Episcopal Retirement Homes – Obligated Group

Combined Financial Report
December 31, 2020

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, 2020 and 2019, the related combined statements of activities and 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, 2020 and 2019, 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.

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 rather than to present the financial position, results of activities and changes in net assets of the individual organizations 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 combining 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 3, 2021

Episcopal Retirement Homes - Obligated Group

Combined Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,359,591**	$ 6,939,789
Resident accounts receivable, net	**1,222,864**	1,111,660
Other receivables	**720,381**	325,675
Other current assets	**671,360**	461,829
Total current assets	**12,974,196**	8,838,953
Investments and assets limited as to use	**32,758,949**	29,984,371
Property and equipment, net	**54,177,681**	57,759,132
Beneficial interest in Marjorie P. Lee Endowment Fund	**27,855,326**	25,475,397
Intangible assets	**870,241**	870,241
Due from affiliates	**2,036,398**	2,802,481
Other assets	**817,240**	1,204,856
Total assets	**$ 131,490,031**	$ 126,935,431
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 2,032,198**	$ 2,064,868
Current portion of long-term debt	**1,260,000**	1,497,000
Deposits from residents	**451,995**	456,532
Refundable entrance fees	**2,354,637**	1,474,100
Deferred revenue from entrance fees	**427,000**	452,000
Accrued liabilities and other	**5,180,496**	3,723,798
Total current liabilities	**11,706,326**	9,668,298
Long-term debt, net	**32,633,740**	30,459,101
Deferred revenue from entrance fees, less current portion	**1,618,012**	1,388,852
Refundable entrance fees, less current portion	**11,931,570**	13,679,620
Interest rate swaps	**3,562,324**	2,609,264
Other long-term liabilities	**262,249**	526,548
Total liabilities	**61,714,221**	58,331,683
Net assets:		
Without donor restrictions	**37,369,399**	38,986,113
With donor restrictions	**32,406,411**	29,617,635
Total net assets	**69,775,810**	68,603,748
Total liabilities and net assets	**$ 131,490,031**	$ 126,935,431

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

Combined Statements of Activities and Changes in Net Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Revenue:		
Net resident revenue	**$ 26,040,059**	$ 24,732,568
Other operating revenue	**3,455,034**	1,915,321
Management fee income	**2,863,095**	2,919,501
Amortization of entrance fees	**361,389**	513,047
Marjorie P. Lee Endowment Fund income	**1,129,792**	961,675
Interest and dividend income	**73,522**	48,418
Total revenue	**33,922,891**	31,090,530
Expenses:		
Salaries and wages	**15,872,408**	14,572,442
Employee benefits and payroll taxes	**4,866,701**	3,605,775
Supplies	**829,737**	948,266
Food	**1,178,077**	1,158,006
Professional services	**3,186,995**	3,205,792
Utilities	**1,214,035**	1,238,905
Insurance	**404,802**	417,337
Depreciation	**4,058,390**	4,029,527
Other operating expense	**3,992,351**	4,021,058
Total operating expenses	**35,603,496**	33,197,108
Operating loss	**(1,680,605)**	(2,106,578)
Nonoperating income (loss):		
Contributions	**1,947,938**	1,213,327
Investment gain	**3,378,914**	5,268,730
Interest expense	**(1,449,888)**	(789,464)
Change in interest rate swaps	**(953,060)**	(1,058,788)
Other income	**19,848**	89,367
Total nonoperating income	**2,943,752**	4,723,172
Excess of revenue over expenses	**1,263,147**	2,616,594
Other net asset reallocations	**12,233**	12,073
Transfer from ERS Foundation to affiliated entities	**(211,773)**	(154,827)
Transfer from ERH to affiliated entities	**(2,750,000)**	-
Net assets released from restriction	**69,679**	389,613
Change in net assets without donor restrictions	**(1,616,714)**	2,863,453

(Continued)

Episcopal Retirement Homes - Obligated Group

Combined Statements of Activities and Changes in Net Assets (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Change in net assets with donor restrictions:		
Restricted contributions	**$ 432,345**	$ 534,742
Change in beneficial interest in Marjorie P. Lee Endowment Fund	**3,509,721**	4,719,022
Draws from Marjorie P. Lee Endowment Fund	**(1,129,792)**	(961,675)
Change in fair value of other endowment funds	**58,414**	92,829
Other net asset reallocations	**(12,233)**	(12,073)
Net assets released from restriction	**(69,679)**	(389,613)
Net assets released from restriction to affiliated entities	**-**	(164,756)
Change in net assets with donor restrictions	**2,788,776**	3,818,476
Change in net assets	**1,172,062**	6,681,929
Net assets:		
Beginning	**68,603,748**	61,921,819
Ending	**$ 69,775,810**	$ 68,603,748

