The Washington Home and Community Hospices

Financial Report
June 30, 2019

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
The Washington Home and Community Hospices

Report on the Financial Statements
We have audited the accompanying financial statements of The Washington Home and Community Hospices (The Washington Home), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities and changes in net assets and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2019, 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.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Washington Home as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 3, in June 2019, The Washington Home entered into a memorandum of understanding to transfer the assets of the hospice operations. An agreement of the transfer of assets was entered into on September 12, 2019. Because The Washington Home had hospice operations in Maryland and the District of Columbia, each of which has separate regulatory approval requirements, closing of the transfer of Maryland assets occurred on September 30, 2019, and closing on the transfer of assets of the District of Columbia occurred on November 1, 2019.

As disclosed in Note 1 to the financial statements, The Washington Home adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The adoption of this standard resulted in additional disclosures, the presentation of the statement of functional expenses and changes to the classification of net assets.

RSM US LLP

Baltimore, Maryland
December 13, 2019

The Washington Home and Community Hospices

Statements of Financial Position
June 30, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 583	$ 8
Other	369	525
Assets of discontinued operations, current	1,281	1,128
Total current assets	2,233	1,661
Investments held in trust	8,337	8,371
Investments	46,814	45,690
Property and equipment, net	3,328	3,652
Assets of discontinued operations, noncurrent	8	3,120
Deferred leasing costs, net	354	442
Total assets	$ 61,074	$ 62,936
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 364	$ 1,044
Accrued salaries, benefits and payroll taxes	33	84
Liabilities of discontinued operations	362	3,451
Total current liabilities	759	4,579
Amounts held for others	426	426
Total liabilities	1,185	5,005
Contingencies		
Net assets:		
Without donor restrictions		
Undesignated	43,104	41,411
Board designated	5,535	2,500
Total net assets without donor restrictions	48,639	43,911
With donor restrictions	11,250	14,020
Total net assets	59,889	57,931
Total liabilities and net assets	$ 61,074	$ 62,936

See notes to financial statements.

The Washington Home and Community Hospices

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Operating expenses:		
Salaries and benefits	**$ 788**	$ 839
Purchased services and other	**126**	110
Audit, legal and consulting	**703**	726
Rent	**161**	-
Depreciation and amortization	**541**	548
Total operating expenses	**2,319**	2,223
Loss from operations	**(2,319)**	(2,223)
Other income and expenses:		
Interest and dividends	**1,539**	1,657
Realized gain (loss) on investments	**1,077**	(350)
Unrealized (loss) gain on investments	**(554)**	1,476
Rental income	**3,970**	3,400
Contributions from donors	**297**	386
Fundraising expense	**(311)**	(312)
Gain on disposal of property and equipment	**-**	1
Net assets released from restrictions and reclassifications	**3,261**	1,242
Total other income and expenses	**9,279**	7,500
Change in net assets without donor restrictions	**6,960**	5,277

(Continued)

The Washington Home and Community Hospices

Statements of Activities and Changes in Net Assets (Continued)
Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Net assets with restrictions:		
Contributions from donors	**$ 5**	$ 1
Income from investments held in trust	**275**	556
Unrealized/realized gain on investments held in trust, restricted assets	**211**	487
Net assets released from restrictions and reclassifications, net	**(3,261)**	(1,242)
Change in net assets with donor restrictions	**(2,770)**	(198)
Change in net assets from continuing operations	**4,190**	5,079
Change in net assets from discontinued operations	**(2,232)**	(4,108)
Change in net assets	**$ 1,958**	$ 971
Net assets without donor restrictions – beginning	**$ 41,411**	$ 40,242
Change in net assets without donor restrictions	**1,693**	1,169
Net assets without donor restrictions – ending	**$ 43,104**	$ 41,411
Net assets without donor restrictions – board designated – beginning	**$ 2,500**	$ 2,500
Reclassification of donor restricted funds	**3,035**	-
Net assets without donor restrictions – board designated – ending	**$ 5,535**	$ 2,500
Net assets with donor restrictions – beginning	**$ 14,020**	$ 14,218
Change in net assets with donor restrictions	**(2,770)**	(198)
Net assets with donor restrictions – ending	**$ 11,250**	$ 14,020

See notes to financial statements.

