Episcopal Housing Corporation
and Affiliates

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

Episcopal Housing Corporation and Affiliates
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Years Ended December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Directors
Episcopal Housing Corporation and Affiliates
Baltimore, Maryland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Episcopal Housing Corporation and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities and change in net assets, cash flows, and functional expenses 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 of 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 Organization'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 Organization'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.

Opinion

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

K. L. Hoffman & Company, PC

CERTIFIED PUBLIC ACCOUNTANTS

April 29, 2019

Episcopal Housing Corporation and Affiliates

Consolidated Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,433,654	$ 1,263,688
Investments	261,592	342,063
Restricted deposits	34,141	-
Fees receivable, net of allowance for doubtful accounts of $77,157 in 2018 and $28,356 in 2017	618,304	639,844
Contributions receivable	1,800	-
Development costs and advances	67,296	50,869
Prepaid expenses	6,461	-
Due from related party	-	8,000
Property and equipment, net	4,393,548	2,455,374
Cash restricted under agreement with tenant	186,228	186,167
Total assets	7,003,024	4,946,005
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	27,639	4,711
Tenant security deposits	17,470	1,759
Mortgages payable	2,201,701	784,688
Total liabilities	2,246,810	791,158
Net assets -		
Donor undesignated	4,756,214	4,154,847
Total net assets	4,756,214	4,154,847
Total liabilities and net assets	$ 7,003,024	$ 4,946,005

See the independent auditors' report and accompanying notes.

Episcopal Housing Corporation and Affiliates
Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2018 and 2017

	2018			2017		
	Donor Undesignated	Donor Designated	Total	Donor Undesignated	Donor Designated	Total
Revenues, gains, and other support:						
Contributions and grants	$ 520,491	$ -	$ 520,491	$ 1,327,573	$ -	$ 1,327,573
Development fees	418,972	-	418,972	215,625	-	215,625
Asset management fees	45,780	-	45,780	69,394	-	69,394
Rental income	544,728	-	544,728	206,546	-	206,546
Investment income	3,920	-	3,920	25,337	-	25,337
	1,533,891	-	1,533,891	1,844,475	-	1,844,475
Net assets released from designations	-	-	-	94,819	(94,819)	-
Total revenues, gains, and other support	1,533,891	-	1,533,891	1,939,294	(94,819)	1,844,475
Expenses:						
Program services	758,225	-	758,225	284,884	-	284,884
Supporting services						
Management and general	163,710	-	163,710	47,674	-	47,674
Fund raising	10,589	-	10,589	11,307	-	11,307
Total expenses	932,524	-	932,524	343,865	-	343,865
Change in net assets	601,367	-	601,367	1,595,429	(94,819)	1,500,610
Net assets - beginning of year	4,154,847	-	4,154,847	2,559,418	94,819	2,654,237
Net assets - end of year	$ 4,756,214	$ -	$ 4,756,214	$ 4,154,847	$ -	$ 4,154,847

See the independent auditors' report and accompanying notes.

Episcopal Housing Corporation and Affiliates

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 601,367	$ 1,500,610
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,725	32,622
Amortization of debt issuance costs	1,071	-
Bad debts and project investment losses	102,969	6,693
Unrealized losses (gains) on investments	18,730	(9,625)
Acquisition of Episcopal Housing Corporation Development Corporation, Inc.	(461,725)	-
(Increase) decrease in:		
Fees receivable	(215,055)	(93,050)
Contributions receivable	(1,800)	975
Prepaid expenses	843	-
Restricted deposits	(7,305)	-
Development costs and advances	(66,050)	13,639
Increase (decrease) in:		
Accounts payable and accrued expenses	8,058	4,711
Tenant security deposits	933	1,759
Net cash provided by operating activities	153,761	1,458,334
Cash flows from investing activities:		
Purchase of investments, including reinvested dividends	(38,259)	(212,826)
Proceeds from sales of investments	100,000	-
Capital expenditures	-	(1,297,648)
Net cash provided by (used in) investing activities	61,741	(1,510,474)
Cash flows from financing activities:		
Principal payments - mortgages	(45,536)	(35,640)
Net cash used in financing activities	(45,536)	(35,640)
Net increase (decrease) in cash and cash equivalents	169,966	(87,780)
Cash and cash equivalents - beginning of year	1,263,688	1,351,468
Cash and cash equivalents - end of year	$ 1,433,654	$ 1,263,688

See the independent auditors' report and accompanying notes.

