

**ECHOING HILLS VILLAGE, INC.
AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018 AND 2017**



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Echoing Hills Village, Inc. and Affiliate
Warsaw, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Echoing Hills Village, Inc. and Echoing Hills Village Foundation, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities and changes in net assets, statements of functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

GJMLTD.COM

TOLEDO OFFICE:
1715 INDIAN WOOD CIR, STE 100
MAUMEE OH 43537-4055

PHONE: 419.794.2000
FAX: 419.794.2090

FINDLAY OFFICE:
551 LAKE CASCADES PKWY
PO BOX 1106
FINDLAY OH 45839-1106

PHONE: 419.423.4481
FAX: 419.423.4865

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules on pages 30 through 33 are presented for purposes of additional analysis and are 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.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
April 24, 2019

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,525,102	\$ 1,136,998
Accounts receivable	2,583,766	2,736,561
Unconditional promises to give	4,284	9,566
Resident funds	713,485	591,183
Prepaid expenses and other current assets	407,671	317,200
Total current assets	5,234,308	4,791,508
Investments	3,531,299	4,058,647
Property and equipment - net	9,149,288	9,683,492
Assets held for sale	0	120,141
Other Assets		
Deposits	9,608	9,608
Cash surrender value life insurance	364,319	334,464
Unconditional promises to give - net of current portion	5,823,300	6,134,350
Total other assets	6,197,227	6,478,422
Total assets	\$ 24,112,122	\$ 25,132,210
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,215,625	\$ 1,316,067
Resident funds payable	713,485	591,183
Lines of credit	371,120	563,500
Current portion of long-term debt	170,694	232,572
Current portion of capital lease obligation	23,153	19,508
Current portion of charitable gift annuity payable	12,739	10,611
Accrued payroll and related	1,725,966	2,030,181
Total current liabilities	4,232,782	4,763,622
Long-term liabilities -net of current		
Long term debt - net of current portion	2,470,011	2,820,517
Charitable gift annuity payable - net of current portion	45,512	31,937
Capital lease obligation - net of current portion	72,919	89,927
Total long-term liabilities -net of current	2,588,442	2,942,381
Total liabilities	6,821,224	7,706,003
Net assets		
Without donor restrictions	7,060,136	6,775,468
With donor restrictions		
Purpose and time restricted	2,025,823	2,197,825
Perpetual in nature	8,204,939	8,452,914
Total with donor restrictions	10,230,762	10,650,739
Total net assets	17,290,898	17,426,207
Total liabilities and net assets	\$ 24,112,122	\$ 25,132,210

The accompanying notes are an integral part of these financial statements.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2018 and 2017

	Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Net service revenue	\$ 27,412,259	\$ 0	\$ 27,412,259
Net realized and unrealized gains (losses) on investments	(371,048)		(371,048)
Other operating revenue	208,864		208,864
Net assets released from restrictions	418,552	(418,552)	0
Total operating revenues	<u>27,668,627</u>	<u>(418,552)</u>	<u>27,250,075</u>
Operating expenses			
Program expenses	25,966,785		25,966,785
General and administrative expenses	2,414,942		2,414,942
Fundraising expenses	178,400		178,400
Total operating expenses	<u>28,560,127</u>	<u>0</u>	<u>28,560,127</u>
Operating loss	(891,500)	(418,552)	(1,310,052)
Other income			
Investment income - net	123,353		123,353
Contributions	226,791	309,625	536,416
Other income	152,319		152,319
Gain (loss) on sale of property and equipment	673,705		673,705
Change in value of split-interest agreements		(311,050)	(311,050)
Total other income	<u>1,176,168</u>	<u>(1,425)</u>	<u>1,174,743</u>
Change in net assets	284,668	(419,977)	(135,309)
Net assets - beginning of year	<u>6,775,468</u>	<u>10,650,739</u>	<u>17,426,207</u>
Net assets - end of year	<u>\$ 7,060,136</u>	<u>\$ 10,230,762</u>	<u>\$ 17,290,898</u>

Year Ended December 31, 2017

Without Donor Restrictions	With Donor Restrictions	Total
\$ 26,354,628	\$ 0	\$ 26,354,628
429,579		429,579
188,609		188,609
181,890	(181,890)	0
<u>27,154,706</u>	<u>(181,890)</u>	<u>26,972,816</u>
25,787,727		25,787,727
2,091,722		2,091,722
226,468		226,468
<u>28,105,917</u>	<u>0</u>	<u>28,105,917</u>
(951,211)	(181,890)	(1,133,101)
99,178		99,178
78,684	287,445	366,129
127,542		127,542
(9,446)		(9,446)
	647,275	647,275
<u>295,958</u>	<u>934,720</u>	<u>1,230,678</u>
(655,253)	752,830	97,577
<u>7,430,721</u>	<u>9,897,909</u>	<u>17,328,630</u>
<u>\$ 6,775,468</u>	<u>\$ 10,650,739</u>	<u>\$ 17,426,207</u>

The accompanying notes are an integral part of these financial statements.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 14,112,926	\$ 1,101,327	\$ 109,709	\$ 15,323,962
Payroll taxes	1,586,187	93,769	9,116	1,689,072
Employee benefits	<u>2,201,007</u>	<u>160,346</u>	<u>1,191</u>	<u>2,362,544</u>
Total salaries and related expenses	17,900,120	1,355,442	120,016	19,375,578
Contracted adult day program	821,750			821,750
Advertising and promotion	77	40,794		40,871
Dietary cost	630,276			630,276
Professional fund raising			34,086	34,086
Government mandated fees	1,351,934		2,490	1,354,424
Insurance	131,602	77,091		208,693
Information technology	136,231	105,614	4,758	246,603
Professional fees	47,135	53,259		100,394
Lease and rent	216,505	3,600		220,105
Maintenance and repair	522,474	33,968		556,442
Medical and habilitation supplies and equipment	418,929			418,929
Contracted medical and therapy services	938,553	32,737		971,290
Interest	153,452	17,750		171,202
Office expenses	336,586	91,451	16,650	444,687
Other expenses	354,543	55,933		410,476
Staff development, conferences and dues	139,757	69,465		209,222
Supplies	250,968	22,872		273,840
Travel	292,920	31,168	330	324,418
Utilities	<u>609,910</u>	<u>16,078</u>		<u>625,988</u>
Total expenses before depreciation and amortization	<u>25,253,722</u>	<u>2,007,222</u>	<u>178,330</u>	<u>27,439,274</u>
Depreciation and amortization	<u>713,063</u>	<u>407,720</u>	<u>70</u>	<u>1,120,853</u>
Total functional expenses	<u>\$ 25,966,785</u>	<u>\$ 2,414,942</u>	<u>\$ 178,400</u>	<u>\$ 28,560,127</u>

