

**ECHOING HILLS VILLAGE, INC.
AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019 AND 2018**



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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. (Affiliate) (collectively the Organization), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities and changes in net assets, statements of functional expenses and cash flows for the years 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.

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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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2018-08, *Not-for-profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to this matter.

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
May 26, 2020

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,559,124	\$ 1,464,707
Cash restricted as to use	380,632	60,395
Accounts receivable	2,442,928	2,583,766
Accounts receivable - insurance claim	424,472	0
Unconditional promises to give	17,295	4,284
Resident funds	963,248	713,485
Prepaid expenses and other current assets	393,062	407,671
Total current assets	6,180,761	5,234,308
Investments	4,024,438	3,531,299
Property and equipment - net	9,621,594	9,149,288
Other Assets		
Deposits	9,608	9,608
Cash surrender value life insurance	386,282	364,319
Unconditional promises to give - net of current portion	6,800,200	5,823,300
Total other assets	7,196,090	6,197,227
Total assets	\$ 27,022,883	\$ 24,112,122
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,720,754	\$ 1,215,625
Resident funds payable	963,248	713,485
Lines of credit	0	371,120
Current portion of long-term debt	945,452	170,694
Current portion of capital lease obligation	25,868	23,153
Current portion of charitable gift annuity payable	11,000	12,739
Accrued payroll and related	2,093,787	1,725,966
Total current liabilities	5,760,109	4,232,782
Long-term liabilities -net of current		
Long term debt - net of current portion	1,523,423	2,470,011
Charitable gift annuity payable - net of current portion	31,269	45,512
Capital lease obligation - net of current portion	47,051	72,919
Total long-term liabilities -net of current	1,601,743	2,588,442
Total liabilities	7,361,852	6,821,224
Net assets		
Without donor restrictions	8,212,472	7,060,136
With donor restrictions		
Purpose and time restricted	2,487,520	2,025,823
Perpetual in nature	8,961,039	8,204,939
Total with donor restrictions	11,448,559	10,230,762
Total net assets	19,661,031	17,290,898
Total liabilities and net assets	\$ 27,022,883	\$ 24,112,122

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, 2019 and 2018

	Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Net service revenue	\$ 28,700,905	\$ 0	\$ 28,700,905
Net realized and unrealized gains (losses) on investments	528,952		528,952
Other operating revenue	95,937		95,937
Net assets released from restrictions	504,806	(504,806)	0
Total operating revenues	<u>29,830,600</u>	<u>(504,806)</u>	<u>29,325,794</u>
Operating expenses			
Program expenses	27,540,438		27,540,438
General and administrative expenses	2,158,992		2,158,992
Fundraising expenses	82,569		82,569
Total operating expenses	<u>29,781,999</u>	<u>0</u>	<u>29,781,999</u>
Operating gain (loss)	48,601	(504,806)	(456,205)
Other income			
Investment income - net	109,234		109,234
Contributions	83,207	745,703	828,910
Other income	402,994		402,994
Gain (loss) on sale of property and equipment	(8,160)		(8,160)
Gain on involuntary conversion	516,460		516,460
Change in value of split-interest agreements		976,900	976,900
Total other income	<u>1,103,735</u>	<u>1,722,603</u>	<u>2,826,338</u>
Change in net assets	1,152,336	1,217,797	2,370,133
Net assets - beginning of year	<u>7,060,136</u>	<u>10,230,762</u>	<u>17,290,898</u>
Net assets - end of year	<u>\$ 8,212,472</u>	<u>\$ 11,448,559</u>	<u>\$ 19,661,031</u>

Year Ended December 31, 2018

Without Donor Restrictions	With Donor Restrictions	Total
\$ 27,412,259	\$ 0	\$ 27,412,259
(371,048)		(371,048)
208,864		208,864
418,552	(418,552)	0
<u>27,668,627</u>	<u>(418,552)</u>	<u>27,250,075</u>
25,966,785		25,966,785
2,414,942		2,414,942
178,400		178,400
<u>28,560,127</u>	<u>0</u>	<u>28,560,127</u>
(891,500)	(418,552)	(1,310,052)
123,353		123,353
226,791	309,625	536,416
152,319		152,319
673,705		673,705
		0
	(311,050)	(311,050)
<u>1,176,168</u>	<u>(1,425)</u>	<u>1,174,743</u>
284,668	(419,977)	(135,309)
6,775,468	10,650,739	17,426,207
<u>\$ 7,060,136</u>	<u>\$ 10,230,762</u>	<u>\$ 17,290,898</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, 2019

