KENDAL~CROSSLANDS COMMUNITIES

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

KENDAL~CROSSLANDS COMMUNITIES
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kendal~Crosslands Communities
Kennett Square, Pennsylvania

We have audited the accompanying financial statements of Kendal~Crosslands Communities, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Directors
Kendal~Crosslands Communities

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kendal~Crosslands Communities as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding a Change in Accounting Principles

As discussed in Note 1 to the financial statements, Kendal~Crosslands Communities adopted provisions of Financial Accounting Standards Board Accounting Standards Updates 2016-18, *Statement of Cash Flows*. The new accounting standard clarifies how restricted cash is to be classified and presented in the statement of cash flows. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the financial statements, Kendal~Crosslands Communities adopted Financial Accounting Standards Board Accounting Standards Updates 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.

As discussed in Note 1 to the financial statements, Kendal~Crosslands Communities adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-01, *Financial Instruments*. The new accounting standard, among other things, requires investments in equity securities to be measured at fair value with unrealized holding gains and losses included within the performance indicator. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 1, 2020

KENDAL~CROSSLANDS COMMUNITIES
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 13,079,264	$ 7,103,467
Assets Limited as to Use:		
Deposits from Prospective Residents	847,000	832,000
Entry Fee Receivable	2,339,395	1,365,320
Accounts Receivable	142,405	331,422
Contributions Receivable	930,000	580,000
Prepaid Expenses and Other Current Assets	2,627,623	2,603,009
Total Current Assets	19,965,687	12,815,218
INVESTMENTS	61,585,814	54,572,697
ASSETS LIMITED AS TO USE		
Under Board Designation:		
Capital Replacement Reserve	17,085,630	16,503,415
Statutory Minimum Liquid Reserve	4,598,332	4,482,982
Gifts and Bequests	7,124,056	6,377,394
Total Assets Limited as to Use	28,808,018	27,363,791
RESTRICTED FUNDS AND OTHER ASSETS		
Monthly Fee Reserves	11,317,985	10,163,965
Other Restricted Funds	7,931,209	6,933,171
Pooled Income Funds	92,118	79,939
Total Restricted Funds and Other Assets	19,341,312	17,177,075
PROPERTY, PLANT, AND EQUIPMENT		
Land	9,162,692	9,162,692
Buildings and Improvements	185,078,118	177,100,949
Furniture and Equipment	36,842,983	33,027,730
Total	231,083,793	219,291,371
Accumulated Depreciation	(130,084,912)	(121,399,212)
Total Property, Plant, and Equipment	100,998,881	97,892,159
OTHER ASSETS	1,166,067	1,427,692
Total Assets	$ 231,865,779	$ 211,248,632

See accompanying Notes to Financial Statements.

KENDAL~CROSSLANDS COMMUNITIES
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 2,137,840	$ 1,771,322
Accounts Payable and Accrued Expenses	5,167,831	4,904,544
Deferred Advanced Revenue	266,130	139,535
Deposits from Prospective Residents	847,000	832,000
Total Current Liabilities	8,418,801	7,647,401
LONG-TERM DEBT, NET OF CURRENT PORTION	50,652,372	48,690,206
DEFERRED CHARITABLE GIFT OBLIGATIONS	402,088	469,248
DEFERRED OCCUPANCY RIGHTS FEE REVENUE	3,015,140	3,353,136
DEFERRED ENTRY FEE REVENUE	84,974,386	82,114,831
Total Liabilities	147,462,787	142,274,822
NET ASSETS		
Without Donor Restrictions	65,287,609	52,122,238
With Donor Restrictions	19,115,383	16,851,572
Total Net Assets	84,402,992	68,973,810
Total Liabilities and Net Assets	$ 231,865,779	$ 211,248,632

See accompanying Notes to Financial Statements.

KENDAL~CROSSLANDS COMMUNITIES
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUE		
Residential Fees	$ 32,288,076	$ 31,327,506
Health Center Fees:		
Resident Fees	8,143,495	8,291,714
Medicare and Other Insurance	1,386,769	1,345,817
Per Diem Fees	4,502,081	4,118,359
Amortization of Deferred Entry and Occupancy Rights Fees	8,708,612	8,267,931
Interest and Dividend Income	2,032,567	1,887,668
Other Program Services	756,678	766,852
Other Operating Revenue	164,475	65,296
Contributions	473,865	63,900
Net Assets Released from Restrictions - Operations	163,222	163,979
Net Assets Released from Restrictions - Provision for Uncollectible Monthly Assistance	771,690	644,621
Total Revenue	59,391,530	56,943,643
EXPENSES		
General and Administrative	5,038,386	4,966,663
System Fee - Affiliate	1,460,268	1,416,552
Housekeeping	2,444,307	2,455,670
Maintenance	4,692,217	4,547,292
Culinary Services	6,742,746	6,459,132
Health Services	12,961,707	12,583,237
Pharmacy Expenses, Net of Reimbursement of $978,976 and $996,034, for December 31, 2019 and 2018, Respectively	1,045,691	1,118,618
Employee Benefits	6,669,741	6,250,133
Utilities	1,573,866	1,777,328
Real Estate Taxes	2,290,679	2,275,480
Interest	1,483,229	1,330,370
Provision for Uncollectible Monthly Assistance	771,690	644,621
Depreciation	8,685,700	8,399,927
Total Expenses	55,860,227	54,225,023
INCOME FROM OPERATIONS	3,531,303	2,718,620
NONOPERATING REVENUE AND EXPENSES		
Net Realized Gains on Sale of Investments	584,639	1,259,487
Unrealized Gains (Losses) on Equity Securities	4,466,945	(3,380,523)
Other Nonoperating Revenue (Expense)	(2,137)	(25,380)
Total Nonoperating Revenue and Expenses	5,049,447	(2,146,416)
EXCESS OF REVENUE OVER EXPENSES	8,580,750	572,204

See accompanying Notes to Financial Statements.

