COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Collington Episcopal Life Care Community, Inc.
Mitchellville, Maryland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Collington Episcopal Life Care Community, Inc. (a Maryland corporation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets (deficiency), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Board of Directors
Collington Episcopal Life Care Community, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Collington Episcopal Life Care Community, Inc. as of December 31, 2018 and 2017, and the results of its operations, changes in net assets (deficiency), and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, Collington Episcopal Life Care Community, Inc. adopted Financial Accounting Standards Board Accounting Standard 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new accounting standard changes the presentation of various classifications and disclosures within the consolidated financial statements. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the financial statements, Collington Episcopal Life Care Community, Inc. adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-01, *Financial Instruments*. The new accounting standard, among other things, requires marketable equity securities to be measured at fair value with unrealized holding gains and losses included within income from operations. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the consolidated financial statements, Collington Episcopal Life Care Community, Inc. adopted Financial Accounting Standards Board Accounting Standards 2014-09, *Revenue from Contracts with Customers*. The new accounting standard clarifies how revenue is to be recognized and requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, operations and changes in net assets (deficiency), and cash flows are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 30, 2019

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,581,555	$ 1,853,745
Accounts Receivable, Net	1,348,425	1,701,278
Accounts Receivable - Partial Closing	1,327,340	1,930,713
Prepaid Expenses and Other Assets	559,453	635,692
Investments, Current	2,000,000	-
Assets Whose Use is Limited, Current	1,086,918	1,546,742
Due from Affiliates	11,825	-
Total Current Assets	7,915,516	7,668,170
INVESTMENTS	8,405,159	13,292,433
ASSETS WHOSE USE IS LIMITED	10,765,041	11,497,530
PROPERTY AND EQUIPMENT		
Land	909,016	909,016
Land, Building, and Building Improvements	117,237,046	113,094,969
Furniture and Equipment	9,560,059	9,243,649
Construction in Progress	5,168,004	3,722,922
Total	132,874,125	126,970,556
Less: Accumulated Depreciation	(74,689,399)	(69,859,304)
Property and Equipment, Net	58,184,726	57,111,252
OTHER ASSETS		
Contributions Receivable from Remainder Trust	10,343	10,343
Total Other Assets	10,343	10,343
Total Assets	$ 85,280,785	$ 89,579,728

See accompanying Notes to Consolidated Financial Statements.

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,675,000	$ 1,600,000
Current Portion of Capital Lease Payable	31,828	58,511
Accounts Payable	2,234,740	1,999,578
Accrued Salaries and Benefits	963,519	1,082,880
Accrued Interest Payable	528,585	539,336
Other Accrued Expenses	26,914	26,913
Current Portion of Deferred Kendal System Fees	432,463	410,492
Entrance Fee and Deposits from Prospects Payable	1,757,148	1,400,954
Due to Affiliates	-	6,375
Total Current Liabilities	7,650,197	7,125,039
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Maturities	61,949,998	63,672,029
Deferred Kendal System Fees, Net of Current Portion	329,121	681,014
Capital Leases Payable, Net of Current Portion	30,771	16,924
Total Long-Term Liabilities	62,309,890	64,369,967
REFUNDABLE ENTRANCE FEE LIABILITY	15,108,328	15,713,017
DEFERRED REVENUE FROM RESIDENT ENTRANCE FEES	35,619,637	35,207,141
Total Liabilities	120,688,052	122,415,164
NET ASSETS (DEFICIENCY)		
Net Assets Without Donor Restrictions	(38,357,449)	(36,037,309)
Net Assets With Donor Restrictions	2,950,182	3,201,873
Total Net Deficiency	(35,407,267)	(32,835,436)
Total Liabilities and Net Deficiency	$ 85,280,785	$ 89,579,728

See accompanying Notes to Consolidated Financial Statements.

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUE		
Net Residential Services Revenue	$ 15,861,139	$ 15,350,558
Health Care Revenue	6,612,507	6,666,955
Amortization of Deferred Entrance Fees	4,653,463	4,242,920
Ancillary Income	547,558	572,773
Investment Income and Realized Gains	535,540	607,556
Contributions	65,908	79,882
Net Assets Released from Donor Restrictions	107,724	2,756,518
Other Income	722,873	559,552
Total Revenue	29,106,712	30,836,714
EXPENSES		
General and Administrative	7,616,000	3,380,101
Plant and Environmental Services	3,264,228	3,569,261
Health Care	3,693,017	6,511,400
Dining Services	4,156,439	3,983,938
Utilities	1,912,336	1,702,261
Real Estate Taxes	605,999	557,928
Affiliation and System Fee	836,737	1,153,862
Depreciation	4,830,095	3,781,848
Interest	3,182,031	2,655,130
Provision for Bad Debt	541,293	559,050
Total Expenses	30,638,175	27,854,779
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER GAINS (LOSSES)	(1,531,463)	2,981,935
LOSS ON EXTINGUISHMENT OF DEBT	-	(1,986,523)
NET UNREALIZED GAIN (LOSS) ON INVESTMENTS	(788,677)	619,206
INCOME (LOSS) FROM OPERATIONS	(2,320,140)	1,614,618
NET ASSETS WITH DONOR RESTRICTIONS		
Investment Income	239,042	125,999
Unrealized Gains (Losses) on Investments	(453,630)	342,926
Contributions	70,621	460,210
Net Assets Released from Donor Restriction and Used in Operations	(107,724)	(2,756,518)
Decrease in Net Assets With Donor Restrictions	(251,691)	(1,827,383)
CHANGE IN NET DEFICIENCY	(2,571,831)	(212,765)
Net Deficiency - Beginning of Year	(32,835,436)	(32,622,671)
NET DEFICIENCY - END OF YEAR	$ (35,407,267)	$ (32,835,436)

See accompanying Notes to Consolidated Financial Statements.