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 13,987,968	\$ 1,080,798	\$ 54,276	\$ 15,123,042
Payroll taxes	1,508,851	89,776	5,737	1,604,364
Employee benefits	2,650,951	189,608	441	2,841,000
Total salaries and related expenses	18,147,770	1,360,182	60,454	19,568,406
Contracted adult day program	914,242			914,242
Advertising and promotion	7,178	22,441		29,619
Dietary cost	627,575			627,575
Professional fund raising			5,687	5,687
Government mandated fees	1,545,789		2,740	1,548,529
Insurance	130,337	71,336	172	201,845
Information technology	156,724	159,936	4,630	321,290
Professional fees	39,751	80,066		119,817
Lease and rent	216,078	3,600		219,678
Maintenance and repair	579,324	33,257		612,581
Medical and habilitation supplies and equipment	446,877			446,877
Contracted medical and therapy services	1,596,754	59,393		1,656,147
Interest	114,535	10,332		124,867
Office expenses	310,086	119,428	8,089	437,603
Other expenses	471,724	21,943		493,667
Staff development, conferences and dues	122,886	67,117	189	190,192
Supplies	283,534	25,633		309,167
Travel	306,847	39,865	566	347,278
Utilities	551,745	10,053		561,798
Total expenses before depreciation and amortization	26,569,756	2,084,582	82,527	28,736,865
Depreciation and amortization	970,682	74,410	42	1,045,134
Total functional expenses	\$ 27,540,438	\$ 2,158,992	\$ 82,569	\$ 29,781,999

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	2,201,007	160,346	1,191	2,362,544
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	609,910	16,078		625,988
Total expenses before depreciation and amortization	25,253,722	2,007,222	178,330	27,439,274
Depreciation and amortization	713,063	407,720	70	1,120,853
Total functional expenses	\$ 25,966,785	\$ 2,414,942	\$ 178,400	\$ 28,560,127

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, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 2,370,133	\$ (135,309)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,045,134	1,120,853
Net realized and unrealized losses (gains) on investments	(528,952)	371,048
Loss (gain) on disposal of property and equipment	8,160	(673,705)
Gain on involuntary conversion	(516,460)	0
Donation in-kind of property and equipment	0	(40,000)
Change in value of split-interest agreements	(976,900)	311,050
Contributions with donor restriction perpetual in nature	(74,975)	0
Contributions with donor restrictions for investment in land, property and equipment	(534,418)	(114,150)
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	140,838	152,795
Accounts receivable - insurance claim	(424,472)	0
Unconditional promises to give	(13,011)	5,282
Prepaid and other assets	14,609	(90,471)
Accounts payable	133,151	(100,442)
Accrued expenses	367,821	(304,215)
Net cash provided by operating activities	1,010,658	502,736
Cash flows from investing activities		
Purchases of property and equipment	(1,195,312)	(608,819)
Proceeds from sale of property and equipment	8,608	856,016
Proceeds from involuntary conversion	549,542	0
Purchase of investments	(132,998)	(146,850)
Proceeds from sale of investments	168,811	303,150
Change in surrender value of life insurance	(21,963)	(29,855)
Net cash provided by (used in) investing activities	(623,312)	373,642
Cash flows from financing activities		
Proceeds from issuance of long-term debt	0	550,000
Net payments on line of credit	(371,120)	(192,380)
Principal payments on long-term debt	(171,830)	(962,384)
Principal payments on capital lease obligations	(23,153)	(13,363)
Contributions with donor restriction perpetual in nature	74,975	0
Contributions with donor restrictions for investment in land, property and equipment	534,418	114,150
Net change in annuity obligations	(15,982)	15,703
Net cash provided by (used in) financing activities	27,308	(488,274)
Net increase in cash and cash equivalents	414,654	388,104
Cash, cash equivalents and cash restricted as to use - beginning of year	1,525,102	1,136,998
Cash, cash equivalents and cash restricted as to use - end of year	\$ 1,939,756	\$ 1,525,102
Supplemental cash flow information		
Cash paid for interest	\$ 128,396	\$ 172,879
Supplemental schedule of noncash financing activities		
Acquisition of property, equipment and construction in progress financed through accounts payable	\$ 371,978	\$ 0

