

Episcopal Retirement Homes – Obligated Group

Combined Financial Report
December 31, 2023

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Independent Auditor's Report

Board of Directors
Episcopal Retirement Homes – Obligated Group

Opinion

We have audited the combined financial statements of Episcopal Retirement Homes – Obligated Group (the Organization), which comprise the combined statements of financial position as of December 31, 2023 and 2022, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023 and 2022, and the results of their operations and their 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.

Supplementary Information

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

RSM US LLP

Dayton, Ohio
June 4, 2024

Episcopal Retirement Homes - Obligated Group

**Combined Statements of Financial Position
December 31, 2023 and 2022**

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,338,426	\$ 7,331,940
Resident accounts receivable, net	1,155,949	1,233,011
Other receivables	728,015	183,520
Other current assets	1,038,711	844,752
Total current assets	10,261,101	9,593,223
Investments and assets limited as to use	30,051,989	28,095,690
Property and equipment, net	46,209,989	48,154,011
Beneficial interest in Marjorie P. Lee Endowment Fund	26,369,238	23,909,069
Intangible assets	870,241	870,241
Due from affiliates	1,650,987	3,065,724
Interest rate swaps	400,801	476,785
Other assets	840,849	820,296
Total assets	\$ 116,655,195	\$ 114,985,039
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,089,649	\$ 2,485,809
Current portion of long-term debt	1,950,000	1,832,500
Deposits from residents	443,912	431,612
Refundable entrance fees	2,171,000	2,072,000
Deferred revenue from entrance fees	467,000	466,000
Accrued liabilities and other	2,931,431	2,965,418
Total current liabilities	11,052,992	10,253,339
Long-term debt, net	27,190,700	29,119,967
Deferred revenue from entrance fees, less current portion	1,983,155	1,843,040
Refundable entrance fees, less current portion	11,313,317	11,414,450
Other long-term liabilities	352,315	279,353
Total liabilities	51,892,479	52,910,149
Net assets:		
Without donor restrictions	32,948,537	33,436,578
With donor restrictions	31,814,179	28,638,312
Total net assets	64,762,716	62,074,890
Total liabilities and net assets	\$ 116,655,195	\$ 114,985,039

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

**Combined Statements of Activities and Changes in Net Assets
Years Ended December 31, 2023 and 2022**

	2023	2022
Revenue:		
Net resident revenue	\$ 29,824,351	\$ 27,949,972
Other operating revenue	2,219,531	2,221,561
Management fee income	1,999,192	2,208,842
Amortization of entrance fees	477,636	389,671
Marjorie P. Lee Endowment Fund income	1,261,584	1,228,000
Interest and dividend income	689,264	299,880
Net assets released from restriction	704,889	611,235
Total revenue	37,176,447	34,909,161
Expenses:		
Salaries and wages	17,837,544	15,516,078
Employee benefits and payroll taxes	3,934,714	3,350,488
Supplies	797,536	801,774
Food	1,301,473	1,221,806
Professional services	4,771,997	5,662,817
Utilities	1,176,079	1,169,936
Insurance	692,648	532,791
Depreciation	3,557,615	3,801,226
Other operating expense	4,621,104	3,862,314
Total operating expenses	38,690,710	35,919,230
Operating loss	(1,514,263)	(1,010,069)
Nonoperating income (loss):		
Contributions	1,255,262	879,194
Investment gain (loss)	4,080,608	(5,675,996)
Interest expense	(1,457,360)	(1,357,040)
Change in fair value of interest rate swap agreements	(75,984)	2,654,925
Other income (expense)	85,578	(151,935)
Total nonoperating income (loss)	3,888,104	(3,650,852)
Excess (deficit) of revenue over expenses	2,373,841	(4,660,921)
Other net asset reallocations	(12,595)	11,485
Transfer from ERS Foundation to affiliated entities	(546,238)	(537,045)
Transfer from ERH to affiliated entities	(2,303,049)	(480,000)
Change in net assets without donor restrictions	(488,041)	(5,666,481)

(Continued)

Episcopal Retirement Homes - Obligated Group

Combined Statements of Activities and Changes in Net Assets (Continued) Years Ended December 31, 2023 and 2022

	2023	2022
Change in net assets with donor restrictions:		
Restricted contributions	\$ 1,378,229	\$ 1,203,969
Change in beneficial interest in Marjorie P. Lee Endowment Fund	3,721,753	(5,231,961)
Draws from Marjorie P. Lee Endowment Fund	(1,261,584)	(1,228,000)
Change in fair value of other endowment funds	29,763	(64,390)
Other net asset reallocations	12,595	(11,485)
Net assets released from restriction	(704,889)	(611,235)
	<u>3,175,867</u>	<u>(5,943,102)</u>
Change in net assets with donor restrictions	3,175,867	(5,943,102)
	2,687,826	(11,609,583)
Change in net assets	2,687,826	(11,609,583)
Net assets:		
Beginning	<u>62,074,890</u>	<u>73,684,473</u>
Ending	<u>\$ 64,762,716</u>	<u>\$ 62,074,890</u>

See notes to combined financial statements.