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Deficiency	$ (2,571,831)	$ (212,765)
Adjustments to Reconcile Change in Net Deficiency to Net Cash Provided by Operating Activities:		
Depreciation	4,830,095	3,781,848
Provision for Bad Debts	541,293	559,050
Amortization of Resident Entrance Fees	(4,653,463)	(4,242,920)
Amortization of Deferred Financing Costs	45,480	184,565
Amortization of Bond Premium	(92,509)	(53,963)
Loss on Debt Refinancing	-	1,986,523
Proceeds from Nonrefundable Entrance Fees, Net	3,670,343	4,285,915
Net Unrealized and Realized (Gains) Losses on Investments and Assets Limited as to Use	903,035	(1,453,091)
Decrease in Assets:		
Accounts Receivable, Net	414,933	1,769,184
Prepaid Expenses and Other Assets	76,239	59,867
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	115,802	670,605
Accrued Interest Payable	675,495	409,370
Due to Affiliates	62,370	(110,583)
Entrance Fee and Deposits from Prospects Payable	356,194	736,846
Net Cash Provided by Operating Activities	4,373,476	8,370,451
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(5,903,569)	(10,939,151)
Net Change in Investments	1,629,810	(13,737,601)
Net Cash Used by Investing Activities	(4,273,759)	(24,676,752)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Refundable Entrance Fees	1,955,964	1,755,556
Refunds for Entrance Fees	(1,021,912)	(1,863,840)
Payments on Capital Lease Obligations	(12,836)	(80,803)
Payments for Debt Financing Costs	-	(1,472,912)
Proceeds from Issuance of Long-Term Debt	-	66,770,265
Principal Payments of Long-Term Debt	(1,293,123)	(49,323,360)
Net Cash Provided (Used) by Financing Activities	(371,907)	15,784,906
NET DECREASE IN CASH AND CASH EQUIVALENTS	(272,190)	(521,395)
Cash and Cash Equivalents - Beginning of Year	1,853,745	2,375,140
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,581,555	$ 1,853,745
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 2,727,388	$ 2,115,158

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Collington Episcopal Life Care Community, Inc. (CELCC) was incorporated as a nonprofit corporation on March 30, 1982, under the laws of the state of Maryland to develop, construct, and operate a continuing care retirement community in Prince George's County, Maryland. CELCC received its certification from the Maryland Department of Aging to provide services according to the provisions of its Residence and Care Agreement on November 14, 1988.

Collington Foundation, Inc. (CF) was incorporated as a nonprofit corporation on July 31, 1996, under the laws of the state of Maryland to provide needs-based housing and Medicare care assistance, need and merit based educational assistance to CELCC's employees, culturally enriching music programs sponsored for the benefit of seniors, and exempt-purpose specific grants to the CELCC for improvements. CELCC is the sole member of CF.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CELCC and CF (collectively, the Organization). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities when purchased of six months or less to be cash equivalents. As of December 31, 2018 and 2017, cash equivalents consisted primarily of checking and savings accounts.

Accounts Receivable

The Organization provides an allowance for doubtful accounts based on the allowance method using management's judgment considering historical information. Residents are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are individually analyzed for collectability and notices are issued. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2018 and 2017, the allowance for doubtful accounts was $399,195 and $200,729, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable — Partial Closing

Accounts Receivable — Partial Closing represents a portion of the entrance fees that are deferred for up to one year, in 90-day increments, after a resident signs the promissory note for the partial closing. The receivables are expected to be collected during the immediate subsequent fiscal year and are included in current assets as of December 31, 2018 and 2017. Management determined that no allowance is necessary on the Accounts Receivable — Partial Closing as of December 31, 2018 and 2017.

Investments

Investments are comprised primarily of mutual funds, equity securities, and debt securities and are measured at fair value in the statements of financial position. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income, including interest and dividends, declines in market value deemed to be other than temporary and earnings on investments, are reported as investment income and realized gains and included in the income from operations. The cost of substantially all securities sold is based on the specific identification method. The investments have been designated as an available for sale portfolio, and the unrealized gains and losses are included from the performance indicator.

A decline in the market value of any security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to the operating loss and a new cost basis for the security is established. To determine whether impairment is other than temporary, the Corporation considers whether it has the ability and intent to hold the investment security until a market price recovery occurs and considers whether evidence indicating the cost of the investment security is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity, and duration of the impairment, changes in market value subsequent to year-end, and forecasted performance of the investment security.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risk associated with certain investments, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. As of December 31, 2018, a portion of investments has been reclassified to current assets as it is available to satisfy current obligations as they become due.

Concentration of Credit Risk

The Organization maintains its cash accounts at commercial banks. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in the bank may exceed FDIC insurance limits. The funds on deposit with brokerage accounts are insured by the SIPC up to $500,000.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost or at fair value at the date of donation. It is the policy of the Organization to capitalize long-lived assets with a cost basis of $1,000 individually or in the aggregate. Depreciation is provided on assets using the straight-line method over the estimated useful lives of the assets. Estimated lives are determined using American Hospital Association guidelines. Useful lives range from 5 to 40 years. Repairs and maintenance are expensed as incurred. Depreciation expense for the years ended December 31, 2018 and 2017 was $4,830,095 and $3,781,848, respectively.

The Organization records impairment losses on property and equipment when events and circumstances indicate that it is probable that the assets are impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Based on management's estimation process, no impairment losses have been recorded as of December 31, 2018 and 2017.