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

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 1–Nature of organization

Echoing Hills Village, Inc. (the Village) is a not-for-profit corporation organized for the purpose of providing support to 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 Organization’s various program and support services are detailed below:

Residential services: The Village operates 16 intermediate-care facilities for individuals with intellectual disabilities (ICF/IID). 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. 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 support 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, 2019 and 2018

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.

Recently adopted accounting pronouncements

In 2019, the Organization adopted the following accounting pronouncements:

Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. To achieve this core principle, an entity should apply the following steps (1) identify the contract(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Organization adopted ASU 2014-09 as of January 1, 2019 using the modified retrospective method. The Organization determined there was no cumulative effect of initially applying ASU 2014-09 and therefore did not recognize an adjustment to the opening balance of net assets at January 1, 2019.

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents. The Organization adopted ASU 2018-08 as of January 1, 2019 using the full retrospective method.

ASU 2018-08, *Not-for-profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. ASU 2018-08 clarifies and improves the current guidance about whether a transfer of assets is a contribution or an exchange transaction. Furthermore, it requires the Organization to determine if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Organization adopted ASU 2018-08 as of January 1, 2019 using the modified retrospective method. The Organization determined there was no cumulative effect of initially applying the above pronouncements and therefore did not recognize an adjustment to the opening balance of net assets at January 1, 2019.

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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 2—Significant accounting policies - continued

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, 2019 and 2018, the Organization held funds at a financial institution in excess of FDIC insurance levels, however, management believes the risk is negligible.

Accounts receivable

Accounts receivable for residents and governmental agencies are recorded at the amount expected to be collected. In evaluating the collectability of accounts receivable, the Organization makes an assessment of all amounts that remain unpaid following normal payment periods. In the opinion of management, adequate provisions have been made for any amounts deemed uncollectable for potential bad debts, billing adjustments and any adjustments that may result from audits and settlements by governmental agencies.

The Village has a significant concentration of its accounts receivable balance due from Medicaid for residential and support services. At December 31, 2019 and 2018, the Medicaid accounts receivable as a percentage of total accounts receivable were 81 and 96 percent, respectively. Included in accounts receivable at December 31, 2019 are amounts receivable for insurance proceeds due to involuntary conversion, see note 14.

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 \$963,248 and \$713,485 at December 31, 2019 and 2018, 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, 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 contributions with donor restrictions.

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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 2—Significant accounting policies - continued

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.

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, 2019 and 2018, the Organization has gift annuity obligations without donor restrictions, of \$42,269 and \$58,251, 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, 2019 and 2018.

The Organization reports net service revenue at the amount the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payers (including government programs) and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews and investigations. Generally, the Organization bills all payers in the week (Waiver) or month (ICF/IDD) subsequent to the services being provided. Revenues are recognized as performance obligations are satisfied.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 2—Significant accounting policies - continued

Service revenue – continued

Performance obligations are determined based on the nature of the services provided by the Organization. The Organization's service revenues primarily represent services that are bundled and treated as a single performance obligation satisfied over time as services are provided. The Organization measures performance obligation on a daily basis as the services are provided from the date of admissions until the date of discharge.

The Organization determines transaction price based on contractually agreed-upon amounts or rates. The Organization utilizes the expected value method to determine the amount of variable consideration that should be included to arrive at the transaction price. The Organization assesses collectability on all accounts prior to providing the service.

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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 2—Significant accounting policies - continued

Service revenue – continued

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.