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

Combined Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 1,172,062	$ 6,681,929
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,078,209	4,049,346
Investment gain	(3,378,914)	(5,268,730)
Change in interest rate swaps	953,060	1,058,788
Change in beneficial interest in Marjorie P. Lee Endowment Fund	(2,379,929)	(3,757,347)
Amortization of entrance fees	(361,389)	(513,047)
Changes in operating assets and liabilities:		
Receivables	(505,910)	405,768
Other assets	178,085	(42,368)
Amounts due from affiliates	766,083	(2,802,481)
Accounts payable	(32,670)	(947,202)
Accrued liabilities and other	1,187,862	331,305
Net cash provided by (used in) operating activities	1,676,549	(804,039)
Cash flows from investing activities:		
Purchase of property and equipment	(476,939)	(6,231,601)
Purchase of investments and assets limited as to use	(24,168,041)	(3,510,875)
Proceeds from sale of investments and assets limited as to use	24,772,377	5,128,194
Net cash provided by (used in) investing activities	127,397	(4,614,282)
Cash flows from financing activities:		
Principal payments on long-term debt	(1,885,000)	(1,400,000)
Proceeds from long-term debt	3,802,820	3,986,557
Entrance fees collected	2,115,249	3,810,531
Entrance fees refunded	(2,417,213)	(2,790,230)
Net cash provided by financing activities	1,615,856	3,606,858
Net change in cash and cash equivalents	3,419,802	(1,811,463)
Cash and cash equivalents:		
Beginning	6,939,789	8,751,252
Ending	$ 10,359,591	$ 6,939,789
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,553,590	$ 1,219,314

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 (U.S. GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Obligated Group 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.

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.

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 net assets with donor restrictions 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 statements 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.

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

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.

Use of estimates: The preparation of financial statements in conformity with U.S. 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 statements 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 from residents, insurance companies and governmental agencies are based on net charges (contractual allowances or discounts). 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.

Investments and 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 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 value at date of gift. Gains and losses on investments sold are determined on a specific identification basis. Investments in commingled trust funds, private investments, and 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 $27,855,326 and $25,475,397 as of December 31, 2020 and 2019, respectively, and is reported in the accompanying statements of financial position as a beneficial interest in Marjorie P. Lee Endowment Fund. Fair value is valued at the current market value of the underlying assets of the fund and is shown as with donor restrictions and have a permanent restriction, as the net assets are currently unavailable for distribution. Changes in the fair value of this trust are recorded as changes in beneficial interest in the accompanying combined statements of changes in net assets with restriction and amounted to an increase in such interest of $3,509,721 and $4,719,022 in 2020 and 2019, respectively. Draws from the endowment fund totaled $1,129,792 and $961,675 in 2020 and 2019, respectively, and are reported in the accompanying statements of activities as “Marjorie P. Lee Endowment Fund income.”

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

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 not amortized to income and 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, 2020 and 2019, and no impairment loss was determined necessary.

Operating indicator: The combined statements of activities includes an intermediate indicator of operations labeled as “operating loss.” Changes in unrestricted net assets which are excluded from the operating measure include transfers of assets to and from other affiliated entities for other than goods and services, contributions, investment gain, change in interest rate swaps, interest expense, 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 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, 2020 and 2019, the Obligated Group had gift annuity obligations without donor restrictions of approximately $118,000 and $134,000, respectively, which are included in other long-term liabilities on the combined statements of financial position.

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 $1,299,000 and $1,006,000 during 2020 and 2019, respectively.

Revenue recognition: 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 during 2020 and 2019 are as follows:

	Percent	
	2020	2019
Medicaid	4%	4%
Medicare	7%	10%

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

Senior living revenue: Resident fees at independent 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 Obligated Group 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 at Deupree House II may enter into continuing care contracts, which require the resident to pay an upfront entrance fee prior to moving into the community, which is partially refundable in certain circumstances. The 60-unit independent-living Deupree House II contracts provide for a refund of the entrance fee (90% or 30%) to residents, which is only paid upon reoccupancy of a unit. The refundable portion of the entrance fee is recorded as a refundable liability on the statements of financial position. The nonrefundable portion of the entrance fee (10% or 70%) is recorded as deferred revenue and is being amortized into income using the straight-line method over the estimated remaining life expectancy of the resident. Nonrefundable entrance fees are considered to contain a material right associated with living in the units and access to future services, which is the performance obligation. When the resident no longer resides within a community, the remaining deferred non-refundable fees are recognized in revenue.

The total of deferred revenue of the nonrefundable portion of the entrance fees amounted to approximately $2,045,000 and $1,841,000 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, ERH had entrance fee contracts with gross potential refund obligations totaling approximately $14,286,000 and $15,154,000, respectively.

Deupree House I and Marjorie P. Lee offer continuing care contracts. In these contracts, the entrance fee is recorded as 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 or termination of occupancy are recorded as revenue. The refundable portion of entrance fees is reduced in the event of death or withdrawal by 1% of such fee for each month of residence.

The continuing care contracts described above require the residents to pay a monthly service charge for services provided and use of ERH’s facilities. Revenue from monthly service charges is reported at the amount that reflects the consideration to which ERH expects to be entitled to for services as provided in the agreements. These amounts are due from residents and are recognized over time as performance obligations are satisfied. Generally, the performance obligation related to these monthly maintenance fees is considered to be the ongoing ability of the resident to continue to occupy the unit each month and, accordingly, revenue is recognized monthly as this service is provided. 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.