KENDAL~CROSSLANDS COMMUNITIES
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
EXCESS OF REVENUE OVER EXPENSES	$ 8,580,750	$ 572,204
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net Unrealized Gains (Losses) on Fixed Income Investments	4,846,246	(2,600,633)
Change in the Fair Value of the Interest Rate Cap Agreements	(261,625)	(2,906)
Increase (Decrease) in Net Assets Without Donor Restrictions	13,165,371	(2,031,335)
NET ASSETS WITH DONOR RESTRICTIONS		
Net Realized Gains on Investments	221,022	495,336
Net Unrealized Gains (Losses) on Investments	2,000,707	(1,431,961)
Contributions	494,626	265,442
Interest and Dividend Income	482,368	429,159
Net Assets Released from Restrictions - Operations	(163,222)	(163,979)
Net Assets Released from Restrictions - Provision for Uncollectible Monthly Assistance	(771,690)	(644,621)
Increase (Decrease) in Net Assets With Donor Restrictions	2,263,811	(1,050,624)
INCREASE (DECREASE) IN NET ASSETS	15,429,182	(3,081,959)
Net Assets - Beginning of Year	68,973,810	72,055,769
NET ASSETS - END OF YEAR	$ 84,402,992	$ 68,973,810

See accompanying Notes to Financial Statements.

KENDAL~CROSSLANDS COMMUNITIES
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	$ 15,429,182	$ (3,081,959)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	8,685,700	8,399,927
Amortization of Debt Related Costs	40,000	43,500
Amortization of Deferred Entry and Occupancy Rights Fee Revenue	(8,708,612)	(8,267,931)
Deferred Entry Fee Revenue Received, Net of Refunds	10,191,096	8,672,272
Deferred Occupancy Rights Fee Revenue (Loss), Net of Refunds	65,000	(40,000)
Net Unrealized and Realized (Gains) Losses on Investments	(12,119,559)	5,658,294
Change in the Fair Value of Interest Rate Cap Agreements	261,625	2,906
Changes in Assets and Liabilities:		
Contributions Receivable	(350,000)	550,000
Accounts Receivable, Prepaid Expenses, and Other Assets	164,403	(600,459)
Accounts Payable, Accrued Expenses, and Other Liabilities	322,722	(789,053)
Net Cash Provided by Operating Activities	13,981,557	10,547,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant, and Equipment, Net	(11,792,422)	(7,505,120)
Net Sales (Purchases) of Investments	1,482,978	(5,585,173)
Net Cash Used by Investing Activities	(10,309,444)	(13,090,293)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(1,881,890)	(1,552,086)
Proceeds from Long-Term Debt	4,170,574	2,924,491
Payments for Debt Related Costs	-	(25,000)
Payments for Interest Rate Caps	-	(293,101)
Deposits from Residents, Net of Refunds	15,000	78,000
Net Cash Provided by Financing Activities	2,303,684	1,132,304
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	5,975,797	(1,410,492)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	7,103,467	8,513,959
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 13,079,264	$ 7,103,467

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kendal~Crosslands Communities (the Organization) owns and operates Kendal at Longwood (Kendal) and Crosslands, both continuing care retirement communities, and Coniston and Cartmel, both residential housing communities, all of which are located near Kennett Square, Pennsylvania. The Organization is a nonprofit Pennsylvania corporation. In addition, Kendal~Crosslands Communities acts as a trustee, depositor, and manager for charitable contributions and other funds, which are classified in the financial statements as restricted funds and other assets.

Kendal at Longwood has approximately 254 independent living units and 115 health center beds. Crosslands has approximately 243 independent living units and 111 health center beds. Coniston has 18 cottages and Cartmel has 56 cottages.

Performance Indicator

The statements of operations and changes in net assets includes the excess (deficit) of revenue over expenses which represents unrestricted revenue and expenses for the reporting period. Other changes in net assets without donor restrictions which are excluded from the excess (deficit) of revenue over expenses include unrealized gains and losses on investments in fixed income securities to the extent that losses are considered temporary, the change in the fair value of the interest rate cap agreements and contributions of, and assets released from donor restrictions related to, long-lived assets.

Basis of Presentation

The records are maintained on the accrual basis of accounting.

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, Cash Equivalents, and Restricted Cash

The Organization considers cash and cash equivalents to be all highly liquid investments having a maturity of less than one year. The Organization's restricted investment funds maintain a portion of cash and cash equivalents. Restricted funds and other assets are funds restricted by donors and held by investment custodians. These funds maintain cash balances corresponding to investment activities of the custodians and are considered restricted cash. They are, however, not represented in the beginning and ending balances of cash and cash equivalents in the statements of cash flows as the custodian-held cash activities are not accounted for by the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment considering historical information. Residents are not required to provide collateral for services rendered. The monthly residential fee is payable in advance. All other fees are payable on or before the first day of the calendar month following the resident statement date. Accounts past due for more than 10 days may be subject to a service charge. When all collection efforts are exhausted, the past due accounts for direct admissions to the health care center are written off against the related allowance. Past due accounts for lifecare residents are supplemented by monthly fee reserves for residents that experience an inability to pay. For the years ended December 31, 2019 and 2018, the allowance for uncollectible accounts is $300,000 and $430,000, respectively.