Episcopal Housing Corporation and Affiliates
Consolidated Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018				2017			
		Supporting Services				Supporting Services		
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
Payroll and payroll related	$ 311,714	$ 51,817	$ 5,021	$ 368,552	$ 174,771	$ 21,525	$ 5,887	$ 202,183
Professional services	4,260	19,206	-	23,466	3,601	7,500	-	11,101
Office	25,380	11,405	5,248	42,033	19,493	9,450	4,747	33,690
Occupancy	73,564	476	70	74,110	16,486	602	152	17,240
Bad debts and project investment losses	49,623	53,346	-	102,969	-	6,693	-	6,693
Repairs and maintenance	62,377	-	-	62,377	33,144	-	-	33,144
Taxes, licenses and insurance	36,414	25,997	37	62,448	1,964	242	66	2,272
Interest	24,844	-	-	24,844	4,920	-	-	4,920
Depreciation and amortization	170,049	1,463	213	171,725	30,505	1,662	455	32,622
	$ 758,225	$ 163,710	$ 10,589	$ 932,524	$ 284,884	$ 47,674	$ 11,307	$ 343,865

See the independent auditors' report and accompanying notes.

NOTE 1 - CORPORATE ORGANIZATION, MISSION, AND NATURE OF OPERATIONS

Episcopal Housing Corporation (EHC) is a non-stock, charitable organization exempt from federal income tax under section 501(a) of the Internal Revenue Code, as an organization described in section 501(c)(3). EHC was incorporated on March 30, 1995 in the State of Maryland.

EHC's mission is to respond to God's call to establish justice for the most in need by building affordable housing and creating the foundations for healthy and sustainable communities.

Since its incorporation, EHC has been the developer and/or agent for other organizations in the acquisition, construction, and renovation of residential housing and community facilities. Until its adoption of a new strategic plan in early 2005, EHC had not planned to own or operate housing projects. Since 2005, EHC has been pursuing property ownership primarily through control of Single Asset Limited Liability Corporations. In the early stages of evaluating and choosing projects, EHC has, in certain circumstances, made expenditures for acquisition and pre-development costs without assurance that such expenditures would be recovered. When such costs are deemed to be unrecoverable, they are included in project investment losses.

In October 2002, EHC purchased and concurrently leased a three-story building to The Johns Hopkins Hospital. See note 13 for details about these transactions and the mortgage loans on these properties.

EHC operates the Woodlawn Oxford house and leases the apartments to male tenants who have overcome substance abuse.

On August 9, 2016, EHC formed the Sojourner Argyle, LLC as a wholly owned affiliate of EHC. The purpose of the LLC is to provide permanent supportive housing for homeless persons.

On January 1, 2018, EHC acquired all the assets and liabilities of its related party Episcopal Housing Corporation Development Corporation, Inc. (EHCDC). See note 15.

The consolidated financial statements are prepared on the accrual basis of accounting and are intended to present net assets, revenues and support, expenses, gains and losses based on the existence or absence of donor-imposed designations. The consolidated financial statements include the accounts of EHC and affiliates under its control.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Episcopal Housing Corporation Inc. and Affiliates, Cason Arms, LLC, Sojourner Argyle, LLC., 2401, LLC., St. Stephens Court, LLC, EHC - North Creek Run II, LLC., EHC - Brinkley Hill, LLC., 3401 Ashburton, LLC, EHC - Preserve at Red Run, LLC , EHC - Four Ten Lofts, LLC, and EHC Four Ten Lofts Development, LLC. Intra-entity transactions and balances have been eliminated in consolidation. See note 6.