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

Skilled nursing facilities: In skilled nursing facilities and certain independent communities where skilled nursing services are provided, the Obligated Group is paid fixed daily rates from governmental and contracted third party payers, and the Obligated Group charges a predetermined fixed daily rate for private pay residents. These fixed daily rates and certain other fees are billed monthly. The Obligated Group 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 Obligated Group 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 based on a day of healthcare services to the resident.

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.

Management fee income: The Obligated Group provides certain management services to affiliated entities. Although there are various management and operational activities performed by the Obligated Group under the agreements, all community operations management activities are considered to constitute a single performance obligation, which is satisfied over time as the services are rendered. Management fees are determined by an agreed upon rate and recognized in accordance with ASC Topic 606 in the same period that management services are provided.

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. The Master Plan was completed in 2019.

Grant revenue: Grant support is reported as other operating revenue in the period in which the Obligated Group meets the required terms and conditions of the grant.

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

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 $19,819 and $19,820 for 2020 and 2019, 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 $0 and $457,779 during 2020 and 2019, respectively. Details of interest cost incurred for 2020 and 2019 are as follows:

	2020	2019
Interest cost charged to operations	$ 1,449,888	$ 789,464
Interest cost capitalized to property and equipment	-	457,779
Total interest cost incurred	$ 1,449,888	$ 1,247,243

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, 2020 and 2019, 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 2017.

Recent accounting pronouncements:

Leases: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating leases, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest cumulative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02, making it effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. The Obligated Group continues to assess the effect the guidance will have on its existing accounting policies and the financial statements.

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

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*. The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the FASB Concepts Statement, including consideration of costs and benefits.

The following disclosure requirements were removed from Topic 820:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.
2. The policy for timing of transfers between levels.
3. The valuation processes for Level 3 fair value measurements.
4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The following disclosure requirements were modified in Topic 820:

1. In lieu of a roll forward for Level 3 fair value investments, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.
2. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Obligated Group retrospectively adopted this update for the removal, modification, or addition of certain fair value disclosures presented in Note 11 of the financial statements.

Reference rate reform: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The guidance provides temporary optional expedients and exceptions to the guidance in U.S. GAAP regarding contract modifications, hedge accounting and other transactions to ease the expected burden on financial reporting related to the upcoming reference rate reform. The guidance in the ASU, if elected by an entity, applies to contracts or other transactions that reference LIBOR or a reference rate that is expected to be discontinued as a result of reference rate reform. An entity that elects the expedient for its issued debt will account for all modifications of its issued debt that do not meet the definition of troubled debt restructuring and that qualify for the expedient as if those modifications were not substantial. The modification will be accounted for prospectively by adjusting the effective interest rate for the debt. The standard may be applied as of the beginning of the interim period that includes March 12, 2020. Once an entity elects to apply the contract modification in the ASU, it must apply it prospectively for all qualifying contract modifications made prior to December 31, 2022. The Obligated Group is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Subsequent events: The Obligated Group has evaluated subsequent events for potential recognition and/or disclosure through June 3, 2021, the date the combined financial statements were available to be issued.

Note 2. Resident Accounts Receivable

Resident accounts receivable at December 31 is as follows:

	2020	2019
Resident accounts receivable	$ 1,315,983	$ 1,238,965
Allowance for uncollectible accounts	(93,119)	(127,305)
Net resident accounts receivable	$ 1,222,864	$ 1,111,660

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	
	2020	2019
Medicare	25%	30%
Medicaid	10%	10%
Insurance	19%	16%
Private and other	46%	44%
Total	100%	100%

Note 3. Investments and Assets Limited as to Use

Investments and assets limited as to use at December 31 are as follows:

	2020	2019
Cash and cash equivalents	$ 2,018,545	$ 339,555
Mutual funds	5,025,263	13,476,136
Exchange traded funds	2,282,563	15,074
Money market funds	1,163,629	339,416
Equity securities	5,758,273	7,216,415
Corporate obligations	55,573	53,346
Commingled trust funds	-	4,049,215
Private investments	805,239	-
Hedge funds	15,649,864	4,495,214
Total investments and assets limited as to use	$ 32,758,949	$ 29,984,371

Note 3. Investments and Assets Limited as to Use (Continued)

Designations and restrictions at December 31 are as follows:

	2020	2019
Bond indentures	$ 201,032	$ 204,241
Resident deposits	6,690	1,917
Externally restricted by endowment	2,096,657	2,096,657
Board-designated endowment funds (see table below)	29,373,991	27,068,516
Externally restricted for specific purposes	1,080,579	613,040
Total designations and restrictions	$ 32,758,949	$ 29,984,371

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

	2020	2019
Marjorie P. Lee Home Fund	$ 9,998,252	$ 10,795,733
Development and operations	15,916,081	12,877,411
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	552,195	487,909
Total board-designated endowment funds	$ 29,373,991	$ 27,068,516

