

The Episcopal Church Home, Inc.

Financial Report
December 31, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Episcopal Church Home, Inc.

Opinion

We have audited the financial statements of The Episcopal Church Home, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Dayton, Ohio
June 5, 2023

The Episcopal Church Home, Inc.

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,611,642	\$ 2,845,150
Resident accounts receivable, net (Note 2)	273,606	247,698
Prepaid expenses	33,922	52,058
Other assets	-	15,000
Investments and assets limited as to use (Note 3)	7,203	7,203
Total current assets	1,926,373	3,167,109
Due from financially interrelated Foundation	-	267,950
Property and equipment, net (Note 4)	31,763,523	24,309,711
Investments (Note 3)	1,927,095	2,317,814
Interest in net assets of financially interrelated Foundation (Note 9)	7,813,156	9,815,755
Total assets	\$ 43,430,147	\$ 39,878,339
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,668,012	\$ 3,905,801
Accrued expenses and other liabilities	353,704	383,523
Refundable advance deposits	1,314,000	1,104,000
Deferred entrance fees	372,000	369,000
Total current liabilities	5,707,716	5,762,324
Long-term debt (Note 5)	15,248,130	10,531,647
Refundable advance deposits, less current portion	14,960,751	12,113,799
Deferred entrance fees, less current portion	1,789,974	1,549,643
Total liabilities	37,706,571	29,957,413
Net assets:		
Without donor restrictions	(2,609,547)	(612,464)
With donor restrictions	8,333,123	10,533,390
Total net assets	5,723,576	9,920,926
Total liabilities and net assets	\$ 43,430,147	\$ 39,878,339

See notes to financial statements.

The Episcopal Church Home, Inc.

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Operating revenue:		
Net resident service revenue	\$ 5,123,158	\$ 5,775,995
Amortization of entrance fees	397,002	276,146
Other operating revenue (Note 11)	124,726	442,162
Endowment income from financially interrelated Foundation	449,236	393,203
Net assets released from restrictions	197,668	7,251
Total operating revenue	6,291,790	6,894,757
Operating expenses (Note 6):		
Salaries and wages	3,277,644	3,804,944
Employee benefits and payroll taxes	948,099	1,251,931
Marketing	96,296	68,762
Supplies	187,475	209,034
Food	236,983	267,413
Professional and purchased services	1,174,395	1,507,802
Utilities	512,537	574,779
Insurance	304,194	295,869
Depreciation	1,284,992	1,500,758
Bad debt expense	36,117	52,381
Other operating expenses	823,480	862,021
Total operating expenses	8,882,212	10,395,694
Operating loss	(2,590,422)	(3,500,937)
Nonoperating (loss) income:		
Contributions	8,276	1,287
Contributions from financially interrelated Foundation (Note 9)	501,763	272,739
Investment (loss) income	(363,220)	276,238
Gain on sale of bed licenses	-	640,000
Interest expense	(153,480)	(173,480)
Total nonoperating (loss) income	(6,661)	1,016,784
Deficit of revenues over expenses	(2,597,083)	(2,484,153)
Transfers from affiliates (Note 9)	600,000	-
Change in net assets without donor restrictions	(1,997,083)	(2,484,153)

(Continued)

The Episcopal Church Home, Inc.

Statements of Activities and Changes in Net Assets (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Change in net assets with donor restrictions:		
Change in market value of beneficial interests in perpetual trusts	\$ (143,564)	\$ 97,290
Change in net assets of financially interrelated Foundation (Note 9)	(2,002,599)	1,486,034
Net assets released from restrictions	(54,104)	(7,251)
	<u>(2,200,267)</u>	<u>1,576,073</u>
Change in net assets with donor restrictions	(2,200,267)	1,576,073
	<u>(4,197,350)</u>	<u>(908,080)</u>
Change in net assets	(4,197,350)	(908,080)
Net assets:		
Beginning	<u>9,920,926</u>	<u>10,829,006</u>
Ending	<u>\$ 5,723,576</u>	<u>\$ 9,920,926</u>

See notes to financial statements.

The Episcopal Church Home, Inc.