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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 2—Significant accounting policies - continued

Upcoming accounting pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. 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, 2020 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.

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 report results of operations or net assets.

Subsequent events

The Organization has evaluated all events subsequent to the consolidated statement of financial position date of December 31, 2019, 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 with exception to the below.

Due to the spread of the COVID-19 coronavirus during 2020, economic uncertainties have arisen as of the date of the consolidated financial statements. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on the Organization's clients, employees, and vendors, all of which are uncertain and cannot be predicted. As of the date of this report, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 3—Cash, cash equivalents and cash restricted as to use for statement of cash flows

Cash restricted as to use consists of cash that is donor-restricted for the purpose of purchasing property and equipment. The following table provides a reconciliation of cash, cash equivalents and cash restricted as to use as presented in the statement of cash flows at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,559,124	\$ 1,464,707
Cash restricted as to use; donor-restricted for property and equipment (Note 12)	380,632	60,395
Total	<u>\$ 1,939,756</u>	<u>\$ 1,525,102</u>

Note 4—Unconditional promises to give

The Organization had the following outstanding unconditional promises to give at December 31:

	<u>2019</u>	<u>2018</u>
Less than one year – other conditional promises	\$ 17,295	\$ 4,284
Greater than five years – split-interest agreements	6,800,200	5,823,300
Total	<u>\$ 6,817,495</u>	<u>\$ 5,827,584</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 1.59 percent discount rate (2.51 percent in 2018). 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 2019 and 2018 was a total gain of \$976,900 and a loss of \$311,050, 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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 5—Investments

The Organization held the following investments as of December 31:

	<u>2019</u>	<u>2018</u>
Fixed-income securities	\$ 120,711	\$ 119,098
Equities	3,903,727	3,412,201
Total	<u>\$ 4,024,438</u>	<u>\$ 3,531,299</u>

Note 6—Property and equipment

Property and equipment are summarized as follows at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,130,393	\$ 1,130,393
Land improvements	2,965,109	2,915,909
Buildings and improvements	16,588,619	16,421,162
Equipment	3,989,702	3,876,685
Transportation equipment	3,526,294	3,269,967
Construction in progress	208,737	6,966
Total cost	<u>28,408,854</u>	<u>27,621,082</u>
Accumulated depreciation	<u>(18,787,260)</u>	<u>(18,471,794)</u>
Net carrying amount	<u>\$ 9,621,594</u>	<u>\$ 9,149,288</u>

Depreciation and amortization expense for 2019 and 2018 was \$1,045,134 and \$1,120,853, respectively.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 7–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. The Organization is also the owner of a second life insurance policy with a \$500,000 face value on the life of the founder in which \$250,000 of the proceeds will be paid to the revocable insurance trust of the founder and the remaining benefit, less any indebtedness against the policy, is to be paid to the Village. The cash surrender value on these policies was \$372,832 and \$349,012 as of December 31, 2019 and 2018, 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 four individual life insurance policies at December 31, 2019 and 2018. These policies collectively have a face value of \$192,210 at December 31, 2019 and 2018. The cash surrender value of these policies was \$13,450 and \$15,307 as of December 31, 2019 and 2018, respectively.

Note 8–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 \$2,304,000 and \$2,004,000 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Village had recorded an accrual for health insurance for \$220,420 and \$122,519, respectively, within accrued payroll and related.

Note 9–Lines of credit

The Village has available 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 4.48% and 3.78% as of December 31, 2019 and 2018, respectively). The outstanding balance on this line was \$0 and \$371,120 as of December 31, 2019 and 2018, respectively. The line of credit matures on July 12, 2020.

The Village also has available a \$300,000 line of credit 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 4.48% and 3.78% as of December 31, 2019 and 2018, respectively). The outstanding balance on this line was \$0 as of December 31, 2019 and 2018. The line of credit matures on July 11, 2020.