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

	2020	2019
Realized and unrealized gain	$ 3,148,157	$ 4,800,874
Interest and dividends, net of fees	304,279	516,274
Total investment gain	$ 3,452,436	$ 5,317,148

Note 4. Property and Equipment

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

	2020	2019	Depreciable Life - Years
Land and improvements	$ 2,850,486	$ 2,850,486	0-10
Buildings and improvements	84,731,921	84,693,603	20-40
Equipment, furniture and fixtures	11,525,170	11,180,728	5-10
Computer equipment and software	1,425,798	1,415,070	5-10
Transportation equipment	455,672	455,672	4-5
Rental property	89,441	89,441	
Construction in progress	489,508	406,057	
Total cost	101,567,996	101,091,057	
Accumulated depreciation	(47,390,315)	(43,331,925)	
Net carrying value	$ 54,177,681	$ 57,759,132	

Depreciation expense on property and equipment totaled $4,058,390 and $4,029,527 in 2020 and 2019, respectively.

Note 5. Long-Term Debt

Long-term debt at December 31 is as follows:

	2020	2019
2009 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2025.	$ 16,620,000	$ 18,480,000
2017 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2042.	17,614,570	13,836,750
Total principal due	34,234,570	32,316,750
Less: unamortized debt issuance costs	(340,830)	(360,649)
Less: current portion	(1,260,000)	(1,497,000)
Long-term debt, net	$ 32,633,740	$ 30,459,101

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 1.35% and 2.95% at December 31, 2020 and 2019, 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, 2020 and 2019, $17,614,570 and $13,836,750, 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 1.71% and 3.02% at December 31, 2020 and 2019, 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:

2021	$	1,260,000
2022		1,720,000
2023		1,832,500
2024		1,950,000
2025		2,050,000
Thereafter		25,422,070
	$	34,234,570

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 statements of financial position at fair value and all gains and losses recognized on interest rate swaps are included in excess of revenue over expenses.

As of December 31, 2020, the Obligated Group held two "receive variable/pay fixed" interest rate swaps for a total notional amount of $28,965,333. As of December 31, 2019, the Obligated Group held five "receive variable/pay fixed" interest rate swaps for a total notional amount of $30,454,000. The first swap requires the Obligated Group to pay 3.130% on $16,982,000 and $154,000 at December 31, 2020 and 2019, respectively, and receives 65% of LIBOR through October 1, 2029, the expiration date of this swap agreement. The second swap requires the Obligated Group to pay 2.189% on $11,983,333 and $12,000,000 at December 31, 2020 and 2019, and receives 70% of LIBOR through July 1, 2037, the expiration date of this swap agreement. Three of the swaps required the Obligated Group to pay between 2.433% and 3.365% on $18,300,000, at December 31, 2019, and receive 65% of LIBOR through January 1, 2020, the expiration date of these three swap agreements. The Obligated Group has recorded the fair value of these interest rate swap agreements, which resulted in a liability of $3,562,324 and $2,609,264 at December 31, 2020 and 2019, respectively.

Note 6. Derivative Financial Instruments (Continued)

For the years ended December 31, 2020 and 2019, the amounts of loss recognized in the combined statements of activities attributable to derivative instruments not designated as hedging instruments and their locations in the combined statements of activities are as follows:

	2020	
	Amount of Gain (Loss) Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	$ 695,472	Interest expense
Change in fair value of interest rate swap agreements	(953,060)	Change in swap
Net loss	$ (257,588)	

	2019	
	Amount of Loss Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	$ (311,720)	Interest expense
Change in fair value of interest rate swap agreements	(1,058,788)	Change in swap
Net loss	$ (1,370,508)	

Note 7. Net Assets and Endowments

Net Assets

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

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds:			
Marjorie P. Lee Fund operations	$ -	$ 555,852	$ 555,852
Other	-	2,096,657	2,096,657
Total donor restricted endowment funds	-	2,652,509	2,652,509
Beneficial interest in Marjorie P. Lee endowment fund		27,855,326	27,855,326
Other donor restricted funds	-	1,155,753	1,155,753
Contributions receivable subject to time restrictions	-	742,823	742,823
Board-designated endowment funds	29,373,991	-	29,373,991
Total net assets and endowments	$ 29,373,991	$ 32,406,411	$ 61,780,402

Note 7. Net Assets and Endowments (Continued)

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Marjorie P. Lee Fund operations	$ -	$ 509,671	$ 509,671
Other	-	2,096,657	2,096,657
Total donor restricted endowment funds	-	2,606,328	2,606,328
Beneficial interest in Marjorie P. Lee endowment fund		25,475,397	25,475,397
Other donor restricted funds	-	1,075,176	1,075,176
Contributions receivable subject to time restrictions		460,734	460,734
Board-designated endowment funds	27,068,516	-	27,068,516
Total net assets and endowments	$ 27,068,516	$ 29,617,635	$ 56,686,151