Episcopal Retirement Homes - Obligated Group

**Combined Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 2,687,826	\$ (11,609,583)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,577,435	3,821,046
Forgiveness of intercompany receivables	2,000,000	-
Gain on sale of property and equipment	-	(759,323)
Investment (gain) loss	(4,080,608)	5,675,996
Change in interest rate swaps	75,984	(2,654,925)
Change in beneficial interest in Marjorie P. Lee Endowment Fund	(2,460,169)	6,459,962
Amortization of entrance fees	(477,636)	(389,671)
Changes in operating assets and liabilities:		
Receivables	(467,433)	311,251
Other assets	(214,512)	(119,574)
Amounts due from affiliates	(585,263)	379,781
Accounts payable	603,840	(536,384)
Accrued liabilities and other	51,275	(935,329)
Net cash provided by (used in) operating activities	710,739	(356,753)
Cash flows from investing activities:		
Purchase of property and equipment	(1,613,593)	(1,089,269)
Purchase of investments and assets limited as to use	(1,183,141)	(1,453,409)
Proceeds from sale of investments and assets limited as to use	3,307,450	3,136,484
Proceeds from sale of property and equipment	-	819,696
Net cash provided by investing activities	510,716	1,413,502
Cash flows from financing activities:		
Principal payments on long-term debt	(1,831,587)	(1,720,913)
Entrance fees collected	4,272,851	2,475,220
Entrance fees refunded	(3,656,233)	(1,600,300)
Net cash used in financing activities	(1,214,969)	(845,993)
Net change in cash and cash equivalents	6,486	210,756
Cash and cash equivalents:		
Beginning	7,331,940	7,121,184
Ending	\$ 7,338,426	\$ 7,331,940
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,388,378	\$ 1,254,223
Supplemental schedule of noncash financing activity:		
Receivable forgiveness	\$ 2,000,000	\$ -

See notes to combined financial statements.

Episcopal Retirement Homes – Obligated Group

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 nonprofit 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 (IRC). 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.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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 combined 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 combined 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 combined statements of financial position.

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.

Accounts receivable: Accounts receivable from residents, insurance companies and governmental agencies are based on net charges (contractual allowances or discounts). The allowance for credit losses on accounts receivable represents the Obligated Group's estimate of expected credit losses over the lifetime of the receivables. This estimation process is based on historical experience, current conditions, asset-specific risk characteristics and reasonable and supportable forecasts about future economic and market conditions. As of December 31, 2023 and 2022, the allowance for credit losses was \$253,778 and \$194,983, respectively. The Obligated Group will continue to monitor and evaluate the adequacy of the allowance for credit losses on accounts receivable on a regular basis and adjusted as necessary in response to changes in economic conditions and credit quality indicators.

The Obligated Group adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, on January 1, 2023. This accounting standard requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instruments which would include accounts receivables. Prior to the adoption of this accounting standard, the Obligated Group recorded incurred loss reserves against accounts receivable balances based on current and historic information. The adoption of this ASU did not have a material effect on the Obligated Group's combined financial statements.

The opening balance of accounts receivable as of January 1, 2022 was \$1,065,992.

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. 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.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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

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 \$26,369,238 and \$23,909,069 as of December 31, 2023 and 2022, respectively, is reported in the accompanying combined statements of financial position as a beneficial interest in Marjorie P. Lee Endowment Fund and is included with net assets with donor restrictions, 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 \$3,721,753 in 2023 and a decrease in such interest of \$5,231,961 in 2022. Draws from the endowment fund totaled \$1,261,584 and \$1,228,000 in 2023 and 2022, respectively, and are reported in the accompanying combined statements of activities as Marjorie P. Lee Endowment Fund income.

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

Intangible assets: Intangible assets consist of skilled nursing bed licenses that have been separately acquired. Although these licenses do not have a stated life and are presently transferrable, they are subject to regulation by the State of Ohio. In accordance with accounting guidance, these intangible assets are 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, 2023 and 2022, and no impairment loss was determined necessary.

Operating loss: The combined statements of activities include an intermediate indicator of operations labeled as operating loss. Changes in net assets without donor restrictions which are excluded from operating loss include contributions, investment gain, change in interest rate swaps, interest expense and other nonoperating income.

Excess (deficit) of revenue over expenses: The combined statements of activities and changes in net assets include excess (deficit) of revenue over expenses that represent the results of activities. Changes in net assets without donor restrictions, which are excluded from excess (deficit) of revenue over expenses, include such items as transfers of assets to and from other affiliated entities for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and net assets released from restrictions for capital.

