

EPISCOPAL RETIREMENT SERVICES  
AFFORDABLE LIVING LLC AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016

Episcopal Retirement Services Affordable Living LLC and Affiliates

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## INDEPENDENT AUDITOR'S REPORT

To the Sole Member of  
Episcopal Retirement Services Affordable Living LLC

We have audited the accompanying consolidated financial statements of Episcopal Retirement Services Affordable Living LLC (an Ohio non-profit limited liability company wholly owned by Episcopal Retirement Services, Inc.) and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Basis for Qualified Opinion**

As disclosed in Note 2 to the consolidated financial statements, accounting principles generally accepted in the United States of America require the consolidation of variable interest entities when certain conditions exist. Management has informed us that the 2017 consolidated financial statements only represent the Company's operations and certain affiliates and does not include the accounts of various limited liability companies and limited partnerships of which are variable interest entities of the Company. The 2017 consolidated financial statements and related disclosures of those variable interest entities should be consolidated with the financial statements of the Company in accordance with accounting principles generally accepted in the United States of America.

## **Qualified Opinion**

In our opinion, except for the effects on the 2017 consolidated financial statements of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Retirement Services Affordable Living LLC and Affiliates as of December 31, 2017 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

The consolidated financial statements of Episcopal Retirement Services Affordable Living LLC and Affiliates as of December 31, 2016, were audited by other auditors whose report dated August 31, 2017 expressed a qualified opinion on those statements because of the departure from generally accepted accounting principles as noted above in the Basis for Qualified Opinion paragraph.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The accompanying supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Tidwell Group, LLC*

Columbus, Ohio  
June 11, 2018

Episcopal Retirement Services Affordable Living LLC and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 801,696	\$ 76,918
Investments	1,779,809	2,909,994
Accounts receivable - affiliates	290,500	290,500
Accounts receivable - developer fees	4,294,767	2,989,050
Interprogram balances receivable	917,125	1,151,745
Notes receivable - affiliates	6,574,995	6,687,455
Development costs	1,149,198	1,316,824
Prepaid expenses and other assets	910,157	962,629
Property and equipment	772,971	690,735
Less: accumulated depreciation	<u>(237,615)</u>	<u>(165,460)</u>
<b>Total Assets</b>	<b><u>\$ 17,253,603</u></b>	<b><u>\$ 16,910,390</u></b>
<b>Liabilities and Net Assets</b>	<b>2017</b>	<b>2016</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 553,002	\$ 637,967
Advances from affiliate	970,568	1,900,516
Accrued fees	1,336,069	923,799
Notes payable and accrued interest	<u>3,098,985</u>	<u>3,085,233</u>
<b>Total Liabilities</b>	<b><u>5,958,624</u></b>	<b><u>6,547,515</u></b>
<b>Net Assets</b>		
Unrestricted	10,054,509	9,662,905
Temporarily restricted	<u>1,240,470</u>	<u>699,970</u>
<b>Total Net Assets</b>	<b><u>11,294,979</u></b>	<b><u>10,362,875</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 17,253,603</u></b>	<b><u>\$ 16,910,390</u></b>

See notes to consolidated financial statements.

Episcopal Retirement Services Affordable Living LLC and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Contracted management	\$ 3,441,443	\$ 2,575,565
Development and consulting fees	2,360,284	1,747,742
Management and partnership fees	994,825	827,532
Grant proceeds	-	272,273
Interest and dividends	628,382	397,769
Other revenue	109,025	699,176
<b>Total Operating Revenues</b>	<u>7,533,959</u>	<u>6,520,057</u>
<b>Operating Expenses</b>		
Salaries and wages	3,281,406	2,910,979
Employee benefits and payroll taxes	1,212,942	1,044,983
Operating supplies and expenses	321,480	369,859
Professional services and consultant fees	853,177	1,145,565
Management fees	765,000	750,000
Development costs	-	562,969
Donations	11,335	29,209
Bad debts	173,512	-
<b>Total Operating Expenses</b>	<u>6,618,852</u>	<u>6,813,564</u>
<b>Operating Income / (Loss)</b>	<u>915,107</u>	<u>(293,507)</u>
<b>Other Expenses</b>		
Interest	13,752	17,408
Depreciation	72,155	55,576
<b>Total Other Expenses</b>	<u>85,907</u>	<u>72,984</u>
<b>Change in Unrestricted Net Assets</b>	829,200	(366,491)
<b>Unrestricted Net Assets, Beginning of Year</b>	9,662,905	11,192,511
Contributions to affiliates	(810,200)	(1,163,115)
Contributions from affiliates	372,604	-
<b>Unrestricted Net Assets, End of Year</b>	<u>\$ 10,054,509</u>	<u>\$ 9,662,905</u>
<b>Temporarily Restricted Net Assets, Beginning of Year</b>	\$ 699,970	\$ -
Grant proceeds	540,500	699,970
<b>Temporarily Restricted Net Assets, End of Year</b>	<u>\$ 1,240,470</u>	<u>\$ 699,970</u>