<u>Endowments</u>

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:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 27,068,516	$ 2,606,328	$ 29,674,844
Investment gain	230,757	-	230,757
Net appreciation (realized and unrealized)	3,148,157	58,414	3,206,571
Total investment return	30,447,430	2,664,742	33,112,172
Contributions	27,573	-	27,573
Appropriation of endowment assets for expenditures	(1,101,012)	(12,233)	(1,113,245)
Endowment net assets, end of year	$ 29,373,991	$ 2,652,509	$ 32,026,500

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 23,283,073	$ 2,525,572	$ 25,808,645
Investment gain	467,856	-	467,856
Net depreciation (realized and unrealized)	4,800,874	92,829	4,893,703
Total investment return	28,551,803	2,618,401	31,170,204
Contributions	1,249,114	-	1,249,114
Appropriation of endowment assets for expenditures	(2,732,401)	(12,073)	(2,744,474)
Endowment net assets, end of year	$ 27,068,516	$ 2,606,328	$ 29,674,844

Note 7. Net Assets and Endowments (Continued)

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.

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 U.S. GAAP, deficiencies of this nature are to be reported in net assets with donor restrictions; however, no deficiencies existed at December 31, 2020 and 2019.

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% 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 4.2% and 4.4% as of December 31, 2020 and 2019, respectively, 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 $300,000 and $360,000 for 2020 and 2019, 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, 2020 and 2019.

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.

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 $3,000,000 at December 31, 2020 and 2019. 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, 2020 and 2019 was approximately $2,545,000 and $1,600,000, respectively. A liability for estimated claims outstanding at December 31, 2020 and 2019 of approximately $964,000 and $664,000, 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 statements 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:

	2020					
	Program Services					
	Senior Living	Other	Total Program	Management and General	Fundraising	Total Expenses
Salaries, wages, employee benefits and payroll taxes	$ 15,920,845	$ 286,415	$ 16,207,260	$ 4,107,281	$ 424,568	$ 20,739,109
Supplies and food	1,969,597	1,786	1,971,383	36,383	48	2,007,814
Professional services	1,799,258	727,015	2,526,273	660,722	-	3,186,995
Utilities	1,134,941	1,434	1,136,375	77,660	-	1,214,035
Insurance	353,184	6,935	360,119	44,683	-	404,802
Depreciation	3,732,737	27,317	3,760,054	298,336	-	4,058,390
Marketing	-	1,149	1,149	581,700	-	582,849
Administrative and general	2,125,298	346,230	2,471,528	898,175	39,799	3,409,502
	$ 27,035,860	$ 1,398,281	$ 28,434,141	$ 6,704,940	$ 464,415	$ 35,603,496

	2019					
	Program Services					
	Senior Living	Other	Total Program	Management and General	Fundraising	Total Expenses
Salaries, wages, employee benefits and payroll taxes	$ 13,554,498	$ 308,891	$ 13,863,389	$ 3,865,295	$ 449,533	$ 18,178,217
Supplies and food	2,058,167	774	2,058,941	44,247	3,084	2,106,272
Professional services	1,931,433	529,329	2,460,762	745,030	-	3,205,792
Utilities	1,162,220	1,788	1,164,008	74,897	-	1,238,905
Insurance	356,166	5,430	361,596	55,741	-	417,337
Depreciation	3,666,248	27,317	3,693,565	335,962	-	4,029,527
Marketing	-	-	-	659,739	-	659,739
Administrative and general	2,148,338	72,016	2,220,354	1,042,070	98,895	3,361,319
	$ 24,877,070	$ 945,545	$ 25,822,615	$ 6,822,981	$ 551,512	$ 33,197,108

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.

Investments and assets limited as to use: Investments and 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.

Beneficial interest in Marjorie P. Lee endowment fund: Beneficial interest in Marjorie P. Lee endowment fund is recorded at fair value on a recurring basis. Fair value measurement is based upon the fair value of the underlying assets of the fund at December 31, 2020 and 2019. The Obligated Group 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 underlying assets, the Obligated Group will never receive those assets or have the ability to direct the trustee to redeem them.

The valuation techniques used by the Obligated Group to determine fair values are as follows:

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.

The following tables present information about the Obligated Group's assets and liabilities measured at fair value on a recurring basis at December 31, 2020 and 2019.

Note 11. Fair Value Measurements (Continued)

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

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments and assets limited as to use:				
Cash and cash equivalents	$ 2,018,545	$ -	$ -	$ 2,018,545
Corporation obligations	-	55,573	-	55,573
Equity securities	5,758,273	-	-	5,758,273
Exchange traded funds	2,282,563	-	-	2,282,563
Money market funds	-	1,163,629	-	1,163,629
Mutual funds	5,025,263	-	-	5,025,263
Total investments and assets limited as to use	15,084,644	1,219,202	-	16,303,846
Beneficial interest in Marjorie P. Lee				
Endowment Fund	-	-	27,855,326	27,855,326
Total assets measured at fair value	15,084,644	1,219,202	27,855,326	44,159,172
Assets limited as to use measured at net asset value:				
Private investments	-	-	-	805,239
Hedge funds	-	-	-	15,649,864
Total assets measured at net asset value	-	-	-	16,455,103
Total assets	$ 15,084,644	$ 1,219,202	$ 27,855,326	$ 60,614,275
Liabilities:				
Interest rate swaps	$ -	$ 3,562,324	$ -	$ 3,562,324