Deposits from Prospective Residents

Deposits from prospective residents consist of entrance fee deposits. Entrance fee deposits are received from prospective residents who intend to move into the Organization. Entrance fee deposits generally represent 10% of the total entrance fee for the unit selected. The deposit funds are applied against the total entrance fee upon occupancy or are refunded to the prospective residents if they decide not to move into the Organization.

Deferred Revenue

Nonrefundable entrance fees paid by residents pursuant to a continuing care contract are recorded as deferred revenue and amortized into operating revenue over the actuarially determined life expectancy of each resident or couple, adjusted annually. Upon death of a sole surviving resident, any remaining unamortized portion of the nonrefundable entrance fee is recognized as operating revenue.

Obligation to Provide Future Services

The Organization periodically calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred entry fee revenue. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. This calculation did not result in a liability as of December 31, 2018 and 2017.

Deferred Financing Costs

Deferred financing costs represent expenses (e.g., underwriting, legal, consulting, and other costs) incurred in connection with issuance of debt and are deferred and amortized over the life of the related indebtedness on a straight-line basis, which approximates the effective interest method. The amortization expense on deferred financing costs is included in interest expense and totaled $45,480 and $184,565 for the years ended December 31, 2018 and 2017, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Premium

Bond premium is comprised of the difference between the price at which a bond was sold and its fair value. Bond premium is amortized on a straight-line basis into interest expense over the life of the bonds. The amortization on the bond premium included in interest expense was $92,509 and $53,963 for the years ended December 31, 2018 and 2017, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated endowment or other purposes. At December 31, 2018 and 2017, the governing board has not made this designation.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. At December 31, 2018 and 2017, net assets with donor restrictions included $2,950,182 and $3,201,873, respectively, which were temporary in nature.

Insurance

The Organization maintains professional liability insurance on a claim's made basis with no deductible and has coverage in excess of the $100,000 required under state statute. No claims have been asserted against the Organization. If claims should be asserted arising from past services rendered, management believes that those claims would be settled within the limits of insurance coverage.

Income Taxes

CELCC and CF are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is required. The Organization follows the provisions of the income tax standard regarding the recognition and measurement of uncertain tax positions. The application of these provisions has no impact on the Organization's consolidated financial statements.

The Organization's tax returns are subject to review and examination by federal and state authorities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Performance Indicator

The statement of activities and changes in net assets (deficiency) includes the determination of income from operations. Other income and loss, which are included in the income from operations, consistent with industry practice, include net unrealized gains and losses on investments and loss on extinguishment of debt.

Resident Services Revenue

Resident services revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident services and care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the residents monthly for services and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facility receiving skilled nursing services or residents receiving other services in the facility. The Organization measures the performance obligation from admission into the facility to the point when it is no longer required to provide services to that resident, which is generally at the time of the termination of the resident contract.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors. The Organization determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare

The licensed nursing facility participates in the Medicare program. This federal program is administered by the Centers for Medicare and Medicaid Services (CMS). The nursing facility is paid under the Medicare Prospective Payment System (PPS) for residents who are Medicare Part A eligible and meet the coverage guidelines for skilled nursing facility services. The PPS is a per diem price-based system. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Services Revenue (Continued)

Medicare (Continued)

Nursing facilities licensed for participation in the Medicare program are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance. Such a payment ban would have a negative impact on the revenues of the licensed nursing facility.

Health care services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by Medicare. All services are considered to be fee for service and transferred over time.

Other

Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization’s historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlement are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price, were not significant in 2018 or 2017.

Generally residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent charges to the estimate of the transaction price are generally recorded as adjustments to resident services revenue in the period of the change.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Services Revenue (Continued)

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, service line, method of reimbursement, and timing of when revenue is recognized. All resident services revenue for the Organization is provided at the single campus located in Bowie, Maryland. The method of reimbursement is prospective payments and the timing of revenue recognition is health care services transferred over time. The composition of resident services revenue by primary payor for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Medicare	$ 2,078,430	$ 2,421,908
Medicaid	144,667	146,763
Private Pay and Other	4,389,410	4,098,284
Total Resident Services Revenue	$ 6,612,507	$ 6,666,955

The composition of Resident care service revenue based on the region of the country the Organization operates in, its lines of business, method of reimbursement, and timing of revenue recognition for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Service Lines:		
Independent Living	$ 15,860,321	$ 15,353,927
Assisted Living	3,052,502	2,854,726
Skilled Care	3,560,823	3,808,860
Total	$ 22,473,646	$ 22,017,513

Health Care Services Revenue

Health care services revenue is reported a net realizable amounts from residents, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenues from the Medicare program accounted for approximately 31% of the Organization’s health service revenues for the year ended December 31, 2018 and 36% of the Organization’s health service revenues for the year ended December 31, 2017. Revenues from the Medicaid program accounted for approximately 2% of the Organization’s health service revenues for the years ended December 31, 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements — ASU 2016-01

During the year ended December 31, 2018, the Organization adopted a provision of FASB ASU 2016-01, *Financial Instruments*. This new accounting standard requires unrealized gains and losses resulting from the change in fair value of investments in equity securities to be included within the Organization's performance indicator on the consolidated statements of operations and changes in net assets (deficiency). The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets (deficiency).

New Accounting Pronouncements — ASU 2014-09

During the year ended December 31, 2018, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers*. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net deficiency.

New Accounting Pronouncements — ASU 2016-14

During the year ended December 31, 2018, the Organization adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions) and various changes in disclosures. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net deficiency.