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (4,197,350)	\$ (908,080)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,288,472	1,504,238
Gain on sale of property and equipment	-	(45,786)
Provision for bad debt expense	36,117	52,381
Amortization of entrance fees	(397,002)	(276,146)
Loss (gain) on investments	403,991	(315,733)
Change in net assets of financially interrelated Foundation	2,002,599	(1,486,034)
Change in operating assets and liabilities:		
Resident accounts receivable	(62,025)	418,567
Due from financially interrelated Foundation	267,950	(235,863)
Prepaid expenses and other assets	33,136	102,886
Accounts payable	(237,789)	1,796,351
Accrued expenses and other liabilities	(29,819)	(170,661)
Net cash (used in) provided by operating activities	(891,720)	436,120
Cash flows from investing activities:		
Purchase of property and equipment	(8,738,804)	(6,416,845)
Proceeds from sale of property and equipment	-	45,786
Purchase of investments	(21,881)	(256,639)
Sales and maturities of investments	8,609	238,697
Net cash used in investing activities	(8,752,076)	(6,389,001)
Cash flows from financing activities:		
Entrance fees collected	6,167,739	2,636,484
Entrance fees refunded	(2,470,454)	(533,485)
Proceeds from long-term debt	5,213,003	5,597,111
Principal payments on long-term debt	(500,000)	-
Net cash provided by financing activities	8,410,288	7,700,110
Net change in cash and cash equivalents	(1,233,508)	1,747,229
Cash and cash equivalents:		
Beginning	2,845,150	1,097,921
Ending	\$ 1,611,642	\$ 2,845,150
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 292,571	\$ 127,754

See notes to financial statements.

The Episcopal Church Home, Inc.

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 (ECH). ECH 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 ECH and its accounts and activities are included with those of ECH. The Organization also owns and operates Dudley Square, an independent living retirement community consisting of 62 townhouses on a site adjacent to ECH. Residents of Dudley Square have lifetime occupancy rights in return for payment of residency fees including advance entrance fees that are partially refundable.

Control of the Organization was effectively obtained by Episcopal Retirement Services as a result of the Affiliation Agreement described in Note 9.

Basis of presentation: The accompanying 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).

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.

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

	2022	2021
Subject to expenditure for specific purposes	\$ 13,532	\$ 52,637
Subject to expenditure due to time restrictions—pledges	-	15,000
Not subject to expenditure—beneficial interest in trusts	506,435	649,998
Not subject to expenditure—interest in financially interrelated foundation	7,813,156	9,815,755
Total net assets with donor restrictions	<u>\$ 8,333,123</u>	<u>\$ 10,533,390</u>

The Episcopal Church Home, Inc.

Notes to Financial Statements

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

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, 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.

U.S. GAAP requires 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 Internal Revenue Service or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

The Organization is subject to examination by taxing authorities; however, no examinations are in progress. Management believes the Organization is not subject to tax examinations for years prior to 2019.

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.

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.

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 changes in its interest in the net assets of the Foundation, as reflected in the accompanying financial statements.

Cash and cash equivalents: Cash equivalents include all highly liquid investments with original maturities of three months or less, excluding amounts in assets limited as to use or held as short-term investments. Deposits in banks at times may exceed federally insured limits.

The Episcopal Church Home, Inc.

Notes to Financial Statements

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

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 that make up a significant portion of net resident service revenue earned during 2022 and 2021 are as follows:

	2022	2021
Medicaid	14%	12%
Medicare	8%	15%

Senior living revenue: Resident fees at 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 ECH 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%. For the newly constructed Dudley III independent living units, residents began entering into agreements during 2021 in which the refund to the resident is 80%.

The refundable portion of the entrance fees is reported as "Refundable advance deposits" in the accompanying statement of financial position with a portion classified as a current liability based on the Organization's prior experience with refund requests.

Notes to Financial Statements

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 statement of financial position with a portion classified as a current liability based on estimates of amounts expected to be amortized to revenue in the next fiscal year. 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. 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 or termination of occupancy 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. Revenue from monthly service charges is reported at the amount that reflects the consideration to which the Organization 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. 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 facility: In the skilled nursing facility, 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 uses 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 based on a day of healthcare services to the resident.

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

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 \$80,000 and \$84,000 for the years ended December 31, 2022 and 2021, respectively.

Operating loss: The statement of activities includes an intermediate indicator of operations labeled as “operating loss.” Changes in net assets which are excluded from the operating measure typically include the contributions, investment income, gain on sale of bed licenses, and interest expense.

The Episcopal Church Home, Inc.

Notes to Financial Statements

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

Deficit of revenues over expenses: The combined statements of activities and changes in net assets include deficit of revenues over expenses that represent the results of activities. Changes in net assets without donor restrictions, which are excluded from deficit of revenues over expenses, include such items as transfers from affiliates.

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 as 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 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 years ended December 31, 2022 and 2021.

Advertising: Advertising costs are charged to operations when incurred. Advertising expense was approximately \$96,000 for the years ended December 31, 2022 and 2021.

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 \$44,000 and \$54,000 for the years ended December 31, 2022 and 2021, respectively.