See notes to consolidated financial statements.

Episcopal Retirement Services Affordable Living LLC and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,369,700	\$ 333,479
<b>Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities</b>		
Depreciation	72,155	55,576
Unrealized gain on investments	(569,815)	(233,155)
Interest on notes payable	13,752	17,408
Decrease (increase) in assets:		
Accounts receivable - affiliates	-	1,232,497
Accounts receivable - developer fees	(1,305,717)	(376,640)
Interprogram balances receivable	35,868	481,244
Prepaid expenses and other assets	52,472	(215,722)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(84,965)	484,259
Accrued fees	412,270	(1,075,161)
<b>Net Cash From Operating Activities</b>	<u>(4,280)</u>	<u>703,785</u>
<b>Investing Activities</b>		
Notes receivable - affiliates	112,460	(1,321,081)
Development costs	167,626	(137,534)
Investment withdrawal	1,700,000	-
Purchase of property and equipment	(82,236)	(186,607)
Contributions to affiliates	(540,500)	-
<b>Net Cash From Investing Activities</b>	<u>1,357,350</u>	<u>(1,645,222)</u>
<b>Financing Activities</b>		
Proceeds from notes payable	-	362,345
Principal payments on notes payable	-	(69,508)
Contributions from affiliates	301,656	-
Advances from / (repayments to) affiliate	(929,948)	725,517
<b>Net Cash From Financing Activities</b>	<u>(628,292)</u>	<u>1,018,354</u>
<b>Net Change in Cash</b>	724,778	76,917
<b>Cash at Beginning of Year</b>	<u>76,918</u>	<u>1</u>
<b>Cash at End of Year</b>	<u>\$ 801,696</u>	<u>\$ 76,918</u>

**Supplemental Schedule of Noncash Investing and Financing Activities:**

Non-cash contributions to affiliates	\$ 269,700	\$ -
Non-cash contributions from affiliates	\$ 70,948	\$ -

See notes to consolidated financial statements.

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS

Episcopal Retirement Services Affordable Living LLC (ERSAL) (the Company) was formed in June 2012 as an Ohio nonprofit limited liability company organized pursuant to Section 1705.04 of the Ohio Revised Code. The Company is wholly owned by Episcopal Retirement Services (the Sole Member), which was organized under Section 501(c)(3) of the Internal Revenue Code. The Written Declaration provides that the Company shall continue in perpetuity unless it is earlier dissolved and terminated by provisions of the Written Declaration.

The Company's mission is to foster low-income housing, to directly or indirectly own, operate, manage and/or develop affordable housing primarily for the elderly; to provide necessary guidance, management services, strategic planning and corporate infrastructure for affordable housing facilities sponsored by the Company, the Sole Member or other organizations primarily for the benefit of the elderly and their families and their caregivers. In furthering this mission, the Company also engages in activities to support affordable housing facilities whether owned or operated directly or indirectly by the Company or other organizations, including providing financial support through fundraising, financings or guarantees of financings.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of ERSAL as well as the following wholly-owned affiliates: Cambridge Heights Apartments, Inc., Canterbury Court, Inc., ERHAL, Inc., ERH Anderson GP, LLC, ERHAL Holdings, Inc., ERHAL Ohio Holdings, Inc., Knowlton Northside GP, LLC, Springfield Shawnee Commercial LLC, Springfield Shawnee Parking, LLC, St. Paul Village I, Inc., Trent Senior Village GP LLC and Walnut Court General Partner, LLC. All significant intercompany balances and transactions are eliminated during the consolidation.