The adoption of ASU 2016-14 was retrospectively applied to the consolidated financial statements ended December 31, 2017 in order to provide a comparative presentation of the Organization's consolidated statements of financial position, consolidated statements of operations and changes in net assets (deficiency), net assets with donor restrictions in Note 8 and functional expenses in Note 11.

Reclassification

Certain amounts on the 2017 consolidated financial statements were reclassified to conform to the current consolidated financial statement presentation.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 30, 2019, the date the consolidated financial statements were issued.

NOTE 2 LIQUIDITY

As of December 31, 2018 the Organization had working capital of $265,319.

Financial assets available for general expenditure within one year of the statement of financial position dates consisted of the following:

	2018	2017
Cash and Cash Equivalents	$ 1,581,555	$ 1,853,745
Accounts Receivable, Net and Entrance Fees Receivable	2,675,765	3,631,991
Investments Available for Use	7,454,977	10,090,560
Assets Limited to Use	1,086,918	1,546,742
Total Financial Assets	$ 12,799,215	$ 17,123,038

NOTE 3 DEFERRED REVENUE, REFUNDABLE ENTRANCE FEES, AND DEPOSITS

Resident entrance fees, which consist of a refundable and a nonrefundable portion, are paid in full, or through a promissory note from a partial closing, upon occupancy and represent the Organization’s obligation to provide continuing care to the residents. Nonrefundable entrance fees are recognized as deferred revenue upon receipt. Refundable entrance fees are recorded as refundable entrance fee liabilities. Refunds of entrance fees for termination prior to occupancy are made within 30 days. For termination after occupancy, including death, any refund is deferred until (i) the unit has been vacated and (ii) the Organization has entered into a Residency Agreement for the same unit with a new resident who has accepted and paid the entrance fee.

The Residency Agreement provides three refund options to residents. Under Option 1, residents pay a higher entrance fee in order to guarantee a 50% minimum refund of entrance fees. Two percent per month of the other half of the entrance fee becomes nonrefundable over a period of 25 months. Under Option 2, 2% per month of the entrance fee becomes nonrefundable over a period of 50 months. In 2000, the Organization began offering Option 3, where residents pay a higher entrance fee in order to guarantee a 100% refund. In 2013, the Organization began offering Option 4, whereby residents may pay a higher entrance fee than Option 2 in order to guarantee a refund of 90%. As of March 31, 2013, the Organization no longer offers the fully refundable entrance fee option (Option 3). The contractual refundable amount as of December 31, 2018 and 2017 to all current residents based on the provision of their respective Residency Agreements is $28,345,121 and $29,961,530, respectively.

The nonrefundable portion of these fees is deferred upon occupancy and recognized as income on a straight-line basis over each individual resident’s or joint residents’ expected remaining lives. Remaining life expectancies are adjusted annually using actuarial decrements based on industry and Collington-specific information as updated in 2002. In addition, entrance fees are earned on a joint and last survivor basis for persons occupying the same unit.

NOTE 3 DEFERRED REVENUE, REFUNDABLE ENTRANCE FEES, AND DEPOSITS (CONTINUED)

Upon termination of a contract through death or withdrawal from the Organization after occupancy, any unamortized nonrefundable deferred entrance fee is recorded as revenue. Termination income was approximately $601,631 and $760,119 for the years ended December 31, 2018 and 2017, respectively.

NOTE 4 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The Organization reports investments and assets whose use is limited at fair value. The estimated fair value of investments and assets whose use is limited as of December 31 is as follows:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	$ 12,008,051	$ 12,554,436	$ 13,375,679	$ 13,375,678
Marketable Equity Securities	9,653,722	9,359,288	12,213,310	10,583,160
U.S. Government and Municipals	393,694	469,486	421,894	424,237
Fixed Income Investments	201,651	417,198	325,822	526,120
Total Investments and Assets Whose Use is Limited	$ 22,257,118	$ 22,800,408	$ 26,336,705	$ 24,909,195

Assets whose use is limited, which is reported at fair value and consists of cash and cash equivalents, is comprised as follows:

	2018	2017
Project Fund	$ 5,951,911	$ 6,809,400
Debt Service Fund	1,086,918	1,546,742
Debt Service Reserve Fund	4,688,130	4,688,130
Linkage Fund II	125,000	-
Total	11,851,959	13,044,272
Less: Current Portion	(1,086,918)	(1,546,742)
Assets Whose Use is Limited, Net of Current Portion	$ 10,765,041	$ 11,497,530

NOTE 4 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

Investment income from investments and assets whose use is limited is as follows:

	2018	2017
Without Donor Restrictions:		
Interest and Dividend Income, Net of Fees	$ 196,268	$ 116,597
Net Realized Gains on Investments	339,272	490,959
Net Unrealized Gain (Loss) on Investments	(788,677)	619,206
Total Investment Income Without Donor Restrictions	(253,137)	1,226,762
With Donor Restrictions:		
Interest and Dividend Income, Net of Fees	239,042	125,999
Net Unrealized Gain (Loss) on Investments	(453,630)	342,926
Total Investment Income With Donor Restrictions	(214,588)	468,925
Total Investment Income	$ (467,725)	$ 1,695,687

The Organization performs due diligence on the valuation of their investments. The Organization reviews its portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Management considers in this evaluation factors such as general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of its investment advisors, and the length of time and extent to which the market value has been less than cost, and the ability and intent of the Organization to hold investments in the long-term.

For the years ended December 31, 2018 and 2017, management does not believe that the declines in the market value of investments are considered other-than-temporary.

