The Episcopal Church Home, Inc.

Financial Report
December 31, 2019

Contents

RSM

RSM US LLP

Independent Auditor's Report

Board of Directors
The Episcopal Church Home, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of The Episcopal Church Home, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 the Organization as of December 31, 2019 and 2018, and the results of its activities, 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.

RSM US LLP

Cincinnati, Ohio
May 29, 2020

The Episcopal Church Home, Inc.

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 479,293**	$ 1,667,602
Resident accounts receivable, net (Note 2)	**1,607,534**	1,112,851
Prepaid expenses	**152,883**	183,691
Other assets	**54,370**	26,604
Investments and assets limited as to use (Note 3)	**15,727**	28,512
Total current assets	**2,309,807**	3,019,260
Due from financially interrelated Foundation	**58,446**	19,870
Property and equipment, net (Note 4)	**17,298,080**	17,611,912
Investments and assets limited as to use, less current portion (Note 3)	**1,776,661**	1,467,795
Interest in net assets of financially interrelated Foundation (Note 9)	**8,627,079**	7,172,974
Total assets	**$ 30,070,073**	$ 29,291,811
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt (Note 5)	**$ -**	$ 8,163
Accounts payable	**1,629,961**	1,682,189
Accrued expenses and other liabilities	**650,889**	564,996
Refundable advance deposits	**1,054,750**	939,000
Deferred entrance fees	**381,000**	395,000
Total current liabilities	**3,716,600**	3,589,348
Long-term debt, less current maturities (Note 5)	**2,000,000**	1,500,000
Refundable advance deposits, less current portion	**10,536,688**	10,421,874
Deferred entrance fees, less current portion	**1,564,741**	1,374,540
Total liabilities	**17,818,029**	16,885,762
Net assets:		
Without donor restrictions	**2,990,884**	4,689,886
With donor restrictions	**9,261,160**	7,716,163
Total net assets	**12,252,044**	12,406,049
Total liabilities and net assets	**$ 30,070,073**	$ 29,291,811

See notes to financial statements.

The Episcopal Church Home, Inc.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenue:		
Net resident service revenue	**$ 17,060,623**	$ 16,894,812
Amortization of entrance fees	**307,583**	341,161
Other operating revenue	**544,723**	318,957
Endowment income from financially interrelated Foundation	**301,835**	286,095
Total operating revenue	**18,214,764**	17,841,025
Operating expenses:		
Salaries and wages	**7,376,151**	7,168,342
Employee benefits and payroll taxes	**2,154,467**	1,960,300
Marketing	**214,816**	224,081
Supplies	**1,044,061**	1,028,072
Food	**750,681**	775,803
Professional and purchased services	**4,831,339**	4,681,793
Utilities	**774,468**	712,865
Insurance	**250,406**	118,849
Depreciation	**1,503,304**	1,491,703
Bad debt expense	**139,790**	253,882
Other operating expenses	**1,387,205**	1,322,031
Total operating expenses	**20,426,688**	19,737,721
Operating loss	**(2,211,924)**	(1,896,696)
Nonoperating income:		
Contributions	**303,353**	724,273
Investment income (loss)	**246,293**	(29,191)
Interest expense	**(51,250)**	(33,724)
Total nonoperating income	**498,396**	661,358
Deficit of revenues over expenses	**$ (1,713,528)**	$ (1,235,338)
Other net asset reallocations	**-**	(3,000)
Net assets released from restrictions - used for capital	**14,526**	13,067
Change in net assets without donor restrictions	**(1,699,002)**	(1,225,271)
Change in net assets with donor restrictions		
Restricted contributions	**40,507**	14,484
Change in market value of beneficial interests in perpetual trusts	**64,911**	(48,879)
Change in net assets of financially interrelated Foundation (Note 9)	**1,454,105**	(1,150,744)
Transfers from financially interrelated foundation (Note 9)	**-**	546,073
Net assets released from restrictions - used for capital	**(14,526)**	(13,067)
Other net asset reallocations	**-**	3,000
Change in net assets with donor restrictions	**1,544,997**	(649,133)

(Continued)

The Episcopal Church Home, Inc.

Statements of Activities and Changes in Net Assets (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Change in net assets	**(154,005)**	(1,874,404)
Net assets:		
Beginning	**12,406,049**	14,280,453
Ending	**$ 12,252,044**	$ 12,406,049

See notes to financial statements.

