Episcopal Retirement Homes – Obligated Group

Combined Financial Report
December 31, 2018

Contents

Independent Auditor's Report

To the Board of Directors
Episcopal Retirement Homes – Obligated Group

Report on the Financial Statements
We have audited the accompanying combined financial statements of Episcopal Retirement Homes – Obligated Group, which comprise the combined statements of financial position as of December 31, 2018 and 2017, the related combined statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Retirement Homes – Obligated Group as of December 31, 2018 and 2017, and the results of its operations, changes in its net assets and its 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 1 to the financial statements, the Obligated Group adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during 2018. Our opinion is not modified with respect to this matter.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary combining information is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements as a whole.

RSM US LLP

Cincinnati, Ohio
June 26, 2019

Episcopal Retirement Homes - Obligated Group

Combined Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 8,751,252	$ 7,550,997
Resident accounts receivable, net	1,087,178	1,054,722
Other receivables	1,098,697	1,416,966
Other current assets	341,201	660,269
Total current assets	11,278,328	10,682,954
Assets limited as to use	26,332,960	29,271,676
Property and equipment, net	55,557,058	52,892,189
Beneficial interest in Marjorie P. Lee Endowment Fund	21,718,050	23,914,461
Intangible assets	870,241	870,241
Due from affiliates	1,341,893	671,878
Other assets	940,344	932,783
Total assets	$ 118,038,874	$ 119,236,182
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 3,012,070	$ 2,740,669
Current portion of long-term debt	1,400,000	1,010,000
Deposits from residents	451,918	369,217
Refundable entrance fees	1,297,000	1,138,000
Deferred revenue from entrance fees	440,000	395,000
Accrued liabilities and other	2,939,631	2,973,784
Total current liabilities	9,540,619	8,626,670
Long-term debt, net	27,949,725	23,713,977
Deferred revenue from entrance fees, less current portion	1,287,268	1,446,427
Refundable entrance fees, less current portion	13,463,050	13,471,800
Interest rate swaps	1,550,476	2,243,377
Due to affiliates	1,791,896	524,080
Other long-term liabilities	534,021	540,456
Total liabilities	56,117,055	50,566,787
Net assets:		
Without donor restrictions	36,122,660	40,313,577
With donor restrictions	25,799,159	28,355,818
Total net assets	61,921,819	68,669,395
Total liabilities and net assets	$ 118,038,874	$ 119,236,182

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

Combined Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Net resident revenue	**$ 23,583,476**	$ 22,794,229
Other operating revenue	**1,942,489**	1,785,737
Management fee income	**2,849,952**	2,743,635
Amortization of entrance fees	**509,308**	394,406
Marjorie P. Lee endowment income	**973,751**	989,772
Interest and dividend income	**73,722**	48,613
Total revenue	**29,932,698**	28,756,392
Expenses:		
Salaries and wages	**13,601,639**	13,203,445
Employee benefits and payroll taxes	**3,429,718**	3,562,581
Supplies	**1,050,181**	1,066,621
Food	**1,408,115**	1,362,856
Professional services	**1,842,946**	1,632,908
Utilities	**1,204,238**	1,212,589
Insurance	**448,721**	459,938
Depreciation	**3,681,317**	3,455,487
Interest	**866,438**	884,230
Other operating expense	**4,888,015**	4,763,072
Total expenses	**32,421,328**	31,603,727
Operating loss	**(2,488,630)**	(2,847,335)
Nonoperating income (loss):		
Contributions	**1,238,206**	1,281,331
Investment (loss) gain	**(1,371,138)**	4,510,719
Change in interest rate swaps	**692,901**	139,126
Other income	**62,097**	59,923
Total nonoperating income	**622,066**	5,991,099
(Deficit) excess of revenue over expenses	**$ (1,866,564)**	$ 3,143,764

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

Combined Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, January 1, 2017	$ 36,258,751	$ 24,589,312	$ 60,848,063
Excess of revenue over expenses	3,143,764	-	3,143,764
Restricted contributions	-	2,117,420	2,117,420
Change in beneficial interest in endowment fund	-	3,736,709	3,736,709
Draws from Marjorie P. Lee endowment fund		(989,772)	(989,772)
Change in value of charitable remainder trusts	-	(2,016)	(2,016)
Change in market value	-	54,445	54,445
Other net asset reallocations	(49,720)	49,720	-
Transfer from ERS Foundation to affiliated entities	(239,218)	-	(239,218)
Net assets released from restriction	1,200,000	(1,200,000)	-
Change in net assets	4,054,826	3,766,506	7,821,332
Balance, December 31, 2017	40,313,577	28,355,818	68,669,395
Deficit of revenue over expenses	(1,866,564)	-	(1,866,564)
Restricted contributions		1,078,620	1,078,620
Change in beneficial interest in endowment fund	-	(1,222,660)	(1,222,660)
Draws from Marjorie P. Lee endowment fund	-	(973,751)	(973,751)
Change in value of charitable remainder trusts	-	(4,129)	(4,129)
Change in market value	-	(13,663)	(13,663)
Other net asset reallocations	11,459	(11,459)	-
Transfer from ERS Foundation to affiliated entities	(839,300)	-	(839,300)
Transfer from ERH to affiliated entity	(2,500,000)	-	(2,500,000)
Net assets released from restriction	1,003,488	(1,003,488)	-
Net assets released from restriction to affiliated entities	-	(406,129)	(406,129)
Change in net assets	(4,190,917)	(2,556,659)	(6,747,576)
Balance, December 31, 2018	**$ 36,122,660**	**$ 25,799,159**	**$ 61,921,819**