NOTE 5 LONG-TERM DEBT

On May 1, 2017, the Organization issued $63,995,000 Prince George's County, Maryland Revenue Bonds, Collington Episcopal Life Care Community, Inc., Series 2017 (Series 2017 Bonds). The Series 2017 Bonds mature at varying annual amounts on April 1 between 2018 and 2047. Interest payments are due semiannually on April 1 and October 1, with rates ranging between 3% and 5%. The Series 2017 Bonds are secured by a first lien security interest in all present and future receipts, real estate, and personal property of the Organization.

The proceeds of the Series 2017 Bonds were used to refund existing balances from the Prince George's County, Maryland, Revenue Bonds, Collington Episcopal Life Care Community, Inc., Series 2006 (Series 2006 Bonds), repay an existing construction loan, finance the costs of certain capital improvements, fund a deposit to the Debt Service Reserve Fund, and pay the costs of issuance.

NOTE 5 LONG-TERM DEBT (CONTINUED)

Long-term debt as of December 31, 2018 and 2017 is as follows:

	2018	2017
Series 2017 Bonds	$ 62,395,000	$ 63,995,000
Add: Bond Premium	2,775,264	2,775,264
Less: Unamortized Debt Issuance Costs	(1,545,266)	(1,498,235)
Less: Current Maturities of Long-Term Debt	(1,675,000)	(1,600,000)
Long-Term Debt, Net of Current Maturities	$ 61,949,998	$ 63,672,029

Principal maturities over the next five years and thereafter are as follows:

Year Ending December 31,	Amount
2019	$ 1,675,000
2020	1,760,000
2021	1,850,000
2022	1,945,000
2023	2,045,000
Thereafter	53,120,000
Total	$ 62,395,000

Among other things, the Organization is required to meet certain financial covenants under the security agreements related to the Series 2017 Bonds. As of December 31, 2018, management is not aware of any instances of noncompliance with the required covenants.

NOTE 6 CAPITAL LEASES

The Organization has entered into various capital lease agreements for a vehicle and office equipment. As of December 31, 2018 and 2017, the gross amount of the capital lease assets and related accumulated depreciation recorded under the leases is as follows:

	2018	2017
Transportation Equipment	$ 168,000	$ 108,400
Office Equipment	216,431	216,431
Total	384,431	324,831
Less: Accumulated Depreciation	(141,633)	(90,168)
Total	$ 242,798	$ 234,663

NOTE 6 CAPITAL LEASES (CONTINUED)

Scheduled payments on capital lease obligations at December 31, 2018 are as follows:

Year Ending December 31,	Amount
2019	$ 32,315
2020	14,900
2021	14,900
2022	7,450
Total Minimum Future Lease Payments	69,565
Less: Amount Representing Interest	(6,966)
Present Value of Net Minimum Lease	62,599
Less: Current Portion	(31,828)
Long-Term Portion	$ 30,771

NOTE 7 MARYLAND DEPARTMENT OF AGING RESERVE REQUIREMENTS

The Maryland Department of Aging requires providers of continuing care to maintain certain operating reserves that equal 15% of the facilities' net operating expenses, as defined by the state, relating to continuing care contracts. The reserves must be kept in reasonably liquid form in the judgment of the provider.

The reserves are computed as of the end of the fiscal year and providers have up to 10 full fiscal years after October 1, 1996 to meet these requirements. The reserves must be set aside at a minimum rate of 10% per year up to a total of 100% as of the end of the tenth fiscal year.

The Organization's required reserves for the years ended December 31, 2018 and 2017 (based on the 12 months ended December 2017and 2016, respectively) are as follows:

	2018	2017
Maryland Department of Aging Reserves:		
Operating Expenses	$ 27,854,779	$ 27,396,469
Less: Depreciation Expense	(3,781,848)	(3,969,832)
Interest Expense	(2,655,130)	(2,271,119)
Net Operating Expenses	$ 21,417,801	$ 21,155,518
Total Operating Reserve (15% of Net Operating Expenses)	$ 3,212,670	$ 3,173,328
Required Reserves for the Period Ended December 31 (100% of Total Operating Reserve)	$ 3,212,670	$ 3,173,328
Cash and Marketable Securities Available for Operating Reserve	$ 3,581,555	$ 3,182,988

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes at December 31, 2018 and 2017:

	2018	2017
Fellowship Fund	$ 2,422,295	$ 2,683,841
Scholarship Fund	471,887	475,084
Futures Fund	18,892	20,490
Music Fund	37,108	22,458
Total	$ 2,950,182	$ 3,201,873

NOTE 9 RETIREMENT PLANS

403(b) Plan

The Organization participates in the Kendal Corporation defined contribution plan. The Plan contains a provision for an employer discretionary grant and/or match component for eligible employees. Eligible employees must have attained age 21, must complete one eligibility year of service and 1,000 hours of service, and work at least 1,000 hours each year to qualify for a match and/or grant. Pursuant to the terms of the Pan, employees are required to make contributions in order to benefit from the Plan only if the Corporation makes a matching contribution.

The Corporation's grant or matching contribution is discretionary and eligible employees must have completed 1,000 hours of service during the plan year. Employees are 50% vested in the employer contribution after one (1) year of service; 100% vested after two (2) years of service. All employees are eligible to make contributions to the Plan. The Corporation calculated grant and matching contributions to the defined contribution plan of $138,381 and $133,045 for the years ended December 31, 2018 and 2017, respectively. These amounts have been accrued as of December 31, 2018 and 2017.

NOTE 10 RELATED PARTY TRANSACTIONS

The Organization entered into an affiliation agreement with The Kendal Corporation in June 2011, by the execution of an *Agreement Between The Kendal Corporation and its Affiliates: Mutual Expectations, System Services, and Financial Understandings*. The agreement calls for the Organization to pay The Kendal Corporation a "System Fee," and provides for certain performance requirements and values-based management and governance standards.