The Washington Home and Community Hospices

Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets from continuing operations	$ 4,190	$ 5,079
Adjustments to reconcile change in net assets from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	541	548
Net unrealized/realized gain on investments	(734)	(1,613)
Gain on disposal of property and equipment	-	(1)
Changes in assets and liabilities:		
Decrease (increase) in:		
Other	156	260
(Decrease) increase in:		
Accounts payable and accrued expenses	(680)	(86)
Amounts held for others	-	(8)
Accrued salaries, benefits and payroll taxes	(51)	(382)
Net cash provided by operating activities for continuing operations	3,422	3,797
Net cash provided by operating activities for discontinued operations	(2,362)	(4,621)
Net cash provided by (used in) operating activities	1,060	(824)
Cash flows from investing activities:		
Purchases of investments, net	(356)	(10,299)
Purchases of property and equipment	(129)	(46)
Collection of note receivable	-	10,000
Net cash used in investing activities for continuing operations	(485)	(345)
Net cash used in investing activities for discontinued operations	-	-
Net cash used in investing activities	(485)	(345)
Net increase (decrease) in cash and cash equivalents	575	(1,169)
Cash and cash equivalents:		
Beginning of year	8	1,177
End of year	$ 583	$ 8

See notes to financial statements.

The Washington Home and Community Hospices

Statement of Functional Expenses
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)
(In Thousands)

	Program				
	Healthcare	**General and Administrative**	**Fundraising**	**2019 Total**	2018 Total
Salaries and benefits	**$ 5,432**	**$ 1,423**	**$ 59**	**$ 6,914**	$ 8,690
Purchased services and other	**1,899**	**704**	**29**	**2,632**	2,074
Medical supplies and drugs	**369**	**-**	**-**	**369**	724
Audit, legal and consulting	**68**	**1,028**	**-**	**1,096**	1,238
Utilities	**402**	**-**	**-**	**402**	800
Rent	**264**	**-**	**-**	**264**	104
Depreciation and amortization	**577**	**-**	**-**	**577**	581
Total operating expenses	**9,011**	**3,155**	**88**	**12,254**	14,211
Fundraising expenses	**-**	**-**	**311**	**311**	312
Total expenses	**$ 9,011**	**$ 3,155**	**$ 399**	**$ 12,565**	$ 14,523

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

The Washington Home and Community Hospices (The Washington Home), a not-for profit 501(c)(3) organization founded in the District of Columbia in 1888, provides healthcare to people who are aging, chronically ill, or living with terminal illnesses. The Washington Home operated two lines of business; a 192 bed nursing home facility located in the District of Columbia (the District) and end of life hospice care services in the District of Columbia and Maryland. In December 2016, the nursing home facility operations ceased entirely. As described in Note 3, The Washington Home's end of life hospice care operations ceased in September 2019.

The Washington Home continues to generate revenue from income earned on investment funds.

A summary of The Washington Home's significant accounting policies follows:

Financial statement presentation: In accordance with the accounting guidance for financial statements of not-for-profit organizations, The Washington Home is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Furthermore, information is required to segregate program service expenses from management and general and fundraising expenses.

The Washington Home conforms with the accounting guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). During January 2008, the District enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. A key component of this guidance is a requirement to classify the portion of investment return from donor-restricted endowment funds with proper restrictions until appropriated for expenditure. The disclosure requirements of this guidance are set forth in Note 7.

Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations.

Net assets with donor restrictions are contributions whose use is limited by donor-imposed stipulations in perpetuity or that either expire by passage of time or can be fulfilled and removed by actions of The Washington Home pursuant to these stipulations. Net assets may be restricted for various purposes, such as use in future periods or use for specified purposes.

Contributions and contributions receivable: Contributions are recorded as net assets without restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donations, gifts and gifts in-kind are reported at fair value at the date of the gift. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include but are not limited to allowance for doubtful accounts and third-party contractual adjustments.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents consist principally of bank deposits, money market funds and repurchase agreements that are readily convertible into cash with an original maturity of three months or less. Overnight repurchase agreements are collateralized by U.S. government securities.

Other assets: Other assets consist primarily of prepaid expenses and deposits. Prepaid expenses are amortized over the period impacted.

Investments held in trust: Assets deposited with a trustee under terms of a trust indenture are classified as investments held in trust.

Amounts held for others: The Washington Home administers a charitable remainder trust, which provides for the payments of distributions to a designated beneficiary over the trust's term. If at the end of the trust's term there are remaining assets, those assets are available for The Washington Home's use.