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

Combined Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (6,747,576)**	$ 7,821,332
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**3,709,035**	3,471,597
Loss on sale of assets	**238,887**	-
Investment loss (gain)	**1,371,138**	(4,118,764)
Change in interest rate swaps	**(692,901)**	(139,126)
Change in beneficial interest in endowment fund	**2,196,411**	(2,746,937)
Amortization of deferred revenue from entrance fees	**(509,308)**	(394,406)
Changes in operating assets and liabilities:		
Receivables	**285,813**	(716,199)
Other assets	**311,507**	(166,559)
Amounts due from affiliates	**(670,015)**	1,189,385
Accounts payable	**271,401**	1,065,710
Accrued and other liabilities	**1,309,929**	(230,187)
Net cash provided by operating activities	**1,074,321**	5,035,846
Cash flows from investing activities:		
Purchase of property and equipment	**(6,585,073)**	(5,457,015)
Purchase of assets limited as to use	**(4,872,943)**	(1,872,179)
Proceeds from sale of assets limited as to use	**6,440,521**	3,675,876
Net cash used in investing activities	**(5,017,495)**	(3,653,318)
Cash flows from financing activities:		
Principal payments on long-term debt	**(1,010,000)**	(1,610,000)
Proceeds from long-term debt	**5,608,030**	4,242,164
Debt issuance costs	**-**	(349,948)
Entrance fees collected	**3,395,449**	2,832,000
Entrance fees refunded	**(2,850,050)**	(2,930,400)
Net cash provided by financing activities	**5,143,429**	2,183,816
Net change in cash and cash equivalents	**1,200,255**	3,566,344
Cash and cash equivalents:		
Beginning	**7,550,997**	3,984,653
Ending	**$ 8,751,252**	$ 7,550,997
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 914,918**	$ 981,368

See notes to combined financial statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: Episcopal Retirement Services (ERS), a tax-exempt parent organization, is the sole member of Episcopal Retirement Homes, Inc. (ERH), Episcopal Retirement Services Foundation (the Foundation) and other affiliated entities. Together, ERH and the Foundation are collectively referred to as the “Obligated Group”.

ERH is a not-for-profit corporation that was organized under Section 501(c)(3) of the Internal Revenue Code and was incorporated under the laws of the State of Ohio. ERH owns and operates two senior living communities (Marjorie P. Lee and Deupree House) in the Cincinnati, Ohio area as well as providing other community services focused on older adults. The Foundation is also exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation’s sole purpose is to provide financial support to ERH and the other ERS affiliated entities.

Basis of presentation: The accompanying combined financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification. The financial statements follow accounting procedures set forth in the AICPA Audit and Accounting Guides for *Not-for-Profit Entities* and *Health Care Entities* related to continuing care retirement communities. The Organization is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions: Net assets without donor restrictions are net assets that are free of donor-imposed restrictions as well as net assets designated by the governing board.

Net assets with donor restrictions: Net assets with donor restrictions include net assets from grants, contributions, investment income or other inflows where the use is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Obligated Group.

Also included in net assets with donor restrictions are net assets subject to donor-imposed restrictions to be maintained permanently by the Obligated Group, which include gifts and pledges for endowment wherein donors stipulate that the corpus of the gift be held in perpetuity and only the income is utilized. Other permanently restricted items in this net asset category include the Obligated Group’s interest in the values of certain perpetual trusts and annuity and life income gifts for which the principal is held in perpetuity and the income may or may not be subject to donor restrictions.

Contributions are reported as increases in net assets without donor restrictions unless the use of the related asset is limited by donor-imposed restrictions. When a donor restriction expires, these net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions, where the restrictions are met in the same fiscal year, are reported as net assets without donor restrictions.

The Obligated Group reports gifts of property and equipment as increases in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Obligated Group reports the expiration of donor restrictions when the assets are placed in service.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Basis of combination: The accompanying subsidiary-level financial statements have been prepared on a combined basis and only include the financial statements of ERH and the Foundation, which comprise the Obligated Group. Presentation of the combined financial statements of these commonly controlled entities is determined to be more meaningful than separate financial statements as ERH and the Foundation are jointly responsible for the Obligated Group debt (see Note 5). All significant intercompany transactions and balances between ERH and the Foundation have been eliminated in combination.

Use of estimates: The preparation of financial statements in conformity with GAAP 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.

Risk and uncertainties: The Obligated Group invests in various investment securities. Investment securities 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 the amounts reported in the statement of financial position.

Cash and cash equivalents: Cash equivalents include all highly liquid investments with original maturities of three months or less.

Accounts receivable: Accounts receivable for residents, insurance companies and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Obligated Group's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

Assets limited as to use: Assets limited as to use represent assets limited under the bond indenture, resident deposits, assets internally designated by the board of directors and those assets externally restricted by donors. Assets limited as to use consist of cash, cash equivalents and debt and equity investment securities. Investments are considered trading securities and are carried at fair value. Fair value is determined based generally upon quoted market prices for equity and debt securities. Contributed investments are recorded at the fair market value at date of gift. Gains and losses on investments sold are determined on a specific identification basis. Investments in hedge funds are recorded at fair value as provided by the most recent quarterly statements and adjusted for unrealized gains and losses and changes in net asset value of the funds.

Marjorie P. Lee Endowment Fund: Income from the Marjorie P. Lee Endowment Fund, a fund which is held by trustees of the Episcopal Diocese of Southern Ohio, is restricted to the operation, maintenance, repair, renovation and refurbishing of the Marjorie P. Lee community. The endowment fund held in trust by the Episcopal Diocese of Southern Ohio had a fair value of $21,718,050 and $23,914,461 as of December 31, 2018 and 2017, respectively, and is reported in the accompanying statements of financial position as beneficial interest in Marjorie P. Lee Endowment Fund. Changes in the fair value of this trust are recorded as changes in beneficial interest in the accompanying combined statement of changes in net assets and amounted to a decrease in such interest of $1,222,660 in 2018 and an increase in such interest of $3,736,709 in 2017. Draws from the endowment fund totaled $973,751 and $989,772 in 2018 and 2017, respectively, and are reported in the accompanying statement of activities as “Marjorie P. Lee endowment income.”

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Other investments: Investments in companies in which the Obligated Group has less than a 20 percent interest and the Obligated Group has no significant influence over the investment company are carried at cost and are included in other noncurrent assets on the combined statement of financial position. Dividends received from those companies are included in other income. Dividends received in excess of the Obligated Group's proportionate share of accumulated earnings are applied as a reduction of the cost of the investment. The total carrying amount of these cost method investments was $605,847 at December 31, 2018 and 2017. Management evaluates, on a periodic basis, whether an event or a change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of these investments. No such changes in events or circumstances were noted for the years ended December 31, 2018 and 2017.

