

The Washington Home

Financial Report
June 30, 2022

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Washington Home

Opinion

We have audited the financial statements of The Washington Home (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

RSM US LLP

Blue Bell, Pennsylvania
December 21, 2022

The Washington Home

Statements of Financial Position

June 30, 2022 and 2021

(In Thousands)

	2022	2021
Assets		
Cash and cash equivalents	\$ 604	\$ 312
Other	231	319
Investments held in trust	7,564	9,173
Investments	52,190	58,990
Property and equipment, net	2,049	2,480
	<hr/>	<hr/>
Total assets	\$ 62,638	\$ 71,274
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 271	\$ 170
Accrued salaries, benefits and payroll taxes	65	90
Amounts held for others	386	412
	<hr/>	<hr/>
Total liabilities	722	672
	<hr/> <hr/>	<hr/> <hr/>
Contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	50,133	55,655
Board designated	5,535	5,535
	<hr/>	<hr/>
Total net assets without donor restrictions	55,668	61,190
	<hr/> <hr/>	<hr/> <hr/>
With donor restrictions	6,248	9,412
	<hr/>	<hr/>
Total net assets	61,916	70,602
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net assets	\$ 62,638	\$ 71,274
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See notes to financial statements.

The Washington Home

Statement of Activities and Changes in Net Assets Year Ended June 30, 2022 (In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Contributions from donors	\$ 596	\$ -	\$ 596
Interest and dividends	3,065	130	3,195
Net assets released from restrictions	1,331	(1,331)	-
Total revenues	4,992	(1,201)	3,791
Expenses:			
Program services	4,721	-	4,721
General and administrative	917	-	917
Total expenses	5,638	-	5,638
Deficiency of operating revenue over expenses	(646)	(1,201)	(1,847)
Other income (loss):			
Realized gain on investments	920	24	944
Unrealized loss on investments	(9,956)	(475)	(10,431)
Income from investments held in trust	-	264	264
Net unrealized and realized loss on investments held in trust	-	(1,776)	(1,776)
Rental income	4,160	-	4,160
Total other income	(4,876)	(1,963)	(6,839)
Change in net assets	(5,522)	(3,164)	(8,686)
Net assets:			
Beginning	61,190	9,412	70,602
Ending	\$ 55,668	\$ 6,248	\$ 61,916

See notes to financial statements.

The Washington Home

Statement of Activities and Changes in Net Assets Year Ended June 30, 2021 (In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Contributions from donors	\$ 50	\$ -	\$ 50
Interest and dividends	922	40	962
Net assets released from restrictions	3,218	(3,218)	-
Total revenues	4,190	(3,178)	1,012
Expenses:			
Program services	5,613	-	5,613
General and administrative	1,061	-	1,061
Total expenses	6,674	-	6,674
Deficiency of operating revenue over expenses	(2,484)	(3,178)	(5,662)
Other income (loss):			
Realized gain on investments	2,039	88	2,127
Unrealized gain on investments	7,840	340	8,180
Income from investments held in trust	-	166	166
Net unrealized and realized gain on investments held in trust	-	1,988	1,988
Termination of interest in beneficial trust	-	(717)	(717)
Rental income	4,160	-	4,160
Total other income	14,039	1,865	15,904
Change in net assets	11,555	(1,313)	10,242
Net assets:			
Beginning	49,635	10,725	60,360
Ending	\$ 61,190	\$ 9,412	\$ 70,602

See notes to financial statements.

The Washington Home

**Statement of Functional Expenses
Year Ended June 30, 2022
(In Thousands)**

	Program	General and Administrative	Total
Salaries and benefits	\$ 195	\$ 584	\$ 779
Purchased services and other	7	152	159
Audit, legal and consulting	272	181	453
Rent	226	-	226
Grants to charitable organizations	3,500	-	3,500
Depreciation and amortization	521	-	521
Total expenses	\$ 4,721	\$ 917	\$ 5,638

See notes to financial statements.

The Washington Home

**Statement of Functional Expenses
Year Ended June 30, 2021
(In Thousands)**

	Program	General and Administrative	Total
Salaries and benefits	\$ 185	\$ 558	\$ 743
Purchased services and other	9	261	270
Audit, legal and consulting	256	242	498
Rent	219	-	219
Grants to charitable organizations	4,423	-	4,423
Depreciation and amortization	521	-	521
Total expenses	\$ 5,613	\$ 1,061	\$ 6,674

See notes to financial statements.