The accompanying notes are an integral part of these financial statements.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 13,918,379	\$ 1,047,045	\$ 104,906	\$ 15,070,330
Payroll taxes	1,381,135	73,451	6,458	1,461,044
Employee benefits	2,103,904	160,064	1,591	2,265,559
Total salaries and related expenses	17,403,418	1,280,560	112,955	18,796,933
Contracted adult day program	829,794			829,794
Advertising and promotion	31,256	113,470		144,726
Dietary cost	694,813			694,813
Professional fund raising			86,952	86,952
Government mandated fees	1,455,947		2,815	1,458,762
Insurance	121,320	65,870	951	188,141
Information technology	137,157	135,884	5,917	278,958
Professional fees	28,492	83,138		111,630
Lease and rent	216,075	3,800		219,875
Maintenance and repair	577,101	21,662		598,763
Medical and habilitation supplies and equipment	421,567			421,567
Contracted medical and therapy services	823,861	1,058		824,919
Interest	120,185	2,133		122,318
Office expenses	376,064	110,103	15,794	501,961
Other expenses	213,850	50,727		264,577
Staff development, conferences and dues	55,356	63,135	627	119,118
Supplies	269,952	25,881		295,833
Travel	355,668	43,288	320	399,276
Utilities	607,504	18,054		625,558
Total expenses before depreciation and amortization	24,739,380	2,018,763	226,331	26,984,474
Depreciation and amortization	1,048,347	72,959	137	1,121,443
Total functional expenses	<u>\$ 25,787,727</u>	<u>\$ 2,091,722</u>	<u>\$ 226,468</u>	<u>\$ 28,105,917</u>

The accompanying notes are an integral part of these financial statements.

**ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (135,309)	\$ 97,577
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,120,853	1,121,443
Net realized and unrealized losses (gains) on investments	371,048	(429,579)
Loss (gain) on disposal of property and equipment	(673,705)	9,446
Donation in-kind of property and equipment	(40,000)	0
Change in value of split-interest agreements	311,050	(647,275)
Contributions with donor restriction perpetual in nature	0	(500)
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	152,795	(366,542)
Unconditional promises to give	5,282	2,303
Prepaid and other assets	(90,471)	(46,052)
Accounts payable	(100,442)	72,402
Accrued expenses	(304,215)	393,294
Net cash provided by operating activities	616,886	206,517
Cash flows from investing activities		
Purchases of property and equipment	(608,819)	(1,955,253)
Proceeds from sale of property and equipment	856,016	28,733
Purchase of investments	(146,850)	(384,435)
Proceeds from sale of investments	303,150	808,084
Change in surrender value of life insurance	(29,855)	(32,716)
Net cash provided by (used in) investing activities	373,642	(1,535,587)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	550,000	1,090,380
Net proceeds (payments) on line of credit	(192,380)	563,500
Principal payments on long-term debt	(962,384)	(194,663)
Principal payments on capital lease obligations	(13,363)	(38,096)
Contributions with donor restriction perpetual in nature	0	500
Net change in annuity obligations	15,703	(7,512)
Net cash provided by (used in) financing activities	(602,424)	1,414,109
Net increase in cash and cash equivalents	388,104	85,039
Cash and cash equivalents - beginning of year	1,136,998	1,051,959
Cash and cash equivalents - end of year	\$ 1,525,102	\$ 1,136,998
Supplemental cash flow information		
Cash paid for interest	\$ 172,879	\$ 130,124
Equipment obtained through acquisition of capital lease obligation	\$ 0	\$ 115,776

The accompanying notes are an integral part of these financial statements.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1–Nature of organization

Echoing Hills Village, Inc. (the Village) is a not-for-profit corporation organized for the purpose of providing for the needs of individuals with physical and intellectual disabilities through residential services and programs. The Village is the sole corporate member of the Echoing Hills Village Foundation, Inc. (the Foundation) or (collectively, the Organization).

Echoing Hills Village Foundation, Inc. is a separate not-for-profit corporation organized to support the activities and programs of the Village. The Foundation receives and manages contributions and endowment funds for the benefit of the Village. The Foundation is supported by donor contributions and investment earnings.

The Organizations various program and support services are detailed below:

Residential services: The Village operates 16 intermediate-care facilities. These programs are licensed in the state of Ohio and are certified to receive Medicaid funds. The services offered include year-round living accommodations in a home-like atmosphere, professional care, and various opportunities for daily activity. The Village also provides homemaker and personal care services and transportation to individuals who live in their own homes or apartments.

Camp Echoing Hills: Camp Echoing Hills (the Camp) provides year-round recreational opportunities for the developmentally disabled. The Camp provides opportunity for physical enrichment through activities such as baseball, hayrides, swimming, and other events. Spiritual nurture is gained through discussion groups and worship and devotional programs in and out of doors. Funding for the camping program comes from fees for services and contributions from interested individuals, businesses, service clubs, churches, and foundations.

Travel Opportunities: This program, sponsored by the Camp, allows the developmentally disabled travel opportunities providing recreation and spiritual growth. Trips have been taken to Germany, Panama, and many states in the U.S., including Arizona, California, Florida, Hawaii, Maryland, and New York. Funding for travel opportunities comes from fees for services and contributions.

echoing Connections: These programs, located in Ohio in Stark, Montgomery, Athens, and Coshocton counties, are an alternative to the counties' sheltered workshop program providing individuals with physical and intellectual disabilities opportunities for paid employment, vocational training, and recreational activities in coordination with career and skills development and community integration.

echoing U: echoing U is a four-year post-secondary transition program for young adults with disabilities up to age 30 who have graduated high school. These students may not choose a traditional college or to enter full-time competitive employment. echoing U provides a four-year cohort program where young people can build practical, real-world life skills that prepare them to make the next major steps in their lives. The goal of the program is to see young adults with physical and intellectual disabilities achieve their fullest potential.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies

Basis of presentation and consolidation

The consolidated financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Actual results could differ from those estimates. The accompanying consolidated financial statements include the accounts of The Village and the Foundation. All significant intercompany transactions and balances have been eliminated in consolidation.