The Episcopal Church Home, Inc.

Notes to Financial Statements

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

Interest expense: Interest expense is recognized as incurred on outstanding long-term debt (Note 5). No interest payments have been made over the life of the related party note. Therefore, interest is accrued on this note as of December 31, 2022 and 2021 and totals \$481,036 and \$341,641, respectively. The accrued interest is recorded within accounts payable. 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 \$3,480 and \$3,435 for 2022 and 2021, respectively. The Organization 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 \$292,571 and \$97,149 during 2022 and 2021, respectively. Details of interest cost incurred for 2022 and 2021 are as follows:

	2022	2021
Interest cost charged to operations	\$ 150,000	\$ 170,000
Amortization of debt issuance costs	3,480	3,435
Interest cost capitalized to property and equipment	292,571	97,149
Total interest cost incurred	<u>\$ 446,051</u>	<u>\$ 270,584</u>

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the historical accounting treatment under ASC Topic 840, Leases.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or the original lease term for leases existing upon the adoption of Topic 842).

The Episcopal Church Home, Inc.

Notes to Financial Statements

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

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and nonlease components in its contracts as a single lease component for its real estate lease class. The nonlease components typically represent additional services transferred to the Episcopal Church Home, which are variable in nature and recorded in variable lease expense in the period incurred.

The Organization does not hold any operating or capital leases, accordingly, adoption of Topic 842 did not result in the recording of any ROU assets and lease liabilities.

Recent accounting pronouncement:

Financial Instruments—Credit Losses: In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for the fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization did not early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements and does not expect the impact to be significant.

Subsequent events: The Organization has evaluated subsequent events for potential recognition and/or disclosure through June 5, 2023, the date the financial statements were available to be issued.

The Episcopal Church Home, Inc.

Notes to Financial Statements

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:

	2022	2021
Medicare	\$ 39,440	\$ 34,342
Medicaid	104,343	43,500
Insurance	20,328	53,934
Private and other	129,372	176,395
	<u>293,483</u>	<u>308,171</u>
Less allowance for uncollectable accounts	<u>(19,877)</u>	<u>(60,473)</u>
Resident accounts receivable, net	<u>\$ 273,606</u>	<u>\$ 247,698</u>

Bad debt expense for the years ended December 31, 2022 and 2021 was \$36,117 and \$52,381, respectively.

Note 3. Investments and Assets Limited as to Use

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

	2022	2021
Cash	\$ 7,801	\$ 7,660
Money market funds	41,890	87,642
Equity securities	1,048,178	1,219,720
Mutual funds	329,994	359,997
Beneficial interest in perpetual trusts	506,435	649,998
	<u>1,934,298</u>	<u>2,325,017</u>
Less current portion	<u>(7,203)</u>	<u>(7,203)</u>
Total investments, less current portion	<u>\$ 1,927,095</u>	<u>\$ 2,317,814</u>

Internally designated cash that is limited as to use totaled \$7,203 as of December 31, 2022 and 2021, respectively.

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

	2022	2021
Realized and unrealized (loss) gain	\$ (383,064)	\$ 258,228
Interest and dividends, net of fees	19,844	18,010
Investment income	<u>\$ (363,220)</u>	<u>\$ 276,238</u>

The Episcopal Church Home, Inc.

Notes to Financial Statements

Note 4. Property and Equipment

Property and equipment consists of the following at December 31:

	2022	2021
Land	\$ 804,971	\$ 804,971
Land improvements	856,604	248,303
Buildings and improvements	38,342,847	30,773,961
Furniture, fixtures and equipment	2,670,135	2,325,619
Vehicles	110,592	110,592
Construction in progress	4,755,373	4,538,273
Total	<u>47,540,522</u>	<u>38,801,719</u>
Less accumulated depreciation	<u>(15,776,999)</u>	<u>(14,492,008)</u>
Property and equipment, net	<u>\$ 31,763,523</u>	<u>\$ 24,309,711</u>

Depreciation expense on property and equipment totaled \$1,284,992 and \$1,500,758 in 2022 and 2021, respectively.

The Organization is in the process of completing a renovation plan (the Master Plan). New admittances into the skilled nursing facility were stopped for a period of time in order to begin renovations on the units and execute the Master Plan. As a result, the Organization experienced declines in net resident revenue in 2022 and 2021. Additional declines in revenue are possible until the Master Plan is complete and normal occupancy levels are reestablished. In connection with the Master Plan, the Organization recognized additional depreciation expense of approximately \$200,000 in 2021, for assets that have a known change in life and were disposed of in 2021 due to the Master Plan. The Organization plans to fund the costs of the Master Plan with debt financing (see Note 5), capital campaign contributions, and new entrance fees generated from the project.