Investments: Investments are carried at fair value. The fair value of marketable equity securities, bonds and other investments are based on quoted market prices. Realized and unrealized gains and losses are recorded in either net assets without donor restrictions or net assets with donor restrictions. Cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold.

The Washington Home invests in a professionally managed portfolio that contains mutual funds, marketable equity securities, government obligations, fund of funds, fixed income securities and an interest in a limited partnership. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Property and equipment: Property and equipment purchased are recorded at cost. Donated items are recorded at fair market value at the date of contribution. Improvements and replacements at The Washington Home are capitalized; maintenance and repairs are expensed. Depreciation is computed using the straight-line method over the estimated economic lives of the assets. Leasehold improvements are amortized over their economic lives or the lease agreement period, whichever is shorter. Depreciable lives are as follows:

	Years
Building and improvements	10-40 years
Equipment	5-15 years
Land improvements	15-30 years

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Washington Home reviews the valuation of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Management determined there were no impairment losses to be recognized during the years ended June 30, 2019 and 2018.

Net patient service revenue: The Washington Home has agreements with third-party payors that provide for payments to The Washington Home at amounts different from its established rates. Payment arrangements include prospectively determined per diem rate payments and cost-based methods subject to retroactive settlement and adjustment.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered to beneficiaries of the District of Columbia Medical Assistance Program (Medicaid) and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. As discussed in Note 3, The Washington Home had no continuing operations for net patient service revenue for the years ended June 30, 2019 and 2018. For the years ended June 30, 2019 and 2018, net patient service revenue from discontinued operations includes approximately $4,600 (74%) and $5,900 (73%), respectively, and $500 (9%) and $600 (7%), respectively, for services provided to beneficiaries of the Center for Medicare and Medicaid Services (Medicare) and Medicaid under the provisions of reimbursement arrangements with The Washington Home.

A summary of the payment arrangements with major third-party payors follows:

Medicare: Skilled nursing services provided under the Medicare program are reimbursed based on the prospective payment system (PPS) and revenue consists of payments for individual claims at the appropriate payment rates, which include reimbursement for ancillary services.

Medicaid: The Washington Home is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by The Washington Home and audits thereof by the Medicaid program.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Patient accounts receivable and allowance for doubtful accounts: Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, The Washington Home analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, The Washington Home analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for a portion of the bill), The Washington Home records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

As discussed in Note 3, The Washington Home had no continuing operations for net patient service revenue for the years ended June 30, 2019 and 2018. There was no allowance for doubtful accounts for self-pay accounts receivable from discontinued operations at June 30, 2019 and 2018. The Washington Home's allowance for doubtful accounts for patients with third-party coverage, which includes commercial insurers, Medicaid and Medicare, was approximately 83% and 84% of third-party accounts receivable at June 30, 2019 and 2018, respectively. Write-offs from third-party payors decreased by $44 for fiscal year 2019 from $88 to $44 for fiscal year 2019.

The Washington Home has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018.

Charity care: The Washington Home's policy is to provide charity medical care based upon a review of the patient's financial circumstances. The Washington Home does not pursue collection of the amounts determined to qualify as charity care and, therefore, it is not reported as a component of net patient service revenue. The amount of charity care provided during the years ended June 30, 2019 and 2018, was approximately $99 and $247, respectively, and was estimated by allocating total expense incurred by The Washington Home to the gross revenue associated with providing charity care.

Contributed services and equipment: Contributed professional services are recognized in the accompanying financial statements as a revenue and expense, at their estimated fair value. One of the following two conditions must be met to record contributed professional services: (1) the service creates or enhances a nonfinancial asset or (2) the service requires specialized skills, provided by entities or persons possessing those skills and would be purchased if they were not donated. Contributed nonprofessional services are not recognized in the accompanying financial statements since the services provided do not meet the previously mentioned requirements for financial statement recognition. Contributed equipment is recorded at its estimated fair value.

Donated services: The Washington Home receives various types of nonprofessional services from volunteers to support its home and hospice services. Volunteer hours totaled 1,239 and 3,817 for the hospice operations for the years ended June 30, 2019 and 2018, respectively.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing various program and supporting activities have been presented on a detailed basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are allocated consistently based upon direct costs incurred by cost center.