The Episcopal Church Home, Inc.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ (154,005)**	$ (1,874,404)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**1,503,304**	1,491,703
Loss on sale of assets	**130,761**	-
Provision for bad debt expense	**139,790**	253,882
Amortization of entrance fees	**(307,583)**	(341,161)
(Gain) loss on investments	**(291,268)**	94,709
Change in net assets of financially interrelated Foundation	**(1,454,105)**	604,671
Change in operating assets and liabilities:		
Resident accounts receivable	**(634,473)**	(112,511)
Due from financially interrelated Foundation	**(38,576)**	91,712
Prepaid expenses and other assets	**15,827**	27,934
Accounts payable	**(52,228)**	712,983
Other liabilities	**85,893**	(259,735)
Net cash (used in) provided by operating activities	**(1,056,663)**	689,783
Cash flows from investing activities:		
Purchase of property and equipment	**(1,320,233)**	(1,095,109)
Purchase of investments	**(105,150)**	(605,165)
Sales and maturities of investments	**87,552**	591,468
Net cash used in investing activities	**(1,337,831)**	(1,108,806)
Cash flows from financing activities:		
Entrance fees collected	**1,308,343**	1,112,354
Entrance fees refunded	**(593,995)**	(1,109,850)
Proceeds from long-term debt	**500,000**	1,500,000
Principal payments on long-term debt	**(8,163)**	(1,587,331)
Net cash provided by (used in) financing activities	**1,206,185**	(84,827)
Net change in cash and cash equivalents	**(1,188,309)**	(503,850)
Cash and cash equivalents:		
Beginning	**1,667,602**	2,171,452
Ending	**$ 479,293**	$ 1,667,602
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ -**	$ 21,974
Supplemental noncash investing activities:		
Transfer of investments from financially interrelated Foundation	**$ -**	$ 546,073

See notes to financial statements.

Note 1. Organization and Summary of Significant Accounting Policies

Nature of operations: The Episcopal Church Home, Inc. (the Organization) is a Kentucky nonprofit organization located in Louisville, Kentucky. The Organization operates a senior residential health care facility and home known as the Episcopal Church Home (the Home). The Home has licenses to operate up to 93 skilled nursing facility beds, 46 nursing home beds, and 127 personal care beds, 52 of which are located in a designated special care unit for memory-impaired persons. St. Luke's Chapel is located adjacent to the Home and its accounts and activities are included with those of the Home. The Organization also owns and operates Dudley Square, an independent living retirement community consisting of 62 townhouses on a site adjacent to the Home. Residents of Dudley Square have lifetime occupancy rights in return for payment of residency fees including advance entrance fees that are partially refundable.

Effective December 30, 2018, control of the Organization was effectively obtained by Episcopal Retirement Services (ERS) as a result of the Affiliation Agreement described in Note 9. The Organization has elected not to apply pushdown accounting. Therefore, there have been no changes to amounts reported in the financial statements as a result of this change in control.

Basis of presentation: The accompanying 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.

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 for specific purposes.

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 specified actions of the Organization.

Also included in net assets with donor restrictions are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, 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 Organization’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 and changes in net assets 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.

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

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Subject to expenditure for specific purposes	$ 26,726	$ 28,511
Subject to expenditure due to time restrictions - pledges	45,250	17,484
Not subject to expenditure - beneficial interest in trusts	562,105	497,194
Not subject to expenditure - interest in financially interrelated foundation	8,627,079	7,172,974
Total net assets with donor restrictions	$ 9,261,160	$ 7,716,163

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, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Tax status: The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and therefore is not subject to income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization 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 Organization and has concluded that as of December 31, 2019 and 2018, 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 Organization 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 2016.

Compliance: The Organization is affected by the health care economy in the State of Kentucky and is subject to local, state, and federal rules and regulations. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violations of these regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue for resident services. Management believes that the Organization is in substantial compliance with current laws and regulations.