These lines of credit include financial covenants. As of December 31, 2019 and 2018, the Village was in compliance with these covenants.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 10—Long-term debt

Long-term debt at December 31 is as follows:

	2019	2018
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.	\$ 809,085	\$ 845,390
Mortgage note due in monthly principal and interest installments of \$4,044 at 3.85%, with remaining principal was due March 2020. The note is secured by the real estate purchased with the mortgage note proceeds. In May 2020, the note was converted into a new Mortgage note due May 2030 with monthly principal and interest installments of \$3,903 at 3.37%. The note is secured by the real estate.	406,667	441,232
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.	198,619	224,539
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.	456,824	473,974
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.	461,647	478,601
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.	136,033	176,969
Total	2,468,875	2,640,705
Less current portion of long-term debt	945,452	170,694
Long-term debt, net of current portion	\$ 1,523,423	\$ 2,470,011

Two of the notes payable described above include financial covenants. As of December 31, 2019 and 2018, the Village was in compliance with these covenants.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 10—Long-term debt - continued

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

2020	\$	945,452
2021		145,766
2022		957,002
2023		67,325
2024		69,773
Thereafter		283,557
Total	\$	<u>2,468,875</u>

Interest expense was \$124,867 and \$171,202 for the years ended December 31, 2019 and 2018, respectively.

Note 11—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:

2020	\$	30,515
2021		30,515
2022		18,241
Total minimum lease payments		<u>79,271</u>
Less amounts representing interest		<u>6,352</u>
Present value of minimum lease payments		72,919
Less current principal portion		<u>25,868</u>
Long-term principal obligation	\$	<u><u>47,051</u></u>

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

	<u>2019</u>	<u>2018</u>
Equipment and transportation equipment	\$ 115,776	\$ 115,776
Less accumulated amortization	<u>58,202</u>	<u>35,046</u>
	<u>\$ 57,574</u>	<u>\$ 80,730</u>

Depreciation expense under the capital leases was \$23,156 for the years ending December 31, 2019 and 2018.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 12—Net assets with donor restrictions

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

	2019	2018
Purpose and time		
Resident travel – split-interest agreements	\$ 1,863,750	\$ 1,567,975
Purchase of property and equipment	380,632	60,395
Future periods' activities	243,138	397,453
Total purpose and time	2,487,520	2,025,823
 Perpetual in nature		
Donor-restricted endowment funds	4,024,589	3,949,614
Split-interest agreements	4,936,450	4,255,325
Total perpetual in nature	8,961,039	8,204,939
Total	\$ 11,448,559	\$ 10,230,762

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the donor's restricted purposes in the amounts of \$504,806 and \$418,552, respectively.

Net assets that are perpetually restricted in nature consist of endowment fund assets and split-interest agreements to be held indefinitely (see Note 19). The income from the assets can be used to support the Organization's general activities.

Note 13—Operating leases

The Village has operating leases for certain office facilities, equipment, and vehicles with monthly payments ranging from \$300 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, 2019 and 2018.

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

2020	\$	211,750
2021		126,600
2022		119,600
2023		36,200
2024		9,000
Thereafter		15,000
Total	\$	518,150

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 14—Involuntary conversion

On May 27, 2019, the Echoing Woods Residential Center, an ICF/IID facility in the Dayton, Ohio area, was partially destroyed by a tornado. In addition, Echoing U, a day activity program operated in a leased building, sustained limited damage to vehicles and equipment owned by the Village as a result of the tornado. The net gain recognized on the involuntary conversion was \$516,450 and is presented on the statement of activities and changes in net assets.

Property and equipment, including buildings and transportation equipment, were disposed of as a result of the damage. The cost of the property and equipment disposed amounted to \$573,230, with accumulated depreciation of \$540,148. The Organization filed insurance claims to recover damages from property and equipment. Proceeds received for damaged property and equipment and site mitigation totaled \$549,542. The Organization also filed insurance claims to recover other damages, including lost revenues, other maintenance and repairs, and excess payroll costs. These claims totaled \$432,872 and are recorded as an offset to related expenses on the consolidated statement of activities and changes in net assets and the consolidated statement of functional expenses. At December 31, 2019 the Organization had amounts due from the insurance claims of \$424,472. Management deems these amounts fully collectable. At December 31, 2019 the Organization had amounts payable to the contractor for building repairs of \$371,978, which is included in accounts payable on the consolidated statement of financial position.