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, 2023 and 2022, the Obligated Group had gift annuity obligations without donor restrictions of approximately \$67,000 and \$72,000, respectively, which are included in other long-term liabilities on the combined statements of financial position.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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

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 \$874,000 and \$1,218,000 during 2023 and 2022, 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 2023 and 2022 are as follows:

	Percent of net resident revenue	
	2023	2022
Medicaid	3%	3%
Medicare	7%	6%

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 combined 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 \$2,450,000 and \$2,309,000 at December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, ERH had entrance fee contracts with gross potential refund obligations totaling approximately \$13,484,00 and \$13,486,000, respectively.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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

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.

Skilled nursing facilities: For skilled nursing services, 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.

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.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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 \$19,820 for 2023 and 2022. 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. There was no interest cost capitalized during 2023 and 2022. Interest cost incurred for 2023 and 2022 is \$1,457,360 and \$1,357,040, respectively.

Tax status: The Internal Revenue Service (IRS) 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 IRC; therefore, they are not subject to federal or state income tax.

U.S. GAAP requires 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, 2023 and 2022, 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 2020.

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 Obligated Group 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, the Obligated Group has applied Topic 842 to reporting periods beginning on January 1, 2022.

The Obligated Group 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 Obligated Group 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 Obligated Group also considers whether its service arrangements include the right to control the use of an asset.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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

The Obligated Group 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 Obligated Group 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).

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 Obligated Group 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 Obligated Group, which are variable in nature and recorded in variable lease expense in the period incurred.

The Obligated Group holds one operating building lease that is insignificant to the combined financial statements. Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the lease given the total related amount of the lease. Therefore, the asset amount of \$11,493 and \$39,075 is recorded within other assets on the combined statements of financial position as of 2023 and 2022, respectively. The related liability amount of \$9,946 and \$39,541 is recorded within accrued liabilities and other long-term liabilities on the combined statements of financial position based on the current and noncurrent portions as of 2023 and 2022, respectively.

Note 2. Resident Accounts Receivable

Resident accounts receivable at December 31 is as follows:

	2023	2022
Resident accounts receivable	\$ 1,409,727	\$ 1,427,994
Allowance for uncollectible accounts	(253,778)	(194,983)
Net resident accounts receivable	<u>\$ 1,155,949</u>	<u>\$ 1,233,011</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 2. Resident Accounts Receivable (Continued)

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	
	2023	2022
Medicare	25%	25%
Medicaid	2%	12%
Insurance	34%	26%
Private and other	39%	37%
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:

	2023	2022
Cash and cash equivalents	\$ 744,820	\$ 1,133,643
Mutual funds	3,735,685	3,695,831
Exchange traded funds	1,878,058	856,167
Money market funds	252,108	451,843
Equity securities	2,125,206	2,781,566
Corporate obligations	860,811	787,864
Private investments	1,369,804	2,234,147
Hedge funds	19,085,497	16,154,629
Total investments and assets limited as to use	<u>\$ 30,051,989</u>	<u>\$ 28,095,690</u>

Designations and restrictions at December 31 are as follows:

	2023	2022
Bond indentures	\$ 210,388	\$ 200,333
Resident deposits	1,061	815
Externally restricted by endowment	2,146,657	2,096,657
Board-designated endowment funds (see table below)	25,746,672	23,822,848
Externally restricted for specific purposes	995,720	1,070,307
Total designations and restrictions	<u>\$ 29,100,498</u>	<u>\$ 27,190,960</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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

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

	2023	2022
Marjorie P. Lee Home Fund	\$ 9,998,252	\$ 9,998,252
Development and operations	12,288,765	10,364,941
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	349,998	349,998
Spiritual care	552,194	552,194
Total board-designated endowment funds	<u>\$ 25,746,672</u>	<u>\$ 23,822,848</u>

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

	2023	2022
Realized and unrealized gain (loss)	\$ 3,822,624	\$ (5,924,214)
Interest and dividends, net of fees	947,248	548,098
Total investment gain (loss)	<u>\$ 4,769,872</u>	<u>\$ (5,376,116)</u>

Note 4. Property and Equipment

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

	2023	2022	Depreciable Life-Years
Land and improvements	\$ 2,991,694	\$ 2,973,391	0-10
Buildings and improvements	85,651,605	85,224,546	20-40
Equipment, furniture and fixtures	12,847,035	12,088,618	5-10
Computer equipment and software	1,796,396	1,724,008	5-10
Transportation equipment	602,928	554,269	4-5
Rental property	89,441	89,441	
Construction in progress	533,484	272,301	
Total cost	<u>104,512,583</u>	<u>102,926,574</u>	
Accumulated depreciation	<u>(58,302,594)</u>	<u>(54,772,563)</u>	
Net carrying value	<u>\$ 46,209,989</u>	<u>\$ 48,154,011</u>	

Depreciation expense on property and equipment totaled \$3,557,615 and \$3,801,226 in 2023 and 2022, respectively.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 5. Long-Term Debt

Long-term debt at December 31 is as follows:

	2023	2022
2009 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2025	\$ 12,120,000	\$ 13,840,000
2017 Hamilton County, Ohio Healthcare Facilities Revenue Bonds, varying interest rates, payable through 2042	17,302,070	17,413,657
Total principal due	29,422,070	31,253,657
Unamortized debt issuance costs	(281,370)	(301,190)
Current portion	(1,950,000)	(1,832,500)
Long-term debt, net	<u>\$ 27,190,700</u>	<u>\$ 29,119,967</u>

In 2012, ERH completed a refunding of the 2009 bonds to modify the interest rate. The 2009 Series A and B Bonds previously carried interest rates that vary monthly based on a factor of London Interbank Offered Rate (LIBOR). Effective January 16, 2023, as a result of reference rate reform, the LIBOR factor was replaced with the Secured Overnight Financing Rate (SOFR), subject to the same monthly adjustments assigned to the previous LIBOR option. The effective interest rate was 6.55% and 5.51% at December 31, 2023 and 2022, 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, 2023 and 2022, \$17,302,070 and \$17,413,657, respectively, was drawn on the bond. The bond carries an interest rate that varies monthly based on a factor of LIBOR. Effective February 1, 2023, as a result of reference rate reform, the LIBOR factor was replaced with the SOFR, subject to the same monthly adjustments assigned to the previous LIBOR option. The effective interest rate was 6.26% and 5.09% at December 31, 2023 and 2022, respectively. The final maturity of the bond is July 1, 2042.

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 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:

2024	\$ 1,950,000
2025	2,050,000
2026	2,142,500
2027	2,280,000
2028	2,360,000
Thereafter	18,639,570
	<u>\$ 29,422,070</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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. The derivative instruments are not designated as a hedging instrument. 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 (deficit) excess of revenue over expenses.

The Obligated Group has entered into additional swap agreements. PNC is covered by the Obligated Group's swap agreement for the notional amounts of \$12,086,000 and \$13,798,000 in 2023 and 2022, respectively. In connection with this swap arrangement, the Obligated Group has agreed to pay a fixed rate of interest of 3.130%, with the counterparty paying floating rates of percentage of the SOFR (2022-LIBOR). The swap arrangement expires in October 2029.

The BMO swap is covered by the Obligated Group's swap agreement for the notional amounts of \$11,775,000 and \$11,850,000 in 2023 and 2022, respectively. In connection with this swap arrangement, the Obligated Group has agreed to pay a fixed rate of interest of 2.189% (amended to 3.130%, effective February 2023), with the counterparty paying floating rates of percentage of the SOFR (2022-LIBOR). The swap arrangement expires in July 2037.

The Obligated Group has recorded the fair value of these interest rate swap agreements, which resulted in an asset of \$400,801 and \$476,785 at December 31, 2023 and 2022, respectively.

For the years ended December 31, 2023 and 2022, the amount of gain 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:

	2023	
	Amount of Gain Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	\$ (190,368)	Interest expense
Change in fair value of interest rate swap agreements	(75,984)	Change in fair value of interest rate swap agreements
Net loss	<u>\$ (266,352)</u>	
	2022	
	Amount of Gain Recognized	Reported in Combined Statement of Activities
Net settlements of interest rate swaps	\$ 407,110	Interest expense
Change in fair value of interest rate swap agreements	2,654,925	Change in fair value of interest rate swap agreements
Net gain	<u>\$ 3,062,035</u>	

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

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:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds:			
Marjorie P. Lee Fund operations	\$ -	\$ 607,349	\$ 607,349
Other	-	2,096,657	2,096,657
Total donor restricted endowment funds	-	2,704,006	2,704,006
Beneficial interest in Marjorie P. Lee Endowment Fund	-	26,369,238	26,369,238
Other donor restricted funds	-	2,501,797	2,501,797
Contributions receivable subject to time restrictions	-	239,138	239,138
Board-designated endowment funds	25,746,672	-	25,746,672
Total net assets and endowments	<u>\$ 25,746,672</u>	<u>\$ 31,814,179</u>	<u>\$ 57,560,851</u>

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds:			
Marjorie P. Lee Fund operations	\$ -	\$ 564,991	\$ 564,991
Other	-	2,096,657	2,096,657
Total donor restricted endowment funds	-	2,661,648	2,661,648
Beneficial interest in Marjorie P. Lee Endowment Fund	-	23,909,069	23,909,069
Other donor restricted funds	-	1,903,875	1,903,875
Contributions receivable subject to time restrictions	-	163,720	163,720
Board-designated endowment funds	23,822,848	-	23,822,848
Total net assets and endowments	<u>\$ 23,822,848</u>	<u>\$ 28,638,312</u>	<u>\$ 52,461,160</u>