Generally accepted accounting principles require the consolidation of variable interest entities when certain conditions exist. Management has determined various limited liability companies and limited partnerships of which are variable interest entities of the Company (the non-consolidated affiliates) meet the requirements for consolidation. However, management believes that consolidating the non-consolidated affiliates with the Company and affiliates (as listed in the paragraph above), would be misleading to the users of the Company's consolidated financial statements and, therefore, has elected to not consolidate.



Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

Basis of Accounting

The Company utilizes the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2017 or 2016.

Revenue and Cost Recognition

The Company accounts for management and project maintenance services and development fees under the accrual method when the criteria for recognition have been met. Under the accrual method, revenues and related expenditures are recognized when the applicable services have been provided.

Receivables and Bad Debt Policy

Accounts receivables, development fees receivable and notes receivable, as applicable are stated at unpaid principal balances.

The Company has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Bad debts are treated as direct write-offs in the period management determines that collection is not probable. Included in expense are bad debts of \$173,512 and \$-0- for the years ended 2017 and 2016, respectively.

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

Capitalization and Depreciation

Depreciable assets are recorded at cost and depreciated over their estimated useful life. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method. The depreciable life of the assets may be different than their actual economic useful lives.

Net Assets

Financial statement presentation follows the requirements of Accounting Standards Codification for Not for Profit Entities (ASC). Under ASC, the Company 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. Unrestricted net assets are not subject to donor-imposed restrictions. Temporarily restricted net assets are subject to donor-imposed restrictions that will be met either by actions of the Company or the passage of time. Permanently restricted net assets are subject to donor imposed restrictions that stipulate the resources be maintained permanently but permit the Company to use up or expend part or all of the income or other economic benefits derived from the donated assets.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since the Sole Member is organized as a not-for-profit corporation and has secured tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The Company is included in the consolidated tax return of the Sole Member.

The Company accounts for uncertainty in income taxes in accordance with ASC for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the consolidated financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Sole Member has determined that all income tax filing positions would be sustained upon examination and accordingly, the Company has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions as of December 31, 2017 or 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

Fair Value Measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuations techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Company elected to use a Level 1 input for recognition of its investments in mutual funds. This input is based on the quoted market price.

Reclassification of Financial Statement Presentation

Reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. Such reclassifications have had no effect on the change in net assets as previously reported.

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

NOTE 3 – INVESTMENTS

The fair value of investments measured on a recurring basis as of December 31, 2017 and 2016 is as follows:

<b>December 31, 2017</b>		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<u>Asset Category</u>	<u>Fair Value</u>			
<b>Recurring Basis (Investments):</b>				
Mutual funds	<u>\$ 1,779,809</u>	<u>\$ 1,779,809</u>	<u>\$ -</u>	<u>\$ -</u>
<b>December 31, 2016</b>		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<u>Asset Category</u>	<u>Fair Value</u>			
<b>Recurring Basis (Investments):</b>				
Mutual funds	<u>\$ 2,909,994</u>	<u>\$ 2,909,994</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 – NOTES PAYABLE AND ACCRUED INTEREST

The Company entered into a note payable agreement with the Ohio Housing Finance Agency (OHFA) under its Financial Adjustment Factor (FAF) Program in the original amount of \$350,000 and bearing interest at 2% per annum. The purpose of the promissory note is for the proceeds to be loaned to Cambridge Heights Limited Partnership (Cambridge Heights), an affiliate of the Company, to construct an affordable housing apartment community. The note is secured by the apartment community and assignment of its rents and security. In accordance with the promissory note payable with OHFA, principal and interest are payable annually in April in an amount equal to 25% of Cambridge Heights' available cash flow. All outstanding principal and accrued interest are due and payable in December 2053. As of December 31, 2017 and 2016, the principal balance totaled \$350,000 and accrued interest totaled \$51,333 and \$44,333, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

The Company entered into a promissory note with OHFA under its Housing Development Assistance Program (HDAP) in the original amount of \$1,750,000 and bearing interest at 0.25% per annum. The purpose of the promissory note is for the proceeds to be loaned to Walnut Court Limited Partnership (Walnut Court), an affiliate of the Company, to construct an affordable housing apartment community. The note is secured by the apartment community and assignment of its rents and security. In accordance with the promissory note with OHFA, principal and interest are payable annually in April in an amount equal to 50% of Walnut Court's surplus cash. All outstanding principal and accrued interest are due and payable in January 2045. As of December 31, 2017 and 2016, the principal balance totaled \$1,722,743 and accrued interest totaled \$10,283 and \$5,962, respectively.