For the year ending December 31, 2018 the Organization adopted Accounting Standards Update ASU 2016-14 (ASU 2016-14), *Not-for-profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, ASU 2016-14 replaces the three prior classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

<u>Net assets classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
As previously presented:			
Unrestricted	\$ 6,775,468	\$ 0	\$ 6,775,468
Temporarily restricted		2,197,825	2,197,825
Permanently restricted		8,452,914	8,452,914
Net assets as presented	<u>\$ 6,775,468</u>	<u>\$ 10,650,739</u>	<u>\$ 17,426,207</u>

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. At December 31, 2018 and 2017, the Organization held funds at a financial institution in excess of FDIC insurance levels; however, management believes the risk is negligible.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies - continued

Accounts receivable

Accounts receivable are recorded at stated amounts based on a unit rate for services provided to individuals qualified to receive services from the Village. The Village has a significant concentration of its accounts receivable balance due from Medicaid for residential and support services. At December 31, 2018 and 2017, the Medicaid accounts receivable as a percentage of total accounts receivable were 96 and 94 percent, respectively. An allowance for doubtful accounts is established based on a specific assessment of all receivables that remain unpaid following normal collection periods. Management has determined that an allowance for doubtful accounts was not required as of December 31, 2018 and 2017.

Resident funds and resident funds payable

The Organization maintains various bank accounts for deposits and disbursements for the residents' personal needs allowances. These funds are held in trust by the Organization and total \$713,485 and \$591,183 at December 31, 2018 and 2017, respectively.

Property and equipment

Property and equipment purchases are recorded at cost or, if donated, at the estimated fair market value at the time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as contributions without donor restriction and are excluded from operating loss, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investments

Investments, which consist principally of equities and fixed-income securities, are carried at fair value based upon independent market quotes. The change in fair value is reported as unrealized gain and loss in the accompanying consolidated statement of activities. Donated investments are recorded as contributions at their estimated fair values at the time of donation.

Cash surrender value of life insurance

The Organization records as an asset the cash surrender value of life insurance policies, net of any policy loans, in which they are the owner and the beneficiary.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies - continued

Charitable gift annuity obligations

The Organization has entered into various gift annuity agreements whereby, upon receipt of an annuity gift, the Organization pays the donor an annuity for the remainder of his or her life and/or spouse's life. At the time of the gift, the assets are recorded at their fair market value and an obligation is established for the present value of the annuity payments estimated to occur based upon the donor's and/or spouse's life expectancy. The difference between the gift and the obligation is recognized as contributions without donor restriction or as an increase in net assets with donor restrictions based upon the donor-imposed restrictions, if any. The original gift upon receipt was included in investments. As of December 31, 2018 and 2017, the Organization has gift annuity obligations without donor restrictions, of \$58,251 and \$42,548, respectively.

Net assets without donor restrictions

Net assets without donor restrictions consist of all the resources and obligations related to the daily operations of the Organization.

Net assets with donor restrictions

Net assets restricted for purpose contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Organization. Net assets with restrictions that are perpetual in nature result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on net assets with donor restrictions are classified as without donor restriction, unless specifically restricted by the donor or by applicable state law.

Service revenue

The Organization's principal activities are operating long-term healthcare facilities and day activity programs for individuals with physical and intellectual disabilities. Revenue is primarily derived from participation in the Medicaid program. Amounts earned under the Medicaid program are subject to review and audit by the third-party payers and makes up approximately 97 percent of total net service revenue for the years ended December 31, 2018 and 2017.

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

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies - continued

Service revenue - continued

ICF/IID revenue

Medicaid reimbursement for an Ohio ICF/IID is based on cost and clinical assessments, with a rate cap based on the statewide average Medicaid rate for ICFs/IID. The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. Future reimbursement changes are subject to legislative approval. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Laws and regulations governing the Medicaid program 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, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicaid program.

Day habilitation revenue

The Village provides day habilitation services for its own ICF/IID and waiver clients and those living in other home and community settings through its echoing Connections and echoing U programs. Payments for the Village's ICF/IID clients come from the facility's overall Medicaid rate. Clients who live in other ICFs/IID pay on a fee-for-service basis. The Village bills the Department of Developmental Disabilities for its own clients and others in the community who are funded through State of Ohio waiver programs. The Ohio legislature, through its biennium budget process, sets both ICF/IID and waiver reimbursement payment rates.

Waiver revenue

The Department of Developmental Disabilities (DODD) provides payment for home and community based programs for individuals with developmental disabilities through the Individual Optional Waiver and Level One Waiver programs. Based upon individual client functional assessment tools and service requirements individuals are assigned funding allocations for future services.

The Village is certified by the DODD to provide certain waiver services in the areas of homemaker/personal care, out-of-home respite, transportation, and adult day support. The Village bills the DODD directly to receive payment for the services it provides. Future revenue is subject to annual reassessments of individual needs and functioning levels and State of Ohio departmental budget allocations.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies - continued

Donated services

No amounts have been reflected in the consolidated financial statements for donated services. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs related to resident care and activities.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Cost are charged directly to the program or support cost center benefited and the time of the expenditure and accordingly no additional allocation of expenses is required.

Income taxes

The Village and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the organizations qualify for the charitable contribution deduction and have been classified as organizations that are not private foundations. Management is not aware of any course of action or series of events that have occurred that might adversely affect qualified status.