Endowments: 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:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 23,822,848	\$ 2,661,648	\$ 26,484,496
Investment gain	257,984	-	257,984
Net appreciation (realized and unrealized)	3,822,624	29,763	3,852,387
Total investment return	27,903,456	2,691,411	30,594,867
Contributions	19,657	-	19,657
Appropriation of endowment assets for expenditures	(2,176,441)	12,595	(2,163,846)
Endowment net assets, end of year	<u>\$ 25,746,672</u>	<u>\$ 2,704,006</u>	<u>\$ 28,450,678</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 7. Net Assets and Endowments (Continued)

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 31,265,280	\$ 2,737,523	\$ 34,002,803
Investment gain	248,218	-	248,218
Net depreciation (realized and unrealized)	(5,924,214)	(64,390)	(5,988,604)
Total investment return	25,589,284	2,673,133	28,262,417
Contributions	53,896	-	53,896
Appropriation of endowment assets for expenditures	(1,820,332)	(11,485)	(1,831,817)
Endowment net assets, end of year	\$ 23,822,848	\$ 2,661,648	\$ 26,484,496

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, 2023 and 2022.

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 4.0% as of December 31, 2023 and 2022, 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.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 8. Retirement Plans

ERH sponsors a tax-deferred annuity retirement plan under Section 403(b) of the IRC 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 \$302,000 and \$217,000 for 2023 and 2022, respectively. These amounts are included in the employee benefits and payroll taxes on the statement of activities and changes in net assets.

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, ERH was required to make a capital contribution. The Obligated Group's interest of this contribution is 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, 2023 and 2022.

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. 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.

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 \$175,000 of claims per employee incurred annually. The annual aggregate limit for all participant claims, which includes all entities covered under this plan, is approximately \$3,100,000 and \$3,000,000 at December 31, 2023 and 2022, respectively. 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, 2023 and 2022, was approximately \$1,479,000 and \$1,499,000, respectively. A liability for estimated claims outstanding at December 31, 2023 and 2022, of approximately \$324,000 and \$535,000, 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. 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:

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 10. Functional Classification of Expenses (Continued)

	2023					
	Program Services			Management and General	Fundraising	Total Expenses
	Senior Living	Other	Total Program			
Salaries, wages, employee benefits and payroll taxes	\$ 16,897,170	\$ 156,748	\$ 17,053,918	\$ 4,282,593	\$ 435,747	\$ 21,772,258
Supplies and food	2,068,486	-	2,068,486	29,830	693	2,099,009
Professional services	2,875,481	617,437	3,492,918	1,279,079	-	4,771,997
Utilities	1,081,832	3,056	1,084,888	91,191	-	1,176,079
Insurance	628,440	15,953	644,393	48,255	-	692,648
Depreciation	3,315,862	56,787	3,372,649	184,966	-	3,557,615
Marketing	-	-	-	630,698	-	630,698
Miscellaneous	2,430,453	356,949	2,787,402	1,119,517	83,487	3,990,406
	<u>\$ 29,297,724</u>	<u>\$ 1,206,930</u>	<u>\$ 30,504,654</u>	<u>\$ 7,666,129</u>	<u>\$ 519,927</u>	<u>\$ 38,690,710</u>

	2022					
	Program Services			Management and General	Fundraising	Total Expenses
	Senior Living	Other	Total Program			
Salaries, wages, employee benefits and payroll taxes	\$ 14,473,269	\$ 158,059	\$ 14,631,328	\$ 3,906,922	\$ 328,316	\$ 18,866,566
Supplies and food	1,990,488	51	1,990,539	30,179	2,862	2,023,580
Professional services	4,354,068	593,507	4,947,575	655,587	59,655	5,662,817
Utilities	1,077,057	2,980	1,080,037	89,899	-	1,169,936
Insurance	459,110	17,593	476,703	56,088	-	532,791
Depreciation	3,495,611	65,411	3,561,022	240,204	-	3,801,226
Marketing	-	-	-	609,206	-	609,206
Miscellaneous	1,654,425	295,166	1,949,591	1,216,647	86,870	3,253,108
	<u>\$ 27,504,028</u>	<u>\$ 1,132,767</u>	<u>\$ 28,636,795</u>	<u>\$ 6,804,732</u>	<u>\$ 477,703</u>	<u>\$ 35,919,230</u>

Note 11. Fair Value Measurements

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.

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 11. Fair Value Measurements (Continued)

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

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 described above.

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, 2023 and 2022. 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.

Interest rate swaps: Interest rate swaps are valued by utilizing widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including LIBOR and SOFR curves.

The following tables present information about the Obligated Group’s assets and liabilities measured at fair value on a recurring basis at December 31, 2023 and 2022.