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

Investments are recorded at fair value based on quoted prices in active markets (all Level 1 measurements). Investment return, which consists of interest and dividend income earned, realized gains or losses, and the unrealized appreciation (depreciation) on those investments, is included in the consolidated statement of activities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect the amounts reported in the consolidated financial statements.

Major expenditures for property and equipment having a useful life of five (5) years or more are capitalized. Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed over estimated useful lives ranging from five (5) to forty (40) years using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the terms of the related leases. EHC uses the direct expensing method to account for planned major maintenance activities.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as an increase in donor undesignated support unless the donor has designated the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as an addition to donor designated support. Absent donor stipulations regarding how long donated assets must be maintained, EHC reports expirations of donor designations when the donated or acquired assets are placed in service as instructed by the donor. EHC reclassifies donor designated net assets to donor undesignated net assets at that time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EHC reviews its rental properties for impairment whenever changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss would be reported. No impairment loss has been recognized for the years ended December 31, 2018 and 2017, respectively.

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between EHC and tenants of the property are short term operating leases.

Sojourner Argyle, LLC is subject to Section 8 Housing Assistance Payments (HAP) agreements with HUD, and a significant portion of the Project's rental income is received from HUD.

The consolidated financial statements report certain categories of expenses that are attributable to program or supporting services. Management's estimate of the allocations of expenses to program service, management and general, and fund raising is based on appropriate allocation factors such as estimated time spent in those areas or square footage used.

Unconditional promises to give that are expected to be collected within one (1) year are recorded at net realizable value. If material, unconditional promises to give that are expected to be collected over longer periods are recorded at present value of their estimated future cash flows.

Fees receivable are reported at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Management's estimate of the allowance is based on historical collection experience and a review of the current status of fees receivable.

Highly liquid investments with maturities of three (3) months or less at date of purchase are considered to be cash equivalents.

Contributions received are recorded as donor undesignated or donor designated support, depending on the existence and/or nature of donor designations. Donations of securities are recorded at fair market value at the date of the gift and the gain or loss on sale is recognized in the period in which the sale is made. Support that is donor designated is reported as an increase in donor undesignated net assets if the designation is satisfied in the reporting period in which the support is recognized.

EHC recognizes donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EHC received commitments of funds to be invested in projects which are in various stages of development or construction. Commitments of funds for projects not owned by EHC are not included in EHC's accounts since the projects for which they are received are to be owned by others.

EHC generally recognizes development fees earned on long-term contracts on the percentage of completion basis. Asset management fees are generally recognized as earned under terms of the related agreements.

NOTE 3 - RETIREMENT PLAN

EHC maintains a 403(b) retirement plan covering all employees. EHC will match each employee's contribution up to 3% of the employee's salary. Retirement plan expense was approximately $6,700 and $6,400 for the years ended December 31, 2018 and 2017, respectively.

NOTE 4 - CONCENTRATIONS

Approximately 99% and 72% of receivables are from three (3) customers at December 31, 2018 and 2017, respectively. Approximately 99% and 97% of development fee revenues are from one (1) customer for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 - CREDIT RISK

EHC maintains cash balances at one (1) bank that exceed $250,000, the amount insured by the Federal Deposit Insurance Corporation (FDIC); however, EHC has not experienced any losses with respect to its bank balances in excess of government provided insurance.

NOTE 6 - INVESTMENT IN TAX CREDIT LOW INCOME HOUSING PROJECTS

2401, LLC

EHC is the sole member of 2401, LLC, the managing member of St. Stephen's Court, LLC. PNC Bank is the limited investment member of St. Stephen's Court, LLC, which owns the St. Stephen's Court Apartment (the Project), an affordable housing project in West Baltimore consisting of seventy-two (72) rental units in six (6) buildings and a management office and community amenities in a seventh building. The Project qualified for and received an allocation of low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code. As a result, the Project is subject to regulations relating to eligibility of occupants and unit gross rental charges, among other matters, to the end of the compliance period (in 2050); however, PNC Bank intends to withdraw from the LLC in 2025. The previous owner of the Project has an option to re-purchase it for a price equal to the remaining debt balance at the end of the compliance period. 2401, LLC has the second option to purchase the Project at that time.