The Company entered into a promissory note with OHFA under its HDAP program in the original amount of \$1,000,000 and bearing interest at 0.25% per annum. The purpose of the promissory note is for the proceeds to be loaned to Thomaston Woods Limited Partnership (Thomaston Woods), an affiliate of the Company, to construct an affordable housing apartment community. The note is secured by the apartment community and assignment of its rents and security. In accordance with the promissory note with OHFA, principal and interest are payable annually in April in an amount equal to 50% of Thomaston Woods' available cash flow. All outstanding principal and accrued interest are due and payable in November 2054. As of December 31, 2017 and 2016, the principal balance totaled \$957,749 and accrued interest totaled \$6,877 and \$4,446, respectively.

Future maturities of these notes are subject to the financial performance of the respective apartment community. Therefore, future maturities of these notes are not provided in the accompanying consolidated financial statements as they could be misleading.

#### NOTE 5 – RELATED PARTY TRANSACTIONS

##### Receivables and Revenue

The Company provides services for the development, management and maintenance of affiliated entities owning affordable housing apartment communities. As of December 31, 2017 and 2016, accounts receivable from related parties in connection with these services totaled \$4,585,267 and \$3,279,550, respectively, and are included in Accounts Receivable - Affiliates and Accounts Receivable – Developer Fees in the accompanying Consolidated Statements of Financial Position. During 2017 and 2016, the Company recognized revenues from related parties related to these services totaling \$6,709,650 and \$5,084,471, respectively.

##### Interprogram Activity

The Company advances funds to various affiliated entities for operations and predevelopment costs. As of December 31, 2017 and 2016, outstanding receivables from affiliates totaled \$2,066,323 and \$2,468,569, respectively.

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

Notes Receivable - Affiliates

The Company has entered into note receivable agreements with various affiliated entities. The outstanding principal as of December 31, 2017 and 2016 totaled \$6,328,188 and \$6,470,256, respectively. The outstanding interest receivable as of December 31, 2017 and 2016 totaled \$246,807 and \$217,199, respectively. The outstanding principal and interest receivable are included in Notes Receivable – Affiliates in the accompanying Consolidated Statements of Financial Position.

Affiliate – ERH, Inc.

An affiliate of the Company, ERH, Inc. advances funds through an interprogram account. The outstanding amount due to ERH, Inc. as of December 31, 2017 and 2016 totaled \$970,568 and \$1,900,516, respectively, and is included in Advances from Affiliate in the accompanying Consolidated Statements of Financial Position.

ERH, Inc. also provides support to the Company in the form of contributions. Contributions from ERH, Inc. during 2017 and 2016 totaled \$108,256 and \$199,281, respectively, and are included in Other Revenue in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

ERH, Inc. provides management services to the Company and other affiliated entities. Management fees charged during 2017 and 2016 totaled \$765,000 and \$750,000, respectively.

Contributions to / from Affiliates

During 2017 and 2016, the Company made contributions to various affiliated entities in the amount of \$810,200 and \$1,163,115, respectively. These amounts are included as Contributions to Affiliates in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