Assets Limited as to Use, Investments, and Investment Income

Assets limited as to use include designated assets set aside by the board of directors for future capital improvements, statutory minimum liquid reserves, and assets to provide for refundable deposits from prospective residents over which the board retains control and may at its discretion subsequently use for other purposes.

Investments in marketable securities are measured at fair value, except for debt securities classified as held to maturity, which are measured at amortized cost. Investment income or loss (including realized gains and losses on investments and interest and dividends) is included in the excess (deficit) of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments in equities securities are included in the excess (deficit) of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments in fixed income securities are excluded from the excess (deficit) of revenue over expenses to the extent that losses are considered temporary.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and the Organization capitalizes all expenditures of property, plant, and equipment having an estimated useful life of three or more years and costing $3,000 or more. Depreciation is provided on assets using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance are expensed as incurred. Depreciation expense for the years ended December 31, 2019 and 2018 was approximately $8,686,000 and $8,400,000, respectively. The estimated lives of the assets are as follows:

Buildings and Improvements	33 to 40 Years
Furniture and Equipment	4 to 20 Years

The Organization records impairment losses on property, plant, and equipment when events and circumstances indicate that it is probable that the assets are impaired and the 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 at December 31, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets

Other assets include an investment in an insurance risk retention group, deposits, and other receivables.

As of December 31, 2019 and 2018, the Organization has an investment in an insurance risk retention group, measured on the cost basis of $181,658. In addition, as of December 31, 2019 and 2018, other assets include a receivable of $427,710 relative to the subscriber surplus account of the insurance risk retention group. This investment is further described in Note 10 to the financial statements.

As of January 1, 2011, the Organization began participating in a self-insurance program for health care benefits for staff. As a requirement of this program, a deposit of $492,000 was provided to the insurance carrier as of March 31, 2011. The program includes stop loss reinsurance for both individual and aggregate claims.

Deposits from Prospective Residents

Deposits from prospective residents represent waiting list deposits. These deposits are fully refundable.

Entry Fee Receivable

Entry fee receivable represents entrance fees that are deferred for up to one year after a resident occupies a unit. The receivables are expected to be collected during the immediately subsequent fiscal years and are included in current assets as of December 31, 2019 and 2018. Management determined that no allowance is necessary on the entry fee receivable.

Resident Entry Fees and Occupancy Rights Fees

Entry fees are recorded as deferred revenue and amortized into operating revenue over the actuarially computed life expectancy of each resident or couple. Upon death of a sole surviving resident, any remaining unamortized portion of the entry fee is recognized as revenue. Kendal and Crosslands' entry fees are initially refundable upon receipt but become nonrefundable at the rate of 2% per month until becoming fully nonrefundable after 50 months. At December 31, 2019 and 2018, the portion of deferred entry fee revenue subject to such refund provisions amounted to $25,450,292 and $23,216,682, respectively.

Deferred occupancy rights fees include Coniston's entry fees and Coniston and Cartmel occupancy rights fees. Coniston and Cartmel occupancy rights fees are to be sold by the resident with the Organization having the first option to repurchase the occupancy right.

Coniston and Cartmel fees are recorded as deferred revenue and amortized into operating revenue on the straight-line method over the remaining useful lives of the facilities, which were estimated at the initial occupancy dates to be approximately 33 years for Coniston and 40 years for Cartmel. As of March 31, 2006, the amortization of deferred revenue for Coniston was extended six years to correspond to building improvements to the facility which extended the useful life of the building.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Charitable Gift Obligations

The Organization receives contributions under charitable gift annuity arrangements. When a contribution is received, a liability is established for the annuity payments based on the annuitant's estimated life expectancy using a 7.5% discount rate. The remainder of the contribution is recognized as an increase in net assets without donor restrictions, unless specifically designated by the donor for another use. Upon the death of the annuitant, any remaining liability is recorded as income.

Net Assets

The financial statements present information regarding the Organization's financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions (subject to donor or time restrictions with certain assets maintaining a principal amount in perpetuity). The two classes are differentiated by donor restrictions:

Net Assets Without Donor Restrictions – Net assets without donor restriction are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets with donor restrictions are subject to donor-imposed stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. They include gifts restricted by donors for specific programs and other operating purposes. There are also those net assets with donor restrictions that are subject to donor-imposed stipulations that are required to be maintained in perpetuity, thereby restricting the use of principal. Normally, donor stipulations allow part or all of the income earned to be used currently for a designated purpose.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period pledged. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. The amount of contributions receivable at December 31, 2019 and 2018 are $930,000 and $580,000, respectively. As of December 31, 2019 and 2018, an allowance for uncollectible contributions receivable was not warranted.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Resident services includes residential fees, health center fees, and other program and operating revenues on the statements of operations and changes in net assets. 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 in advance, and third-party payors 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 receiving skilled nursing or other services within the facility or residents receiving services within or outside of the facility. The Organization measures the performance obligation from admission into the facility or commencement of services to the point when the Organization is no longer required to provide services to that resident, which is generally at the time of death or termination of the resident contract. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the residents and customers in a retail setting (e.g., dining charges) and the Organization does not believe it is required to provide additional goods or services related to that sale.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization’s policy and/or implicit price concessions provided to residents. 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.