Note 5. Long-Term Debt

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

	2022	2021
Note payable, related party, permitting borrowings up to \$5,000,000. 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 interest. The note is subordinated to the construction loan and principal payments are at the discretion of the lender.	\$ 5,000,000	\$ 5,000,000
Construction loan permitting borrowings up to \$13,000,000 through the draw period that ends June 24, 2023 (the conversion date), at which point the loan is converted to a term note. The loan bears interest at 4.02% during the draw period and requires monthly interest only payments through the conversion date. The term note will require monthly principal and interest payments after the conversion date and through its maturity on November 24, 2030.	<u>10,310,159</u>	<u>5,597,156</u>
Unamortized debt issuance costs	15,310,159	10,597,156
Less current maturities	(62,029)	(65,509)
Long-term debt	<u>\$ 15,248,130</u>	<u>\$ 10,531,647</u>

The Episcopal Church Home, Inc.

Notes to Financial Statements

Note 6. 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 allocated 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 years ended December 31 are as follows:

	2022			Total Expenses
	Program Services	Management and General	Fundraising	
Salaries, wages, employee benefits and payroll taxes	\$ 3,881,487	\$ 275,278	\$ 68,978	\$ 4,225,743
Professional and purchased services	429,001	745,394	-	1,174,395
Marketing	-	96,296	-	96,296
Supplies and food	420,332	4,076	50	424,458
Utilities	512,537	-	-	512,537
Insurance	-	304,194	-	304,194
Depreciation	1,112,056	172,936	-	1,284,992
Other	624,476	231,858	3,263	859,597
	<u>\$ 6,979,889</u>	<u>\$ 1,830,032</u>	<u>\$ 72,291</u>	<u>\$ 8,882,212</u>

	2021			Total Expenses
	Program Services	Management and General	Fundraising	
Salaries, wages, employee benefits and payroll taxes	\$ 4,402,275	\$ 592,627	\$ 61,973	\$ 5,056,875
Professional and purchased services	609,279	898,523	-	1,507,802
Marketing	-	68,762	-	68,762
Supplies and food	473,891	2,556	-	476,447
Utilities	574,779	-	-	574,779
Insurance	-	295,869	-	295,869
Depreciation	1,298,783	201,975	-	1,500,758
Other	525,036	385,084	4,282	914,402
	<u>\$ 7,884,043</u>	<u>\$ 2,445,396</u>	<u>\$ 66,255</u>	<u>\$ 10,395,694</u>

Note 7. 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.

Commitments: During 2020, the Organization entered into a general construction contract for the Master Plan as described in Note 4. As of December 2022 and 2021, the Organization was contractually committed for construction costs of approximately \$977,000 and \$8,800,000, respectively.

Notes to Financial Statements

Note 7. Commitments and Contingencies (Continued)

Health plan: 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. The Organization reimburses Episcopal Retirement Homes for claims paid on their behalf. 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 in 2022 and 2021. 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, 2022 and 2021, was approximately \$382,000 and \$551,000, respectively. A liability for estimated claims outstanding at December 31, 2022 and 2021, of approximately \$165,000 and \$175,000, respectively, has been recorded for management's estimate of claims incurred but not yet reported and is included in accounts payable on the accompanying statements of financial position.

Note 8. Fair Value Measurements

For amounts reported at fair value, the Organization adheres to the U.S. 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.

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, 2022 and 2021. 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 Episcopal Church Home, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

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.

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

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	\$ -	\$ 41,890	\$ -	\$ 41,890
Equity securities	1,048,178	-	-	1,048,178
Mutual funds	329,994	-	-	329,994
Beneficial interest in perpetual trusts	-	-	506,435	506,435
Cash				7,801
Total investments				1,934,298
Other assets:				
Interest in net assets of financially interrelated Foundation	-	-	7,813,156	7,813,156
Total assets at fair value	\$ 1,378,172	\$ 41,890	\$ 8,319,591	\$ 9,747,454
2021				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money market funds	\$ -	\$ 87,642	\$ -	\$ 87,642
Equity securities	1,219,720	-	-	1,219,720
Mutual funds	359,997	-	-	359,997
Beneficial interest in perpetual trusts	-	-	649,998	649,998
Cash				7,660
Total investments				2,325,017
Other assets:				
Interest in net assets of financially interrelated Foundation	-	-	9,815,755	9,815,755
Total assets at fair value	\$ 1,579,717	\$ 87,642	\$ 10,465,753	\$ 12,140,772

The Episcopal Church Home, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

The Organization evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets.