Interests in financially interrelated entities: A recipient entity and a specified beneficiary are financially interrelated entities if one of the entities has the ability to influence the operating and financial decisions of the other and one of the entities has an ongoing economic interest in the net assets of the other. On October 1, 2016, as a result of the Affiliation (Note 9), The Episcopal Church Home Foundation, Inc. (the Foundation) was established and certain investments were transferred from the Organization to the Foundation. The Foundation was established for the sole purpose to support the Organization through fund-raising and investment activities. As such, the Organization has an ongoing and residual right to the Foundation's net assets. The Organization recognizes and adjusts its interest in the net assets of the Foundation based on the fair value of the Foundation's underlying net assets, as reflected in the accompanying financial statements.

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

Cash and cash equivalents: Cash equivalents include all highly liquid investments with original maturities of three months or less. Deposits in banks at times may exceed federally insured limits.

Resident accounts receivable: Resident accounts receivable consists of amounts due from residents and third-party payors, less an estimate for uncollectible accounts. The 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 Organization'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. See Note 2.

Revenue recognition: The Organization'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 2019 and 2018 is as follows:

	2019	2018
Medicare	28%	27%
Medicaid	6%	6%

Senior living revenue: Resident fees at independent living and assisted living communities consist of regular monthly charges for basic housing and support services and fees for additional requested services, such as assisted living services, personalized health services and ancillary services. Fees are specified in agreements with residents. Contracts with residents that are within the scope of ASC Topic 606 are generally short-term in nature. The Organization has determined that services performed under those contracts are considered one performance obligation in accordance with ASC Topic 606 as such services are regarded as a series of distinct events with the same timing and pattern of transfer to the resident or customer. Revenue is recognized for those contracts when the performance obligation is satisfied by transferring control of the service provided to the resident or customer, which is generally when the services are provided over time.

Continuing care contracts: Residents entering into a Dudley Square independent living unit are required to execute a resident agreement. The agreements require the residents to pay an entrance fee prior to occupancy. The agreements stipulate that a portion of the entrance fee is partially refundable within 90 days after the death of the resident, permanent transfer of the resident out of the Dudley Square units to other units of the Home or another organization, or termination of the agreement by the resident. For agreements entered into subsequent to July 1, 2006 and prior to April 1, 2018, the residency fee is refundable, less 1% for each month of occupancy, up to 25%, for a minimum refund of 75%. For agreements entered into prior to July 1, 2006, the minimum refund is 82%. For agreements entered into after April 1, 2018, the residency is refundable, less 10% upon occupancy and 1% for each month of occupancy, up to 25%.

The refundable portion of the entrance fees is reported as “Refundable advance deposits” in the accompanying balance sheet with a portion classified as a current liability based on the Organization’s prior experience with refund requests.

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

The nonrefundable portion of the entrance fees is reported as “Deferred entrance fees” in the accompanying balance sheet with a portion classified as a current liability based on estimates of amounts expected to be amortized to revenue in the next fiscal year. The nonrefundable portion of the deferred entrance fee is amortized to revenue using the straight-line method over the estimated remaining useful life expectancy of the residents. Any unamortized entrance fees at the time of the resident's death are recorded as revenue.

The agreements require the residents to pay a monthly service charge for services provided and use of the Organization’s facilities. Management has determined that the monthly service charge is sufficient to cover the costs of any future service obligations of the residents. As such, the Organization has not recorded a liability for the present value of the net costs of any future service obligations.

Skilled nursing facilities: In skilled nursing facilities and certain independent communities where skilled nursing services are provided, the Organization is paid fixed daily rates from governmental and contracted third party payers, and the Organization charges a predetermined fixed daily rate for private pay residents. These fixed daily rates and certain other fees are billed monthly. The Organization currently use the “most likely amount” technique to estimate revenue in accordance with ASC Topic 606, although rates are generally known and considered fixed prior to services being performed, whether included in the resident agreement or contracted with governmental or third party payers. Rate adjustments from Medicare or Medicaid are recorded when known (without regard to when the assessment is paid or withheld), and subsequent adjustments to these amounts are recorded in revenues when known. Billings under certain of these programs are subject to audit and possible retroactive adjustments, and related revenue is recorded at the amount the Organization ultimately expects to receive, which is inclusive of the estimated retroactive adjustments or refunds, if any, under reimbursement programs. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods, or as final settlements are determined. Revenue is recognized when performance obligations are satisfied by transferring control of the service provided to the resident, which is generally when services are provided over the duration of care.

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.