Property and equipment: Property and equipment purchases are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs of maintenance and repairs are charged to expense when incurred.

Intangible assets: Intangible assets consist of skilled nursing bed licenses that have been separately acquired. Although these licenses do not have a stated life and are presently transferrable, they are subject to regulation by the State of Ohio. In accordance with accounting guidance, these intangible assets are tested for impairment annually, or whenever events or circumstances indicate that their fair value is more likely than not less than their carrying amount. The carrying value of the operating licenses was $870,241 at December 31, 2018 and 2017, and no impairment loss was determined necessary.

Performance indicator: The combined statement of activities includes a performance indicator of operations labeled as "(deficit) excess of revenue over expenses." Changes in unrestricted net assets which are excluded from the performance indicator include transfers of assets to and from other affiliated entities for other than goods and services, and net assets released from restriction.

Gift annuity obligations: The Obligated Group has entered into gift annuity agreements whereby, upon receipt of an annuity gift, the Obligated Group pays the donor an annuity for the remainder of his or her life. At the time of the gift, the assets are recorded at their fair market value and an obligation is established for the present value of the annuity payments estimated to occur based upon the donor's life expectancy. The difference between the gift and the obligation is recognized as contributions without donor restrictions or as an increase in net assets with donor restrictions based upon the donor-imposed restrictions, if any. As of December 31, 2018 and 2017, the Obligated Group had gift annuity obligations without donor restrictions of approximately $222,000 and $240,000, respectively, which are included in other long-term liabilities on the combined statements of financial position.

Deferred revenue from entrance fees: A resident admitted into an independent living unit has the option of paying an entrance fee. ERH offers different types of entrance fee contracts described below:

The 60-unit independent-living Deupree House II contracts provide for a refund of the entrance fee (90 percent or 30 percent) to residents only from reoccupancy proceeds of a unit. The refundable portion of the entrance fee is recorded as a refundable liability on the statement of financial position. The nonrefundable portion of the entrance fee (10 percent or 70 percent) is deferred revenue and is being amortized into income using the straight-line method over the estimated remaining life expectancy of the resident.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Deupree House I and Marjorie P. Lee offered continuing care contracts. In these contracts, the entrance fee is deferred revenue and is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. Any unamortized entrance fees at the time of the resident's death are recorded as revenue. The refundable portion of entrance fees is reduced in the event of death or withdrawal by one percent of such fee for each month of residence. ERH has calculated the present value of the net cost of future services and the use of facilities to be provided to current residents and has compared that to the balance of unamortized deferred revenue from entrance fees. As the present value of this net cost does not exceed the amount of recorded unamortized entrance fees, no additional liability has been reflected in the accompanying combined financial statements.

The total of deferred revenue of the nonrefundable portion of the entrance fees amounted to approximately $1,727,000 and $1,841,000 at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, ERH had entrance fee contracts with gross potential refund obligations totaling approximately $14,760,000 and $14,610,000, respectively.

Benevolent care: The Obligated Group provides benevolent care to residents who meet certain criteria under its benevolent care policy without charge. This care is provided in the form of benevolent assistance. Benevolent care is granted by the board of directors, as resources permit, in keeping with the Obligated Group's charitable purpose. The estimated cost of providing benevolent care is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing benevolent care to qualifying residents. The Obligated Group estimates that it provided services to residents receiving benevolent care with costs totaling $1,066,000 and $1,016,000 during 2018 and 2017, respectively.

Net resident revenue: The Obligated Group's principal activities are providing housing, health care and other related services for older adults. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents and insurance companies. Revenue is recorded at standard billing rates and differences between billing rates and amounts paid under these programs are recorded as contractual adjustments. Amounts earned under the Medicaid and Medicare programs make up a significant portion of net resident revenue earned during 2018 and 2017 is as follows:

	Percent	
	2018	2017
Medicaid	4%	4%
Medicare	10%	8%

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Obligated Group.

Services rendered to Ohio Medicaid program beneficiaries are paid at per diem rates prospectively determined by the Ohio Department of Job and Family Services, adjusted semi-annually for changes in patient acuity.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations may result in significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

During 2016, the Obligated Group began the initial stages of the plan to renovate Marjorie P. Lee (the Master Plan). New admittances into the independent and assisted living facilities of Marjorie P. Lee were stopped in order to begin renovations on the units and execute the Master Plan. As a result, the Obligated Group experienced declines in net resident revenue in 2017. During 2018, lower occupancy as a result of the Master Plan was mitigated by rate increases effective as a result of the Master Plan phases placed into service in 2018. Additional declines in revenue are possible until the Master Plan is complete and normal occupancy levels are reestablished.

Interest expense: Interest expense is recognized as incurred on outstanding long-term debt (Note 5) and is impacted by the Obligated Group's interest rate swap agreements (Note 6). The costs incurred related to the issuance of debt are presented net of the related long-term debt and are amortized to interest expense over the life of the related debt using the effective interest method. Amortization of debt issuance costs included in interest expense amounted to $27,718 and $16,110 for 2018 and 2017, respectively. The Obligated Group capitalizes interest cost incurred on funds used to construct property and equipment. The capitalized interest is recorded as part of the constructed asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $234,096 and $23,003 during 2018 and 2017, respectively. Details of interest cost incurred for 2018 and 2017 are as follows:

	2018	2017
Interest cost charged to operations	$ 866,438	$ 884,230
Interest cost capitalized to property and equipment	234,096	23,003
Total interest cost incurred	$ 1,100,534	$ 907,233

Tax status: The Internal Revenue Service has ruled that the Obligated Group is exempt from federal income taxes as an other than private foundation under Section 501(c)(3) of the Internal Revenue Code; therefore, they are not subject to federal or state income tax.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Obligated Group and recognize a tax liability if the Obligated Group has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Obligated Group and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the combined financial statements . Accordingly, no provision has been made for federal income tax in the accompanying combined financial statements.