The Organization is affiliated with The Kendal Corporation through by-law requirements. The Kendal Corporation must approve the election of board members of the Organization and amendments to the articles of incorporation and specific sections of the bylaws of the Organization as well as the incurrence of debt of specified value, changes in corporate purpose; use of the name "Kendal," the substance of resident contracts; and the purchase, sale, lease, or other disposition of any real estate or improvements thereon of a specific value; and dissolution, merger with another entity, division, or acquiring control of another entity.

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

The System Fee has two phases: a pre-stabilization base fee and a post-stabilization base fee. The Organization was in the pre-stabilization phase and agreed to pay The Kendal Corporation a base fee of 5% of expenses, excluding the System Fee. Under a Liquidity Support and Subordination of System Affiliation Agreement, Kendal permitted Collington to defer payment of 30% of the System Fee until the existing debt was replaced.

On May 1, 2017, in conjunction with the Series 2017 Bonds issuance (see Note 5), Kendal determined that the Organization qualified as "stable" and was subject to the post-stabilization fee. Under the post-stabilization phase, the Organization is assessed a base fee of 3.5% of expenses, excluding the System Fee. However, Kendal will continue to bill, and the Organization will continue to pay, 5% of expenses. Kendal will apply 3.5% to the current system fee and 1.5% to the deferred system fee including a nominal interest charge. The deferred System Fee liability is expected to be fully repaid by 2020.

The System Fee incurred by the Corporation for the years ended December 31, 2018 and 2017 was $836,737 and $1,153,862, respectively, under the terms of this agreement. The deferred System Fee liability as of December 31, 2018 and 2017 was $761,584 and $1,091,506, respectively.

The Organization bylaws also specify that the Organization and The Kendal Corporation shall have certain board members in common, and that the president of The Kendal Corporation, or his/her designee, shall be invited to attend the Organization's board meetings ex officio.

The total amounts (due to) and due from affiliates as of December 31, 2018 and 2017 is as follows:

	2018		2017	
	(Due To)	Due From	(Due To)	Due From
The Kendal Corporation	$ -	$ 11,825	$ (6,375)	$ -
Total	$ -	$ 11,825	$ (6,375)	$ -

As of December 31, 2018 and 2017, CELCC has a note payable to CF (the CF Loan) in the amount of $993,122 and $1,300,000, respectively. The note was payable upon demand after project stabilization is achieved. Under the terms of the Series 2017 Bonds (see Note 5), so long as no Event of Default has occurred, CELCC may make scheduled payments due on the CF Loan. Interest expense for the years ended December 31, 2018 and 2017 was $-0- and $42,250, respectively. Accrued interest as of December 31, 2018 and 2017 was $-0- and $686,245, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

In October 2017, the CF Loan was amended to require payments of $993,124 in February 2018 and February 2019 to repay the remaining outstanding principal and interest balance. The scheduled payments are subject to CELCC's ability to maintain a minimum cash-to-debt threshold after each payment. In addition, CF agreed to forgive any additional accrued interest on the unpaid balance until February 2019, after which interest will be accrued on any remaining balance. In February 2018, CELCC paid $993,124 to CF in accordance with the terms of the CF Loan.

The principal and interest amounts related to the CF Loan are eliminated for the purposes of consolidation.

NOTE 11 FUNCTIONAL EXPENSES

The Organization provides residential living and general healthcare services to its residents. The Organization has nominal fundraising expenses. The functional expenses as of the year ended December 31, 2018, related to providing these services are as follows:

	Care and Service to Residents Program	Management General and Administrative	Total
Salaries and Wages	$ 9,390,611	$ 1,043,401	$ 10,434,012
Payroll Taxes and Fringe Benefits	1,941,277	215,697	2,156,974
Other Staff Expenses	70,370	7,819	78,189
Medical Supplies	407,263	-	407,263
General Supplies	1,891,959	210,218	2,102,177
Professional Fees	20,573	2,286	22,859
Purchased Services	2,411,479	267,942	2,679,421
Purchased Therapy Services	463,911	-	463,911
Administrative Expenses	-	744,695	744,695
Utilities	1,577,805	175,312	1,753,116
Repairs and Maintenance	302,457	33,606	336,063
Insurance	-	295,660	295,660
Real Estate Taxes	545,399	60,600	605,999
Miscellaneous Plant Costs	3,976	442	4,418
Bad Debt Expense	-	541,293	541,293
Depreciation	4,347,084	483,009	4,830,094
Interest Expense	-	3,229,060	3,229,060
Amortization	(42,327)	(4,703)	(47,029)
Totals	$ 23,331,838	$ 7,306,337	$ 30,638,175

NOTE 11 FUNCTIONAL EXPENSES (CONTINUED)

The functional expenses as of the year ended December 31, 2017, related to providing these services are as follows:

	Care and Service to Residents Program	Management General and Administrative	Total
Salaries and Wages	$ 8,439,482	$ 937,720	$ 9,377,202
Payroll Taxes and Fringe Benefits	1,699,144	188,794	1,887,938
Other Staff Expenses	60,182	6,687	66,869
Medical Supplies	391,981	-	391,981
General Supplies	1,847,948	205,328	2,053,276
Professional Fees	16,947	1,883	18,830
Purchased Services	2,661,330	295,703	2,957,033
Purchased Therapy Services	793,280	-	793,280
Administrative Expenses	-	275,841	275,841
Utilities	1,380,751	153,417	1,534,167
Repairs and Maintenance	429,897	47,766	477,663
Insurance	-	179,176	179,176
Real Estate Taxes	502,135	55,793	557,928
Miscellaneous Plant Costs	5,277	586	5,864
Bad Debt Expense	-	559,050	559,050
Depreciation	3,543,995	393,777	3,937,773
Bond Related Expense	-	20,000	20,000
Interest Expense	-	2,390,853	2,390,853
Amortization	333,050	37,006	370,056
Totals	$ 22,105,401	$ 5,749,378	$ 27,854,779

