decrease) in unrestricted net assets before other changes	(647,316)	30,324	1,465	9,480	(1,577,788)	319,989	-	(1,863,846)
Other changes:								
Equity in losses of subsidiary	(1,540,348)	-	-	-	-	-	1,540,348	-
Net assets released from restriction	18,300	-	-	-	-	292,081	-	310,381
Change in unrestricted net assets of controlled not-for-profit organizations	542,988	-	-	-	-	-	(542,988)	-
	(979,060)	-	-	-	-	292,081	997,360	310,381
Change in net assets from continuing operations	(1,626,376)	30,324	1,465	9,480	(1,577,788)	612,070	997,360	(1,553,465)
Discontinued operations								
Gain on the sale of KePRO (Note 3)	1,000,000	-	-	-	-	-	-	1,000,000
Gain from operations of discontinued components (Note 3)	-	-	-	-	113,041	-	-	113,041
Gain from discontinued operations	1,000,000	-	-	-	113,041	-	-	1,113,041
Change in net assets before pension related changes other than net periodic pension costs	(626,376)	30,324	1,465	9,480	(1,464,747)	612,070	997,360	(440,424)
Pension related changes other than net periodic pension costs (Note 11)	(1,056,623)	-	-	-	(75,601)	(110,351)	-	(1,242,575)
Increase (decrease) in unrestricted net assets	(1,682,999)	30,324	1,465	9,480	(1,540,348)	501,719	997,360	(1,682,999)
Changes in temporarily restricted net assets:								
Contributions	-	-	-	-	-	37,952	-	37,952
Grants	14,400	-	-	-	-	-	-	14,400
Realized and unrealized losses, net	-	-	-	-	-	82,773	-	82,773
Income on long-term investments	-	-	-	-	-	63,852	-	63,852
Change in value of split-interest agreements	-	-	-	-	-	(2,153)	-	(2,153)
Net assets released from restrictions	(18,300)	-	-	-	-	(292,081)	-	(310,381)
Change in temporarily restricted net assets of controlled not-for-profit organizations	(109,657)	-	-	-	-	-	109,657	-
Decrease in temporarily restricted net assets	(113,557)	-	-	-	-	(109,657)	109,657	(113,557)
Changes in permanently restricted net assets:								
Contributions	-	-	-	-	-	81,703	(81,703)	-
Unrealized gain on beneficial trust	-	-	-	-	-	5,573	(5,573)	-
Change in permanently restricted net assets of controlled not-for-profit organizations	87,276	-	-	-	-	-	-	87,276
Increase in permanently restricted net assets	87,276	-	-	-	-	87,276	(87,276)	87,276
Increase (decrease) in net assets	\$ (1,709,280)	\$ 30,324	\$ 1,465	\$ 9,480	\$ (1,540,348)	\$ 479,338	\$ 1,019,741	\$ (1,709,280)