The Washington Home

Statements of Cash Flows
Years Ended June 30, 2022 and 2021
(In Thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets from operations	\$ (8,686)	\$ 10,242
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	521	521
Loss on investments held in trust	-	717
Net unrealized and realized loss (gain) on investments	11,263	(12,295)
Changes in assets and liabilities:		
Decrease in:		
Other assets	5	27
(Decrease) increase in:		
Accounts payable and accrued expenses	101	(23)
Amounts held for others	(26)	(7)
Accrued salaries, benefits and payroll taxes	(25)	(9)
Net cash provided by (used in) operating activities for continuing operations	3,153	(827)
Cash flows from investing activities:		
Proceeds from sale of investments	4,457	17,186
Purchases of investments	(7,311)	(17,745)
Purchases of property and equipment	(7)	(8)
Net cash used in investing activities	(2,861)	(567)
Net increase (decrease) in cash and cash equivalents	292	(1,394)
Cash and cash equivalents:		
Beginning of year	312	1,706
End of year	<u>\$ 604</u>	<u>\$ 312</u>

See notes to financial statements.

The Washington Home

Notes to Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

The Washington Home is a not-for profit organization founded in the District of Columbia in 1888. Formerly known as The Washington Home and Community Hospices (WHCH), the entity provided healthcare to people who are aging, chronically ill or living with terminal illnesses. WHCH 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. WHCH's end of life hospice care operations ceased by November 1, 2019.

The Washington Home continues to generate revenue from donor contributions, income earned on investment funds and leased property. To accomplish its mission, The Washington Home uses this revenue to provide funding to charitable organizations that create and deliver innovative, compassionate and well-managed programs to improve the quality of life for elderly and terminally ill residents in the Washington, D.C. metropolitan area.

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 that are restricted in perpetuity until appropriated for expenditure. The disclosure requirements of this guidance are set forth in Note 6.

Net assets without donor restrictions are the net assets that are neither invested in perpetuity, nor purpose or time restricted by donor-imposed stipulations. The Board of Directors has a standing policy that certain funds without donor restrictions are designated by the Board for long-term investment and expected future contributions to other not-for profit organizations that serve the elderly and terminally ill.

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.

The Washington Home

Notes to Financial Statements (In Thousands)

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

Donations, gifts and gifts in-kind are reported at fair value at the date of the gift. Conditional promises to give include a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer the assets. The presence of a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barriers in the agreement. Conditional promises to give are not recognized until the barriers in the agreement are overcome. 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 the allowance for doubtful accounts and third-party contractual adjustments.

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.

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 and fixed income securities. 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.

The Washington Home

Notes to Financial Statements (In Thousands)

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

Property and equipment: Property and equipment purchased are recorded at cost. Donated items are recorded at fair 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 the shorter of their economic lives or the lease agreement period. Depreciable lives are as follows:

	<u>Years</u>
Building and improvements	10-40
Furniture and equipment	5-15

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, 2022 and 2021.

Grants payable and related expenses: Unconditional grants are recorded as expense during the year of approval. Grants subject to certain conditions are recorded as expense during the year in which the conditions are substantially met, or the possibility that the conditions will not be met is remote, as determined by management. Grants payable within one year are recorded at fair value at the date of authorization. Grants payable in more than one year are recorded at the present value of the future cash outflows using a risk-free rate of return.

All payments require approval by The Washington Home Board of Directors as well as the grantees satisfying various criteria as specified in each grant agreement. During the years ended June 30, 2022 and 2021, charitable organizations were awarded grants approximately totaling \$3,500 and \$4,000, respectively. There were no grants payable as of June 30, 2022 and 2021.

Contributed services and equipment: Contributed professional services are recognized in the accompanying financial statements as both 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.

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 the cost center.

The Washington Home

Notes to Financial Statements (In Thousands)

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

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 (the Code) and does not have any unrelated business income for the years ended June 30, 2022 and 2021. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

Beginning on July 1, 2020, The Washington Home is classified as a private foundation under 509(a) of the Code. For the year ended June 30, 2022, the Washington Home is subject to federal excise tax of 1.39% of its net investment income (see Note 12).

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, 2018.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents, accounts payable and accrued expenses, and other assets approximate fair value given the short-term nature of these financial instruments. Fair values of investments are based on quoted market prices. Additional required disclosures are included in Note 8.

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 lessors 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 7). 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 ended June 30, 2022 and 2021. Accumulated amortization was \$1,233 and \$1,150 at June 30, 2022 and 2021, respectively, and is included in other assets on the statement of financial position. Amortization expense for each of the years ended June 30, 2022 and 2021, amounted to \$83.

Future amortization expense is as follows:

Years ending June 30:

2022	\$	83
2023		21
	\$	<u>104</u>

The Washington Home

Notes to Financial Statements (In Thousands)

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

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 statements 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 expense recognition in the statements of activities and changes in net assets. The new standard is effective for fiscal years beginning after December 15, 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.