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

	2023			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments and assets limited as to use:				
Corporation obligations	\$ -	\$ 860,811	\$ -	\$ 860,811
Equity securities	2,125,206	-	-	2,125,206
Exchange traded funds	1,878,058	-	-	1,878,058
Money market funds	-	252,108	-	252,108
Mutual funds	3,735,685	-	-	3,735,685
	<u>7,738,949</u>	<u>1,112,919</u>	<u>-</u>	<u>8,851,868</u>
Investments and assets limited as to use measured at net asset value:				
Private investments	-	-	-	1,369,804
Hedge funds	-	-	-	19,085,497
	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,455,301</u>
Cash and cash equivalents classified as investments and assets limited to use	744,820	-	-	744,820
Total investments and assets limited as to use	<u>8,483,769</u>	<u>1,112,919</u>	<u>-</u>	<u>30,051,989</u>
Beneficial interest in Marjorie P. Lee				
Endowment Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,369,238</u>	<u>\$ 26,369,238</u>
Interest rate swaps				
	<u>\$ -</u>	<u>\$ 400,801</u>	<u>\$ -</u>	<u>\$ 400,801</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 11. Fair Value Measurements (Continued)

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments and assets limited as to use:				
Corporation obligations	\$ -	\$ 787,864	\$ -	\$ 787,864
Equity securities	2,781,566	-	-	2,781,566
Exchange traded funds	856,167	-	-	856,167
Money market funds	-	451,843	-	451,843
Mutual funds	3,695,831	-	-	3,695,831
	<u>7,333,564</u>	<u>1,239,707</u>	<u>-</u>	<u>8,573,271</u>
Investments and assets limited as to use measured at net asset value:				
Private investments	-	-	-	2,234,147
Hedge funds	-	-	-	16,154,629
	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,388,776</u>
Cash and cash equivalents classified as investments and assets limited to use	1,133,643	-	-	1,133,643
Total investments and assets limited as to use	<u>\$ 8,467,207</u>	<u>\$ 1,239,707</u>	<u>-</u>	<u>28,095,690</u>
Beneficial interest in Marjorie P. Lee Endowment Fund				
	\$ -	\$ -	\$ 23,909,069	\$ 23,909,069
Liabilities:				
Interest rate swaps	\$ -	\$ 476,785	\$ -	\$ 476,785

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, 2023 and 2022, there were no transfers in or out of Level 3. Additionally, there were no purchases for the years ended December 31, 2023 and 2022.

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 (NAV) 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 Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
	2023	2022			
Private investments	\$ 1,369,804	\$ 2,234,147	885,000	None	None
Hedge funds	19,085,497	16,154,629	508,345	Daily to Annually	1-90 days
	<u>\$ 20,455,301</u>	<u>\$ 18,388,776</u>			

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 11. Fair Value Measurements (Continued)

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 NAV per share of its 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 NAV per share of the investments.

Note 12. Related Party Transactions

The Obligated Group provides certain management services to the other affiliated entities. During 2023 and 2022, ERH recognized net management fee income of \$1,999,192 and \$2,208,842, respectively, for management services provided to the other affiliated entities. ERH transferred \$2,303,049 and \$480,000 to affiliated entities in 2023 and 2022, respectively. For 2023, \$2,000,000 of amounts transferred to affiliated entities represented forgiveness of receivables from affiliated entities. Amounts due from affiliated entities totaled \$1,650,987 and \$3,065,724 at December 31, 2023 and 2022, respectively.

The Foundation also provides support to ERH and the other affiliated entities. Transfers of unrestricted net assets to the other affiliated entities totaled \$546,238 and \$537,045 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, financial assets available for general expenditures within one year are comprised of the following:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 7,338,426	\$ 7,331,940
Accounts receivable	1,155,949	1,233,011
Other receivables and assets	1,568,864	1,003,816
Investments and assets limited as to use	30,051,989	28,095,690
Beneficial interest in Marjorie P. Lee Endowment Fund	26,369,238	23,909,069
Total financial assets	<u>66,484,466</u>	<u>61,573,526</u>
Less amounts not available to be used within one year:		
Assets held for residents	(1,061)	(815)
Other assets—investments in non-liquid securities	(842,188)	(820,296)
Assets with donor restrictions	(5,444,941)	(4,729,243)
Beneficial interest in Marjorie P. Lee Endowment Fund, less expected draws within one year	(24,960,906)	(22,500,737)
Assets intended for expenditure for Marjorie P. Lee Master Plan	(808,409)	(798,949)
Board designated funds	(25,746,672)	(23,822,848)
Financial assets not available to be used within one year	<u>(57,804,177)</u>	<u>(52,672,888)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 8,680,289</u>	<u>\$ 8,900,638</u>

Episcopal Retirement Homes – Obligated Group

Notes to Combined Financial Statements

Note 14. Pandemic Funding

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.

The Obligated Group received distributions from the State of Ohio in the amount of \$472,132 during 2022, which were recognized in other operating revenue during 2022. There were no distributions from the State of Ohio in 2023.

Note 15. Subsequent Event

The Obligated group has evaluated subsequent events for potential recognition and/or disclosure through June 4, 2024, the date the combined financial statements were available to be issued.