The Obligated Group is subject to examination by taxing authorities; however, no examinations are in progress. Management believes these entities are not subject to tax examinations for years prior to 2015.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements:

Not-for-profit entities: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities.* This accounting standard is intended to make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The standard sets forth improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 will be effective for its fiscal years beginning after December 15, 2017 with early adoption permitted. The Obligated Group adopted this guidance in the current year.

Revenue recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance supersedes most revenue recognition requirements in U.S. generally accepted accounting principles, including most industry-specific guidance on revenue recognition. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Obligated Group is currently evaluating the impact of this guidance on its combined financial statements.

Restricted cash: In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. This ASU is effective for period beginning after December 15, 2018 with early adoption permitted. The Obligated Group is currently evaluating the impact of the adoption of this ASU on its combined financial statements.

Contributions: In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. **For resource recipients:** As the Obligated Group is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Obligated Group is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassification: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Included within these is the reclassification of the prior year current portion of assets limited as to use of $3,982,328. These balances represent cash internally segregated by management and do not hold any external or legal restriction. In the current year, management elected to change the presentation of these balances to reflect them as cash.

Subsequent events: The Obligated Group has evaluated subsequent events for potential recognition and/or disclosure through June 26, 2019, the date the combined financial statements were available to be issued.

Note 2. Resident Accounts Receivable and Contributions Receivable

Resident accounts receivable at December 31 is as follows:

	2018	2017
Resident accounts receivable	$ 1,212,178	$ 1,154,722
Allowance for uncollectible accounts	(125,000)	(100,000)
Net resident accounts receivable	$ 1,087,178	$ 1,054,722

The Obligated Group provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2018	2017
Medicare	32%	18%
Medicaid	12%	8%
Insurance	25%	41%
Private and other	31%	33%
Total	100%	100%

Contributions receivable at December 31 consists of the following:

	2018	2017
Contributions receivable due in one year	$ 571,815	$ 1,011,325
Contributions receivable due in five years or less	218,864	131,166
Net contributions receivable	$ 790,679	$ 1,142,491

Contributions receivable are reported within other receivables on the accompanying statement of financial position. The Obligated Group estimates that all contributions receivable will be collected in full; therefore, no allowance for uncollectable contributions receivable is considered necessary at December 31, 2018 and 2017.

Note 3. Assets Limited as to Use

Assets limited as to use at December 31 are as follows:

	2018	2017
Cash and cash equivalents	$ 554,342	$ 692,747
Mutual funds	11,472,291	11,065,873
Exchange traded funds	8,685	10,479
Money market funds	111,560	256,590
Equity securities	6,022,135	7,741,122
Corporate obligations	59,713	62,464
Commingled trust funds	3,846,343	6,441,190
Hedge funds	4,257,891	3,001,211
Total assets limited as to use	$ 26,332,960	$ 29,271,676

Note 3. Assets Limited as to Use (Continued)

Designations and restrictions at December 31 are as follows:

	2018	2017
Bond indentures	$ 203,293	$ 201,312
Resident deposits	1,993	4,042
Externally restricted by endowment	2,096,657	2,096,657
Internally designated by board of directors (see table below)	23,283,073	26,330,866
Externally restricted for specific purposes	747,944	638,799
Total designations and restrictions	$ 26,332,960	$ 29,271,676

Assets limited as to use – internally designated by the Foundation board of directors are designated at December 31 as follows:

	2018	2017
Marjorie P. Lee Home Fund	$ 9,335,932	$ 10,090,346
Development and operations	10,551,769	13,060,453
Capital expense fund	-	272,604
Parish Health Ministry	300,556	300,556
Library	50,000	50,000
Chaplaincy	384,044	384,044
Financial aid - all programs	1,294,562	1,294,562
Clergy subsidy	108,534	108,534
Financial aid for Deupree	419,767	419,767
Continuing education - Marjorie P. Lee	350,000	350,000
Spiritual care	487,909	-
Total internally designated by Foundation board of directors	$ 23,283,073	$ 26,330,866

Investment (loss) gain is comprised of the following for the years ended December 31:

	2018	2017
Realized and unrealized (loss) gain	$ (1,585,347)	$ 4,118,764
Interest and dividends, net of fees	214,209	391,955
Total investment (loss) gain	$ (1,371,138)	$ 4,510,719

Note 4. Property and Equipment

Property and equipment and depreciable lives at December 31 are as follows:

	2018	2017	Depreciable Life - Years
Land and improvements	$ 2,844,936	$ 2,840,748	0-10
Buildings and improvements	76,621,590	75,621,485	20-40
Equipment, furniture and fixtures	11,023,655	10,390,716	5-10
Computer equipment and software	1,395,884	1,263,326	5-10
Transportation equipment	455,672	311,764	4-5
Rental property	89,441	89,441	
Construction in progress	2,428,276	4,029,032	
Total cost	94,859,454	94,546,512	
Accumulated depreciation	(39,302,396)	(41,654,323)	
Net carrying value	$ 55,557,058	$ 52,892,189	

Depreciation expense on property and equipment totaled $3,681,317 and $3,455,487 in 2018 and 2017, respectively.

Note 5. Long-Term Debt

Long-term debt at December 31 is as follows:

	2018	2017
2009 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2025.	$ 19,880,000	$ 20,890,000
2017 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2042.	9,850,194	4,242,164
Total principal due	29,730,194	25,132,164
Less: unamortized debt issuance costs	(380,469)	(408,187)
Less: current portion	(1,400,000)	(1,010,000)
Long-term debt, net	$ 27,949,725	$ 23,713,977

In 2012, ERH completed a refunding of the 2009 bonds to modify the interest rate. The 2009 Series A and B Bonds carry interest rates that vary monthly based on a factor of LIBOR. The effective interest rate was 3.70 percent and 2.77 percent at December 31, 2018 and 2017, respectively. The final maturity of the bonds is January 1, 2029. Both series are subject to put agreements for which both have a bank put option date of July 27, 2025.

During 2017, ERH entered into a new bond agreement with Hamilton County. The bond permits total borrowings of $18,000,000 and was issued as a drawdown bond. As of December 31, 2018 and 2017, $9,850,194 and $4,242,164, respectively, was drawn on the bond. The bond carries an interest rate that varies monthly based on a factor of LIBOR. The effective interest rate was 3.58 and 2.53 percent at December 31, 2018 and 2017, respectively. The final maturity of the bond is July 1, 2042.