NOTE 6 - INVESTMENT IN TAX CREDIT LOW INCOME HOUSING PROJECTS (continued)

2401, LLC (continued)

2401, LLC which holds a 0.012% membership interest in St. Stephen's Court, LLC and receives a share of distributions of net cash flow. 2401, LLC's share of net cash flow for the years ended December 31, 2018 and 2017 were approximately $102,600 and $93,300 respectively and is included in rental income. 2401, LLC has agreed to lend St. Stephen's Court, LLC amounts required to fund operating deficits, if any, incurred by it through the end of the tax credit compliance period (2050) to the extent they exceed the Project's operating reserve.

EHC is entitled to receive an annual company management fee for property management oversight, tax credit compliance monitoring and related services provided to St. Stephen's Court, LLC. The base fee is $10,800, subject to an annual increase of 3%, and was approximately $13,300 and $12,900, for the years ended December 31, 2018 and 2017, respectively. 2014, LLC is also entitled to receive an annual supplementary management fee of $25,000 for services in the ongoing management of the Project. At December 31, 2018 and 2017, management fees receivable from St. Stephen's Court, LLC were approximately $38,300 and $37,900, respectively.

EHC - NORTH CREEK RUN II, LLC

EHC is the sole member of EHC - North Creek Run II, LLC. EHC, a managing member, holds a .00459% membership interest in North Creek Run II, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2018 and 2017.

EHC - BRINKLEY HILL, LLC

EHC is the sole member of EHC - Brinkley Hill, LLC. EHC is a co-managing member holding a .0051% membership interest in Brinkley Hill Associates, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2018 and 2017.

EHC - PRESERVE AT RED RUN, LLC

EHC is the sole member of EHC - Preserve at Red Run, LLC. EHC is a co-managing member holding a .0025% membership interest in Red Run Associates, LLC. There has been no net cash flow available for distribution for the years ended December 31, 2018 and 2017.

NOTE 7 - DEVELOPMENT COSTS AND ADVANCES

EHC, as a developer and/or agent, advances money during the development of the project as costs are incurred. During the development stage and upon completion, EHC will be reimbursed costs previously advanced. At December 31, 2018 and 2017, development costs and advances were approximately $67,300 and $50,900, respectively.

NOTE 8 - INCOME TAXES

EHC is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law. Contributions to EHC are tax deductible within the limitations prescribed by the Code. EHC has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

Sojourner Argyle, LLC, and 3401 Ashburton, LLC are for-profit single member LLCs, wholly owned affiliates of EHC, are not required to file separate income tax returns. All income and losses pass through to the member.

2401, LLC is a for-profit single member LLC, wholly owned affiliate of EHC and is required to file a separate income tax return and pay income tax on distributions, see note 6. Income tax expense for the years ended December 31, 2018 and 2017 was $25,747 and $0. Accrued income tax expense was $25,747 and $0 at December 31, 2018 and 2017, respectively.

EHC - North Creek Run II, LLC, EHC - Brinkley Hill, LLC and EHC - Preserve at Red Run, LLC are all for-profit single member LLC's, wholly owned affiliates of EHC and are required to file a separate income tax return and pay income taxes on distributions, see note 6. There were no distributions made to these LLC's for the years ended December 31, 2018 and 2017, respectively and as such no tax liabilities were incurred.

The Internal Revenue Service has not examined any of EHC's or related entities' income tax returns for the past three (3) years, which are subject to examination. EHC has not taken any questionable tax positions with respect to unrelated business income or any other matters that might jeopardize its 501(c)(3) status. Sojourner Argyle, LLC, 3401 Ashburton, LLC, Cason Arms, LLC have not taken any questionable tax positions. EHC – North Creek Run II, LLC, EHC – Brinkley Hill, LLC and EHC – Preserve at Red Run, LLC have elected to be treated as for profit corporations and therefore are not included in EHC’s 990. None of these for profit corporations have incurred any tax liabilities.