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments and assets limited as to use:				
Cash and cash equivalents	$ 339,555	$ -	$ -	$ 339,555
Corporation obligations	-	53,346	-	53,346
Equity securities	7,216,415	-	-	7,216,415
Exchange traded funds	15,074	-	-	15,074
Money market funds	-	339,416	-	339,416
Mutual funds	13,476,136	-	-	13,476,136
Total investments and assets limited as to use	21,047,180	392,762	-	21,439,942
Beneficial interest in Marjorie P. Lee				
Endowment Fund	-	-	25,475,397	25,475,397
Total assets measured at fair value	21,047,180	392,762	25,475,397	46,915,339
Assets limited as to use measured at net asset value:				
Commingled trust funds	-	-	-	4,049,215
Hedge funds	-	-	-	4,495,214
Total assets measured at net asset value	-	-	-	8,544,429
Total assets	$ 21,047,180	$ 392,762	$ 25,475,397	$ 55,459,768
Liabilities:				
Interest rate swaps	$ -	$ 2,609,264	$ -	$ 2,609,264

Note 11. Fair Value Measurements (Continued)

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 evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets. For the years ended December 31, 2020 and 2019, there were no transfers in or out of Level 3. Additionally, there were no purchases for the years ended December 31, 2020 and 2019.

Investments in entities that calculate net asset value per share: The Obligated Group holds shares or interests in private investments, commingled trust funds, and hedge funds, 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, using the practical expedient. Net asset value, in many instances, may not equal fair value that would be calculated otherwise.

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

	Net Asset Value		Unfunded	Redemption Frequency, if	Redemption
	2020	2019	Commitments	Eligible	Notice Period
Private investments	$ 805,239	$ -	2,325,000	None	None
Commingled trust funds	-	4,049,215	N/A	Monthly to Annually	0 - 65 days
Hedge funds	15,649,864	4,495,214	950,000	Daily to Annually	1 - 90 days
	$ 16,455,103	$ 8,544,429			

The private investment is operated primarily through Cayman Islands exempted companies and hold primarily debt and equity securities issued by U.S. private companies in venture capital. The fair value of this investment has been estimated using the net asset value per share of its investments.

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.

Note 12. Related Party Transactions

The Obligated Group provides certain management services to the other affiliated entities. During 2020 and 2019, ERH recognized net management fee income of $2,863,095 and $2,919,501, respectively, for management services provided to the other affiliated entities. ERH transferred $2,750,000 to affiliated entities in 2020. No transfers to an affiliated entity were made in 2019.

The Foundation also provides support to ERH and the other affiliated entities. Transfers of unrestricted net assets to the other affiliated entities totaled $211,773 and $154,827 for the years ended December 31, 2020 and 2019, respectively. Net assets released from restriction and transferred to other affiliated entities totaled $0 and $164,756 for the years ended December 31, 2020 and 2019, respectively. Amounts due from affiliated entities totaled $2,036,398 and $2,802,481 at December 31, 2020 and 2019, respectively.

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, 2020 and 2019, financial assets available for general expenditures within one year are comprised of the following:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ 10,359,591	$ 6,939,789
Accounts receivable	1,222,864	1,111,660
Other receivables and assets	1,537,621	1,530,531
Investments and assets limited as to use	32,758,949	29,984,371
Beneficial interest in Marjorie P. Lee Endowment Fund	27,855,326	25,475,397
Total financial assets	73,734,351	65,041,748
Less amounts not available to be used within one year:		
Assets held for residents	(6,690)	(1,917)
Other assets - investments in non-liquid securities	(751,823)	(1,020,339)
Assets with donor restrictions	(4,485,668)	(3,957,721)
Beneficial interest in Marjorie P. Lee endowment fund, less expected draws within one year	(26,525,846)	(24,525,609)
Contributions receivable due after one year	(65,417)	(184,517)
Assets intended for expenditure for Marjorie P. Lee Master Plan	(811,429)	(893,512)
Board designated funds	(29,373,991)	(27,068,516)
Financial assets not available to be used within one year	(62,020,864)	(57,652,131)
Financial assets available to meet general expenditures within one year	$ 11,713,487	$ 7,389,617

Note 14. Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. 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 Obligated Group operates. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Obligated Group.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (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 established a Provider Relief Fund for allocation by the U.S. Department of Health and Human Services (HHS). The Obligated Group received $1,487,368 in distributions from the Provider Relief Fund. These funds were awarded to provide economic relief to support costs related to the disruption of operations due to the coronavirus pandemic. During 2020, the Obligated Group recognized $1,458,666 in other operating revenue for funds which the Obligated Group believes have met the required terms and conditions. The remaining $28,702 of funding is reported within accrued liabilities and other as a conditional contribution for which the terms and conditions have not yet been met. The terms and conditions of the Provider Relief Fund require that the funds are utilized to compensate for lost revenues that are attributable to the pandemic and for eligible costs to prevent, prepare for, and respond to the pandemic that are not covered by other sources. In addition, Provider Relief Fund recipients are subject to other terms and conditions, including certain reporting requirements. Any funds not used in accordance with the terms and conditions must be returned to HHS.