Management of the Organization is required to determine whether a tax position of the Organization is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management of the Organization is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions). The Organization's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Upcoming accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America (U.S. GAAP). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements and related disclosures.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 2—Significant accounting policies - continued

Upcoming accounting pronouncements - continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. Recognition and presentation of expenses will depend on the classification of the lease as either finance or operating. ASU 2016-02 will also require quantitative and qualitative disclosures to supplement the amounts recorded in the financial statements to afford better understanding of the Organization's leasing activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted and is to be applied retrospectively. The Organization is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In June 2018 the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies the accounting for both makers and recipients of grants. The guidance amends the new revenue recognition standard as well as long-standing contribution accounting guidance. The amendments provide a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. ASU 2018-08 also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018 if the entity serves as the resource recipient or fiscal years beginning after December 15, 2019 if the entity serves as the resource provider with early adoption permitted in both cases. The Organization is currently evaluating the effect that ASU 2018-08 will have on its consolidated financial statements and related disclosures.

Subsequent events

The Organization has evaluated all events subsequent to the consolidated statement of financial position date of December 31, 2018, through the date of this report, which is the date the consolidated financial statements were available to be issued, and have determined that there are no subsequent events that require disclosure.

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. These reclassifications had no effect on previously reported results or net assets.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 3—Unconditional promises to give

The Organization had the following outstanding unconditional promises to give as of December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Less than one year – other conditional promises	\$ 4,284	\$ 9,566
Greater than five years – split-interest agreements	<u>5,823,300</u>	<u>6,134,350</u>
Total	<u>\$ 5,827,584</u>	<u>\$ 6,143,916</u>

Under the split-interest agreements, the Organization will receive future distributions from trusts only after obligations to another beneficiary are satisfied over the remaining life of the beneficiary. At the time of the beneficiary's death, the trusts are to terminate, and the remaining trust assets are to be distributed to the Organization. The fair value of the assets in the trusts less the present value of the expected payments to the beneficiary uses the beneficiary's life expectancy and a 2.51 percent discount rate (1.96 percent in 2017). It is at least reasonably possible that the recorded value of the split-interest agreements will change in the near term. The value of the split-interest agreements are included in net assets with donor restrictions.

The split-interest agreements are made up of owner restricted donations. The change in value of split-interest agreements for 2018 and 2017 was a total loss of \$311,050 and gain of \$647,275, respectively, to net assets with donor restrictions.

The Organization has received numerous bequests included in wills. These bequests are considered intentions to give because the donor has the right to modify the will and, accordingly, the bequests are not recorded in the consolidated financial statements until each will has been validated after the donor's death.

Note 4—Investments

The Organization held the following investments as of December 31:

	<u>2018</u>	<u>2017</u>
Fixed-income securities	\$ 119,098	\$ 60,101
Equities	<u>3,412,201</u>	<u>3,998,546</u>
Total	<u>\$ 3,531,299</u>	<u>\$ 4,058,647</u>

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

	2018	2017
Land	\$ 1,130,393	\$ 1,090,018
Land improvements	2,915,909	2,899,240
Buildings and improvements	16,421,162	16,386,808
Equipment	3,876,685	3,971,806
Transportation equipment	3,269,967	3,012,653
Construction in progress	6,966	18,016
Total cost	27,621,082	27,378,541
Accumulated depreciation	(18,471,794)	(17,695,049)
Net carrying amount	\$ 9,149,288	\$ 9,683,492

Depreciation and amortization expense for 2018 and 2017 was \$1,120,853 and \$1,121,443, respectively.

The building, land, and land improvements of Echoing Meadows were held for sale at December 31, 2017. The net value of the building, land, and land improvements is shown as assets held for sale on the consolidated statements of financial position in the amount of \$120,141 as of December 31, 2017. Echoing Meadows was sold in 2018, for a gain of approximately \$674,000.

Note 6—Cash surrender value of life insurance

The Organization is the owner and beneficiary a \$2,000,000 face value life insurance policy on the life of the founder. In December 2018, the Organization amended the terms of a second owned life insurance policy with a \$500,000 face value on the life of the founder. In accordance with the policy agreement \$250,000 of the proceeds will be paid to the revocable insurance trust of the founder with the remaining benefit, less any indebtedness against the policy, to be paid to the Village. The cash surrender value on these policies were \$349,012 and \$318,181 as of December 31, 2018 and 2017, respectively.

In addition, certain nonemployees of the Organization have contributed their whole life insurance policies to the Organization. The Organization is the owner and beneficiary of five individual life insurance policies at December 31, 2018 and 2017. These policies collectively have a face value of \$217,210 at December 31, 2018 and 2017. The cash surrender value of these policies was \$15,307 and \$16,283 as of December 31, 2018 and 2017, respectively.

Note 7—Self insurance

The Village is self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per covered life. Claims charged to operations were approximately \$2,004,000 and \$1,786,000 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the Village had recorded an accrual for health insurance for \$122,519 and \$256,363, respectively, within accrued payroll and related.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 8—Lines of credit

In 2018, the Village established a \$1,000,000 line of credit with a bank, collateralized by substantially all real and personal property of the Village, bearing interest at a rate of LIBOR plus 2.38% (effective rate of 3.78% as of December 31, 2018). The outstanding balance on this line was \$371,120 at December 31, 2018. The line of credit matures on July 18, 2019.

The Village also established a \$300,000 line of credit in 2018 with a bank for the purchase of equipment and titled vehicles, collateralized by the equipment or vehicles purchased, bearing interest at a rate of LIBOR plus 2.38% (effective rate of 3.78% as of December 31, 2018). The outstanding balance on this line was \$0 at December 31, 2018. The line of credit matures on July 2, 2019.

The above lines of credit above include financial covenants. As of December 31, 2018, the Village was in compliance with these covenants.

At December 31, 2017, the Village had available a \$750,000 line of credit with a bank, collateralized by all non-real estate operating assets, and bearing interest at a rate of LIBOR plus 3.00% (effective rate of 4.78% at December 31, 2017). The outstanding balance on this line was \$563,500 at December 31, 2017. The line of credit matured in July 2018 and was not renewed.