Charity care: The Organization provides care to residents who meet certain criteria under its charity care policy without charge. Key elements used to determine eligibility include a resident's demonstrated inability to pay. Because the Organization does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue. The Organization has estimated the costs foregone for services and supplies furnished under the Organization's charity care policy aggregated to approximately $124,000 and $164,000 for the years ended December 31, 2019 and 2018, respectively.

Performance indicator: The statement of activities includes a performance indicator of operations labeled as “operating loss.” Changes in net assets which are excluded from the performance indicator typically include the transfers to and changes in net assets of interrelated Foundation, contributions, investment income, and interest expense.

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

Investments: Investments are carried at fair value with unrealized gains or losses included in the statement of activities without donor restrictions unless the investment income is restricted by donor or law and is then recorded in change in net assets with donor restrictions. Contributed investments are recorded at fair value on the date of the gift. Realized gains or losses on investments sold are determined on a specific identification basis.

Assets limited as to use: Assets limited to use consist of cash and cash equivalents and investments and are limited as to use and include certain amounts internally designated as limited by the Board of Directors.

Property and equipment: Property and equipment are recorded at cost if purchased, or fair market value as of the date of donation, and depreciated over their estimated useful lives using the straight-line method of depreciation. Estimated useful lives are as follows:

Land improvements	10-20 years
Buildings and improvements	10-40 years
Furniture, fixtures and equipment	5-10 years
Vehicles	5 years

Property and equipment is subject to an impairment assessment whenever events or circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable from future cash flows. If the carrying amount is considered impaired, an impairment charge is recorded for the amount by which the carrying value exceeds its fair value. Management has concluded that no events or circumstances indicating potential impairment occurred for the year ended December 31, 2019 and 2018.

Advertising: Advertising costs are charged to operations when incurred. Advertising expense was approximately $215,000 and $224,000 for the years ended December 31, 2019 and 2018, respectively.

Retirement plan: The Organization sponsors a defined contribution retirement plan covering all full time employees age 21 and older with at least one year of employment with the Organization. The Organization matches each participant's contribution up to a maximum percentage of annual compensation. Retirement plan expense was approximately $130,000 and $121,000 for the years ended December 31, 2019 and 2018, respectively.

Recent accounting pronouncements:

Revenue recognition: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The updated standard replaced most existing revenue recognition guidance in GAAP and requires additional disclosures. The updated standard permits the use of either a full retrospective or retrospective with cumulative effect transition method. Effective January 1, 2019, the Organization adopted ASU 2014-19 using the modified retrospective with cumulative effect transition method. The adoption of this standard did not have a material impact on the financial statements.

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

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 Organization 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 adoption of this standard did not have a material impact on the financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires all lessees to record a lease liability at lease inception, with a corresponding right of use asset, except for short-term leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for operating leases. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, *Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides lessors with a practical expedient, in certain circumstances, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. In December 2018, the FASB issued ASU 2018-20, Narrow-Scope Improvements for Lessors. This ASU provides an election for lessors to exclude sales and related taxes from consideration in the contract, requires lessors to exclude from revenue and expense lessor costs paid directly to a third party by lessees, and clarifies lessors' accounting for variable payments related to both lease and nonlease components. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Organization intends to elect the practical expedients provided to lessors, including, in certain circumstances, to not separate nonlease components from the associated lease component, and to exclude sales and related taxes from consideration in the contract. The Organization continues to assess the effect the guidance will have on its existing accounting policies and the combined financial statements.

Fair value measurements: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Organization is currently evaluating the impact of this new standard on its financial statements.

Reclassification: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Subsequent events: The Organization has evaluated subsequent events for potential recognition and/or disclosure through May 29, 2020, the date the financial statements were available to be issued.

Note 2. Resident Accounts Receivable

The Organization provides services without collateral to its facility residents, many of whom are local residents and who are insured under third-party payor agreements. The mix of receivables from residents and third-party payors at December 31 is as follows:

	2019	2018
Medicare	$ 646,143	$ 409,215
Medicaid	198,441	66,906
Insurance	369,253	239,972
Private and other	658,435	632,895
	1,872,272	1,348,988
Less: allowance for uncollectable accounts	(264,738)	(236,137)
Resident accounts receivable, net	$ 1,607,534	$ 1,112,851

Bad debt expense for the years ended December 31, 2019 and 2018 was $139,790 and $253,882, respectively.