During 2017 and 2016, the Company received contributions from various affiliated entities in the amount of \$372,604 and \$-0-, respectively. These amounts are included as Contributions from Affiliates in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
<p>During 2016, the Company received a grant in the amount of \$400,000 from the City of Anderson, Indiana (the City), through its Department of Community and Economic Development. The funds were granted under the City's HOME Investment Partnerships Program and after the Company received the funds, they were loaned to ERHAL Senior Housing at Anderson LP (ERHAL Anderson), an affiliated entity. In connection with the related grant agreement and subsequent loan, ERHAL Anderson is required to maintain certain tenant affordability requirements through 2030.</p>	\$ 400,000	\$ 400,000
<p>During 2016, the Company received a grant in the amount of \$299,970 from the Federal Home Loan Bank of Cincinnati through the Affordable Housing Program (AHP). After the Company received the funds, they were loaned to ERHAL Anderson, an affiliated entity. In connection with the related grant agreement and subsequent loan, ERHAL Anderson is required to maintain certain tenant affordability requirements through 2030.</p>	299,970	299,970
<p>During 2017, the Company received a grant in the amount of \$540,500 from the Federal Home Loan Bank of Cincinnati through the Affordable Housing Program (AHP). After the Company received the funds, they were contributed to Trent Senior Village GP LLC, which contributed to Trent Senior Village Limited Liability Partnership (Trent Senior Village). In connection with the related grant agreement, Trent Senior Village is required to maintain certain tenant affordability requirements through 2030.</p>	<u>540,500</u>	<u>-</u>
<b>Total Temporarily Restricted Net Assets</b>	<u>\$ 1,240,470</u>	<u>\$ 699,970</u>

Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

NOTE 7 – FUNCTIONAL ALLOCATION OF EXPENSES

The Company’s program is to provide housing, directly or indirectly, through owning, operating, managing and developing affordable housing for elderly persons. These related costs have been summarized on a functional basis in the table below. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Company.

	<u>2017</u>	<u>2016</u>
Program services	\$ 5,939,759	\$ 6,136,548
Management and general	765,000	750,000
Total expenses	<u>\$ 6,704,759</u>	<u>\$ 6,886,548</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Company acts as a guarantor for several entities (the non-consolidated affiliates) owning rental real estate (the projects) serving the affordable housing industry. As a guarantor, the Company is contingently liable to the extent the liabilities of the projects are not otherwise satisfied by their assets and contingently liable to the investors in the event tax credits do not meet projected amounts. The non-consolidated entities guaranteed by the Company have had no history of tax credits being recaptured.

As a guarantor in the non-consolidated entities, the Company has guaranteed the operating deficits of these entities and is obligated for a specified amount, as determined by the governing agreements, from initial operations through a specified period, also as determined by the governing agreements.

The Company also provides guarantees for construction and rehabilitation loans for the projects and may provide a construction period completion guarantee, whereby the Company guarantees the projects will be constructed in accordance with defined plans and specifications. The guaranty includes funding all amounts incurred to complete construction or rehabilitation in excess of existing sources of financing. Any financing arrangements made and funds provided by the Company under these guarantees would be in the form of a non-interest bearing loan and would be repaid as cash flow of the projects permit or as income to the respective entity based on the specific language of the governing agreements.

The Company’s maximum exposure to the guarantees is not determinable with any degree of accuracy, as determination of the ultimate amounts is dependent upon the Company’s and certain related parties’ ability to oversee, manage and optimize cash flows of the projects.



Episcopal Retirement Services Affordable Living LLC and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Years ended December 31, 2017 and 2016

NOTE 9 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

Credit Risk

The Company maintains its cash in financial institutions insured by the Federal Deposit Insurance Company. Deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Customers

A significant portion of the development fees, contracted management and project service fees earned by the Company are earned from services to affiliated entities. These entities either operate or are developing housing projects for affordable housing.

Revenues earned from such services amounted to 84% and 71% of total operating revenue for the years ended December 31, 2017 and 2016, respectively. In addition, as of December 31, 2017 and 2016, 46% and 38%, respectively, of total receivables are in connection with these services and the remaining receivables are in connection with notes receivables from affiliated entities.

Geographic Region

The Company provides services without collateral to customers located throughout the greater Cincinnati area and the tri-state region (Ohio, Kentucky and Indiana). The ability of each of the Company's customers to honor their obligations to the Company is dependent upon their operations, and upon economic and other factors unique to this geographic region.