Note 15—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 \$58,022 and \$54,911 for the years ended December 31, 2019 and 2018, respectively.

Note 16—Related party transactions

Certain administrative expenses for Echoing Ridge Residential, Inc., an affiliated organization, are paid by the Village. During 2019 and 2018, the Village was reimbursed \$9,118 and \$9,221 for these expenses, respectively. Net accounts receivable due from Echoing Ridge Residential, Inc. as of December 31, 2019 was \$7,040 and net accounts payable due from Echoing Ridge Residential, Inc. was \$14,294 as of December 31, 2018.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 17–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 \$412,035 and \$354,126 as of December 31, 2019 and 2018, 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 \$17,468 and \$16,521 from the Community Foundation during 2019 and 2018, respectively.

Note 18–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 \$220,345 and \$343,527 as of December 31, 2019 and 2018, 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.

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 19–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, 2019 and 2018 and the valuation techniques used by the Organization to determine those fair values.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 19–Fair value measurements - continued

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.

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

Description	2019			
	Total	Level 1	Level 2	Level 3
Assets				
Bonds – fixed income	\$ 120,711	\$ 0	\$ 120,711	\$ 0
Common stock	207,825	207,825		
Mutual funds	1,594,504	1,594,504		
Exchange traded funds	2,101,398	2,101,398		
Total investments	4,024,438	3,903,727	120,711	0
Split interest agreements	6,800,200			6,800,200
Total assets	<u>\$ 10,824,638</u>	<u>\$ 3,903,727</u>	<u>\$ 120,711</u>	<u>\$ 6,800,200</u>
Liabilities				
Charitable gift annuities	\$ 42,269	\$ 0	\$ 0	\$ 42,269
Total liabilities	<u>\$ 42,269</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 42,269</u>

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 19–Fair value measurements - continued

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>

The fair value of fixed-income bonds at December 31, 2019 and 2018 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.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2019 and 2018 are as follows:

	Charitable gift annuities	Split-interest agreement
Balance at January 1, 2019	\$ 58,251	\$ 5,823,300
Net additions, sales and maturities/change in value of split interest agreements	(15,982)	976,900
Balance at December 31, 2019	<u>\$ 42,269</u>	<u>\$ 6,800,200</u>
	Charitable gift annuities	Split-interest agreement
Balance at January 1, 2018	\$ 42,548	\$ 6,134,350
Net additions, sales and maturities/change in value of split interest agreements	15,703	(311,050)
Balance at December 31, 2018	<u>\$ 58,251</u>	<u>\$ 5,823,300</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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 19–Fair value measurements - continued

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 2019 and 2018.

Note 20–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.

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

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 20—Donor-restricted endowments - continued

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

	<u>2019</u>	<u>2018</u>
Endowment net assets – Beginning of year	\$ 8,204,939	\$ 8,452,914
Change in value of split-interest agreements	681,125	(247,975)
Contributions	74,975	0
Endowment net assets – End of year	<u>\$ 8,961,039</u>	<u>\$ 8,204,939</u>

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, 2019 and 2018.

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.

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
December 31, 2019 and 2018

Note 21–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.

Note 22–Liquidity and availability of financial assets

The Organization’s financial assets available within one year of the statement of financial position date for general expenditures are as follows at December 31, 2019:

Total assets at year-end per consolidated statement of financial position	\$ 27,022,883
Less:	
Resident funds	963,248
Prepaid expenses and other current assets	393,062
Investments held by the Foundation	4,024,438
Property and equipment – net	9,621,594
Deposits	9,608
Cash surrender value of life insurance policy	386,282
Unconditional promises to give (split interest agreements)	6,800,200
Donation with donor restrictions for purpose included in cash restricted as to use	380,632
Donation with donor restrictions for future period activities included in cash	<u>243,138</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,200,681</u>

The Organization has \$4,200,681 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 \$4,789,000. Excluded from financial assets available to meet cash needs for general expenditures within one year are Investments held by the Foundation of \$4,024,438, which includes donor-restricted endowment funds, split interest agreements which have donor restrictions in perpetuity of \$6,800,200, assets with donor restrictions for resident travel, property and equipment or future activities of \$623,770, property and equipment of \$9,621,594, funds held on behalf of residents in agency arrangement \$963,248, and other assets of \$788,952. 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 9) 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, 2019 and 2018, these lines of credit had total balances outstanding of \$0 and \$371,120, respectively.