Note 5. Long-Term Debt (Continued)

The 2009 Series A and B bonds, as well as the Series 2017 bond, are collateralized by the first mortgages on the Marjorie P. Lee and Deupree House, assignments of basic rents and gross revenues and the assets of the Foundation.

In connection with the Series A and B 2009 Bond and Series 2017 bond issuances, ERH entered into five interest rate swap agreements with banks in order to mitigate economic risks associated with fluctuation in interest rates for a portion of its variable rate debt (see Note 6).

At December 31, the aggregate maturities of long-term debt during the next five years and thereafter are as follows:

2019	$ 1,400,000
2020	1,505,000
2021	1,640,000
2022	1,720,000
2023	1,832,500
Thereafter	21,632,694
	$ 29,730,194

Note 6. Derivative Financial Instruments

The Obligated Group is exposed to certain risks in the normal course of its business operations. The Obligated Group manages risks relating to the variability of future cash flows through the use of derivatives. The only derivative instruments used by the Obligated Group are interest rate swaps. Interest rate swaps are used by the Obligated Group to manage the risk associated with interest rates on variable-rate borrowings and do not qualify for hedge accounting. All interest rate swaps are reported in the combined statement of financial position at fair value and all gains and losses recognized on interest rate swaps are included in (deficit) excess of revenue over expenses.

As of December 31, 2018 and 2017, the Obligated Group held five "receive variable/pay fixed" interest rate swaps for a total notional amount of $22,854,000 and $24,190,000, respectively. Three of the swaps require the Obligated Group to pay between 2.433 and 3.365 percent on $19,500,000 and $20,700,000, at December 31, 2018 and 2017, respectively, and receive 65 percent of LIBOR through January 1, 2020, the expiration date of these three swap agreements. The fourth swap requires the Obligated Group to pay 3.130 percent on $354,000 and $490,000 at December 31, 2018 and 2017, respectively, and receives 65 percent of LIBOR through October 1, 2029, the expiration date of this swap agreement. The fifth swap requires the Obligated Group to pay 2.189 percent on $3,000,000 at December 31, 2018 and 2017, and receives 70 percent of LIBOR through July 1, 2037, the expiration date of this swap agreement. The Obligated Group has recorded the fair value of these interest rate swap agreements, which resulted in a liability of $1,550,476 and $2,243,377 at December 31, 2018 and 2017, respectively.

Note 6. Derivative Financial Instruments (Continued)

For the years ended December 31, 2018 and 2017, the amounts of loss recognized in the combined statement of activities attributable to derivative instruments not designated as hedging instruments and their locations in the combined statement of activities are as follows:

	2018	
	Amount of Gain (Loss) Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	$ (357,233)	Interest expense
Change in fair value of interest rate swap agreements	692,901	Change in swap
Net gain	$ 335,668	

	2017	
	Amount of Gain (Loss) Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	$ (481,963)	Interest expense
Change in fair value of interest rate swap agreements	139,126	Change in swap
Net loss	$ (342,837)	

Note 7. Net Assets and Endowments

Net assets with donor restrictions and board-designated endowment funds are comprised of the following at December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds:			
Marjorie P. Lee Fund operations	$ -	$ 22,116,937	$ 22,116,937
Other	-	2,126,686	2,126,686
Other donor restricted funds	-	803,817	803,817
Contributions receivable subject to time restrictions	-	751,719	751,719
Board-designated endowment funds	23,283,073	-	23,283,073
Total	$ 23,283,073	$ 25,799,159	$ 49,082,232

Note 7. Net Assets and Endowments (Continued)

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Marjorie P. Lee Fund operations	$ -	$ 24,887,936	$ 24,887,936
Other	-	1,577,220	1,577,220
Other donor restricted funds	-	1,890,662	1,890,662
Board-designated endowment funds	26,330,866	-	26,330,866
Total	$ 26,330,866	$ 28,355,818	$ 54,686,684

The Obligated Group's endowments include both donor-restricted and board-designated endowment funds. Changes in endowment funds for the years ended December 31 are as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 26,330,866	$ 26,465,156	$ 52,796,022
Investment gain	214,209	-	214,209
Net depreciation (realized and unrealized)	(1,585,347)	(1,247,782)	(2,833,129)
Total investment return	24,959,728	25,217,374	50,177,102
Contributions	3,929,019	-	3,929,019
Appropriation of endowment assets for expenditures	(5,605,674)	(973,751)	(6,579,425)
Endowment net assets, end of year	$ 23,283,073	$ 24,243,623	$ 47,526,696

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 24,293,791	$ 23,599,903	$ 47,893,694
Investment gain	391,955	-	391,955
Net appreciation (realized and unrealized)	4,118,764	3,835,474	7,954,238
Total investment return	28,804,510	27,435,377	56,239,887
Contributions	157,824	19,551	177,375
Appropriation of endowment assets for expenditures	(2,631,468)	(989,772)	(3,621,240)
Endowment net assets, end of year	$ 26,330,866	$ 26,465,156	$ 52,796,022

The Obligated Group has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Obligated Group classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 7. Net Assets and Endowments (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Obligated Group to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in net assets with donor restrictions; however, no deficiencies existed at December 31, 2018 and 2017.

Return objectives and risk parameters: The Obligated Group has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Obligated Group must hold in perpetuity. The Obligated Group expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Obligated Group relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Obligated Group targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Obligated Group has a policy of appropriating for distribution approximately 4.5 percent of the average market value over the previous 12 quarters. In establishing this policy, the Obligated Group considered the long-term expected return on its endowment.

Note 8. Retirement Plans

ERH sponsors a tax-deferred annuity retirement plan under Section 403(b) of the Internal Revenue Code for all employees who meet certain requirements as to length of service and percentage of employee contributions up to a maximum percentage of annual compensation. Expense for the plan was approximately $344,000 and $335,000 for 2018 and 2017, respectively.