NOTE 10 - SUBSEQUENT EVENTS

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of Episcopal Retirement Services Affordable Living LLC and Affiliates through June 11, 2018 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

SUPPLEMENTAL INFORMATION

Episcopal Retirement Services Affordable Living LLC and Affiliates

SUPPLEMENTAL INFORMATION

STATEMENT OF FINANCIAL POSITION CONSOLIDATING SCHEDULE

December 31, 2017

<b>Assets</b>	<b>ERSAL Parent</b>	<b>Consolidated GP Entities</b>	<b>Total</b>
Cash	\$ 801,696	\$ -	\$ 801,696
Investments	1,779,809	-	1,779,809
Receivables:			
Accounts receivable - affiliates	290,500	-	290,500
Accounts receivable - developer fees	4,294,767	-	4,294,767
Interprogram balances receivable	905,125	12,000	917,125
Notes receivable - affiliates	5,801,149	773,846	6,574,995
Development costs	1,149,198	-	1,149,198
Prepaid expenses and other assets	3,337	906,820	910,157
Property and equipment	567,480	205,491	772,971
Less: accumulated depreciation	(178,445)	(59,170)	(237,615)
<b>Total Assets</b>	<b>\$ 15,414,616</b>	<b>\$ 1,838,987</b>	<b>\$ 17,253,603</b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 284,183	\$ 268,819	\$ 553,002
Advances from affiliate	970,568	-	970,568
Accrued fees	1,336,069	-	1,336,069
Notes payable and accrued interest	3,098,985	-	3,098,985
<b>Total Liabilities</b>	<b>5,689,805</b>	<b>268,819</b>	<b>5,958,624</b>
<b>Net Assets</b>			
Unrestricted	8,484,341	1,570,168	10,054,509
Temporarily restricted	1,240,470	-	1,240,470
	<u>9,724,811</u>	<u>1,570,168</u>	<u>11,294,979</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,414,616</b>	<b>\$ 1,838,987</b>	<b>\$ 17,253,603</b>

See Independent Auditor's Report.

Episcopal Retirement Services Affordable Living LLC and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS CONSOLIDATING  
SCHEDULE

Year ended December 31, 2017

	<b>ERSAL Parent</b>	<b>Consolidated GP Entities</b>	<b>Total</b>
<b>Operating Revenues</b>			
Contracted management	\$ 3,354,541	\$ 86,902	\$ 3,441,443
Development and consulting fees	2,360,284	-	2,360,284
Management and partnership fees	994,825	-	994,825
Interest and dividends	620,188	8,194	628,382
Other revenue	108,952	73	109,025
<b>Total Operating Revenues</b>	<b>7,438,790</b>	<b>95,169</b>	<b>7,533,959</b>
<b>Operating Expenses</b>			
Salaries and wages	3,281,406	-	3,281,406
Employee benefits and payroll taxes	1,212,942	-	1,212,942
Operating supplies and expenses	217,895	103,585	321,480
Professional services and consultant fees	853,177	-	853,177
Management fees	765,000	-	765,000
Development costs	-	-	-
Donations	11,335	-	11,335
Bad debts	173,512	-	173,512
<b>Total Operating Expenses</b>	<b>6,515,267</b>	<b>103,585</b>	<b>6,618,852</b>
<b>Operating Income / (Loss)</b>	<b>923,523</b>	<b>(8,416)</b>	<b>915,107</b>
<b>Other Expenses</b>			
Interest	13,752	-	13,752
Depreciation	72,155	-	72,155
<b>Total Other Expenses</b>	<b>85,907</b>	<b>-</b>	<b>85,907</b>
<b>Change in Unrestricted Net Assets</b>	<b>837,616</b>	<b>(8,416)</b>	<b>829,200</b>
<b>Unrestricted Net Assets, Beginning of Year</b>	<b>8,084,321</b>	<b>1,578,584</b>	<b>9,662,905</b>
Contributions to affiliates	(810,200)	-	(810,200)
Contributions from affiliates	372,604	-	372,604
<b>Unrestricted Net Assets, End of Year</b>	<b>\$ 8,484,341</b>	<b>\$ 1,570,168</b>	<b>\$ 10,054,509</b>
<b>Temporarily Restricted Net Assets, Beginning of Year</b>	<b>\$ 699,970</b>	<b>\$ -</b>	<b>\$ 699,970</b>
Grant proceeds	540,500	-	540,500
<b>Temporarily Restricted Net Assets, End of Year</b>	<b>\$ 1,240,470</b>	<b>\$ -</b>	<b>\$ 1,240,470</b>

See Independent Auditor's Report.