2401, LLC filed and paid corporate taxes beginning in 2018. While management considers the possibility of assessing additional back taxes and penalties remote, management recognizes that IRS could elect to review taxable distributions received by 2401, LLC in the past three (3) prior tax years. Should IRS perform such a review, it is within their purview to assess back taxes and any accompanying interest or penalties.

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,:

	2018	2017
Land	$ 108,250	$ 6,000
Buildings and improvements	4,578,353	2,570,703
Furniture and fixtures	61,157	61,157
	4,747,760	2,637,860
Accumulated depreciation	354,212	182,486
	$ 4,393,548	$ 2,455,374

NOTE 10 - COMMITMENTS

Under the terms of a memorandum of understanding with the Episcopal Diocese of Maryland, EHC improved a property owned by the Diocese and will lease the property from the Diocese. The lease term will approximate thirty (30) years and lease payments are satisfied by the value of the improvements made to the building by EHC. The cost of the completed improvements were approximately $292,000, and EHC moved into the new location in late 2013.

Amortization of leasehold improvements was approximately $14,900 and $15,600 for the years ended December 31, 2018 and 2017.

NOTE 11 - ACCOUNTING PRONOUNCEMENTS

The Organization adopted the requirements in FASB ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The primary changes include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources.

NOTE 12 - MORTGAGES PAYABLE

	2018	2017
Mortgage payable - CURE building, interest rate of 4.61%. Monthly principal and interest payments of $3,380 are due through February 2020. See note 13.	$ 47,357	$ 84,688
Mortgage payable - Sojourner building, interest rate of 0%. Principal payments of $17,500 are due annually only from surplus cash. The loan matures approximately October 2057.	700,000	700,000
Mortgage payable - Ashburton building, interest rate of Prime plus 2%, but not less than 7%. Monthly principal and interest payments of $2,588 are due through September 2032.	279,769	-
Mortgage payable - Ashburton building, interest rate of 0%. Principal payments of $78,000 are due annually only from surplus cash. The loan matures and subject to various conditions will be forgiven approximately January 2026.	780,000	-
Mortgage payable - Muir Street, interest rate of 0%. No payments are due as long as the building is used for permanent housing for men who are in recovery. The loan matures and subject to various conditions will be forgiven approximately October 2021.	80,313	-
Mortgage payable - Muir Street, interest rate of 0%. No payments are due as long as the building is used for permanent housing for men who are in recovery. The loan matures and subject to various conditions will be forgiven approximately February 2024.	331,850	-
	2,219,289	784,688
Less: unamortized debt issuance costs	17,588	-
	$ 2,201,701	$ 784,688

NOTE 12 - MORTGAGES PAYABLE (continued)

Future principal payments on all mortgages payable are as follows for the years ended December 31,:

2019	$ 73,222
2020	18,050
2021	10,532
2022	11,162
2023	11,831
Thereafter	$ 2,094,492

Loan financing costs incurred relating to a mortgage loan totaled $17,588 and $0 at December 31, 2018 and 2017, respectively. The accumulated amortization was $1,071 and $0 at December 31, 2018 and 2017, respectively. The costs are being amortized over 197 months, which coincides with the maturity date of the mortgage note. Amortization of the debt issuance costs is reported as interest expense in the consolidated statements of activities and change in net assets. Amortization expense for the years ended December 31, 2018 and 2017 was $1,071 and $0, respectively. Annual amortization expense will approximate $1,100 per year through 2034.

NOTE 13 - CURE BUILDING PURCHASE AND MORTGAGE

On October 18, 2002, EHC purchased the CURE building, a three-story office building on North Broadway in Baltimore City. The aggregate cost of the purchase, including incidental costs, was $224,817. On the same date, EHC entered into a twenty (20) year, triple-net lease agreement with The Johns Hopkins Hospital (JHH) for the use of the building by its child and adolescent psychiatry community programs. In 2012 the lease was amended to correspond with the refinanced loan and now extends through February 2020. The new lease may be terminated with thirty (30) days notice and a termination fee of the lesser of the outstanding principal of the loan or twenty-four (24) months of base rent ($105,120). Annual rentals of $52,560 are payable to EHC in each of the years through 2019. The aggregate rentals payable to EHC in 2020 total approximately $8,800.