Note 9. Commitments and Contingencies

Professional and general liability: ERH maintains a claims-made policy for professional and general liability through Caring Communities, a Reciprocal Risk Retention Group domiciled in the District of Columbia, U.S.A. As a subscriber to Caring Communities, the Obligated Group's interest of approximately $490,000 is recorded as an investment using the cost method and is included in other noncurrent assets on the combined statements of financial position for the years ended December 31, 2018 and 2017.

The Obligated Group is responsible for the first $50,000 per claim and Caring Communities is responsible for amounts over $50,000, up to $1,000,000 per claim and $3,000,000 in the aggregate. Premiums are actuarially determined based on claims history and were approximately $202,000 for the policy years (calendar years) beginning January 1, 2015. Depending on loss history and adequacy of capital, Caring Communities may, but is not obligated to, return a portion of premiums paid. Conversely, the Obligated Group may be called upon to contribute additional funds to its subscriber account to maintain adequate capital in Caring Communities.

Commitments: During 2016, the Obligated Group entered into a general construction contract for the Master Plan as described in Note 1. As of December 31, 2018, the Obligated Group was contractually committed for construction costs of approximately $5,000,000.

Note 9. Commitments and Contingencies (Continued)

Health plan: The Obligated Group's employees are covered under a partially self-funded health benefit plan for their health care costs. This plan also covers employees of affiliated entities. Under this plan, the Obligated Group is responsible for the first $100,000 of claims per employee incurred annually. The annual aggregate limit for all participant claims, which includes all entities covered under this plan, is approximately $2,900,000. Third party insurance coverage is responsible for amounts in excess per employee and in excess of the aggregate limit. The health insurance expense is based upon actual claims paid, reinsurance premiums, administration fees, and provisions for unpaid and unasserted claims at year-end.

Health insurance expense for the years ended December 31, 2018 and 2017 was approximately $1,266,000 and $1,259,000, respectively. A liability for estimated claims outstanding at December 31, 2018 and 2017 of approximately $345,000 and $209,000, respectively, has been recorded for management's estimate of claims incurred but not yet reported and is included in accrued liabilities on the accompanying combined statement of financial position.

Note 10. Functional Classification of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis between program services, management and general, and fundraising expenses. Expenses by functional area for the year ended December 31 are as follows:

	2018					
	Program Services					
	Senior Living	Other	Total Program	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 12,327,532	$ 490,051	$ 12,817,583	$ 3,553,060	$ 503,967	$ 16,874,610
Professional services	1,847,721	99,024	1,946,745	510,617	-	2,457,362
Marketing	-	74	74	642,239	-	642,313
Information technology	-	-	-	377,413	-	377,413
Depreciation, maintenance, and repairs	3,672,161	23,024	3,695,185	359,054	-	4,054,239
Utilities	1,129,768	1,795	1,131,563	72,675	-	1,204,238
Interest	861,920	-	861,920	4,518	-	866,438
Supplies	908,980	23,009	931,989	48,023	2,995	983,007
Travel and other	30,537	3,928	34,465	72,106	5,263	111,834
Administrative and general	3,413,664	583,281	3,996,945	778,993	73,936	4,849,874
	$ 24,192,283	$ 1,224,186	$ 25,416,469	$ 6,418,698	$ 586,161	$ 32,421,328

	2017					
	Program Services					
	Senior Living	Other	Total Program	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 12,105,198	$ 510,387	$ 12,615,585	$ 3,530,657	$ 509,357	$ 16,655,599
Professional services	1,745,023	9,646	1,754,669	419,418	-	2,174,087
Marketing	-	-	-	590,778	-	590,778
Information technology	-	-	-	315,562	-	315,562
Depreciation, maintenance, and repairs	3,443,273	14,541	3,457,814	334,647	-	3,792,461
Utilities	1,112,133	2,318	1,114,451	98,138	-	1,212,589
Interest	878,001	-	878,001	6,229	-	884,230
Supplies	905,596	38,727	944,323	43,593	2,935	990,851
Travel and other	45,106	3,782	48,888	86,400	6,126	141,414
Administrative and general	3,220,097	544,289	3,764,386	1,023,315	58,455	4,846,156
	$ 23,454,427	$ 1,123,690	$ 24,578,117	$ 6,448,737	$ 576,873	$ 31,603,727

Note 11. Fair Value Measurements

A summary of the methods and significant assumptions used to estimate the fair values of each major class of financial instruments is as follows:

Interest rate swaps: Interest rate swaps are recorded at fair value, based on current market conditions and computations.

Assets limited as to use: Assets limited as to use are recorded at fair value in the accompanying combined financial statements. Fair value is determined based on the fair value framework noted below.

The following tables present information about the Obligated Group's assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017 and the valuation techniques used by the Obligated Group to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Obligated Group has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Obligated Group's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and liabilities measured at fair value on a recurring basis at December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets limited as to use:				
Cash and cash equivalents	$ 554,342	$ -	$ -	$ 554,342
Corporation obligations	-	59,713	-	59,713
Equity securities	6,022,135	-	-	6,022,135
Exchange traded funds	8,685	-	-	8,685
Money market funds	-	111,560	-	111,560
Mutual funds	11,472,291	-	-	11,472,291
Total assets limited as to use	18,057,453	171,273	-	18,228,726
Beneficial interest in Marjorie P. Lee Endowment Fund	-	-	21,718,050	21,718,050
Total assets measured at fair value	18,057,453	171,273	21,718,050	39,946,776
Assets limited as to use measured at net asset value:				
Commingled trust funds	-	-	-	3,846,343
Hedge funds	-	-	-	4,257,891
Total assets measured at net asset value	-	-	-	8,104,234
Total assets	$ 18,057,453	$ 171,273	$ 21,718,050	$ 48,051,010
Liabilities:				
Interest rate swaps	$ -	$ 1,550,476	$ -	$ 1,550,476

Note 11. Fair Value Measurements (Continued)