Income taxes: The Washington Home is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended June 30, 2019 and 2018. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

The Washington Home has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, The Washington Home may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated The Washington Home's tax positions and has concluded that The Washington Home has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

Generally, The Washington Home is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for years before June 30, 2016.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, other assets and cash held for residents approximate fair value given the short-term nature of these financial instruments. Third-party payor settlements are based on management's estimate and approximate fair value. Fair values of investments are based on quoted market prices. Additional required disclosures are included in Note 9.

Rental income and expense: Rental income is recognized as rentals become due. Rental payments received in advance are deferred and recognized as income in the period to which the rent relates.

Rents are expensed on a straight-line basis in accordance with the terms of the lease. Deferred rent is recorded in the amount of the difference between the actual payments made and the straight-line expense. All leases between The Washington Home and the landlords of the properties are operating leases.

Deferred leasing costs: The Washington Home exercised the fifth five-year renewal option commencing October 1, 2018, and ending September 30, 2023 (see Note 8). Total leasing costs of $1,338 incurred to renew the rental contract are being deferred and amortized over the five-year term of the related lease using the straight-line method for the years ending June 30, 2019 and 2018. Accumulated amortization was $984 and $896 at June 30, 2019 and 2018, respectively. Amortization expense for the years ended June 30, 2019 and 2018, amounted to $88 and $102, respectively.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Future amortization expense is as follows:

Years ending June 30:		
2020	$	83
2021		83
2022		83
2023		83
2024		22
	$	354

Accounting policies adopted: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entities liquidity, financial performance, and cash flows. The Washington Home has adopted ASU 2016-14 and has adjusted the presentation of its financial statements accordingly. As permitted by the ASU, The Washington Home has presented the statement of functional expenses and liquidity and availability disclosures for the year ended June 30, 2019 only.

Recently issued accounting guidance: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expenses recognition in the statement of activities. The new standard is effective for fiscal years beginning after July 1, 2021, including interim periods within those fiscal years. Management is currently evaluating the impact of the adoption of the new standard on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning in July 2019. Management has not yet selected a transition method and is currently evaluating the effect the standard will have on its financial statements.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where The Washington Home is a resource recipient, the ASU is applicable to contributions received for reporting periods starting July 1, 2019. Where the The Washington Home is a resource provider, the ASU is effective for fiscal year ending July 1, 2020. Management is in the process of evaluating the impact of this new guidance for resource providers.

Subsequent events: The Washington Home evaluated subsequent events through December 13, 2019, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

The Washington Home is primarily supported by hospice operations and income earned on investment funds. As part of The Washington Home's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Further, The Washington Home has a line of credit, as described in Note 12, available to meet any obligations due which would not be covered by available financial assets.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following at June 30, 2019:

Cash and cash equivalents	$ 583
Investments held in trust	8,337
Investments	46,814
	55,734
Less:	
Investments held in trust	(8,337)
Board designated assets without restrictions	(5,535)
Net assets with donor restrictions	(11,250)
	(25,122)
Financial assets available to meet cash needs for general expenditures within one year	$ 30,612

(In Thousands)

Note 3. Discontinued Operations

In June 2019, The Washington Home entered into a memorandum of understanding agreement to transfer the assets of the hospice operations to an unrelated third party, Capital Hospice, Inc. d/b/a Capital Caring (Capital Caring). The agreement was executed and effective on September 12, 2019. The Washington Home will retain its operations surrounding investments. The value of the assets being transferred to Capital Caring, including future revenue stream, are valued at $1,000,000, which is considered a charitable donation from The Washington Home to Capital Caring. The agreement also includes the potential for up to $2,000,000 to be contributed by The Washington Home to Capital Caring based upon future events. The Washington Home has ceased its hospice operations as of the date of closing. Because The Washington Home had hospice operations in Maryland and the District of Columbia, each of which has separate regulatory approval requirements, closing of the transfer of Maryland assets occurred on September 30, 2019, and closing on the transfer of assets of the District of Columbia occurred on November 1, 2019.