The composition of investments and assets limited as to use as of December 31 is set forth in the following table:

	2019	2018
Cash and cash equivalents	$ 15,727	$ 28,512
Money market funds	24,944	35,850
Equity securities	953,338	721,301
Mutual funds	236,274	213,450
Beneficial interest in perpetual trusts	562,105	497,194
	1,792,388	1,496,307
Less: current portion	(15,727)	(28,512)
Total investments, less current portion	$ 1,776,661	$ 1,467,795

Internally designated cash and cash equivalents that are limited as to use totaled $15,727 and $28,512 as of December 31, 2019 and 2018, respectively.

Investment income is comprised of the following for the years ended December 31:

	2019	2018
Realized and unrealized gain (loss)	$ 226,358	$ (45,830)
Interest and dividends, net of fees	19,935	16,639
Investment income (loss)	$ 246,293	$ (29,191)

Note 3. Property and Equipment

Property and equipment consists of the following at December 31:

	2019	2018
Land	$ 804,971	$ 804,971
Land improvements	220,095	208,295
Buildings and improvements	32,471,227	32,563,346
Furniture, fixtures and equipment	2,973,331	2,816,871
Vehicles	110,592	110,592
Construction in progress	1,143,885	176,228
Total	37,724,101	36,680,303
Less: accumulated depreciation	(20,426,021)	(19,068,391)
Property and equipment, net	$ 17,298,080	$ 17,611,912

Depreciation expense on property and equipment totaled $1,503,304 and $1,491,703 in 2019 and 2018, respectively.

Note 4. Long-Term Debt

The following is a summary of long-term debt at December 31:

	2019	2018
Note payable, no interest, varying payments due monthly May 2015 through April 2019; collateralized by certain building improvements and equipment.	-	8,163
Note payable, related party, permitting borrowings up to $4,000,000 until a period at the discretion of the related party. The note requires quarterly interest only payments through April 2020 at a fixed rate of 3%. Beginning July 1, 2020, and through the maturity date in April 2043, the note bears interest at a rate of 4% and requires quarterly payments of principal and interest, which are to be determined once borrowings are made in full.	2,000,000	1,500,000
	2,000,000	1,508,163
Less: current maturities	-	(8,163)
Long-term debt, less current maturities	$ 2,000,000	$ 1,500,000

Note 5. Functional 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. Natural expenses attributable to more than one function are allowed using certain cost allocation techniques. Depreciation expense is allocated based on square footage and employee benefits related expenses are allocated based on headcount. Expenses by functional area for the year ended December 31 are as follows:

	2019			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 8,532,774	$ 884,123	$ 113,721	$ 9,530,618
Professional services	3,338,754	1,492,035	550	4,831,339
Marketing	-	214,816	-	214,816
Information technology	-	113,835	-	113,835
Depreciation, maintenance and repairs	1,600,071	194,758	-	1,794,829
Utilities	774,468	-	-	774,468
Supplies	1,027,400	16,520	141	1,044,061
Travel and other	7,578	4,171	543	12,292
Miscellaneous	1,538,061	563,173	9,196	2,110,430
	$ 16,819,106	$ 3,483,431	$ 124,151	$ 20,426,688

	2018			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and benefits	$ 8,237,266	$ 781,299	$ 110,077	$ 9,128,642
Professional services	3,225,234	1,456,559	-	4,681,793
Marketing	-	224,081	-	224,081
Information technology	-	124,495	-	124,495
Depreciation, maintenance, and repairs	1,582,925	193,255	-	1,776,180
Utilities	712,865	-	-	712,865
Supplies	1,007,335	20,730	7	1,028,072
Travel and other	21,120	1,282	1,117	23,519
Miscellaneous	1,466,665	560,536	10,873	2,038,074
	$ 16,253,410	$ 3,362,237	$ 122,074	$ 19,737,721

Note 6. Commitments and Contingencies

Litigation: The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Organization's financial condition or results of operations.

Note 6. Commitments and Contingencies (Continued)

Commitments: During 2018, the Organization entered into a general construction contract for renovation projects. As a result of the master plan approved in 2020 (see Note 10), these initial renovation projects were abandoned. As of December 31, 2019 and December 31, 2018, the Organization was contractually committed for construction costs of approximately $0 and $547,000, respectively.