Supplementary Information

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position
December 31, 2020

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	**Total**
Assets			
Current assets:			
Cash and cash equivalents	$ 6,771,855	$ 3,587,736	**$ 10,359,591**
Resident accounts receivable, net	1,222,864	-	**1,222,864**
Other receivables	42,975	677,406	**720,381**
Other current assets	671,360	-	**671,360**
Total current assets	8,709,054	4,265,142	**12,974,196**
Investments and assets limited as to use	762,477	31,996,472	**32,758,949**
Property and equipment, net	54,177,681	-	**54,177,681**
Beneficial interest in Marjorie P. Lee Endowment Fund	-	27,855,326	**27,855,326**
Intangible assets	870,241	-	**870,241**
Due from affiliates	4,301,928	-	**4,301,928**
Other assets	729,513	87,727	**817,240**
Total assets	$ 69,550,894	$ 64,204,667	**$ 133,755,561**
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 2,032,198	$ -	**$ 2,032,198**
Current portion of long-term debt	1,260,000	-	**1,260,000**
Deposits from residents	451,995	-	**451,995**
Refundable entrance fees	2,354,637	-	**2,354,637**
Deferred revenue from entrance fees	427,000	-	**427,000**
Accrued liabilities and other	5,180,496	-	**5,180,496**
Total current liabilities	11,706,326	-	**11,706,326**
Long-term debt, net	32,633,740	-	**32,633,740**
Deferred revenue from entrance fees, less current portion	1,618,012	-	**1,618,012**
Refundable entrance fees, less current portion	11,931,570	-	**11,931,570**
Interest rate swaps	3,562,324	-	**3,562,324**
Due to affiliates	-	2,265,530	**2,265,530**
Other long-term liabilities	144,048	118,201	**262,249**
Total liabilities	61,596,020	2,383,731	**63,979,751**
Net assets:			
Without donor restrictions	7,954,874	29,414,525	**37,369,399**
With donor restrictions	-	32,406,411	**32,406,411**
Total net assets	7,954,874	61,820,936	**69,775,810**
Total liabilities and net assets	$ 69,550,894	$ 64,204,667	**$ 133,755,561**

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position
December 31, 2019

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 4,540,219	$ 2,399,570	$ 6,939,789
Resident accounts receivable, net	1,111,660	-	1,111,660
Other receivables	9,315	316,360	325,675
Other current assets	461,829	-	461,829
Total current assets	6,123,023	2,715,930	8,838,953
Investments and assets limited as to use	339,555	29,644,816	29,984,371
Property and equipment, net	57,759,132	-	57,759,132
Beneficial interest in Marjorie P. Lee Endowment Fund	-	25,475,397	25,475,397
Intangible assets	870,241	-	870,241
Due from affiliates	3,837,206	-	3,837,206
Other assets	998,029	206,827	1,204,856
Total assets	$ 69,927,186	$ 58,042,970	$ 127,970,156
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 2,064,868	$ -	$ 2,064,868
Current portion of long-term debt	1,497,000	-	1,497,000
Deposits from residents	456,532	-	456,532
Refundable entrance fees	1,474,100	-	1,474,100
Deferred revenue from entrance fees	452,000	-	452,000
Accrued liabilities and other	3,591,956	131,842	3,723,798
Total current liabilities	9,536,456	131,842	9,668,298
Long-term debt, net	30,459,101	-	30,459,101
Deferred revenue from entrance fees, less current portion	1,388,852	-	1,388,852
Refundable entrance fees, less current portion	13,679,620	-	13,679,620
Interest rate swaps	2,609,264	-	2,609,264
Due to affiliates	-	1,034,725	1,034,725
Other long-term liabilities	392,182	134,366	526,548
Total liabilities	58,065,475	1,300,933	59,366,408
Net assets:			
Without donor restrictions	11,861,711	27,124,402	38,986,113
With donor restrictions	-	29,617,635	29,617,635
Total net assets	11,861,711	56,742,037	68,603,748
Total liabilities and net assets	$ 69,927,186	$ 58,042,970	$ 127,970,156

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities and Changes in Net Assets
Year Ended December 31, 2020