The Village also had available at December 31, 2017, a line of credit with a credit limit of \$240,000 for the purchase of vehicles. Per terms of line of credit agreement, once the purchase of the vehicle is complete, the total draw is converted into a term note, collateralized by the vehicle, with a term of 60 months (see Note 9 for terms of vehicle loans payable). For the year ended December 31, 2017, \$90,379 had been drawn and converted into term notes. The line of credit was closed in July 2018.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 9—Long-term debt

Long-term debt at December 31 is as follows:

	2018	2017
Mortgage note due in monthly principal and interest installments of \$1,320 at 5%, with remaining principal due September 2019. The note was paid off in 2018.	\$ 0	\$ 179,432
Mortgage note due in monthly principal and interest installments of \$5,824 at 4%, with remaining principal due August 2020. The note is secured by the real estate purchased with the mortgage note proceeds.	845,390	880,232
Mortgage note due in monthly principal and interest installments of \$4,044 at 3.85%, with remaining principal due March 2020. The note is secured by the real estate purchased with the mortgage note proceeds.	441,232	471,893
Mortgage note due in monthly principal and interest installments of \$3,257 at 6.15% through March 2026. The note is secured by the real estate purchased with the mortgage note proceeds.	224,539	249,470
Mortgage note due in monthly principal and interest installments of \$3,135 at 4.33% through May 2022. The note is secured by the real estate purchased with the mortgage note proceeds.	473,974	490,397
Mortgage note due in monthly principal and interest installments of \$3,135 at 4.33% through September 2022. The note is secured by the real estate purchased with the mortgage note proceeds.	478,601	494,828
Various vehicle loans payable, which are due in monthly installments ranging from \$391 to \$2,818, including interest ranging from 3.79% to 5.01%. These loans are repayable over terms ranging from 48 months to 60 months and are secured by individual vehicles purchased with proceeds from the loans.	176,969	286,837
Total	2,640,705	3,053,089
Less current portion of long-term debt	170,694	232,572
Long-term debt, net of current portion	\$ 2,470,011	\$ 2,820,517

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 9—Long-term debt - continued

Two of the notes payable described above include financial covenants. As of December 31, 2018 and 2017, the Village was in compliance with these covenants.

Scheduled principal payments on debt to maturity are as follows for the years ending December 31:

2019	\$	170,694
2020		1,324,047
2021		111,257
2022		920,653
2023		30,379
Thereafter		<u>83,675</u>
Total	\$	<u>2,640,705</u>

Interest expense was \$171,202 and \$122,318 for the years ended December 31, 2018 and 2017, respectively.

Note 10—Capital lease obligation

The Village leases certain equipment under capital lease agreements. Future minimum lease payments for the years ending December 31 under the capital lease agreements are as follows:

2019	\$	30,516
2020		30,516
2021		30,516
2022		<u>18,238</u>
Total minimum lease payments		109,786
Less amounts representing interest		<u>13,714</u>
Present value of minimum lease payments		96,072
Less current principal portion		<u>23,153</u>
Long-term principal obligation	\$	<u><u>72,919</u></u>

The cost and accumulated amortization of assets under capital leases are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Equipment and transportation equipment	\$ 115,776	\$ 115,776
Less accumulated amortization	<u>35,046</u>	<u>11,890</u>
	<u>\$ 80,730</u>	<u>\$ 103,886</u>

Depreciation expense under the capital leases for the year ending December 31, 2018 and 2017 were \$23,156 and \$11,890, respectively.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 11—Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31:

Purpose and time	<u>2018</u>	<u>2017</u>
Resident travel – split-interest agreements	\$ 1,567,975	\$ 1,631,058
Purchase of property and equipment	60,395	80,428
Future periods' activities	<u>397,453</u>	<u>486,339</u>
Total purpose and time	2,025,823	2,197,825
 Perpetual in nature		
Donor-restricted endowment funds	3,949,614	3,949,614
Split-interest agreements	<u>4,255,325</u>	<u>4,503,300</u>
Total perpetual in nature	<u>8,204,939</u>	<u>8,452,914</u>
Total	<u>\$ 10,230,762</u>	<u>\$ 10,650,739</u>

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the donor's restricted purposes in the amounts of \$418,552 and \$181,890, respectively.

Net assets that are perpetually restricted in nature consist of endowment fund assets and split-interest agreements to be held indefinitely (see Note 18). The income from the assets can be used to support the Organization's general activities.

Note 12—Operating leases

The Village has operating leases for certain office facilities, equipment, and vehicles with monthly payments ranging from \$88 to \$6,800 and terms expiring in September 2019 through September 2026. Total rent expense was approximately \$216,000 for the years ended December 31, 2018 and 2017.

Future minimum rental commitments for the years ending December 31 are as follows:

2019	\$ 224,900
2020	84,800
2021	9,000
2022	9,000
2023	9,000
Thereafter	<u>24,000</u>
Total	<u>\$ 360,700</u>

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 13—Retirement plan

The Village maintains a tax-deferred annuity retirement plan qualified under Section 403(b) of the Internal Revenue Code for qualified employees who meet certain service requirements. The plan covers all employees who have exceeded 1,000 hours of service and who have reached age 21. The Village matches 50 percent of the first 2 percent of the employee's contribution to the plan. Pension expense for the defined contribution 403(b) plan totaled \$54,911 and \$50,124 for the years ended December 31, 2018 and 2017, respectively.

Note 14—Related party transactions

Certain administrative expenses for Echoing Ridge Residential, Inc., an affiliated organization, are paid by the Village. During 2018 and 2017, the Village was reimbursed \$9,221 and \$8,316 for these expenses, respectively. Net accounts payable due to Echoing Ridge Residential, Inc. as of December 31, 2018 was \$14,294, and net accounts receivable due from Echoing Ridge Residential, Inc. was \$12,616 as of December 31, 2017.

Note 15—Community Foundation of Greater Lorain County

The Community Foundation of Greater Lorain County (the Community Foundation) holds funds for the Organization. Contributions to the funds are considered irrevocable gifts to the Community Foundation. The funds are administered by the Community Foundation and are subject to the Community Foundation's governing instruments. The market value of the funds was \$354,126 and \$414,330 as of December 31, 2018 and 2017, respectively. Accordingly, the Organization has not recorded these funds in their consolidated financial statements. Periodically, the Community Foundation makes distributions from the funds, which the Organization records as revenue upon receipt. The Organization received contributions of \$16,521 and \$17,241 from the Community Foundation during 2018 and 2017, respectively.