Health plan: Beginning January 1, 2018, the Organization's employees are covered under an affiliated entity's (Episcopal Retirement Homes) partially self-funded health benefit plan for their health care costs. This plan also covers employees of affiliated entities. Under this plan, the Organization 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 $3,000,000 ($2,900,000 in 2018). 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, 2019 and 2018 was approximately $1,051,000 and $728,000, respectively. A liability for estimated claims outstanding at December 31, 2019 and 2018 of approximately $177,000 and $84,000, respectively, has been recorded for management's estimate of claims incurred but not yet reported and is included in accrued expenses on the accompanying statement of financial position.

Note 7. Fair Value Measurements

For amounts reported at fair value, the Organization adheres to the GAAP framework for measuring fair value which establishes a fair value hierarchy consisting of three levels of inputs that may be used to measure fair value as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds: Valued at the net asset value of underlying assets.

Equity securities and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Note 7. Fair Value Measurements (Continued)

Beneficial interest in perpetual trusts: Beneficial interest in perpetual trusts is recorded at fair value on a recurring basis. Fair value measurement is based upon the fair value of assets held in the perpetual trusts as reported by the trustees at December 31, 2019 and 2018. The Organization considers the measurement of its beneficial interest in the perpetual trusts to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the trust assets reported by the trustee, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measured at the reporting date.

Interest in net assets of interrelated foundation: Interest in net assets of interrelated foundation is recorded at fair value on a recurring basis. Fair value measurement is based upon the fair value of assets held in the interrelated foundation at December 31, 2019 and 2018. The Organization considers the measurement of its interest in net assets of interrelated foundation to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the interrelated foundation's assets, the Organization will never receive those assets or have the ability to redeem them.

The following table presents the balances of investments measured at fair value on a recurring basis as of December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	$ -	$ 24,944	$ -	$ 24,944
Equity securities	953,338	-	-	953,338
Mutual funds	236,274			236,274
Beneficial interest in perpetual trusts	-	-	562,105	562,105
Cash and cash equivalents				15,727
Total investments				1,792,388
Other assets:				
Interest in net assets of financially interrelated Foundation	-	-	8,627,079	8,627,079
Total assets at fair value	$ 1,189,612	$ 24,944	$ 9,189,184	$ 10,419,467

Note 7. Fair Value Measurements (Continued)

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	$ -	$ 35,850	$ -	35,850
Equity securities	721,301	-	-	721,301
Mutual funds	213,450	-	-	213,450
Beneficial interest in perpetual trusts	-	-	497,194	497,194
Cash and cash equivalents				28,512
Total investments				1,496,307
Other assets:				
Interest in net assets of financially interrelated Foundation	-	-	7,172,974	7,172,974
Total assets at fair value	$ 934,751	$ 35,850	$ 7,670,168	$ 8,669,281

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

	2019	2018
Balance, January 1,	$ 7,670,168	$ 8,323,718
Contributions	25,814	547,555
Withdrawals	(299,598)	(965,675)
Net unrealized gains (losses)	1,392,964	(684,627)
Net realized gains	270,187	370,365
Interest income, net of fees	129,649	78,832
Balance, December 31,	$ 9,189,184	$ 7,670,168

Note 8. Affiliation Agreement and Interest in Financially Interrelated Foundation

Effective October 1, 2016, the Organization entered into the Affiliation Agreement (the Affiliation) with Episcopal Retirement Services. Concurrently with the Affiliation with ERS, the Organization revised its legal name to be The Episcopal Church Home, Inc. and established a new legal entity, The Episcopal Church Home Foundation, Inc. (the Foundation). The Foundation is governed by an independent Board of Directors and is organized to solely support the Organization. In connection with the Affiliation, certain investments and beneficial interests in assets have been transferred from the Organization to the Foundation.

The purpose of the Affiliation with ERS is to further the charitable missions of both ERS and the Organization through various shared affiliation benefits and goals. The Organization amended and restated its articles and bylaws and established a nonprofit corporate membership structure with ERS obtaining 80% interest and the Foundation obtaining 20% interest in the Organization. A new Board of Directors of the Organization is comprised of 9 voting members and 1 non-voting member with ERS appointing 5 of the 9 voting member positions.