Collington allocates functional expenses based on the ratio of square footage under roof between Program and Management. Program and Management areas of Collington's campus are identified and the square footage is determined for each of these identified areas. The ratio between Program and Management is determined by comparing the specified square footage to the total under roof square footage. A percentage is allocated to the Program and Management functional areas and the expense line items are allocated based on this percentage. After the expenses are allocated, Collington reviews the Program and Management functional expenses and makes adjustments. 100% of Medical Supplies and Purchased Therapy Services are Program expenses. 100% of Administrative Expenses, Insurance, Bad Debt Expense and Interest Expense are Management expenses.

NOTE 12 CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31 is as follows:

	2018	2017
Medicare	21 %	20 %
Medicaid	5	4
Private and Other	74	76
Total	100 %	100 %

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and Cash Equivalents	$ 12,008,051	$ -	$ -	$ 12,008,051
Marketable Equity Securities	9,528,722	-	125,000	9,653,722
U.S. Government and Municipals	-	393,694	-	393,694
Fixed Income Investments	-	201,651	-	201,651
Total	$ 21,536,773	$ 595,345	$ 125,000	$ 22,257,118

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and Cash Equivalents	$ 13,375,679	$ -	$ -	$ 13,375,679
Marketable Equity Securities	12,213,310	-	-	12,213,310
U.S. Government and Municipals	-	421,894	-	421,894
Fixed Income Investments	-	325,822	-	325,822
Total	$ 25,588,989	$ 747,716	$ -	$ 26,336,705

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. Securities valued using Level 3 inputs are based upon information received from the broker. The broker conducts an independent review of fund valuation, pricing, and performance information.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Litigation

The Organization periodically finds itself a defendant in legal suits that have developed in the normal course of business. Although it is impossible to determine the ultimate resolution of matters that remain unresolved at this time, the Organization believes that the matters will be resolved without significant negative financial impact.

Industry Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse statutes as well as other applicable government statutes.

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

	Collington Episcopal Life Care Community	Collington Foundation	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 664,237	$ 917,318	$ -	$ 1,581,555
Accounts Receivable, Net	1,348,425	-	-	1,348,425
Accounts Receivable - Partial Closing	1,327,340	-	-	1,327,340
Prepaid Expenses and Other Assets	559,453	-	-	559,453
Assets Whose Use is Limited, Current	1,086,918	-	-	1,086,918
Investments	2,000,000	-	-	2,000,000
Due from Affiliates	120,012	884,935	(993,122)	11,825
Total Current Assets	7,106,385	1,802,253	(993,122)	7,915,516
INVESTMENTS	5,141,718	3,263,441	-	8,405,159
ASSETS WHOSE USE IS LIMITED	10,765,041	-	-	10,765,041
PROPERTY AND EQUIPMENT				
Land	909,016	-	-	909,016
Land, Building, and Building Improvements	117,237,046	-	-	117,237,046
Furniture and Equipment	9,560,059	-	-	9,560,059
Construction in Progress	5,168,004	-	-	5,168,004
Total	132,874,125	-	-	132,874,125
Less: Accumulated Depreciation	(74,689,399)	-	-	(74,689,399)
Property and Equipment, Net	58,184,726	-	-	58,184,726
INTEREST IN NET ASSETS OF COLLINGTON FOUNDATION, INC.	5,076,037	-	(5,076,037)	-
OTHER ASSETS				
Contributions Receivable from Remainder Trust	-	10,343	-	10,343
Total Assets	$ 86,273,907	$ 5,076,037	$ (6,069,159)	$ 85,280,785

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018

	Collington Episcopal Life Care Community	Collington Foundation	Eliminations	Total
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Current Portion of Leases Payable	$ 31,828	$ -	$ -	$ 31,828
Current Portion of Long-Term Debt	1,675,000	-	-	1,675,000
Accounts Payable	2,234,740	-	-	2,234,740
Accrued Salaries and Benefits	963,519	-	-	963,519
Accrued Interest	528,585	-	-	528,585
Other Accrued Expenses	26,914	-	-	26,914
Current Portion of Deferred Kendal System Fees	432,463	-	-	432,463
Entrance Fee and Deposits from Prospects Payable	1,757,148	-	-	1,757,148
Due to Affiliates	-	-	-	-
Total Current Liabilities	7,650,197	-	-	7,650,197
LONG-TERM LIABILITIES				
Long-Term Debt, Net of Current Maturities	61,949,998	-	-	61,949,998
Note Payable to Collington Foundation Inc., Net of Current Portion	993,122	-	(993,122)	-
Deferred Kendal System Fees Net of Current Portion	329,121	-	-	329,121
Capital Lease Payable, Net of Current Portion	30,771	-	-	30,771
Total Long-Term Liabilities	63,303,012	-	(993,122)	62,309,890
REFUNDABLE ENTRANCE FEE LIABILITY	15,108,328	-	-	15,108,328
DEFERRED REVENUE FROM RESIDENT ENTRANCE FEES	35,619,637	-	-	35,619,637
Total Liabilities	121,681,174	-	(993,122)	120,688,052
NET ASSETS (DEFICIENCY)				
Net Assets Without Donor Restrictions	(40,483,304)	(114,302)	2,240,157	(38,357,449)
Net Assets With Donor Restrictions	5,076,037	5,190,339	(7,316,194)	2,950,182
Total Net Assets (Deficiency)	(35,407,267)	5,076,037	(5,076,037)	(35,407,267)
Total Liabilities and Net Assets (Deficiency)	$ 86,273,907	$ 5,076,037	$ (6,069,159)	$ 85,280,785