Note 16—Commitments and contingencies

Three buildings, Echoing Woods, Echoing Valley, and Echoing Meadows, were built primarily with funds from the State of Ohio. In accordance with the related contracts, the Village has agreed to use these facilities to provide services to persons with developmental disabilities for a term of not less than 40 years, expiring through 2024.

As long as the facilities are utilized as described above, the State of Ohio will forgive monthly principal payments required under the terms of the agreements as established. In addition, the agreements do not require the payment of interest. In the event the use of the facilities is changed prior to the expiration of the agreed-upon time periods, the Village would become liable for the unamortized portion of the grants, which totals \$343,527 and \$431,859 as of December 31, 2018 and 2017, respectively.

In 2017, residents were relocated from Echoing Meadows to smaller, ICF and waiver funded, residential units, and operations at Echoing Meadows were discontinued. The property was then sold to an unrelated third-party in 2018. The Department of Developmental Disabilities granted the contingency related to the funds provided for the original purchase of Echoing Meadows, to be transferred to a replacement property in Athens, Ohio with the condition that funds will not require repayment as long as the property is used to provide services to persons with developmental disabilities for the remaining term of the agreement.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 16—Commitments and contingencies - continued

Consistent with its mission, it is the intent of the Village to operate these homes for the required period. Management has assessed the likelihood of potential repayment of these grant funds as remote; accordingly, no liability has been recorded in the accompanying consolidated financial statements.

Note 17—Fair value measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

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

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Organization have 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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the 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 Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 17—Fair value measurements - continued

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

Description	2018			
	Total	Level 1	Level 2	Level 3
Assets				
Bonds – fixed income	\$ 119,098	\$ 0	\$ 119,098	\$ 0
Common stock	229,235	229,235		
Mutual funds	1,406,389	1,406,389		
Exchange traded funds	1,776,577	1,776,577		
Total investments	3,531,299	3,412,201	119,098	0
Split interest agreements	5,823,300			5,823,300
Total assets	<u>\$ 9,354,599</u>	<u>\$ 3,412,201</u>	<u>\$ 119,098</u>	<u>\$ 5,823,300</u>
Liabilities				
Charitable gift annuities	\$ 58,251	\$ 0	\$ 0	\$ 58,251
Total liabilities	<u>\$ 58,251</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 58,251</u>
2017				
Description	Total	Level 1	Level 2	Level 3
Assets				
Bonds – fixed income	\$ 60,101	\$ 0	\$ 60,101	\$ 0
Common stock	257,252	257,252		
Mutual funds	1,626,326	1,626,326		
Exchange traded funds	2,114,968	2,114,968		
Total investments	4,058,647	3,998,546	60,101	0
Split interest agreements	6,134,350			6,134,350
Total assets	<u>\$ 10,192,997</u>	<u>\$ 3,998,546</u>	<u>\$ 60,101</u>	<u>\$ 6,134,350</u>
Liabilities				
Charitable gift annuities	\$ 42,548	\$ 0	\$ 0	\$ 42,548
Total liabilities	<u>\$ 42,548</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,548</u>

The fair value of fixed-income bonds at December 31, 2018 and 2017 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing prices, discounted cash flow models, and other pricing models.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 17–Fair value measurements - continued

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2018 and 2017 are as follows:

	<u>Charitable gift annuities</u>	<u>Split-interest agreement</u>
Balance at January 1, 2018	\$ 42,548	\$ 6,134,350
Net additions, sales and maturities/change in value of split interest agreements	<u>15,703</u>	<u>(311,050)</u>
Balance at December 31, 2018	<u>\$ 58,251</u>	<u>\$ 5,823,300</u>
	<u>Charitable gift annuities</u>	<u>Split-interest agreement</u>
Balance at January 1, 2017	\$ 50,060	\$ 5,487,075
Net additions, sales and maturities/change in split interest agreements	<u>(7,512)</u>	<u>647,275</u>
Balance at December 31, 2017	<u>\$ 42,548</u>	<u>\$ 6,134,350</u>

The Organization has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. For the value of the charitable gift annuity payable, the Organization estimates the fair value of these annuities based upon the present value of the expected future cash flows using management's best estimates of key assumptions including life expectancies of annuitants, payment periods, and a discount rate commensurate with the current market and other risks involved.

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

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2018 and 2017.

Note 18–Donor-restricted endowments

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 18—Donor-restricted endowments - continued

Interpretation of Relevant Law

The board of directors of the Foundation 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 Foundation 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.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment net asset composition by type of fund as of December 31 are as follows:

	2018	2017
Donor-restricted endowment funds	\$ 3,949,614	\$ 3,949,614
Split-interest agreements	4,255,325	4,503,300
Total	\$ 8,204,939	\$ 8,452,914

Changes in endowment net asset for the fiscal year ended December 31 are as follows:

	2018	2017
Endowment net assets – Beginning of year	\$ 8,452,914	\$ 7,987,564
Change in value of split-interest agreements	(247,975)	464,850
Contributions	0	500
Endowment net assets – End of year	\$ 8,204,939	\$ 8,452,914

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 Foundation to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2018 and 2017.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 18—Donor-restricted endowments - continued

Return Objectives and Risk Parameters

The Foundation 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 Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation 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 Foundation has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to continue to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 19—Risks and uncertainties

The Organization 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 consolidated statement of financial position.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

Note 20—Liquidity and availability of financial assets

The Organizations financial assets available within one year of the statement of financial position date for general expenditures are as follows at December 31, 2018:

Total assets at year-end per consolidated statement of financial position	\$ 24,112,122
Less:	
Resident funds	713,485
Prepaid expenses and other current assets	407,671
Investments held by the Foundation	3,531,299
Property and equipment – net	9,149,288
Deposits	9,608
Cash surrender value of life insurance policy	364,319
Unconditional promises to give (split interest agreements)	5,823,300
Donation with donor restrictions for purpose included in cash	60,398
Donation with donor restrictions for future period activities included in cash	<u>397,453</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,655,301</u>

The Organization has \$3,655,301 available to meet cash needs for general expenditures within one year. The Organization has a goal to maintain financial assets, to meet approximately 60 days of normal operating expenses, which are on average approximately \$4,497,000. Excluded from financial assets available to meet cash needs for general expenditures within one year are endowment funds and split interest agreements which have donor restrictions in perpetuity of \$8,204,939; assets with donor restrictions for resident travel, property and equipment or future activities of \$457,851; property and equipment of \$9,149,288, Funds held on behalf of residents in agency arrangement \$713,485; and other assets of \$1,787,757. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To manage liquidity, the Organization has two lines of credit (as described in Note 8) available. A line of credit of \$1,000,000 is available to utilize for operational cash needs and a second line of \$300,000 is available for the purchase needs of equipment and vehicles. At December 31, 2018 these lines of credit had balances outstanding of \$371,120 and \$0, respectively.