The composition of resident services revenue by primary payor is as follows for the years ended December 31:

	2019	2018
Residential and Private Pay	$ 45,865,007	$ 44,593,091
Medicare	1,376,567	1,322,453
Total Resident Services Revenue	$ 47,241,574	$ 45,915,544

Revenue from resident’s deductibles and coinsurance are included in the categories presented above based on the primary payor.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Services Revenue (Continued)

The composition of resident services revenue based on its service lines, method of reimbursement, and timing of revenue recognition are as follows for the years ended December 31:

	2019	2018
Service Lines		
Independent Living	$ 32,500,129	$ 31,535,663
Skilled Nursing Facility	8,190,045	8,226,565
Personal Care	5,569,436	5,317,093
Home Care	60,811	4,075
Other Sales	921,153	832,148
Total Resident Services Revenue	$ 47,241,574	$ 45,915,544
Method of Reimbursement		
Fee for Service	$ 46,320,421	$ 45,078,252
Other	921,153	837,292
Total Resident Services Revenue	$ 47,241,574	$ 45,915,544
Timing of Revenue and Recognition		
Services Transferred Over Time	$ 46,320,421	$ 45,078,252
Sales at a Point in Time	921,153	837,292
Total Resident Services Revenue	$ 47,241,574	$ 45,915,544

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less.

Fair Value

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value (Continued)

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.

The fair values of financial instruments are summarized further in Note 13.

Obligation to Provide Future Services

The Organization periodically calculates the present value of the net future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entry fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entry fees, a liability is recorded with a corresponding charge to income.

As a result of the calculation, the present value of the net cost of future services and use of facilities did not exceed deferred entry fee revenue. Accordingly, no obligation was recorded for the years ended December 31, 2019 and 2018.

Medicare

Revenue from the Medicare program accounted for approximately 2.82% of the Organization's revenue for the years ended December 31, 2019 and 2018. Laws and regulations governing the Medicare program are complex and subject to interpretation. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and potential exclusion from the Medicare program.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from state income taxes under the Commonwealth of Pennsylvania statutes.

The Organization follows the provisions of the income tax accounting standards regarding the recognition and measurement of uncertain tax positions. It is the Organization's policy to account for any interest or penalties assessed relating to uncertain tax positions, if any, as general and administrative expenses. The Organization did not incur any interest or penalties for the years ended December 31, 2019 and 2018. The application of these provisions has no impact on the Organization's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assistance

The Organization provides financial assistance for entry fees and monthly fees for residents who meet certain criteria. It is anticipated that some portion of these grants may be repaid from the estates of the residents. During the years ended December 31, 2019 and 2018, assistance provided for monthly fees and entry fees was $953,390 and $791,817, respectively, and the provision for uncollectible monthly assistance was $771,690 and $644,621, respectively. Net financial assistance receivable outstanding amounted to $927,000 and $804,303, at December 31, 2019 and 2018, respectively, and assets available for financial assistance, which are included in restricted funds and other assets in the balance sheets, approximated $11,367,000 and $10,206,500, at December 31, 2019 and 2018, respectively.

New Accounting Pronouncements – ASU 2016-18

In November 2016, the FASB issued ASU No. 2018-16, *Statement of Cash Flows (Topic 230).* The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash or cash equivalents. Therefore, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Organization adopted ASU 2016-18 during the year ended December 31, 2019. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets. The Organization's restricted cash resides in its investment portfolio thus the adoption of the standard resulted in no changes to the reporting and disclosure of cash flows as the changes in cash balances within investment accounts are not considered internal transfers. The adoption of the standard was retrospectively applied.

New Accounting Pronouncements – ASU 2014-09

During the year ended December 31, 2019, 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 Organization 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 standard was performed using the modified retrospective method and applied to the financial statements ended December 31, 2019. The adoption did not have an impact on the Organization's financial position or changes in its net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements – ASU 2016-01

During the year ended December 31, 2019, 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 statements of operations. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets.

Future Change in Accounting Policies

ASU 2016-02 Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Organization's leasing activities. The Organization will be required to retrospectively adopt the guidance in ASU No. 2016-02 for the year ended December 31, 2021. Management expects that the effect of the adoption of this standard will not be material.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 1, 2020, the date the financial statements were issued. The results of this evaluation indicated that there are subsequent events or transactions that are required to be disclosed in these financial statements (see Note 15).

NOTE 2 CASH AND CASH EQUIVALENTS, INVESTMENTS, ASSETS LIMITED AS TO USE, AND RESTRICTED FUNDS AND OTHER ASSETS

The asset allocation for the cash and cash equivalents, investments, assets limited as to use, and restricted funds and other assets for the years ended December 31, 2019 and 2018 is:

	2019	2018
Cash and Cash Equivalents	$ 13,079,264	$ 7,103,467
Deposits from Prospective Residents	847,000	832,000
Investments	61,585,814	54,572,697
Capital Replacement Reserve	17,085,630	16,503,415
Statutory Minimum Liquid Reserve	4,598,332	4,482,982
Gifts and Bequests	7,124,056	6,377,394
Monthly Fee Reserves	11,317,985	10,163,965
Other Restricted Funds	7,931,209	6,933,171
Unitrusts and Pooled Income Funds	92,118	79,939
Total	$ 123,661,408	$ 107,049,030

	2019	2018
Cash and Cash Equivalents (Restricted and Unrestricted)	$ 14,509,625	$ 8,273,052
U.S. Government and Agency Securities	22,999,000	35,774,095
Corporate Bonds	34,881,824	15,794,269
Common Stock	33,506,349	32,238,817
Mutual Funds and Real Assets	16,872,988	14,188,510
Financial Assistance and Other Receivables, Net	891,622	780,287
Total	$ 123,661,408	$ 107,049,030

See Note 13 to the financial statements for review of fair values of the financial instruments.