Total assets and liabilities related to discontinued operations consisted of the following at June 30:

	2019	2018
Cash and cash equivalents	$ 621	$ 346
Patient accounts receivable, net of allowance for doubtful accounts (2019 – $44; 2018 – $88)	510	741
Other assets	150	41
Investments	-	3,066
Property and equipment, net	8	54
Total assets	$ 1,289	$ 4,248
Accounts payable and accrued expenses	$ 57	$ 3,117
Accrued salaries, benefits and payroll taxes	305	334
Total liabilities	$ 362	$ 3,451

Change in net assets from discontinued operations consisted of the following for the years ended June 30:

	2019	2018
Total patient service revenue	$ 7,714	$ 8,053
Provision for bad debts	16	(175)
Net patient service revenue less provision for bad debts	7,730	7,878
Total operating expenses	9,935	11,986
Loss from discontinued operations	(2,205)	(4,108)
Total other income and expenses	(27)	-
Change in net assets from discontinued operations	$ (2,232)	$ (4,108)

(In Thousands)

Note 4. Investments

Investments and investments held in trust consisted of the following at June 30:

	2019	2018
Cash and cash equivalents	$ 6,023	$ 5,738
U.S. government and agency issues	997	985
Mutual funds	36,811	41,052
Fixed income securities	2,026	1,622
Marketable equity securities	9,294	5,820
Alternative investments	-	1,910
Total investments	55,151	57,127
Investments to fund liabilities of discontinued operations	-	3,066
Total investments for continuing operations	55,151	54,061
Net assets with donor restrictions	(11,250)	(14,020)
Investments available for unrestricted use	$ 43,901	$ 40,041

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Land	$ 28	$ 28
Building and improvements	15,867	15,867
Furniture and equipment	568	3,593
	16,463	19,488
Less accumulated depreciation	(13,127)	(15,782)
Property and equipment, net	3,336	3,706
Property and equipment held for sale	(8)	(54)
Property and equipment for continuing operations	$ 3,328	$ 3,652

Depreciation expense was $489 and $479 of which $36 and $33 were included in discontinued operations for the years ended June 30, 2019 and 2018, respectively.

(In Thousands)

Note 6. Net Assets With Restrictions

Net assets with donor restrictions consisted of the following funds at June 30:

	2019	2018
William Woodville, in memory of his sister, Elizabeth Woodville, fund for care of indigent hospice residents	$ 1,780	$ 1,834
Frederick R. Blaylock and Peter J. and Catherine B. Henderson fund for care of indigent cancer residents	331	364
Marrs fund for indigent hospice residents	-	8
Pamela Murdock fund for the Employee of the Year Award	8	8
Mobil Foundation for child bereavement services	-	3
Time restricted for general operations for periods after June 30	797	1,056
Assets restricted in perpetuity	1,764	1,764
Endowment funds included in net assets with donor restrictions (see Note 7)	6,570	8,983
	$ 11,250	$ 14,020

The net assets released from restriction were used for the following purposes:

	2019	2018
Hospice caregiver’s relief	$ 173	$ 88
Time restricted for general operations for periods after June 30	2,681	304
Endowment funds included in net assets with donor restrictions (see Note 7)	407	850
	$ 3,261	$ 1,242

Note 7. Endowment Funds and Net Assets With Restrictions

The Washington Home’s endowment funds consist of five individual funds established for a variety of purposes. They include four donor restricted endowment funds and a fund designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with the endowment fund designated by the Board of Directors to function as an endowment, are classified and reported based on the existences or absence of donor imposed restrictions. Therefore, The Washington Home’s board designated endowment fund is classified as part of net assets without donor restrictions.

(In Thousands)

Note 7. Endowment Funds and Net Assets With Restrictions (Continued)

Interpretation of relevant law: The Washington Home has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Washington Home classifies as net assets with donor restrictions: (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by The Washington Home in a manner consistent with the standard of prudence prescribed by UPMIFA. In addition, The Washington Home has ten individual funds that are to remain in perpetuity, but not considered endowments under UPMIFA. These ten funds are reported in net assets with donor restrictions, and their activity is reported as other donor-restricted funds in the following tables.

Composition of endowment and other net assets with restrictions by type of fund consisted of the following as of June 30:

	2019		
	Without Donor Restrictions	With Donor Time Restrictions	Total
Board-designated endowment funds	$ 5,535	$ -	$ 5,535
Donor-restricted endowment funds	-	6,570	6,570
Other donor-restricted funds	-	1,764	1,764
	$ 5,535	$ 8,334	$ 13,869

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 2,500	$ -	$ 2,500
Donor-restricted endowment funds	-	8,983	8,983
Other donor-restricted funds	-	1,764	1,764
	$ 2,500	$ 10,747	$ 13,247

(In Thousands)

Note 7. Endowment Funds and Net Assets With Restrictions (Continued)