SUPPLEMENTARY INFORMATION

ECHOING HILLS VILLAGE, INC. AND AFFILIATE
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
December 31, 2019

	<u>Echoing Hills Village</u>	<u>Echoing Hills Village Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,439,977	\$ 119,147	\$ 0	\$ 1,559,124
Cash restricted as to use	380,632			380,632
Accounts receivable	2,433,522	9,406		2,442,928
Accounts receivable - insurance claim	424,472			424,472
Unconditional promises to give	17,295			17,295
Resident funds	963,248			963,248
Prepaid expenses and other current assets	391,210	1,852		393,062
Total current assets	<u>6,050,356</u>	<u>130,405</u>	<u>0</u>	<u>6,180,761</u>
Investments		4,024,438		4,024,438
Property and equipment - net	9,621,594			9,621,594
Interest in net assets of charitable foundation	9,320,353		(9,320,353)	0
Other assets				
Deposits	9,560	48		9,608
Cash surrender value life insurance	139,478	246,804		386,282
Unconditional promises to give - net of current portion	1,863,750	4,936,450		6,800,200
Total other assets	<u>2,012,788</u>	<u>5,183,302</u>	<u>0</u>	<u>7,196,090</u>
Total assets	<u>\$ 27,005,091</u>	<u>\$ 9,338,145</u>	<u>\$ (9,320,353)</u>	<u>\$ 27,022,883</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,720,659	\$ 95	\$ 0	\$ 1,720,754
Resident funds payable	963,248			963,248
Lines of credit				0
Current portion of long-term debt	945,452			945,452
Current portion of capital lease obligation	25,868			25,868
Current portion of charitable gift annuity payable	4,704	6,296		11,000
Accrued payroll and related	2,093,787			2,093,787
Total current liabilities	<u>5,753,718</u>	<u>6,391</u>	<u>0</u>	<u>5,760,109</u>
Long-term liabilities -net of current				
Long-term debt - net of current portion	1,523,423			1,523,423
Charitable gift annuity payable - net of current portion	19,868	11,401		31,269
Capital lease obligation - net of current portion	47,051			47,051
Total long-term liabilities -net of current	<u>1,590,342</u>	<u>11,401</u>	<u>0</u>	<u>1,601,743</u>
Total liabilities	<u>7,344,060</u>	<u>17,792</u>	<u>0</u>	<u>7,361,852</u>
Net assets				
Without donor restrictions	8,212,472	284,415	(284,415)	8,212,472
With donor restrictions				
Purpose and time restricted	2,487,520	74,899	(74,899)	2,487,520
Perpetual in nature	8,961,039	8,961,039	(8,961,039)	8,961,039
Total with donor restrictions	<u>11,448,559</u>	<u>9,035,938</u>	<u>(9,035,938)</u>	<u>11,448,559</u>
Total net assets	<u>19,661,031</u>	<u>9,320,353</u>	<u>(9,320,353)</u>	<u>19,661,031</u>
Total liabilities and net assets	<u>\$ 27,005,091</u>	<u>\$ 9,338,145</u>	<u>\$ (9,320,353)</u>	<u>\$ 27,022,883</u>

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

	<u>Echoing Hills Village</u>	<u>Echoing Hills Village Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,268,712	\$ 195,995	\$ 0	\$ 1,464,707
Cash restricted as to use	60,395			60,395
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			9,149,288
Interest in net assets of charitable foundation	8,182,025		(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
Lines 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			2,470,011
Charitable gift annuity payable - net of current portion	27,815	17,697		45,512
Capital lease obligation - net of current portion	72,919			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 ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2019