Supplementary Information

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position December 31, 2023

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 4,795,219	\$ 2,543,207	\$ 7,338,426
Resident accounts receivable, net	1,155,949	-	1,155,949
Other receivables	488,879	239,136	728,015
Other current assets	1,038,711	-	1,038,711
Total current assets	7,478,758	2,782,343	10,261,101
Investments and assets limited as to use	1,576,311	28,475,678	30,051,989
Property and equipment, net	46,209,989	-	46,209,989
Beneficial interest in Marjorie P. Lee Endowment Fund	-	26,369,238	26,369,238
Intangible assets	870,241	-	870,241
Due from affiliates	1,274,416	376,571	1,650,987
Interest rate swaps	400,801	-	400,801
Other assets	818,539	22,310	840,849
Total assets	\$ 58,629,055	\$ 58,026,140	\$ 116,655,195
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 3,089,649	\$ -	\$ 3,089,649
Current portion of long-term debt	1,950,000	-	1,950,000
Deposits from residents	443,912	-	443,912
Refundable entrance fees	2,171,000	-	2,171,000
Deferred revenue from entrance fees	467,000	-	467,000
Accrued liabilities and other	2,931,431	-	2,931,431
Total current liabilities	11,052,992	-	11,052,992
Long-term debt, net	27,190,700	-	27,190,700
Deferred revenue from entrance fees, less current portion	1,983,155	-	1,983,155
Refundable entrance fees, less current portion	11,313,317	-	11,313,317
Other long-term liabilities	285,212	67,103	352,315
Total liabilities	51,825,376	67,103	51,892,479
Net assets:			
Without donor restrictions	6,803,679	26,144,858	32,948,537
With donor restrictions	-	31,814,179	31,814,179
Total net assets	6,803,679	57,959,037	64,762,716
Total liabilities and net assets	\$ 58,629,055	\$ 58,026,140	\$ 116,655,195

Episcopal Retirement Homes - Obligated Group

Combining Statement of Financial Position December 31, 2022

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,742,769	\$ 2,589,171	\$ -	\$ 7,331,940
Resident accounts receivable, net	1,233,011	-	-	1,233,011
Other receivables	19,803	163,717	-	183,520
Other current assets	844,752	-	-	844,752
Total current assets	6,840,335	2,752,888	-	9,593,223
Investments and assets limited as to use	1,641,222	26,454,468	-	28,095,690
Property and equipment, net	48,154,011	-	-	48,154,011
Beneficial interest in Marjorie P. Lee Endowment Fund	-	23,909,069	-	23,909,069
Intangible assets	870,241	-	-	870,241
Due from affiliates	3,043,143	22,581	-	3,065,724
Interest rate swaps	476,785	-	-	476,785
Other assets	797,986	22,310	-	820,296
Total assets	\$ 61,823,723	\$ 53,161,316	\$ -	\$ 114,985,039
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 2,485,809	\$ -	\$ -	\$ 2,485,809
Current portion of long-term debt	1,832,500	-	-	1,832,500
Deposits from residents	431,612	-	-	431,612
Refundable entrance fees	2,072,000	-	-	2,072,000
Deferred revenue from entrance fees	466,000	-	-	466,000
Accrued liabilities and other	2,965,418	-	-	2,965,418
Total current liabilities	10,253,339	-	-	10,253,339
Long-term debt, net	29,119,967	-	-	29,119,967
Deferred revenue from entrance fees, less current portion	1,843,040	-	-	1,843,040
Refundable entrance fees, less current portion	11,414,450	-	-	11,414,450
Other long-term liabilities	207,629	71,724	-	279,353
Total liabilities	52,838,425	71,724	-	52,910,149
Net assets:				
Without donor restrictions	8,985,298	24,451,280	-	33,436,578
With donor restrictions	-	28,638,312	-	28,638,312
Total net assets	8,985,298	53,089,592	-	62,074,890
Total liabilities and net assets	\$ 61,823,723	\$ 53,161,316	\$ -	\$ 114,985,039

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities and Changes in Net Assets Year Ended December 31, 2023