Changes in endowment and other net assets with restrictions consisted of the following for the year ended June 30, 2019:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets with restrictions, beginning of year	$ 2,500	$ 10,747	$ 13,247
Investment return:			
Investment income	-	275	275
Net change in value (realized and unrealized)	-	211	211
Total investment return	-	486	486
Appropriation of assets and transfers	3,035	(2,899)	136
	$ 5,535	$ 8,334	$ 13,869

Changes in endowment and other net assets with restrictions consisted of the following for the year ended June 30, 2018:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets with restrictions, beginning of year	$ 2,500	$ 10,943	$ 13,443
Investment return:			
Investment income	-	556	556
Net change in value (realized and unrealized)	-	487	487
Total investment return	-	1,043	1,043
Appropriation of assets and transfers	-	(1,239)	(1,239)
	$ 2,500	$ 10,747	$ 13,247

Funds with deficiencies: From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. There were no funds with deficiencies at June 30, 2019 and 2018.

(In Thousands)

Note 7. Endowment Funds and Net Assets With Restrictions (Continued)

Return objectives and risk parameters: The Washington Home has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the value of the original endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return (after inflation) of at least 5% annually on a rolling three- to five-year period while assuming a moderate amount of risk. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate of return investment objectives, The Washington Home relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The organization targets a diversified asset allocation that places a great emphasis on equity based investments to achieve long term return objectives within prudent risk constraints.

Spending policy and related investment objectives: The Washington Home has a policy for appropriating funds each year of no more than 5% of the three-year moving value of the total portfolio at the fiscal year end. However, operating and capital needs are always considered when applying this guide line. Actual appropriation may vary from year to year with the average goal of 5% over a period of time. When agreeing to this spending policy, The Washington Home considered the long-term expected return on its endowment. These spending policies are consistent with The Washington Home's objective to maintain the corpus of the assets held in perpetuity, to provide a consistent and predictable funding stream to support spending which is consistent with donor restrictions, as well as, to provide growth through new gifts and investment returns.

Note 8. Leases

The Washington Home leases a portion of its real estate to the U.S. Postal Service under a 20-year lease agreement that commenced in 1978, with seven, five-year renewal options. At the beginning of each of the five-year renewal option periods, the rent will be 8% of the appraised value of the land at the beginning of such periods. On April 24, 2018, the parties exercised the fifth five-year renewal option commencing October 1, 2018, and ending September 30, 2023. During the years ended June 30, 2019 and 2018, The Washington Home recognized rental revenue associated with this lease was $3,970 and $3,400, respectively.

The Washington Home has entered into various agreements to rent office space under noncancelable operating lease agreements. Certain leases include escalation clauses and expire through 2023. Rental expense was $264 and $104 for the years ended June 30, 2019 and 2018, respectively. Minimum rental payments to be made under these leases for the ensuing years are as follows:

Years ending June 30:		
2020	$	358
2021		338
2022		255
2023		44
	$	995

Note 9. Fair Value Measurements

The Washington Home has adopted guidance issued by the FASB which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds and over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Washington Home’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

(In Thousands)

Note 9. Fair Value Measurements (Continued)

The following tables summarize The Washington Home's assets and liabilities that were accounted at fair value on a recurring basis as of June 30:

	2019			
	Level 1	Level 2	Level 3	Net Balance
Mutual funds:				
Fixed income	$ 7,541	$ -	$ -	$ 7,541
International	8,829	-	-	8,829
Large cap	13,694	-	-	13,694
Emerging markets	641	-	-	641
Mid cap	1,536	-	-	1,536
Growth	2,080	-	-	2,080
Equities	866	-	-	866
Small cap	1,624	-	-	1,624
Marketable equity securities:				
Large cap	7,169	-	-	7,169
Small cap	420	-	-	420
Mid cap	1,705	-	-	1,705
U.S. government and agency issues	997	-	-	997
Fixed income securities	-	2,026	-	2,026
Total assets at fair value	$ 47,102	$ 2,026	$ -	49,128
Cash and cash equivalents				6,023
Total investments				$ 55,151

(In Thousands)

Note 9. Fair Value Measurements (Continued)