	<u>Echoing Hills Village</u>			<u>Echoing Hills Village Foundation</u>		<u>Echoing Hills Village</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>Entries</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Village Total</u>	<u>Restrictions</u>	<u>Restrictions</u>	<u>Foundation Total</u>		
Operating revenues								
Net service revenue	\$ 28,700,905	\$ 0	\$ 28,700,905	\$ 0	\$ 0	\$ 0	\$ 0	\$ 28,700,905
Net realized and unrealized gains on investments			0	528,952		528,952		528,952
Other operating revenue	95,937		95,937			0		95,937
Net assets released from restrictions	504,806	(504,806)	0			0		0
Total operating revenues	<u>29,301,648</u>	<u>(504,806)</u>	<u>28,796,842</u>	<u>528,952</u>	<u>0</u>	<u>528,952</u>	<u>0</u>	<u>29,325,794</u>
Operating expenses								
Program expenses	27,490,625		27,490,625	256,413		256,413	(206,600)	27,540,438
General and administrative expenses	2,155,930		2,155,930	3,062		3,062		2,158,992
Fundraising expenses	82,569		82,569			0		82,569
Total operating expenses	<u>29,729,124</u>	<u>0</u>	<u>29,729,124</u>	<u>259,475</u>	<u>0</u>	<u>259,475</u>	<u>(206,600)</u>	<u>29,781,999</u>
Operating income (loss)	(427,476)	(504,806)	(932,282)	269,477	0	269,477	206,600	(456,205)
Other income								
Investment income - net	29		29	109,205		109,205		109,234
Contributions	286,261	670,728	956,989	3,546	74,975	78,521	(206,600)	828,910
Other income	402,994		402,994			0		402,994
Loss on sale of property and equipment	(8,160)		(8,160)			0		(8,160)
Gain on involuntary conversion	516,460		516,460			0		516,460
Change in value of split-interest agreements		295,775	295,775		681,125	681,125		976,900
Change in interest in supporting foundation	382,228	756,100	1,138,328			0	(1,138,328)	0
Total other income	<u>1,579,812</u>	<u>1,722,603</u>	<u>3,302,415</u>	<u>112,751</u>	<u>756,100</u>	<u>868,851</u>	<u>(1,344,928)</u>	<u>2,826,338</u>
Change in net assets	1,152,336	1,217,797	2,370,133	382,228	756,100	1,138,328	(1,138,328)	2,370,133
Net assets - beginning 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>
Net assets - end of year	<u>\$ 8,212,472</u>	<u>\$ 11,448,559</u>	<u>\$ 19,661,031</u>	<u>\$ 284,415</u>	<u>\$ 9,035,938</u>	<u>\$ 9,320,353</u>	<u>\$ (9,320,353)</u>	<u>\$ 19,661,031</u>

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

	Echoing Hills Village			Echoing Hills Village Foundation		Echoing Hills Village Foundation Total	Eliminating Entries	Totals
	Without Donor Restrictions	With Donor Restrictions	Echoing Hills Village Total	Without Donor Restrictions	With Donor Restrictions			
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	28,039,675	(418,552)	27,621,123	(371,048)	0	(371,048)	0	27,250,075
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	28,507,398	0	28,507,398	264,729	0	264,729	(212,000)	28,560,127
Operating income (loss)	(467,723)	(418,552)	(886,275)	(635,777)	0	(635,777)	212,000	(1,310,052)
Other income								
Investment income - net	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	752,391	(1,425)	750,966	129,664	(247,975)	(118,311)	542,088	1,174,743
Change in net assets	284,668	(419,977)	(135,309)	(506,113)	(247,975)	(754,088)	754,088	(135,309)
Net assets - beginning of year	6,775,468	10,650,739	17,426,207	408,300	8,527,813	8,936,113	(8,936,113)	17,426,207
Net assets - end of year	\$ 7,060,136	\$ 10,230,762	\$ 17,290,898	\$ (97,813)	\$ 8,279,838	\$ 8,182,025	\$ (8,182,025)	\$ 17,290,898