The table below sets forth changes in the Organization's Level 3 investment assets attributable to purchases and the amounts of any transfers into or out of Level 3 of the fair value hierarchy for the years ended December 31:

	2022	2021
Purchases	\$ -	\$ 272,739
Transfers into Level 3	-	-
Transfers out of Level 3	-	-

Note 9. 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 (ERS). 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.

The Affiliation terminated on October 31, 2021. The termination has no impact on the Organization's governance and ERS continues 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 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, 2022 and 2021, the Organization's interest in the net assets of the Foundation is \$7,813,156 and \$9,815,755, respectively.

ERS provides the Organization with management services under the terms of the Affiliation. These management services are provided by Episcopal Retirement Homes, Inc. (ERH), a subsidiary of ERS. Management fees are adjusted annually. Management fees paid under the terms of the Affiliation totaled \$900,000 and \$993,910 for the years ended December 31, 2022 and 2021, respectively and are recorded within professional and purchased services on the statements of activities and changes in net assets. At December 31, 2022 and 2021, \$2,477,081 and \$2,140,724, respectively, was owed to ERH and is included in "Accounts payable" on the accompanying statements of financial position. For the year ended December 31, 2022, ERH and the Foundation transferred \$480,000 and 120,000, respectively, to the Organization for the Master Plan. This amount is reported as "Transfers from affiliates" on the accompanying statements of activities and changes in net assets. There were no such transfers for the year ended December 31, 2021.

The Episcopal Church Home, Inc.

Notes to Financial Statements

Note 9. Affiliation Agreement and Interest in Financially Interrelated Foundation (Continued)

The Foundation has agreed to make certain specified contributions to the Organization in addition to operational support contributions as approved by the Foundation Board annually. There were operational support contributions of \$449,236 and \$393,203 for the years ended December 31, 2022 and 2021, respectively. The Foundation has historically provided an additional discretionary contribution of to the Organization to support operations that were disrupted upon the commencement of the Master Plan. There was no additional discretionary contribution for the years ended December 31, 2022 and 2021. For the years ended December 31, 2022 and 2021, the Foundation released \$0 and \$272,739 of contributions received on behalf of the Organization, respectively. This amount is reported within Contributions from financially interrelated Foundation on the accompanying statements of activities and changes in net assets.

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

	2022	2021
Assets:		
Cash	\$ 207,563	\$ 223,892
Pledge receivables	198,733	35,475
Investments	4,394,710	5,576,107
Beneficial interests	2,901,873	3,698,232
Investment in the Organization	670,000	550,000
	<u>8,372,879</u>	<u>10,083,706</u>
Liabilities:		
Net payable to the Organization	559,723	267,951
	<u>559,723</u>	<u>267,951</u>
Net assets, end of year	7,813,156	9,815,755
Net assets of financially interrelated Foundation, beginning of year	<u>9,815,755</u>	<u>8,329,721</u>
Change in net assets of financially interrelated Foundation	<u>\$ (2,002,599)</u>	<u>\$ 1,486,034</u>

The Episcopal Church Home, Inc.

Notes to Financial Statements

Note 10. 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, 2022 and 2021, financial assets available for general expenditures within one year are comprised of the following:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 1,611,642	\$ 2,845,150
Accounts receivable	273,606	247,698
Pledge receivables	-	15,000
Other receivables	-	267,950
Investments	1,934,298	2,325,017
Interest in net assets of financially interrelated Foundation	7,813,156	9,815,755
Total financial assets	<u>11,632,702</u>	<u>15,516,570</u>
Less amounts not available for general expenditures within one year:		
Assets held for residents	(2,164)	(2,491)
Other assets limited as to use by internal designation	(7,203)	(7,203)
Assets with donor restrictions	<u>(8,333,123)</u>	<u>(10,533,390)</u>
Financial assets available for general expenditures within one year	<u>\$ 3,290,212</u>	<u>\$ 4,973,486</u>

Note 11. Coronavirus Pandemic

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 Organization received \$0 and \$391,007 in distributions from the Provider Relief Fund in 2022 and 2021, respectively. These funds were awarded to provide economic relief to support costs related to the disruption of operations due to the coronavirus pandemic. During 2022 and 2021, the Organization recognized \$0 and \$391,007, respectively, in other operating revenue for funds which the Organization believes have met the required terms and conditions. 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.

Note 12. Subsequent Event

Subsequent to December 31, 2022, the Organization approved a capital call for \$2,500,000. As part of an approved capital call, the Organization had \$2,000,000 of payables to affiliated entities forgiven. In addition, the Foundation committed to a cash contribution of \$500,000.