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets limited as to use:				
Cash and cash equivalents	$ 692,747	$ -	$ -	$ 692,747
Corporation obligations	-	62,464	-	62,464
Equity securities	7,741,122	-	-	7,741,122
Exchange traded funds	10,479	-	-	10,479
Money market funds	-	256,590	-	256,590
Mutual funds	11,065,873	-	-	11,065,873
Total assets limited as to use	19,510,221	319,054	-	19,829,275
Beneficial interest in Marjorie P. Lee Endowment Fund	-	-	23,914,461	23,914,461
Total assets measured at fair value	19,510,221	319,054	23,914,461	43,743,736
Assets limited as to use measured at net asset value:				
Commingled trust funds	-	-	-	6,441,190
Hedge funds	-	-	-	3,001,211
Total assets measured at net asset value	-	-	-	9,442,401
Total assets	$ 19,510,221	$ 319,054	$ 23,914,461	$ 53,186,137
Liabilities:				
Interest rate swaps	$ -	$ 2,243,377	$ -	$ 2,243,377

Investments in entities that calculate net asset value per share: The Obligated Group holds shares or interests in investment companies at year-end, whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

Unfunded commitments and redemption rules of those investments at December 31 are as follows:

	Net Asset Value		Unfunded	Redemption Frequency, if	Redemption
	2018	2017	Commitments	Eligible	Notice Period
Commingled trust funds	$ 3,846,343	$ 6,441,190	N/A	Monthly to Annually	0 - 65 days
Hedge funds:					
Silvercreek	84,407	687,334	N/A	[a]	[a]
Mercer	2,163,805	2,189,131	N/A	[b]	[b]
Archstone	5,440	124,746	N/A	Quarterly	90 days
Pinehurst	2,004,239	-	N/A	Quarterly	100 days

[a] Redemption is scheduled based on the continuation fund over the next three years at the fund's determination. There are no redemption rights.

[b] The underlying liquidity of the fund changes over time and the redemption schedule is dependent upon, among other things, the liquidity provisions of the underlying funds, which allow for restrictions on redemption timing in certain circumstances. Further, the fund invests in illiquid investments. As such, it may take several years to receive all proceeds. During the redemption process, a stockholder remains at investment risk for those portfolios' funds for which redemption proceeds have not yet been received.

Note 11. Fair Value Measurements (Continued)

The commingled trust funds are invested in individual small- to large-cap equity securities in various industries to provide diversified risk. The values of the investments in this class have been estimated using the net asset value per share of the investments.

The hedge funds category invests in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The values of the investments in this class have been estimated using the net asset value per share of the investments. The fair value of the beneficial interest in the Marjorie P. Lee Foundation is based on the underlying fair value of the investments held directly by the Marjorie P. Lee Foundation.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31:

	Beneficial Interest in Marjorie P. Lee Endowment Fund
Balance, January 1, 2017	$ 21,167,524
Contributions	63,690
Withdrawals	(63,613)
Endowment draws	(989,772)
Net unrealized gains included in change in net assets	3,736,632
Balance, December 31, 2017	23,914,461
Contributions	108,169
Withdrawals	(108,169)
Endowment draws	(973,751)
Net unrealized losses included in change in net assets	(1,222,660)
Balance, December 31, 2018	$ 21,718,050

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Obligated Group's policy is to recognize transfers in and transfers out of Level 1, 2 and 3 fair value classifications as of the end of the reporting period. There were no transfers between levels for the years ended December 31, 2018 and 2017.

Note 12. Related Party Transactions

The Obligated Group provides certain management services to the other affiliated entities. During 2018 and 2017, ERH recognized net management fee income of $2,849,952 and $2,743,635, respectively, for management services provided to the other affiliated entities. During 2018, ERH transferred $2,500,000 of cash to an affiliated entity. There were no such transfers in 2017.

The Foundation also provides support to ERH and the other affiliated entities. Transfers of unrestricted net assets to the other affiliated entities totaled $881,913 and $239,218 for the years ended December 31, 2018 and 2017, respectively. Net assets released from restriction and transferred to other affiliated entities totaled $1,090,773 and $0 for the years ended December 31, 2018 and 2017, respectively.

Amounts due to affiliated entities totaled $450,003 at December 31, 2018. Amounts due from affiliates totaled $147,798 at December 31, 2017.

Note 13. Liquidity and Availability

The Obligated Group regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As part of the Obligated Group's liquidity management, monetary amounts in excess of monthly requirements for general expenditures is invested in various investments. As of December 31, 2018, financial assets available for general expenditures within one year are comprised of the following:

Financial assets at year-end:	
Cash and cash equivalents	$ 8,751,252
Accounts receivable	1,087,178
Pledge receivables	751,719
Other receivables	1,098,697
Miscellaneous	940,344
Investments (assets limited as to use)	26,332,960
Beneficial interest in Marjorie P. Lee Endowment Fund	21,718,050
Total financial assets	60,680,200
Less amounts not available to be used within one year:	
Assets held for residents	(1,993)
Investments in non-liquid securities	(940,344)
Assets with donor restrictions	(24,618,615)
Contributions receivable due after one year	(218,864)
Assets intended for expenditure for Marjorie P. Lee Master Plan	(3,008,209)
Board designated funds	(23,283,073)
Financial assets not available to be used within one year	(52,071,098)
Financial assets available to meet general expenditures within one year	$ 8,609,102