Under the provisions of the Pennsylvania Continuing Care Provider Registration and Disclosure Act (Act), the Organization must maintain a statutory minimum liquid reserve at year-end that is equal to the greater of 10% of the following years total projected operating expenses of Kendal at Longwood and Crosslands, exclusive of depreciation and amortization, or the following years debt service requirements. The statutory minimum liquid reserve requirement as of December 31, 2019 and 2018 is $4,598,332 and $4,482,982, respectively. This minimum requirement is exceeded by the balances shown above of unrestricted cash and cash equivalents, investments, and board-designated investments.

NOTE 2 CASH AND CASH EQUIVALENTS, INVESTMENTS, ASSETS LIMITED AS TO USE, AND RESTRICTED FUNDS AND OTHER ASSETS (CONTINUED)

The statutory minimum liquid reserve requirement as of December 31, 2019 and 2018 is as follows:

	2019	2018
Projected Annual Interest Expense	$ 1,577,192	$ 1,635,340
Principal Payments Due on Long-Term Debt	2,137,840	1,771,322
Liquid Reserve Requirement	$ 3,715,032	$ 3,406,662
Projected Annual Operating Expenses	$ 45,983,319	$ 44,829,818
Minimum Rate	10%	10%
Liquid Reserve Requirement	$ 4,598,332	$ 4,482,982
Statutory Minimum Liquid Reserve	$ 4,598,332	$ 4,482,982

Management believes that the Organization is in compliance with all requirements of the Act as of December 31, 2019 and 2018.

NOTE 3 LIQUIDITY AND AVAILABILITY

As of December 31, 2019, the Organization has, based on normal expenditures, days cash on hand of 710. Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

	2019
Financial Assets at Year End:	
Cash and Cash Equivalents	$ 13,079,264
Accounts and Entrance Fees Receivable, Net	2,481,800
Investments	61,585,814
Assets Limited as to Use Under Board Designation:	
Deposits from Prospective Residents	847,000
Capital Replacement Reserve	17,085,630
Statutory Reserves	4,598,332
Gifts and Bequests	7,124,056
Donor Restricted Funds and Other Assets	19,341,312
Total Financial Assets	126,143,208
Less Amounts Not Available to be Used Within One Year	
Donor Restricted Funds and Other Assets	19,341,312
Interest Rate Protection Fund	14,998,383
Financial Assets Not Available to be Used Within One Year	34,339,695
Financial Assets Available to Meet General Expenditures Within One Year	$ 91,803,513

NOTE 4 LONG-TERM DEBT

Long-term debt for the years ended December 31, 2019 and 2018 is:

	2019	2018
Bank Qualified Revenue Bonds Series 2016	$ 9,734,848	$ 5,829,426
Nonbank Qualified Revenue Bonds Series 2013	17,073,823	18,025,882
Bank Qualified Revenue Bonds Series 2010	26,496,956	27,161,635
Total Long-Term Debt	53,305,627	51,016,943
Less: Current Portion	(2,137,840)	(1,771,322)
Less: Unamortized Debt Issuance Costs	(515,415)	(555,415)
Total Long-Term Debt, Net of Current Portion	$ 50,652,372	$ 48,690,206

On May 13, 2016, the Organization entered into Bank Qualified Revenue Bonds for up to $10,000,000 (the Series 2016 Bonds) relating to the funding of various capital budget items including but not limited to, building renovations, unit combinations and extensions, paving projects, and machinery and equipment replacement and modifications. The Series 2016 Bonds have been issued by Chester County Health and Education Facilities Authority with a private placement with Citizens Bank of Pennsylvania in the amount of $10,000,000. Interest is based on a percentage of one-month LIBOR rate plus a credit spread for the outstanding amount of the Series 2016 Bonds. The interest rates on the Series 2016 Bonds were 2.41% and 2.83% at December 31, 2019 and 2018, respectively. Principal payments on the bonds commenced on June 1, 2019 on the first of each month in installments equal to 1/264 of the total amount advanced as a draw down loan amounting to $454,545 annually. The maturity date is May 1, 2041 upon which all unpaid principal drawn is due. As of December 31, 2019, the balance outstanding on the Series 2016 Bonds was $9,734,848. As of December 31, 2018, the balance outstanding on the Series 2016 Bonds was $5,829,426.

On February 1, 2013, the Organization refunded the Series 2003 Bonds with a Nonbank Qualified Tax-Exempt loan (the Series 2013 Bonds) sponsored by the Chester County Health and Education Facilities Authority through a private placement with Citizens Bank of Pennsylvania in the amount of $22,500,000 of which the final $2,755,000 was advanced to the Organization during 2015. Principal payments on the bonds range from $982,060 due April 1, 2020, to $1,497,000 due on the maturity date of April 1, 2033.

Interest is based on a percentage of one-month LIBOR rate plus a credit spread for the outstanding amount of the Series 2013 Bonds. The interest rates on the Series 2013 Bonds were 2.44% and 2.90% at December 31, 2019 and 2018, respectively. The Series 2013 Bonds were primarily used to refinance the Series 2003 Bonds and pay refinancing costs. A first priority mortgage lien on the Crosslands property was provided to Citizens Bank of Pennsylvania as security for the Series 2013 Bonds. As of December 31, 2019, the balance outstanding on the Series 2013 Bonds was $17,073,823. As of December 31, 2018, the balance outstanding on the Series 2013 Bonds was $18,025,882.