Note 8. Affiliation Agreement and Interest in Financially Interrelated Foundation (Continued)

The Organization recognizes its interest, and any changes in its interest, in the net assets of the Foundation as a financially interrelated entity. At December 31, 2019 and 2018, the Organization's interest in the net assets of the Foundation of $8,627,079 and $7,172,974, respectively, is classified as net assets with donor restrictions on the accompanying statements of changes of net assets. For the year ended December 31, 2019, the Foundation transferred no investments to the Organization. For the year ended December 31, 2018, the Foundation transferred $546,073 of investments to the Organization. These amounts are reported as "Transfers (to) from financially interrelated foundation" on the accompanying statements of changes in net assets.

ERS provides the Organization with management services under the terms of the Affiliation. Annual management fees to be paid to ERS were established at amounts ranging from $1,582,000 to $1,692,000 annually through June 30, 2019. After that date, fees are adjusted annually. Fees paid to ERS under the affiliation agreement totaled $1,711,860 and $1,662,000 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, $916,885 and $358,473, respectively, was owed to ERS and is included in "Accounts payable" on the accompanying statements of financial position.

The Foundation has agreed to make certain specified contributions to Organization in addition to operational support contributions as approved by the Foundation Board annually. There were operational support contributions of $301,835 and $286,095 for the years ended December 31, 2019 and 2018, respectively. The Foundation also provided $135,000 in required annual development capacity grants to the Organization for the year ended December 31, 2018.

The Affiliation agreement is scheduled to terminate on October 31, 2021. The termination will have no impact on the Organization's governance and ERS will continue to maintain its 80% interest in the Organization. ERS and the Foundation had the ability to unwind the Affiliation by providing written notice between July 1, 2018 and October 31, 2018. This unwind provision was not exercised. As a result, ERS effectively gained control of the Organization as of December 30, 2018.

The following summarizes the financial position of the financially interrelated Foundation at December 31:

	2019	2018
Assets		
Cash	$ 65,000	$ 65,000
Investments	5,899,252	4,884,536
Beneficial interests	2,421,273	1,943,308
Investment in the Organization	300,000	300,000
	8,685,525	7,192,844
Liabilities		
Net payable to the Organization	58,446	19,870
Net assets, end of year	8,627,079	7,172,974
Net assets of financially interrelated Foundation, beginning of year	7,172,974	8,323,718
Change in net assets of financially interrelated Foundation	$ 1,454,105	$ (1,150,744)

Note 9. Liquidity and Availability

The Organization 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 Organization's liquidity management, monetary amounts in excess of monthly requirements for general expenditures is invested in various investments. As of December 31, 2019 and 2018, financial assets available for general expenditures within one year are comprised of the following:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	$ 479,293	$ 1,667,602
Accounts receivable	1,607,534	1,112,851
Pledge receivables	45,250	17,484
Other receivables	58,446	19,870
Investments	1,792,388	1,496,307
Interest in net assets of financially interrelated Foundation	8,627,079	7,172,974
Total financial assets	12,609,990	11,487,088
Less amounts not available for general expenditures within one year:		
Assets held for residents	(9,803)	(9,815)
Other assets limited as to use by internal designation	(15,727)	(28,512)
Assets with donor restrictions	(9,261,160)	(7,716,163)
Financial assets available for general expenditures within one year	$ 3,323,300	$ 3,732,598

Note 10. Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 to be a pandemic. The impact of COVID-19 could negatively impact the Organization's operations, suppliers, or other vendors and customers. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates.

On March 27, 2020, the CARES Act was signed into law. The CARES Act legislation is intended to provide relief for organizations that have been negatively impacted by the COVID-19 pandemic. One of the many provisions of the CARES Act provided relief funding to healthcare organizations. The Organization received $652,650 of funding from the CARES Act during 2020. The Organization is required to meet certain terms and conditions related to use of the relief funds during 2020.

The Organization approved a new Master Plan renovation project early in 2020 for an estimated amount of $18.5 million. The Organization estimates an additional $1.5 million of depreciation expense in 2020 related to disposal of assets in connection with the Master Plan. The Organization plans to fund the costs of the Master Plan with various financing options, capital campaign contributions and new entrance fees generated from the project.