	2018			
	Level 1	Level 2	Level 3	Net Balance
Mutual funds:				
Fixed income	$ 5,361	$ -	$ -	$ 5,361
International	8,449	-	-	8,449
Large cap	21,089	-	-	21,089
Emerging markets	1,076	-	-	1,076
Mid cap	961	-	-	961
Growth	1,782	-	-	1,782
Equities	732	-	-	732
Small cap	1,602	-	-	1,602
Marketable equity securities:				
Large cap	3,791	-	-	3,791
Small cap	412	-	-	412
Mid cap	1,617	-	-	1,617
U.S. government and agency issues	985	-	-	985
Fund of funds	-	-	1,910	1,910
Fixed income securities	-	1,622	-	1,622
Total assets at fair value	$ 47,857	$ 1,622	$ 1,910	51,389
Cash and cash equivalents				5,738
Total investments				$ 57,127

The Washington Home excludes cash and cash equivalents from the fair value hierarchy as cash is generally measured at cost. As such, approximately $6,023 and $5,738 of cash and cash equivalents in The Washington Home's investment portfolio at June 30, 2019 and 2018, respectively, has been excluded from this table.

Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.

Investment in corporate bonds and government obligations are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 2 in the fair value hierarchy.

In determining the fair value of the fund of funds, the discounted cash flow method was used for the underlying real estate investments, which utilized certain unobservable inputs and are considered Level 3 measurements.

(In Thousands)

Note 9. Fair Value Measurements (Continued)

The following table is a reconciliation of the beginning and ending balance for fair value measurements using significant unobservable inputs (Level 3):

	Fund of Funds
Balance at July 1, 2017	$ 1,657
Unrealized gain	203
Additions	50
Balance at June 30, 2018	1,910
Unrealized gain	11
Sales	(1,921)
Balance at June 30, 2019	$ -
Unrealized gains and change in value relating to assets still held as of June 30, 2019	$ -

Fund of funds: The Washington Home's investment in fund of funds represents an interest in multiple funds of funds investment vehicles managed by a principal investment manager. The investment funds typically pursue such strategies as equity, event-driven, credit-driven, global macro, multi-category and managed futures investments.

In each underlying fund, securities with no readily available market are initially valued at cost, with subsequent adjustments to values which reflect either the basis of meaningful third-party transactions in the private market or the fair value deemed appropriate by relevant market participants. The fund of funds then obtains and independently evaluates its share of the valuation from the underlying investment manager.

Note 10. Pension Plans

The Washington Home offers a 401(k) plan (the 401(k) Plan) to its employees. The 401(k) Plan's attributes include eligibility upon hire, an employer matching contribution of 25% up to 6% of employee contributions after six months of service, and a vesting of 20% for each year of service. No additional discretionary payments were made for the 2019 and 2018 plan years. The 401(k) Plan employer contributions were $32 in both 2019 and 2018, and are included in salaries and benefits expense.

Note 11. Concentrations of Credit Risk

The Washington Home maintains its cash with a bank and amounts on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. At times, these balances may exceed the federal insurance limits; however, The Washington Home has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at June 30, 2019 and 2018.

The Washington Home is located in Washington, D.C. The Washington Home grants credit without collateral to its patients, most of whom are local residents of Washington, D.C., Montgomery and Prince George's Counties of Maryland. The majority of patients are insured under third-party payor agreements.

(In Thousands)

Note 11. Concentrations of Credit Risk (Continued)

The mix of receivables from patients and third-party payors are as follows at June 30:

	2019	2018
Medicare	69%	77%
Medicaid	13%	16%
Private	14%	7%
Insurance and other	4%	0%
	100%	100%

Note 12. Line of Credit

In August 2016, The Washington Home entered into a $10,000,000 secured liquidity access line of credit with a bank. The line of credit is collateralized by The Washington Home's investment securities account as a compensating balance. There were no advances under the line of credit for the years ended June 30, 2019 and 2018.

Note 13. Contingencies

Rebasing audit: Medicaid adjusts reimbursement rates for nursing homes based on inflation in three year intervals. The District uses the annual cost report submitted each year by nursing homes as the source for changes in cost, staff mix and resident care needs. Medicaid cost reports have been audited and final settled through the year ended June 30, 2007. However, the years since this time continue to be subject to adjustment, which could result in either a retroactive payment or receipt of Medicaid funds. The timing and results of the Medicaid audits are undeterminable. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The status of cost report audits by Medicaid beyond reporting year ended June 30, 2007, are as follows:

- **Fiscal years June 30, 2008 through 2010:** The cost report audits were completed during the fiscal year ended June 30, 2014. In 2015, Medicaid reopened their cost report audit for the fiscal year ended June 30, 2010. In June 2016, The Washington Home received the rebasing adjustments for that period and recorded a rebasing adjustment of approximately $3,475 which reduced patient service revenue for discontinued operations for the year ended June 30, 2016, and increased liabilities of discontinued operations at June 30, 2016. At June 30, 2018, the $3,066 rebasing adjustment is included in liabilities of discontinued operations in the statements of financial position. The liability was reduced from $3,066 to $1,539 through negotiations with Medicaid and was settled through cash payments by The Washington Home during the year ended June 30, 2019.