Episcopal Retirement Services Affordable Living LLC and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

STATEMENT OF FINANCIAL POSITION CONSOLIDATING SCHEDULE

December 31, 2016

<b>Assets</b>	<b>ERSAL Parent</b>	<b>Consolidated GP Entities</b>	<b>Total</b>
Cash	\$ -	\$ 76,918	\$ 76,918
Investments	2,909,994	-	2,909,994
Receivables:			
Accounts receivable - affiliates	290,500	-	290,500
Accounts receivable - developer fees	2,989,050	-	2,989,050
Interprogram balances	1,142,435	9,310	1,151,745
Notes receivable - affiliates	5,921,983	765,472	6,687,455
Development costs	1,316,824	-	1,316,824
Prepaid expenses and other assets	55,128	907,501	962,629
Property and equipment	512,973	177,762	690,735
Less: accumulated depreciation	(106,290)	(59,170)	(165,460)
<b>Total Assets</b>	<b><u>\$ 15,032,597</u></b>	<b><u>\$ 1,877,793</u></b>	<b><u>\$ 16,910,390</u></b>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 338,758	\$ 299,209	\$ 637,967
Advances from affiliate	1,900,516	-	1,900,516
Accrued fees	923,799	-	923,799
Notes payable and accrued interest	3,085,233	-	3,085,233
<b>Total Liabilities</b>	<b><u>6,248,306</u></b>	<b><u>299,209</u></b>	<b><u>6,547,515</u></b>
<b>Net Assets</b>			
Unrestricted	8,084,321	1,578,584	9,662,905
Temporarily restricted	699,970	-	699,970
	<b><u>8,784,291</u></b>	<b><u>1,578,584</u></b>	<b><u>10,362,875</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 15,032,597</u></b>	<b><u>\$ 1,877,793</u></b>	<b><u>\$ 16,910,390</u></b>

See Independent Auditor's Report.

Episcopal Retirement Services Affordable Living LLC and Affiliates

SUPPLEMENTAL INFORMATION - CONTINUED

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS CONSOLIDATING  
SCHEDULE

Year ended December 31, 2016

	<b>ERSAL Parent</b>	<b>Consolidated GP Entities</b>	<b>Total</b>
<b>Operating Revenues</b>			
Contracting revenue	\$ 2,509,197	\$ 66,368	\$ 2,575,565
Development and consulting fees	1,747,742	-	1,747,742
Management and partnership management fees	827,532	-	827,532
Grant proceeds	272,273	-	272,273
Interest and dividends	389,556	8,213	397,769
Other revenue	264,281	434,895	699,176
<b>Total Operating Revenues</b>	<b>6,010,581</b>	<b>509,476</b>	<b>6,520,057</b>
<b>Operating Expenses</b>			
Salaries and wages	2,910,979	-	2,910,979
Employee benefits and payroll taxes	1,044,983	-	1,044,983
Operating supplies and expenses	239,699	130,160	369,859
Professional services and consultant fees	1,145,565	-	1,145,565
Management fees	750,000	-	750,000
Development costs	562,969	-	562,969
Donations	29,209	-	29,209
<b>Total Operating Expenses</b>	<b>6,683,404</b>	<b>130,160</b>	<b>6,813,564</b>
<b>Operating Income / (Loss)</b>	<b>(672,823)</b>	<b>379,316</b>	<b>(293,507)</b>
<b>Other Expenses</b>			
Interest expense	17,408	-	17,408
Depreciation	54,502	1,074	55,576
<b>Total Other Expenses</b>	<b>71,910</b>	<b>1,074</b>	<b>72,984</b>
<b>Change in Unrestricted Net Assets</b>	<b>(744,733)</b>	<b>378,242</b>	<b>(366,491)</b>
<b>Unrestricted Net Assets, Beginning of Year</b>	<b>9,992,169</b>	<b>1,200,342</b>	<b>11,192,511</b>
Contributions to affiliates	(1,163,115)	-	(1,163,115)
<b>Unrestricted Net Assets, End of Year</b>	<b>\$ 8,084,321</b>	<b>\$ 1,578,584</b>	<b>\$ 9,662,905</b>
<b>Temporarily Restricted Net Assets, Beginning of Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Grant proceeds	699,970	-	699,970
<b>Temporarily Restricted Net Assets, End of Year</b>	<b>\$ 699,970</b>	<b>\$ -</b>	<b>\$ 699,970</b>

See Independent Auditor's Report.