EHC's purchase of the CURE Building was funded by a first mortgage loan of $400,000 from a commercial bank. Under the lease agreement with JHH, the loan proceeds in excess of the costs incurred by EHC in making the purchase were required to be expended for improvements to the property on behalf of JHH. This excess cash of approximately $186,000 as of December 31, 2018 and 2017, is being held by EHC in a separate bank account and is classified as restricted cash on the consolidated statements of financial position. EHC expects JHH will direct EHC to use this cash to make improvements on the CURE Building.

NOTE 14 - REVENUE RECOGNITION

EHC normally recognizes development fee income on a percentage of completion basis. However, fees of approximately $85,000 earned on a major, long-term project completed in 2007 were not recorded since there was a shortfall in total funding for the project. Payments of $59,622 have been received to date, of which $10,000 was donated back to the project for roof repairs. The remaining balance of approximately $25,000 will be recognized as revenue when received.

Fees of approximately $490,000 earned on a major, long-term project completed in 2017 were not recorded since there was a shortfall in total funding for the project.

NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest was approximately $23,600 and $4,900 for the years ended December 31, 2018 and 2017, respectively.

Non-cash investing and financing activities -

On January 1, 2018, EHC merged its related party EHCDC. The following were received and recorded as non-cash transactions:

Accounts receivable collected	$ (191,249)
Restricted deposits	26,897
Prepaid expenses	7,304
Accounts payable	(14,870)
Tenant security deposits	(14,778)
Property and equipment	2,109,900
Mortgages payable	(1,461,479)
Total non-cash contribution	461,725
Cash	9,110
Contribution of EHCDC	$ 470,835

A mortgage of $700,000 was used to finance construction of the Sojourner building during the year ended December 31, 2017.

NOTE 16 - FAIR VALUE MEASUREMENTS

The accounting codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets or liabilities (Level 1) the lowest priority to unobservable inputs (Level 3) If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the assets and liabilities. The hierarchy requires the use of observable market data when available. The three levels of the fair value hierarchy as defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities and market-corroborated inputs.

If the assets or liabilities have a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets or liabilities.

Level 3 - Inputs to the valuation methodology are unobservable for the assets or liabilities and are significant to the fair value measurement.

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 16 - FAIR VALUE MEASUREMENTS (continued)

Fair values of assets' and liabilities' measured on a recurring basis of December 31, are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Mutual funds	$ 261,592	$ 261,592	$ -	$ -
	261,592	261,592	-	-
December 31, 2017				
Mutual funds	342,063	342,063	-	-
	$ 342,063	$ 342,063	$ -	$ -

NOTE 17 - INVESTMENTS

EHC's investments are carried at fair value (as determined in quoted prices in an active market for identical assets).

Investments consisted of the following at December 31,:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Publicly traded mutual funds	$ 269,152	$ 261,592	$ 332,483	$ 342,063

NOTE 17 - INVESTMENTS (continued)

Investment revenue consisted of the following for the years ended December 31,:

	2018	2017
Interest and dividends	$ 22,650	$ 15,712
Realized and unrealized (losses) gains	(18,730)	9,625
	$ 3,920	$ 25,337

NOTE 18 - RECLASSIFICATION

Certain amounts pertaining to fiscal year 2017 have been reclassified to conform to current year presentation.

NOTE 19 - FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR

EHC's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	$ 1,433,654
Investments	261,592
Fee income receivable, net of allowance for doubtful accounts	618,304
Contributions receivable	1,800
Total	$ 2,315,350

NOTE 20 - SUBSEQUENT EVENTS

EHC has evaluated subsequent events through the date the consolidated financial statements were available to be issued on April 29, 2019, and determined there are no material transactions or events to disclose.