- **Fiscal years June 30, 2011 through 2013:** Cost report audits have been conducted by DC Medicaid. However, as of December 13, 2019, DC Medicaid has not provided The Washington Home with any response regarding the results of their audits.

Note 13. Contingencies (Continued)

- **Fiscal years June 30, 2014 through 2016:** Cost report audits have not yet been conducted by DC Medicaid.

At June 30, 2019, the rebasing adjustment included in liabilities was zero. Management has evaluated its third-party cost reporting and has determined no additional reserve is necessary for potential retroactive settlements.

Note 14. Certain Significant Risks and Uncertainties

The Washington Home, and others in the health care business, are subject to certain inherent risks, including the following:

- Substantial dependence on revenue derived from reimbursement by the federal Medicare and state Medicaid programs which have been drastically cut in recent years and which entail exposure to various healthcare fraud statutes

- Government regulations, government budgetary constraints and proposed legislative and regulatory changes

- Lawsuits alleging malpractice and related claims

Such inherent risks require the use of certain management estimates in the preparation of The Washington Home's financial statements and it is reasonably possible that a change in such estimates may occur.

The Washington Home's operations are subject to a variety of federal, state and local legal and regulatory risks, including without limitation the federal Anti-Kickback statute and the federal Ethics in Patient Referral Act (so-called Stark Law), many of which apply to virtually all companies engaged in the health care services industry. The Anti-Kickback statute prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. The Stark Law prohibits, with limited exceptions, financial relationships between ancillary service providers and referring physicians.

The Medicaid and Medicare programs are highly regulated. Compliance with laws and regulations governing the Medicare and Medicaid programs is subject to government review and interpretation, as well as significant regulatory action, including fines, penalties and possible exclusion from the Medicare and Medicaid programs. The failure of The Washington Home, not unlike other healthcare organizations, to comply with applicable reimbursement regulations could adversely affect The Washington Home's business. It is not possible to quantify fully the effect of potential legislative or regulatory changes, the administration of such legislation or any other governmental initiatives on business. Accordingly, there can be no assurance that the impact of these changes or any future health care legislation will not adversely affect business. There can be no assurance that payments under governmental and private third-party payor programs will be timely, will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs.

Note 14. Certain Significant Risks and Uncertainties (Continued)

The Washington Home is subject to two limitations on Medicare payments for hospice services. The first limitation relates to inpatient days of care. If the number of general inpatient days of care that any of the Washington Home's hospice programs provide to Medicare beneficiaries exceeds 20% of the total days of care that program provides to all Medicare beneficiaries for an annual period beginning on November 1, the days in excess of the 20% amount will be reimbursed only at the routine home care rate. The Washington Home's hospice program did not exceed the payment limits on general inpatient care services for the fiscal years ended June 30, 2019 and 2018.

The second limitation is on overall payments made by Medicare to The Washington Home on a per hospice program basis (the Medicare CAP). The Medicare CAP amount is calculated by the Medicare fiscal intermediary at the end of the hospice CAP period (November 1 through October 31). As of June 30, 2019 and 2018, there was no outstanding liability for the Medicare CAP rate adjustments.

The Washington Home's financial condition and results of operations may be materially and adversely affected by the reimbursement process, which in the health care industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled. In addition, under the Medicare program, if the federal government makes a formal demand for reimbursement, even related to contested items, payment must be made for those items before the provider is given an opportunity to appeal and resolve the case.

From time to time, The Washington Home has been party to various legal proceedings in the ordinary course of business. Adverse results in one or more of the cases could have a material adverse effect on The Washington Home. Management of The Washington Home believes that insurance coverage for these matters is adequate and that their ultimate resolution will not have a material effect on the financial statements.

Note 15. Subsequent Events

In September 2019, The Washington Home entered into an agreement to transfer the assets of their hospice operations to Capital Caring. See Note 3 for further details regarding this agreement.