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIENCY)
YEAR ENDED DECEMBER 31, 2018

	Collington Episcopal Life Care Community	Collington Foundation	Eliminations	Total
REVENUE				
Net Residential Services Revenue	$ 15,861,139	$ -	$ -	$ 15,861,139
Health Care Revenue	6,612,507	-	-	6,612,507
Amortization of Deferred Entrance Fees	4,653,463	-	-	4,653,463
Ancillary Income	547,558	-	-	547,558
Investment Income and Realized Gains	535,540	-	-	535,540
Contributions	22,103	43,805	-	65,908
Net Assets Released from Restrictions	-	107,724		107,724
Other Income	722,873		-	722,873
Total Revenue	28,955,183	151,529	-	29,106,712
EXPENSES				
General and Administrative	7,350,169	265,831	-	7,616,000
Plant and Environmental Services	3,264,228	-	-	3,264,228
Health Care	3,693,017	-	-	3,693,017
Dining Services	4,156,439	-	-	4,156,439
Utilities	1,912,336	-	-	1,912,336
Real Estate Taxes	605,999	-	-	605,999
Affiliation and System Fee	836,737	-	-	836,737
Depreciation	4,830,095	-	-	4,830,095
Interest	3,182,031	-	-	3,182,031
Provision for Bad Debt	541,293	-	-	541,293
Total Expenses	30,372,344	265,831	-	30,638,175
LOSS FROM OPERATIONS	(1,417,161)	(114,302)	-	(1,531,463)
NET UNREALIZED LOSS ON INVESTMENTS	(788,677)	-	-	(788,677)
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS (DEFICIENCY)	(2,205,838)	(114,302)	-	(2,320,140)
TEMPORARILY RESTRICTED NET ASSETS				
Decrease in Interest in Collington Foundation, Inc.	(365,993)	-	365,993	-
Investment Income	-	239,042	-	239,042
Unrealized Loss on Investments	-	(453,630)	-	(453,630)
Contributions	-	70,621	-	70,621
Net Assets Released from Donor Restrictions and Used in Operations	-	(107,724)		(107,724)
Decrease in Net Assets with Donor Restrictions	(365,993)	(251,691)	365,993	(251,691)
CHANGE IN NET ASSETS (DEFICIENCY)	(2,571,831)	(365,993)	365,993	(2,571,831)
Net Assets (Deficiency) - Beginning of Year	(32,835,436)	5,442,030	(5,442,030)	(32,835,436)
NET ASSETS (DEFICIENCY) - END OF YEAR	$ (35,407,267)	$ 5,076,037	$ (5,076,037)	$ (35,407,267)

COLLINGTON EPISCOPAL LIFE CARE COMMUNITY, INC.
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

	Collington Episcopal Life Care Community	Collington Foundation	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets (Deficiency)	$ (2,571,831)	$ (365,993)	$ 365,993	$ (2,571,831)
Adjustments to Reconcile Change in Net Assets (Deficiency) to Net Cash Provided by Operating Activities:				
Depreciation	4,830,095	-	-	4,830,095
Provision for Bad Debts	541,293	-	-	541,293
Amortization of Resident Entrance Fees	(4,653,463)	-	-	(4,653,463)
Amortization of Deferred Financing Costs	45,480	-	-	45,480
Amortization of Bond Premium	(92,509)	-	-	(92,509)
Proceeds from Nonrefundable Entrance Fees, Net	3,670,343	-	-	3,670,343
Net Unrealized and Realized Losses on Investments and Assets Whose Use is Limited	449,405	453,630	-	903,035
Decrease in Interest in Collington Foundation, Inc.	365,993	-	(365,993)	-
(Increase) Decrease in Assets:				
Accounts Receivable, Net	414,933	-	-	414,933
Due from Affiliates	(120,012)	1,101,310	(993,123)	(11,825)
Prepaid Expenses and Other Assets	76,239	-	-	76,239
Increase (Decrease) in Liabilities:				
Accounts Payable and Accrued Expenses	115,802	-	-	115,802
Accrued Interest Payable	(10,751)	-	686,246	675,495
Due to Affiliates	73,866	330	(1)	74,195
Entrance Fee and Deposits from Prospects Payable	356,194	-	-	356,194
Net Cash Provided by Operating Activities	3,491,077	1,189,277	(306,878)	4,373,476
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Property and Equipment	(5,903,569)	-	-	(5,903,569)
Net Change in Investments and Assets Whose Use is Limited	1,868,837	(239,027)	-	1,629,810
Net Cash Used by Investing Activities	(4,034,732)	(239,027)	-	(4,273,759)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Refundable Entrance Fees	1,955,964	-	-	1,955,964
Refunds for Entrance Fees	(1,021,912)	-	-	(1,021,912)
Payments on Capital Lease Obligations	(12,836)	-	-	(12,836)
Principal Payments of Long-Term Debt	(1,600,001)	-	306,878	(1,293,123)
Net Cash Used by Financing Activities	(678,785)	-	306,878	(371,907)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,222,440)	950,250	-	(272,190)
Cash and Cash Equivalents - Beginning of Year	1,886,677	(32,932)	-	1,853,745
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 664,237	$ 917,318	$ -	$ 1,581,555
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid for Interest	$ 3,582,932	$ -	$ (343,121)	$ 2,727,388

CliftonLarsonAllen

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