SUPPLEMENTARY INFORMATION

**ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
December 31, 2018**

ASSETS	Echoing Hills Village	Echoing Hills Village Foundation	Eliminating Entries	Total
Current assets				
Cash and cash equivalents	\$ 1,329,107	\$ 195,995	\$ 0	\$ 1,525,102
Accounts receivable	2,574,251	9,515		2,583,766
Unconditional promises to give	4,284			4,284
Resident funds	713,485			713,485
Prepaid expenses and other current assets	404,375	3,296		407,671
Total current assets	5,025,502	208,806	0	5,234,308
Investments		3,531,299		3,531,299
Property and equipment - net	9,149,288	0	0	9,149,288
Interest in net assets of charitable foundation	8,182,025	0	(8,182,025)	0
Other assets				
Deposits	9,560	48		9,608
Cash surrender value life insurance	143,501	220,818		364,319
Unconditional promises to give - net of current portion	1,567,975	4,255,325		5,823,300
Total other assets	1,721,036	4,476,191	0	6,197,227
Total assets	<u>\$ 24,077,851</u>	<u>\$ 8,216,296</u>	<u>\$ (8,182,025)</u>	<u>\$ 24,112,122</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,204,944	\$ 10,681	\$ 0	\$ 1,215,625
Resident funds payable	713,485			713,485
Line of credit	371,120			371,120
Current portion of long-term debt	170,694			170,694
Current portion of capital lease obligation	23,153			23,153
Current portion of charitable gift annuity payable	6,846	5,893		12,739
Accrued payroll and related	1,725,966			1,725,966
Total current liabilities	4,216,208	16,574	0	4,232,782
Long-term liabilities -net of current				
Long-term debt - net of current portion	2,470,011	0	0	2,470,011
Charitable gift annuity payable - net of current portion	27,815	17,697	0	45,512
Capital lease obligation - net of current portion	72,919	0	0	72,919
Total long-term liabilities -net of current	2,570,745	17,697	0	2,588,442
Total liabilities	6,786,953	34,271	0	6,821,224
Net assets				
Without donor restrictions	7,060,136	(97,813)	97,813	7,060,136
With donor restrictions				
Purpose and time restricted	2,025,823	74,899	(74,899)	2,025,823
Perpetual in nature	8,204,939	8,204,939	(8,204,939)	8,204,939
Total with donor restrictions	10,230,762	8,279,838	(8,279,838)	10,230,762
Total net assets	17,290,898	8,182,025	(8,182,025)	17,290,898
Total liabilities and net assets	<u>\$ 24,077,851</u>	<u>\$ 8,216,296</u>	<u>\$ (8,182,025)</u>	<u>\$ 24,112,122</u>

**ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
December 31, 2017**

ASSETS	Echoing Hills Village	Echoing Hills Village Foundation	Eliminating Entries	Total
Current assets				
Cash and cash equivalents	\$ 926,966	\$ 210,032	\$ 0	\$ 1,136,998
Accounts receivable	2,721,362	15,199		2,736,561
Unconditional promises to give	9,566			9,566
Resident funds	591,183			591,183
Prepaid expenses and other current assets	316,068	1,132		317,200
Total current assets	4,565,145	226,363	0	4,791,508
Investments		4,058,647		4,058,647
Property and equipment - net	9,683,492	0	0	9,683,492
Interest in net assets of charitable foundation	8,936,113	0	(8,936,113)	0
Assets held for sale - net	120,141	0	0	120,141
Other assets				
Deposits	9,560	48		9,608
Cash surrender value life insurance	143,501	190,963		334,464
Unconditional promises to give - net of current portior	1,631,050	4,503,300		6,134,350
Total other assets	1,784,111	4,694,311	0	6,478,422
Total assets	<u>\$ 25,089,002</u>	<u>\$ 8,979,321</u>	<u>\$ (8,936,113)</u>	<u>\$ 25,132,210</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,302,628	\$ 13,439	\$ 0	\$ 1,316,067
Resident funds payable	591,183			591,183
Line of credit	563,500			563,500
Current portion of long-term	232,572			232,572
Current portion of capital lease obligation	19,508			19,508
Current portion of charitable gift annuity payable	4,432	6,179		10,611
Accrued payroll and related	2,030,181			2,030,181
Total current liabilities	4,744,004	19,618	0	4,763,622
Long-term liabilities -net of current				
Long-term debt - net of current portion	2,820,517	0	0	2,820,517
Charitable gift annuity payable - net of current portion	8,347	23,590	0	31,937
Capital lease obligation - net of current portior	89,927	0	0	89,927
Total long-term liabilities -net of current	2,918,791	23,590	0	2,942,381
Total liabilities	7,662,795	43,208	0	7,706,003
Net assets				
Without donor restrictions	6,775,468	408,300	(408,300)	6,775,468
With donor restrictions				
Purpose and time restricted	2,197,825	74,899	(74,899)	2,197,825
Perpetual in nature	8,452,914	8,452,914	(8,452,914)	8,452,914
Total with donor restrictions	10,650,739	8,527,813	(8,527,813)	10,650,739
Total net assets	17,426,207	8,936,113	(8,936,113)	17,426,207
Total liabilities and net assets	<u>\$ 25,089,002</u>	<u>\$ 8,979,321</u>	<u>\$ (8,936,113)</u>	<u>\$ 25,132,210</u>