Supplementary Information

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position
December 31, 2018

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	**Total**
Assets			
Current assets:			
Cash and cash equivalents	$ 6,391,987	$ 2,359,265	**$ 8,751,252**
Resident accounts receivable, net	1,087,178	-	**1,087,178**
Other receivables	300,936	797,761	**1,098,697**
Other current assets	341,201	-	**341,201**
Total current assets	8,121,302	3,157,026	**11,278,328**
Assets limited as to use	554,342	25,778,618	**26,332,960**
Property and equipment, net	55,557,058	-	**55,557,058**
Beneficial interest in Marjorie P. Lee Endowment Fund	-	21,718,050	**21,718,050**
Intangible assets	870,241	-	**870,241**
Due from affiliates	1,341,893	-	**1,341,893**
Other assets	918,034	22,310	**940,344**
Total assets	$ 67,362,870	$ 50,676,004	**$ 118,038,874**
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 3,012,070	$ -	**$ 3,012,070**
Current portion of long-term debt	1,400,000	-	**1,400,000**
Deposits from residents	451,918	-	**451,918**
Refundable entrance fees	1,297,000	-	**1,297,000**
Deferred revenue from entrance fees	440,000	-	**440,000**
Accrued liabilities and other	2,845,930	93,701	**2,939,631**
Total current liabilities	9,446,918	93,701	**9,540,619**
Long-term debt, net	27,949,725	-	**27,949,725**
Deferred revenue from entrance fees, less current portion	1,287,268	-	**1,287,268**
Refundable entrance fees, less current portion	13,463,050	-	**13,463,050**
Interest rate swaps	1,550,476	-	**1,550,476**
Due to affiliates	-	1,791,896	**1,791,896**
Other long-term liabilities	312,187	221,834	**534,021**
Total liabilities	54,009,624	2,107,431	**56,117,055**
Net assets:			
Without donor restrictions	13,353,246	22,769,414	**36,122,660**
With donor restrictions	-	25,799,159	**25,799,159**
Total net assets	13,353,246	48,568,573	**61,921,819**
Total liabilities and net assets	$ 67,362,870	$ 50,676,004	**$ 118,038,874**

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position
December 31, 2017

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 6,505,556	$ 1,045,441	$ 7,550,997
Resident accounts receivable, net	1,054,722	-	1,054,722
Other receivables	267,852	1,149,114	1,416,966
Note receivable	-	-	-
Other current assets	660,269	-	660,269
Total current assets	8,488,399	2,194,555	10,682,954
Assets limited as to use	692,747	28,578,929	29,271,676
Property and equipment, net	52,892,189	-	52,892,189
Beneficial interest in Marjorie P. Lee Endowment Fund	-	23,914,461	23,914,461
Intangible assets	870,241	-	870,241
Due from affiliates	671,878	-	671,878
Other assets	906,344	26,439	932,783
Total assets	$ 64,521,798	$ 54,714,384	$ 119,236,182
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 2,740,669	$ -	$ 2,740,669
Current portion of long-term debt	1,010,000	-	1,010,000
Deposits from residents	369,217	-	369,217
Refundable entrance fees	1,138,000	-	1,138,000
Deferred revenue from entrance fees	395,000	-	395,000
Accrued liabilities and other	2,946,954	26,830	2,973,784
Total current liabilities	8,599,840	26,830	8,626,670
Long-term debt, net	23,713,977	-	23,713,977
Deferred revenue from entrance fees, less current portion	1,446,427	-	1,446,427
Refundable entrance fees, less current portion	13,471,800	-	13,471,800
Interest rate swaps	2,243,377	-	2,243,377
Due to affiliates	-	524,080	524,080
Other long-term liabilities	300,497	239,959	540,456
Total liabilities	49,775,918	790,869	50,566,787
Net assets:			
Without donor restrictions	14,745,880	25,567,697	40,313,577
With donor restrictions	-	28,355,818	28,355,818
Total net assets	14,745,880	53,923,515	68,669,395
Total liabilities and net assets	$ 64,521,798	$ 54,714,384	$ 119,236,182

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities
Year Ended December 31, 2018

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	**Total**
Revenue:			
Net resident revenue	$ 23,583,476	$ -	**$ 23,583,476**
Other operating revenue	1,942,489	-	**1,942,489**
Management fee income	2,849,952	-	**2,849,952**
Amortization of entrance fees	509,308	-	**509,308**
Marjorie P. Lee endowment income	973,751	-	**973,751**
Interest and dividend income	73,265	457	**73,722**
Total revenue	29,932,241	457	**29,932,698**
Expenses:			
Salaries and wages	13,601,639	-	**13,601,639**
Employee benefits and payroll taxes	3,429,718	-	**3,429,718**
Supplies	1,050,181	-	**1,050,181**
Food	1,408,115	-	**1,408,115**
Professional services	1,842,946	-	**1,842,946**
Utilities	1,204,238	-	**1,204,238**
Insurance	448,721	-	**448,721**
Depreciation	3,681,317	-	**3,681,317**
Interest	866,438	-	**866,438**
Other operating expense	4,651,189	236,826	**4,888,015**
Total expenses	32,184,502	236,826	**32,421,328**
Operating loss	(2,252,261)	(236,369)	**(2,488,630)**
Nonoperating income:			
Contributions	-	1,238,206	**1,238,206**
Investment loss	-	(1,371,138)	**(1,371,138)**
Change in interest rate swaps	692,901	-	**692,901**
Other income	11,153	50,944	**62,097**
Total nonoperating income	704,054	(81,988)	**622,066**
Deficit of revenue over expenses	$ (1,548,207)	$ (318,357)	**$ (1,866,564)**

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities
Year Ended December 31, 2017

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Revenue:			
Net resident revenue	$ 22,794,229	$ -	$ 22,794,229
Other operating revenue	1,785,737	-	1,785,737
Management fee income	2,743,635	-	2,743,635
Amortization of entrance fees	394,406	-	394,406
Marjorie P. Lee endowment income	989,772	-	989,772
Interest and dividend income	48,613	-	48,613
Total revenue	28,756,392	-	28,756,392
Expenses:			
Salaries and wages	13,203,445	-	13,203,445
Employee benefits and payroll taxes	3,562,581	-	3,562,581
Supplies	1,066,621	-	1,066,621
Food	1,362,856	-	1,362,856
Professional services	1,632,908	-	1,632,908
Utilities	1,212,589	-	1,212,589
Insurance	459,938	-	459,938
Depreciation	3,455,487	-	3,455,487
Interest	884,230	-	884,230
Other operating expense	4,512,987	250,085	4,763,072
Total expenses	31,353,642	250,085	31,603,727
Operating (loss) income	(2,597,250)	(250,085)	(2,847,335)
Nonoperating income (loss):			
Contributions	-	1,281,331	1,281,331
Investment gain	-	4,510,719	4,510,719
Change in interest rate swaps	139,126	-	139,126
Other income	59,387	536	59,923
Total nonoperating income	198,513	5,792,586	5,991,099
(Deficit) excess of revenue over expenses	$ (2,398,737)	$ 5,542,501	$ 3,143,764