NOTE 4 LONG-TERM DEBT (CONTINUED)

On December 21, 2010, the Organization entered into a Bank Qualified Revenue Bond for up to $30,000,000 (the Series 2010 Bonds) relating to the construction of 48 new residential units at Kendal at Longwood, the expansion and renovation of the health center and wellness facilities at Crosslands, funding for various capital budget items, and the renovation and remodeling of the community center at Kendal at Longwood. The Series 2010 Bonds have been issued by Chester County Health and Education Facilities Authority with a private placement with Citizens Bank of Pennsylvania. The Series 2010 Bonds have a 30-year term.

Interest is based on a percentage of one-month LIBOR rate plus a credit spread for the outstanding amount of the Series 2010 Bonds. Principal payments on the bonds commenced on January 1, 2014 and are due the first of each month in varying installments through maturity. A first priority mortgage lien on the Kendal at Longwood property was provided to Citizens Bank of Pennsylvania as security for the Series 2010 Bonds. As of December 31, 2019, the balance outstanding on the Series 2010 Bonds was $26,496,956. As of December 31, 2018, the balance outstanding on the Series 2010 Bonds was $27,161,635. The interest rates on the Series 2010 Bonds were 2.23% and 2.68% at December 31, 2019 and 2018, respectively. Principal payments on the bonds are made in monthly installments and range from $701,235 in 2020, to $2,146,141 due on the maturity date of December 1, 2040.

On August 3, 2017, the Organization executed call amendments on the Series 2010 Bonds, Series 2013 Bonds, and the Series 2016 Bonds. The amendments restate the optional tender and remarketing provisions of the bonds extending the call dates on all Series to February 1, 2028.

On November 19, 2014, the Organization entered into an interest rate cap agreement with M&T Bank that was effective on December 1, 2014. The notional amount of the interest rate cap agreement is $10,000,000. The agreement limits the Organization’s exposure to increasing rates by providing a cap on the percentage of one-month LIBOR rate at 2.92% per annum and expires on November 1, 2024. The fair value of the interest rate cap agreement is included in other assets on the balance sheets.

On December 12, 2014, the Organization entered into an interest rate cap agreement with Citizens Bank that was effective on December 12, 2014. The notional amount of the interest rate cap agreement is $10,000,000. The agreement limits the Organization’s exposure to increasing rates by providing a cap on the percentage of one-month LIBOR rate at 3.92% per annum and expires on November 1, 2024. The fair value of the interest rate cap agreement is included in other assets on the balance sheets.

On August 30, 2018, the Organization entered into an interest rate cap agreement with SMBC Capital Markets that was effective on September 4, 2018. The notional amount of the interest rate cap agreement is $10,000,000. The agreement limits the Organization’s exposure to increasing rates by providing a cap on the percentage of one-month LIBOR rate at 2.70% per annum and expires on February 1, 2028. The fair value of the interest rate cap agreement is included in other assets on the balance sheets.

NOTE 4 LONG-TERM DEBT (CONTINUED)

On August 30, 2018, the Organization entered into an interest rate cap agreement with Barclays Bank that was effective on September 4, 2018. The notional amount of the interest rate cap agreement is $10,000,000. The agreement limits the Organization's exposure to increasing rates by providing a cap on the percentage of one-month LIBOR rate at 3.42% per annum and expires on February 1, 2028. The fair value of the interest rate cap agreement is included in other assets on the balance sheets.

On August 30, 2018, the Organization entered into an interest rate cap agreement with Commonwealth Bank of Australia that was effective on September 4, 2018. The notional amount of the interest rate cap agreement is $10,000,000. The agreement limits the Organization's exposure to increasing rates by providing a cap on the percentage of one-month LIBOR rate at 3.74% per annum and expires on February 1, 2028. The fair value of the interest rate cap agreement is included in other assets on the balance sheets.

Changes in the fair value of the interest rate cap agreements are excluded from the performance indicator since the agreements have been designated as a hedging instrument. No gain or loss was recognized in the performance indicator as a result of hedge ineffectiveness.

The change in fair value is classified as change in the fair value of the interest rate cap agreements in the accompanying statement of operations and changes in net assets. The change in fair value of the interest rate cap agreements decreases net assets by ($261,625) and ($2,906) in the years ended December 31, 2019 and 2018, respectively.

Under the terms of the Series 2016, Series 2013, and Series 2010 Bond Purchase and Loan Agreements, the Organization is subject to various restrictive covenants. The most significant covenants include the maintenance of a debt service coverage ratio of not less than 1.25 to 1.00; the maintenance of a liquidity ratio of not less than .80 to 1.00; and an average annual occupancy requirement of not less than 84% for all its facilities. As of December 31, 2019, management of the Organization is not aware of any violations of these covenants.

Interest cost on borrowed funds charged to operations was $1,443,229 and $1,286,870 for the years ended December 31, 2019 and 2018, respectively. Amortization cost charged to operations was $40,000 and $43,500 for the years ended December 31, 2019 and 2018, respectively and is included as a component of interest expense on the statements of operations.

Cash paid for interest was $1,454,303 and $1,261,230 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 LONG-TERM DEBT (CONTINUED)

Scheduled principal repayments at December 31, 2019 on long-term debt are as follows:

Year Ending December 31,	Amount
2020	$ 2,137,840
2021	2,206,408
2022	2,277,097
2023	2,355,024
2024	2,435,312
Thereafter	41,893,946
Total	$ 53,305,627

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are net assets whose use has been restricted by donors to a specific purpose. These amounts are principally restricted for resident and employee assistance programs to benefit the Organization for the following purposes at December 31, 2019 and 2018:

	2019	2018
Resident Fee Reserves	$ 11,300,909	$ 10,056,245
Community Programs and Facilities	7,732,279	6,728,936
Other	82,195	66,391
Total	$ 19,115,383	$ 16,851,572

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is accomplished, restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of operations and changes in net assets as net assets released from restrictions.