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Total
Revenue:			
Net resident revenue	\$ 29,824,351	\$ -	\$ 29,824,351
Other operating revenue	2,219,531	-	2,219,531
Management fee income	1,999,192	-	1,999,192
Amortization of entrance fees	477,636	-	477,636
Marjorie P. Lee Endowment Fund income	1,261,584	-	1,261,584
Interest and dividend income	689,264	-	689,264
Net assets released from restriction	-	704,889	704,889
Total revenue	36,471,558	704,889	37,176,447
Expenses:			
Salaries and wages	17,837,544	-	17,837,544
Employee benefits and payroll taxes	3,934,714	-	3,934,714
Supplies	797,536	-	797,536
Food	1,301,473	-	1,301,473
Professional services	4,771,997	-	4,771,997
Utilities	1,176,079	-	1,176,079
Insurance	692,648	-	692,648
Depreciation	3,557,615	-	3,557,615
Other operating expense	4,277,378	343,726	4,621,104
Total expenses	38,346,984	343,726	38,690,710
Operating (loss) income	(1,875,426)	361,163	(1,514,263)
Nonoperating income (loss):			
Contributions	-	1,255,262	1,255,262
Investment gain (loss)	-	4,080,608	4,080,608
Interest expense	(1,457,360)	-	(1,457,360)
Change in fair value of interest rate swap agreements	(75,984)	-	(75,984)
Other income (expense)	97,850	(12,272)	85,578
Total nonoperating (loss) income	(1,435,494)	5,323,598	3,888,104
Excess (deficit) of revenue over expenses	(3,310,920)	5,684,761	2,373,841
Other net asset reallocations	-	(12,595)	(12,595)
Transfer from ERS Foundation to affiliated entities	-	(546,238)	(546,238)
Transfer from ERH to affiliated entity	(2,303,049)	-	(2,303,049)
Transfer from ERS Foundation to ERH	3,432,350	(3,432,350)	-
Change in net assets without donor restrictions	(2,181,619)	1,693,578	(488,041)
Change in net assets with donor restrictions:			
Restricted contributions	-	1,378,229	1,378,229
Change in beneficial interest in endowment fund	-	3,721,753	3,721,753
Draws from Marjorie P. Lee Endowment Fund	-	(1,261,584)	(1,261,584)
Change in market value	-	29,763	29,763
Other net asset reallocations	-	12,595	12,595
Net assets released from restriction	-	(704,889)	(704,889)
Change in net assets with donor restrictions	-	3,175,867	3,175,867
Change in net assets	(2,181,619)	4,869,445	2,687,826
Net assets:			
Beginning	8,985,298	53,089,592	62,074,890
Ending	\$ 6,803,679	\$ 57,959,037	\$ 64,762,716

Episcopal Retirement Homes - Obligated Group

Combining Statement of Activities and Changes in Net Assets Year Ended December 31, 2022

	Episcopal Retirement Homes, Inc.	Episcopal Retirement Services Foundation	Eliminations	Total
Revenue:				
Net resident revenue	\$ 27,949,972	\$ -	\$ -	\$ 27,949,972
Other operating revenue	2,221,561	-	-	2,221,561
Management fee income	2,328,842	-	(120,000)	2,208,842
Amortization of entrance fees	389,671	-	-	389,671
Marjorie P. Lee endowment income	1,228,000	-	-	1,228,000
Interest and dividend income	299,880	-	-	299,880
Net assets released from restriction	-	611,235	-	611,235
Total revenue	34,417,926	611,235	(120,000)	34,909,161
Expenses:				
Salaries and wages	15,516,078	-	-	15,516,078
Employee benefits and payroll taxes	3,350,488	-	-	3,350,488
Supplies	801,774	-	-	801,774
Food	1,221,806	-	-	1,221,806
Professional services	5,662,817	-	-	5,662,817
Utilities	1,169,936	-	-	1,169,936
Insurance	532,791	-	-	532,791
Depreciation	3,801,226	-	-	3,801,226
Other operating expense	3,590,204	392,110	(120,000)	3,862,314
Total expenses	35,647,120	392,110	(120,000)	35,919,230
Operating (loss) income	(1,229,194)	219,125	-	(1,010,069)
Nonoperating income (loss):				
Contributions	-	879,194	-	879,194
Investment loss	-	(5,675,996)	-	(5,675,996)
Interest expense	(1,357,040)	-	-	(1,357,040)
Change in fair value of interest rate swap agreements	2,654,925	-	-	2,654,925
Other income	(169,997)	18,062	-	(151,935)
Total nonoperating income (loss)	1,127,888	(4,778,740)	-	(3,650,852)
Excess (deficit) of revenue over expenses	(101,306)	(4,559,615)	-	(4,660,921)
Other net asset reallocations	-	11,485	-	11,485
Transfer from ERS Foundation to affiliated entities	-	(537,045)	-	(537,045)
Transfer from ERH to affiliated entity	(480,000)	-	-	(480,000)
Transfer from ERS Foundation to ERH	2,054,670	(2,054,670)	-	-
Change in net assets without donor restrictions	1,473,364	(7,139,845)	-	(5,666,481)
Change in net assets with donor restrictions:				
Restricted contributions	-	1,203,969	-	1,203,969
Change in beneficial interest in endowment fund	-	(5,231,961)	-	(5,231,961)
Draws from Marjorie P. Lee Endowment Fund	-	(1,228,000)	-	(1,228,000)
Change in market value	-	(64,390)	-	(64,390)
Other net asset reallocations	-	(11,485)	-	(11,485)
Net assets released from restriction	-	(611,235)	-	(611,235)
Change in net assets with donor restrictions	-	(5,943,102)	-	(5,943,102)
Change in net assets	1,473,364	(13,082,947)	-	(11,609,583)
Net assets:				
Beginning	7,511,934	66,172,539	-	73,684,473
Ending	\$ 8,985,298	\$ 53,089,592	\$ -	\$ 62,074,890