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	**Total**
Revenue:			
Net resident revenue	$ 26,040,059	$ -	**$ 26,040,059**
Other operating revenue	3,455,034	-	**3,455,034**
Management fee income	2,863,095	-	**2,863,095**
Amortization of entrance fees	361,389	-	**361,389**
Marjorie P. Lee endowment income	1,129,792	-	**1,129,792**
Interest and dividend income	73,522	-	**73,522**
Total revenue	33,922,891	-	**33,922,891**
Expenses:			
Salaries and wages	15,872,408	-	**15,872,408**
Employee benefits and payroll taxes	4,866,701	-	**4,866,701**
Supplies	829,737	-	**829,737**
Food	1,178,077	-	**1,178,077**
Professional services	3,186,995	-	**3,186,995**
Utilities	1,214,035	-	**1,214,035**
Insurance	404,802	-	**404,802**
Depreciation	4,058,390	-	**4,058,390**
Other operating expense	3,672,311	320,040	**3,992,351**
Total expenses	35,283,456	320,040	**35,603,496**
Operating loss	(1,360,565)	(320,040)	**(1,680,605)**
Nonoperating income (loss):			
Contributions	-	1,947,938	**1,947,938**
Investment gain	-	3,378,914	**3,378,914**
Interest expense	(1,449,888)	-	**(1,449,888)**
Change in interest rate swaps	(953,060)	-	**(953,060)**
Other income	19,263	585	**19,848**
Total nonoperating (loss) income	(2,383,685)	5,327,437	**2,943,752**
Excess of revenue over expenses	(3,744,250)	5,007,397	**1,263,147**
Other net asset reallocations	-	12,233	**12,233**
Transfer from ERS Foundation to affiliated entities	-	(211,773)	**(211,773)**
Transfer from ERH to affiliated entity	(2,750,000)	-	**(2,750,000)**
Net assets released from restriction	-	69,679	**69,679**
Transfer from ERS Foundation to ERH	2,587,413	(2,587,413)	**-**
Change in net assets without donor restrictions	(3,906,837)	2,290,123	**(1,616,714)**
Change in net assets with donor restrictions:			
Restricted contributions	-	432,345	**432,345**
Change in beneficial interest in endowment fund	-	3,509,721	**3,509,721**
Draws from Marjorie P. Lee endowment fund	-	(1,129,792)	**(1,129,792)**
Change in market value	-	58,414	**58,414**
Other net asset reallocations	-	(12,233)	**(12,233)**
Net assets released from restriction	-	(69,679)	**(69,679)**
Net assets released from restriction to affiliated entities	-	-	**-**
Change in net assets with donor restrictions	-	2,788,776	**2,788,776**
Change in net assets	(3,906,837)	5,078,899	**1,172,062**
Net assets:			
Beginning	11,861,711	56,742,037	**68,603,748**
Ending	$ 7,954,874	$ 61,820,936	**$ 69,775,810**

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Revenue:			
Net resident revenue	$ 24,732,568	$ -	$ 24,732,568
Other operating revenue	1,915,321	-	1,915,321
Management fee income	2,919,501	-	2,919,501
Amortization of entrance fees	513,047	-	513,047
Marjorie P. Lee endowment income	961,675	-	961,675
Interest and dividend income	48,418	-	48,418
Total revenue	31,090,530	-	31,090,530
Expenses:			
Salaries and wages	14,572,442	-	14,572,442
Employee benefits and payroll taxes	3,605,775	-	3,605,775
Supplies	948,266	-	948,266
Food	1,158,006	-	1,158,006
Professional services	3,205,792	-	3,205,792
Utilities	1,238,905	-	1,238,905
Insurance	417,337	-	417,337
Depreciation	4,029,527	-	4,029,527
Other operating expense	3,852,192	168,866	4,021,058
Total expenses	33,028,242	168,866	33,197,108
Operating loss	(1,937,712)	(168,866)	(2,106,578)
Nonoperating income (loss):			
Contributions	-	1,213,327	1,213,327
Investment gain	-	5,268,730	5,268,730
Interest expense	(789,464)	-	(789,464)
Change in interest rate swaps	(1,058,788)	-	(1,058,788)
Other income	44,646	44,721	89,367
Total nonoperating (loss) income	(1,803,606)	6,526,778	4,723,172
Excess of revenue over expenses	(3,741,318)	6,357,912	2,616,594
Other net asset reallocations	-	12,073	12,073
Transfer from ERS Foundation to affiliated entities	-	(154,827)	(154,827)
Transfer from ERH to affiliated entity	-	-	-
Net assets released from restriction	-	389,613	389,613
Transfer from ERS Foundation to ERH	2,249,783	(2,249,783)	-
Change in net assets without donor restrictions	(1,491,535)	4,354,988	2,863,453
Change in net assets with donor restrictions:			
Restricted contributions	-	534,742	534,742
Change in beneficial interest in endowment fund	-	4,719,022	4,719,022
Draws from Marjorie P. Lee endowment fund	-	(961,675)	(961,675)
Change in value of charitable remainder trusts	-	-	-
Change in market value	-	92,829	92,829
Other net asset reallocations	-	(12,073)	(12,073)
Net assets released from restriction	-	(389,613)	(389,613)
Net assets released from restriction to affiliated entities	-	(164,756)	(164,756)
Change in net assets with donor restrictions	-	3,818,476	3,818,476
Change in net assets	(1,491,535)	8,173,464	6,681,929
Net assets:			
Beginning	13,353,246	48,568,573	61,921,819
Ending	$ 11,861,711	$ 56,742,037	$ 68,603,748