The Organization has other net assets with donor restrictions that are to be held in perpetuity. The income derived from these assets is currently expendable to support employee assistance programs per donor restriction.

NOTE 6 INVESTMENT INCOME

Total investment income and gains (losses) recorded in the financial statements are comprised of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and Dividend Income	$ 2,514,935	$ 2,316,827
Net Realized Gains on Sales of Investments	805,661	1,754,823
Net Unrealized Gains (Losses) on Investments	11,313,898	(7,413,117)
Total	$ 14,634,494	$ (3,341,467)

NOTE 7 PHARMACY EXPENSE

The Organization operates a pharmacy that provides services to its residents, some of whom receive the pharmacy benefit under their life care contract. The Organization records drug expense and pharmacist fees net of reimbursement from the Medicare Part D program and other insurance companies. The gross expenses relating to the pharmacy program were $2,024,667 and $2,114,652 for the years ended December 31, 2019 and 2018, respectively, and drug reimbursement was $978,976 and $996,034, respectively.

NOTE 8 PENSION PLANS

The Organization participates in The Kendal Corporation Pension Plan which is a noncontributory defined benefit pension plan that covers substantially all employees of the Organization as well as other employees of The Kendal Corporation, the Plan sponsor, and its affiliates. The Kendal Corporation and its affiliates make annual contributions to the plan to the extent permitted under applicable federal regulations. The Organization contributed $811,000 and $879,600 to The Kendal Corporation Pension Plan in the years ended December 31, 2019 and 2018, respectively, based upon actuarial calculations prepared. In 2020, the Organization is expected to make contributions of approximately $811,000 to the defined benefit pension plan. As of December 31, 2019 and 2018, the Organization prepaid $202,750 and $219,900, respectively, of the contributions to the defined benefit pension plan. Effective December 31, 2014, additional benefit accruals were discontinued under the defined benefit pension plan.

Effective July 1, 2006, the Organization participates in a defined contribution plan under IRC Section 401(a) and 403(b) through The Kendal Corporation. The plan contains an employer grant and/or match component for eligible employees. Eligible employees must have attained age 21 and must complete one eligibility year of service. The Organization's grant and/or matching contribution is discretionary. All employees are eligible to make contributions to the plan. The Organization may elect a basic contribution percentage of annual compensation or a grant subject to certain limitations. Contributions accrued by the Organization were approximately $1,042,000 and $1,000,000 for the years ended December 31, 2019 and 2018, respectively.

In 2020, it is expected that the Organization will expense approximately $1,050,000 for the defined contribution pension plan.

NOTE 9 RELATED PARTY TRANSACTIONS

Affiliation Agreement

The Organization is affiliated with The Kendal Corporation, a nonprofit Pennsylvania corporation, through bylaws and the signing of the "Agreement Between The Kendal Corporation and Kendal~Crosslands Communities" (the Affiliation Agreement). The Affiliation Agreement calls for the Organization to pay The Kendal Corporation a System Fee.

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

Affiliation Agreement (Continued)

In addition, The Kendal Corporation must approve, but does not appoint, board members of the Organization; any amendments to the articles of incorporation and certain sections of the bylaws of the Organization; incurrence of debt over a specified dollar amount; changes in corporate purpose; use of the name "Kendal"; the substance of resident contracts; the purchase, sale, lease, or other disposition of any real estate or improvements thereon over certain dollar amounts; and the dissolution, merger with another entity, division or acquiring control of another entity. The Organization's bylaws also specify that Kendal~Crosslands Communities 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 Base System Fee is calculated based on budgeted expenses less the System Fee itself, with a minimum fee payment for expenses less than $5,000,000, and percentages for expenses between $5,000,000 and $15,000,000 (3%), $15,000,000 and $25,000,000 (2.8%), and over $25,000,000 (2.5%).

For the years ended December 31, 2019 and 2018, the System Fees were $1,460,268 and $1,416,552, respectively.

Ground Lease

On March 24, 2006, the Organization executed a ground lease with The Kendal Corporation for the purpose of leasing the land under the Worth Building. Upon the execution of the lease, The Kendal Corporation paid $250,000 in consideration for ownership rights for the remaining portion of the Worth Building over the specified term of the lease, which is an initial term of twenty years. In the event that there is no event of default under the term of the lease, The Kendal Corporation will have the option to extend the term for three additional terms of 10 years each.

Rent for the first 10 years of the initial term of the lease is based on the specified fair market value at the commencement date multiplied by the three-year average of percentage yield of the 10-year Treasury note for the three years immediately preceding the commencement date. The amount of the rent was reset after the initial 10-year period. Current rent under the ground lease approximates $10,000 per year.

Upon the expiration or earlier termination of the lease, the Organization shall have the option to purchase the building from The Kendal Corporation or sell the land to The Kendal Corporation, for its fair market value as specified under the terms of the agreement.

Transactions with Parties of Interest

The board has adopted a policy of disclosure of any possible conflicts of interest on the part of any Organization board or committee member.

NOTE 10 INSURANCE

Effective January 1, 2004, the Organization began participating in an insurance risk retention group, the Peace Church Risk Retention Group (the PCRRG), a group insurance captive corporation licensed by the State of Vermont, to cover basic professional and general liability insurance on a claims-made basis. Effective December 28, 2007, PCRRG converted from a stock insurance company to a reciprocal insurance exchange under the laws of the State of Vermont. The shares of stock in PCRRG were converted to a subscriber interest in the PCRRG Reciprocal. As of December 31, 2019, the Organization has a 3.12% subscriber interest in the PCRRG Reciprocal.