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2018

	<u>Echoing Hills Village</u>			<u>Echoing Hills Village Foundation</u>		<u>Echoing Hills</u>	<u>Eliminating</u>	<u>Totals</u>
	<u>Without Donor</u>	<u>With Donor</u>	<u>Echoing Hills</u>	<u>Without Donor</u>	<u>With Donor</u>	<u>Village</u>		
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Village Total</u>	<u>Restrictions</u>	<u>Restrictions</u>	<u>Foundation Total</u>	<u>Entries</u>	
Operating revenues								
Net service revenue	\$ 27,412,259	\$ 0	\$ 27,412,259	\$ 0	\$ 0	\$ 0	\$ 0	\$ 27,412,259
Net realized and unrealized losses on investments			0	(371,048)		(371,048)		(371,048)
Other operating revenue	208,864		208,864			0		208,864
Net assets released from restrictions	418,552	(418,552)	0			0		0
Total operating revenues	<u>28,039,675</u>	<u>(418,552)</u>	<u>27,621,123</u>	<u>(371,048)</u>	<u>0</u>	<u>(371,048)</u>	<u>0</u>	<u>27,250,075</u>
Operating expenses								
Program expenses	25,917,019		25,917,019	261,766		261,766	(212,000)	25,966,785
General and administrative expenses	2,411,979		2,411,979	2,963		2,963		2,414,942
Fundraising expenses	178,400		178,400			0		178,400
Total operating expenses	<u>28,507,398</u>	<u>0</u>	<u>28,507,398</u>	<u>264,729</u>	<u>0</u>	<u>264,729</u>	<u>(212,000)</u>	<u>28,560,127</u>
Operating income (loss)	<u>(467,723)</u>	<u>(418,552)</u>	<u>(886,275)</u>	<u>(635,777)</u>	<u>0</u>	<u>(635,777)</u>	<u>212,000</u>	<u>(1,310,052)</u>
Other income								
Interest and dividend income	285		285	123,068		123,068		123,353
Contributions	432,195	309,625	741,820	6,596		6,596	(212,000)	536,416
Other income	152,319		152,319			0		152,319
Gain on sale of property and equipment	673,705		673,705			0		673,705
Change in value of split-interest agreements		(63,075)	(63,075)		(247,975)	(247,975)		(311,050)
Change in interest in supporting foundation	(506,113)	(247,975)	(754,088)			0	754,088	0
Total other income	<u>752,391</u>	<u>(1,425)</u>	<u>750,966</u>	<u>129,664</u>	<u>(247,975)</u>	<u>(118,311)</u>	<u>542,088</u>	<u>1,174,743</u>
Change in net assets	<u>284,668</u>	<u>(419,977)</u>	<u>(135,309)</u>	<u>(506,113)</u>	<u>(247,975)</u>	<u>(754,088)</u>	<u>754,088</u>	<u>(135,309)</u>
Net assets - beginning of year	<u>6,775,468</u>	<u>10,650,739</u>	<u>17,426,207</u>	<u>408,300</u>	<u>8,527,813</u>	<u>8,936,113</u>	<u>(8,936,113)</u>	<u>17,426,207</u>
Net assets - end of year	<u>\$ 7,060,136</u>	<u>\$ 10,230,762</u>	<u>\$ 17,290,898</u>	<u>\$ (97,813)</u>	<u>\$ 8,279,838</u>	<u>\$ 8,182,025</u>	<u>\$ (8,182,025)</u>	<u>\$ 17,290,898</u>

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2017

	<u>Echoing Hills Village</u>		<u>Echoing Hills Village Total</u>	<u>Echoing Hills Village Foundation</u>		<u>Echoing Hills Village Foundation Total</u>	<u>Eliminating Entries</u>	<u>Totals</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>			
Operating revenues								
Net service revenue	\$ 26,354,628	\$ 0	\$ 26,354,628	\$ 0	\$ 0	\$ 0	\$ 0	\$ 26,354,628
Net realized and unrealized gains on investments			0	429,579		429,579		429,579
Other operating revenue	188,609		188,609			0		188,609
Net assets released from restrictions	181,890	(181,890)	0			0		0
Total operating revenues	<u>26,725,127</u>	<u>(181,890)</u>	<u>26,543,237</u>	<u>429,579</u>	<u>0</u>	<u>429,579</u>	<u>0</u>	<u>26,972,816</u>
Operating expenses								
Program expenses	25,736,811		25,736,811	316,916		316,916	(266,000)	25,787,727
General and administrative expenses	2,088,733		2,088,733	2,989		2,989		2,091,722
Fundraising expenses	226,468		226,468			0		226,468
Total operating expenses	<u>28,052,012</u>	<u>0</u>	<u>28,052,012</u>	<u>319,905</u>	<u>0</u>	<u>319,905</u>	<u>(266,000)</u>	<u>28,105,917</u>
Operating income (loss)	(1,326,885)	(181,890)	(1,508,775)	109,674	0	109,674	266,000	(1,133,101)
Other income								
Interest and dividend income	344		344	98,834		98,834		99,178
Contributions	341,292	286,945	628,237	3,392	500	3,892	(266,000)	366,129
Other income	127,542		127,542			0		127,542
Loss on sale of property and equipment	(9,446)		(9,446)			0		(9,446)
Change in value of split-interest agreements		182,425	182,425		464,850	464,850		647,275
Change in interest in supporting foundation	211,900	465,350	677,250			0	(677,250)	0
Total other income	<u>671,632</u>	<u>934,720</u>	<u>1,606,352</u>	<u>102,226</u>	<u>465,350</u>	<u>567,576</u>	<u>(943,250)</u>	<u>1,230,678</u>
Change in net assets	(655,253)	752,830	97,577	211,900	465,350	677,250	(677,250)	97,577
Net assets - beginning of year	<u>7,430,721</u>	<u>9,897,909</u>	<u>17,328,630</u>	<u>196,400</u>	<u>8,062,463</u>	<u>8,258,863</u>	<u>(8,258,863)</u>	<u>17,328,630</u>
Net assets - end of year	<u>\$ 6,775,468</u>	<u>\$ 10,650,739</u>	<u>\$ 17,426,207</u>	<u>\$ 408,300</u>	<u>\$ 8,527,813</u>	<u>\$ 8,936,113</u>	<u>\$ (8,936,113)</u>	<u>\$ 17,426,207</u>