Subsequent events: The Washington Home evaluated subsequent events through December 21, 2022, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

The Washington Home is primarily supported by donor contributions, rental income 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 11, 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, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 604	\$ 312
Investments held in trust	7,564	9,173
Investments	52,190	58,990
	<u>60,358</u>	<u>68,475</u>
Less:		
Investments held in trust	(7,564)	(9,173)
Board designated assets without restrictions	(5,535)	(5,535)
Net assets with donor restrictions	(6,248)	(9,412)
	<u>(19,347)</u>	<u>(24,120)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 41,011</u>	<u>\$ 44,355</u>

The Washington Home

Notes to Financial Statements (In Thousands)

Note 3. Investments

Investments and investments held in trust consisted of the following at June 30, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 6,111	\$ 7,171
U.S. government and agency issues	893	915
Mutual funds	30,349	31,218
Fixed income securities	2,041	2,805
Marketable equity securities	19,874	26,054
Alternative energy equities	486	-
Total investments	59,754	68,163
Net assets with donor restrictions	(6,248)	(9,412)
Investments available for unrestricted use	\$ 53,506	\$ 58,751

Note 4. Property and Equipment

Property and equipment consisted of the following at June 30, 2022 and 2021:

	2022	2021
Land	\$ 28	\$ 28
Building and improvements	15,866	15,866
Furniture and equipment	156	149
	16,050	16,043
Less accumulated depreciation	(14,001)	(13,563)
Property and equipment for continuing operations	\$ 2,049	\$ 2,480

Depreciation expense was \$438 for both years ended June 30, 2022 and 2021.

Note 5. Net Assets With Restrictions

Net assets with donor restrictions consisted of the following funds at June 30, 2022 and 2021:

	2022	2021
Frederick R. Blaylock and Peter J. and Catherine B. Henderson fund for care of indigent cancer residents	\$ -	\$ 195,000
Pamela Murdock fund for the Employee of the Year Award	6	7
Time restricted for general operations for future periods after June 30, 2022 and 2021	3	343
Assets restricted in perpetuity	2,273	2,493
Endowment funds included in net assets with donor restrictions (see Note 6)	3,966	6,374
	\$ 6,248	\$ 9,412

The Washington Home

Notes to Financial Statements (In Thousands)

Note 5. Net Assets With Restrictions (Continued)

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

	2022	2021
Hospice caregiver's relief and care for the critically ill and isolated	\$ 220	\$ 1,867
Time restricted for general operations for periods after June 30	362	262
Endowment funds included in net assets with donor restrictions (see Note 6)	749	1,089
	<u>\$ 1,331</u>	<u>\$ 3,218</u>

Note 6. 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 an endowment. As required by U.S. GAAP, 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 existence 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.

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 six individual funds that are to remain in perpetuity, but not considered endowments under UPMIFA. These six 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, 2022 and 2021:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,535	\$ -	\$ 5,535
Donor-restricted endowment funds	-	2,177	2,177
Other donor-restricted funds	-	4,282	4,282
	<u>\$ 5,535</u>	<u>\$ 6,459</u>	<u>\$ 11,994</u>

The Washington Home

Notes to Financial Statements (In Thousands)

Note 6. Endowment Funds and Net Assets With Restrictions (Continued)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,535	\$ -	\$ 5,535
Donor-restricted endowment funds	-	2,630	2,630
Other donor-restricted funds	-	6,237	6,237
	<u>\$ 5,535</u>	<u>\$ 8,867</u>	<u>\$ 14,402</u>

Changes in endowment and other net assets with restrictions consisted of the following for the years ended June 30, 2022 and 2021:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 5,535	\$ 8,867	\$ 14,402
Investment return:			
Investment income	-	394	394
Net change in value (realized and unrealized)	-	(2,227)	(2,227)
Total investment return	-	(1,833)	(1,833)
Appropriation of assets and transfers	-	(575)	(575)
Net assets, end of year	<u>\$ 5,535</u>	<u>\$ 6,459</u>	<u>\$ 11,994</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 5,535	\$ 8,051	\$ 13,586
Investment return:			
Investment income	83	206	289
Termination of interest in beneficial trust	-	(717)	(717)
Net change in value (realized and unrealized)	-	2,416	2,416
Total investment return	83	1,905	1,988
Appropriation of assets and transfers	(83)	(1,089)	(1,172)
Net assets, end of year	<u>\$ 5,535</u>	<u>\$ 8,867</u>	<u>\$ 14,402</u>

The Washington Home

Notes to Financial Statements (In Thousands)

Note 6. Endowment Funds and Net Assets With Restrictions (Continued)

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 Washington Home to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no funds with deficiencies at June 30, 2022 and 2021.