NOTE 11 CONCENTRATION OF CREDIT RISK

The Organization invests a portion of its operating and investment cash and cash equivalents in various checking and savings accounts with several commercial banks and financial institutions. Certain deposits with these banks exceed Federal Depository Insurance Corporation limits. The Organization also invests its cash and cash equivalents in money market mutual funds. These funds generally invest in highly liquid U.S. Government and agency obligations.

NOTE 12 FUNCTIONAL EXPENSES

The Organization provides residential living services and general health care services to its residents. All categories of expenses that are not directly related to the Organization's program are allocated to one or more management, general and administrative functions based on the estimates of time and effort involved. Expenses related to providing these services, net of reimbursement as described in Note 7 to the financial statements, are as follows for the years-ended December 31:

	Care and Service to Residents	Management, General, and Administrative	2019 Total
Grants To Residents	$ 771,690	$ -	$ 771,690
Salaries and Wages	19,460,409	2,412,581	21,872,990
Pension Contributions	2,627,906	325,791	2,953,697
Employee Benefits	3,306,166	409,878	3,716,044
Payroll Taxes	1,362,157	156,352	1,518,509
Legal Fees	-	137,642	137,642
Accounting Fees	-	296,806	296,806
System Fee	-	1,460,268	1,460,268
Supplies and Inventory	3,662,810	436,853	4,099,663
Telephone	7,349	21,774	29,123
Postage and Shipping	-	19,302	19,302
Equipment Rental and Maintenance	653,448	218,937	872,385
Printing and Publications	44,137	7,555	51,692
Occupancy	5,080,441	507,731	5,588,172
Travel	49,742	28,565	78,307
Conferences	65,518	12,307	77,825
Interest	1,443,229	-	1,443,229
Depreciation and Amortization	8,725,701	-	8,725,701
Prescription Drugs	615,366	-	615,366
Dues	353,910	164,462	518,372
Recruitment Costs	14,394	267,749	282,143
Other	359,487	371,814	731,301
Total	$ 48,603,860	$ 7,256,367	$ 55,860,227

NOTE 12 FUNCTIONAL EXPENSES (CONTINUED)

	Care and Service to Residents	Management, General, and Administrative	2018 Total
Grants To Residents	$ 644,621	$ -	$ 644,621
Salaries and Wages	18,783,152	2,638,103	21,421,255
Pension Contributions	1,750,256	245,824	1,996,080
Employee Benefits	3,729,376	523,793	4,253,169
Payroll Taxes	1,320,161	159,740	1,479,901
Legal Fees	-	158,794	158,794
Accounting Fees	-	317,398	317,398
System Fee	-	1,416,552	1,416,552
Supplies and Inventory	3,396,183	126,839	3,523,022
Telephone	8,886	26,656	35,542
Postage and Shipping	-	20,746	20,746
Equipment Rental and Maintenance	639,866	163,240	803,106
Printing and Publications	43,781	23,060	66,841
Occupancy	5,253,234	437,943	5,691,177
Travel	37,998	24,522	62,520
Conferences	73,386	19,456	92,842
Interest	1,286,870	-	1,286,870
Depreciation and Amortization	8,443,429	-	8,443,429
Prescription Drugs	677,100	-	677,100
Dues	353,741	159,856	513,597
Recruitment Costs	17,492	291,922	309,414
Other	585,119	425,928	1,011,047
Total	$ 47,044,651	$ 7,180,372	$ 54,225,023

NOTE 13 FAIR VALUE MEASUREMENTS

The following table presents the Organization's fair value hierarchy for those assets (as further detailed in Note 2 to the financial statements) and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Equities	$ 33,506,349	$ -	$ -	$ 33,506,349
Fixed Income	57,880,824	-	-	57,880,824
Exchange Traded Funds	16,872,988	-	-	16,872,988
Pooled Income Fund	-	92,118	-	92,118
Interest Rate Cap Agreements	-	64,700	-	64,700
Total	$ 108,260,161	$ 156,818	$ -	$ 108,416,979

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Equities	$ 32,238,817	$ -	$ -	$ 32,238,817
Fixed Income	51,568,364	-	-	51,568,364
Exchange Traded Funds	14,188,511	-	-	14,188,511
Pooled Income Fund	-	79,939	-	79,939
Interest Rate Cap Agreements	-	326,325	-	326,325
Total	$ 97,995,692	$ 406,264	$ -	$ 98,401,956

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

The determination of the fair values above incorporates various factors including not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of any nonperformance risk relative to the Organization’s liabilities.

The fair value of financial instruments is determined by third party service providers utilizing various methods dependent upon the specific type of investment. When quoted prices are available in the active market, securities are classified within Level 1 of the valuation hierarchy. Assets utilizing Level 1 inputs include U.S. Government and agency securities, corporate bonds, common stocks, and mutual funds and exchange traded funds.

Liabilities utilizing Level 2 inputs are derivatives. The carrying amount represents fair market value and is based on a price estimated by a third party using the income approach, which uses valuation techniques to convert future cash flows to a discounted value, using current market expectations.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Litigation

There are various legal actions that can occur in the ordinary course of business, and management is not aware of any such matters that would have a material effect on the financial condition or results of operations of the Organization. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect to the Organization’s financial position.

NOTE 15 SUBSEQUENT EVENTS

Subsequent to year end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of healthcare personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2019.

During the period from January 1, 2020 through April 1, 2020, both domestic and international equity markets have experienced significant declines. These losses are not reflected in the financial statements as of and for the year ended December 31, 2019.