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 Washington Home 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.

A percentage of unrestricted investment income is allocated to the Board-designated endowment funds. This investment income is used for long-term investments and contributions to not-for profit organizations that are in line with The Washington Home's mission to serve the elderly and terminally ill.

Note 7. 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 each of the years ended June 30, 2022 and 2021, The Washington Home recognized \$4,160 of rental revenue associated with this lease.

The Washington Home

Notes to Financial Statements (In Thousands)

Note 7. Leases (Continued)

The Washington Home entered into a lease for its headquarters facility that expires August 2022. Rental expense includes a base charge plus a pro rata share of operating costs of the building. Rental expense was \$226 and \$219 for the years ended June 30, 2022 and 2021, respectively. Minimum rental payments to be made under this lease for the ensuing years are as follows:

Years ending June 30:

2023	\$	60
2024		16
	\$	<u>76</u>

Note 8. 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. The Washington Home had no Level 3 investments at June 30, 2022 and 2021.

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Notes to Financial Statements (In Thousands)

Note 8. Fair Value Measurements (Continued)

The following tables summarize The Washington Home's assets that were accounted at fair value on a recurring basis as of June 30, 2022 and 2021:

	2022			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Fixed income	\$ 9,172	\$ -	\$ -	\$ 9,172
Growth and income	1,575	-	-	1,575
Large cap	8,859	-	-	8,859
Equities	4,289	-	-	4,289
Small cap	2,354	-	-	2,354
Commodities	3,747	-	-	3,747
Marketable equity securities:				
Large cap	10,153	-	-	10,153
Small cap	1,297	-	-	1,297
Mid cap	8,785	-	-	8,785
U.S. government and agency issues	-	2,036	-	2,036
Fixed income securities	-	893	-	893
Alternative energy equities	483	-	-	483
Total assets at fair value	<u>\$ 50,714</u>	<u>\$ 2,929</u>	<u>\$ -</u>	<u>53,643</u>
Cash and cash equivalents				6,111
Total investments				<u>\$ 59,754</u>

The Washington Home

Notes to Financial Statements (In Thousands)

Note 8. Fair Value Measurements (Continued)

	2021			Net Balance
	Level 1	Level 2	Level 3	
Mutual funds:				
Fixed income	\$ 9,466	\$ -	\$ -	\$ 9,466
International	462	-	-	462
Large cap	11,954	-	-	11,954
Emerging markets	378	-	-	378
Mid cap	252	-	-	252
Equities	3,401	-	-	3,401
Small cap	2,400	-	-	2,400
Commodities	2,905	-	-	2,905
Marketable equity securities:				-
Large cap	13,464	-	-	13,464
Small cap	2,123	-	-	2,123
Mid cap	10,467	-	-	10,467
U.S. government and agency issues	-	915	-	915
Fixed income securities	-	2,805	-	2,805
Total assets at fair value	<u>\$ 57,272</u>	<u>\$ 3,720</u>	<u>\$ -</u>	60,992
Cash and cash equivalents				7,171
Total investments				<u>\$ 68,163</u>

The Washington Home excludes cash and cash equivalents from the fair value hierarchy as cash is generally measured at cost. As such, approximately \$6,111 and \$7,171 of cash and cash equivalents in The Washington Home's investment portfolio at June 30, 2022 and 2021, respectively, has been excluded from fair value classification in 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. 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.

Note 9. Pension Plan

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 2022 and 2021 plan years. The 401(k) Plan employer contributions were \$8 and \$7 for the years ended June 30, 2022 and 2021, respectively, and are included in salaries and benefits expense.

The Washington Home

Notes to Financial Statements (In Thousands)

Note 10. 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, 2022 and 2021.

Note 11. 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. The line is available to the Washington Home as long as the investments are maintained by the bank. Interest on any advancement accrues at a variable rate as set forth in the terms and conditions of the credit agreement. There were no advances under the line of credit for the years ended June 30, 2022 and 2021.

Note 12. Federal Excise Tax

In accordance with the applicable provisions of the Code, for the year ended June 30, 2022, The Washington Home is subject to a 1.39% federal excise tax on net investment income, including realized gains. Accordingly, federal excise tax expense in the amount of \$76 and \$100 for the years ended June 30, 2022 and 2021, respectively, are included in purchased services and other in the statement of functional expenses and general and administrative expenses on the statements of activities and changes in net assets.

With the transition to a private foundation, The Washington Home is subject to the Code requirement of making minimum distributions in accordance with a specified formula. Determination of whether The Washington Home has met the minimum distribution requirement, as defined by the Code, was determined through the year ended June 30, 2022. Management of The Washington Home determined adequate provision has been made through June 30, 2022, to satisfy its excise tax requirement.