CHASE MEMORIAL NURSING HOME COMPANY, INC.
D/B/A CHASEHEALTH REHAB AND RESIDENTIAL CARE

Financial Statements as of
December 31, 2018 and 2017
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

May 13, 2019

To the Board of Directors of
Chase Memorial Nursing Home Company, Inc.
d/b/a ChaseHealth Rehab and Residential Care:

We have audited the accompanying financial statements of Chase Memorial Nursing Home Company, Inc. d/b/a ChaseHealth Rehab and Residential Care (a nonprofit organization), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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 Chase Memorial Nursing Home Company, Inc. d/b/a ChaseHealth Rehab and Residential Care, as of December 31, 2018 and 2017, 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.

171 Sully's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Change in Accounting Principle
As described in Note 2 to the financial statements, Chase Memorial Nursing Home Company, Inc. d/b/a ChaseHealth Rehab and Residential Care implemented Accounting Standards Update 2016-14, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

Bonadio & Co., LLP

CHASE MEMORIAL NURSING HOME COMPANY, INC.
D/B/A CHASEHEALTH REHAB AND RESIDENTIAL CARE

BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 372,603	$ 62,368
Accounts receivable - net of allowance for doubtful accounts of $295,000 for 2018 and 2017	1,341,095	1,247,535
Contribution receivable	84,029	187,823
Prepaid expenses and other current assets	20,823	26,511
Total current assets	1,818,550	1,524,237
PROPERTY AND EQUIPMENT, NET	2,090,898	2,104,093
OTHER ASSETS:		
Due from third-party payors	77,860	66,466
Intangible asset - bed licenses	1,183,084	1,183,084
Assets whose use is limited	82,126	79,889
Total other assets	1,343,070	1,329,439
Total assets	$ 5,252,518	$ 4,957,769
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Debt - current portion	$ -	$ 5,603
Line of credit	32,624	42,163
Accounts payable	303,471	451,086
Accrued expenses	144,220	163,010
Due to related parties, net	814,637	675,486
Deferred grant revenue	44,785	44,785
Total current liabilities	1,339,737	1,382,133
LONG-TERM LIABILITIES:		
Resident deposits	27,194	23,734
Total liabilities	1,366,931	1,405,867
NET ASSETS:		
Without donor restrictions	3,875,264	3,537,915
With donor restrictions	10,323	13,987
Total net assets	3,885,587	3,551,902
Total liabilities and net assets	$ 5,252,518	$ 4,957,769

The accompanying notes are an integral part of these financial statements.

CHASE MEMORIAL NURSING HOME COMPANY, INC.
D/B/A CHASEHEALTH REHAB AND RESIDENTIAL CARE

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUES:						
Resident service revenue	$ 6,255,646	$ -	$ 6,255,646	$ 5,487,335	$ -	$ 5,487,335
Other operating revenue	12,433	-	12,433	10,083	-	10,083
Total operating revenue	6,268,079	-	6,268,079	5,497,418	-	5,497,418
OPERATING EXPENSES:						
Program	4,673,649	-	4,673,649	5,043,106	-	5,043,106
Management and general	1,570,590	-	1,570,590	1,573,912	-	1,573,912
Total operating expenses	6,244,239	-	6,244,239	6,617,018	-	6,617,018
INCOME (LOSS) FROM OPERATIONS	23,840	-	23,840	(1,119,600)	-	(1,119,600)
NON-OPERATING REVENUE:						
Grant income	47,624	-	47,624	15,327	-	15,327
Contribution income	87,708	3,152	90,860	315,586	2,781	318,367
Miscellaneous income	171,361	-	171,361	55,612	-	55,612
Total non-operating revenue	306,693	3,152	309,845	386,525	2,781	389,306
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	330,533	3,152	333,685	(733,075)	2,781	(730,294)
NET ASSETS RELEASED FROM RESTRICTIONS	6,816	(6,816)	-	13,199	(13,199)	-
CHANGE IN NET ASSETS	337,349	(3,664)	333,685	(719,876)	(10,418)	(730,294)
NET ASSETS - beginning of year	3,537,915	13,987	3,551,902	1,547,657	24,405	1,572,062
CHANGE IN NET ASSETS FOR PUSHDOWN ACCOUNTING	-	-	-	2,710,134	-	2,710,134
NET ASSETS - end of year	$ 3,875,264	$ 10,323	$ 3,885,587	$ 3,537,915	$ 13,987	$ 3,551,902

The accompanying notes are an integral part of these financial statements.

CHASE MEMORIAL NURSING HOME COMPANY, INC.
D/B/A CHASEHEALTH REHAB AND RESIDENTIAL CARE

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Program	Management and General	Total	Program	Management and General	Total
OPERATING EXPENSES:						
Salaries	$ 2,531,211	$ 266,162	$ 2,797,373	$ 2,703,118	$ 233,010	$ 2,936,128
Supplies, services and other	1,592,896	401,641	1,994,537	1,657,651	473,279	2,130,930
Employee benefits	188,022	511,622	699,644	192,042	558,804	750,846
Management services - related party	43,575	331,425	375,000	31,764	241,596	273,360
Cash receipts assessment	315,129	-	315,129	227,473	-	227,473
Depreciation	-	57,708	57,708	-	63,541	63,541
Bad debt expense	2,816	-	2,816	231,058	-	231,058
Interest expense	-	2,032	2,032	-	3,682	3,682
Total operating expenses	$ 4,673,649	$ 1,570,590	$ 6,244,239	$ 5,043,106	$ 1,573,912	$ 6,617,018

The accompanying notes are an integral part of these financial statements.

CHASE MEMORIAL NURSING HOME COMPANY, INC.
D/B/A CHASEHEALTH REHAB AND RESIDENTIAL CARE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 333,685	$ (730,294)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	57,708	63,541
Bad debt expense	2,816	231,058
Changes in:		
Accounts receivable	(96,376)	(894,357)
Contribution receivable	103,794	186,216
Prepaid expenses and other current assets	5,688	(5,660)
Due from third-party payors	(11,394)	(12,147)
Accounts payable	(147,615)	234,619
Accrued expenses	(18,790)	(38,466)
Due to related parties	139,151	595,591
Net cash flows from operating activities	368,667	(369,899)
CASH FLOW FROM INVESTING ACTIVITIES:		
Change in assets whose use is limited, net	1,223	(1,581)
Purchases of property and equipment	(44,513)	(12,061)
Net cash flows from investing activities	(43,290)	(13,642)
CASH FLOW FROM FINANCING ACTIVITIES:		
Change in line of credit, net	(9,539)	(11,866)
Principal payments on debt	(5,603)	(7,476)
Capital lease payments	-	(397)
Net cash flows from financing activities	(15,142)	(19,739)
CHANGE IN CASH AND CASH EQUIVALENTS	310,235	(403,280)
CASH AND CASH EQUIVALENTS - beginning of year	62,368	465,648
CASH AND CASH EQUIVALENTS - end of year	$ 372,603	$ 62,368

The accompanying notes are an integral part of these financial statements.

1. SCOPE OF BUSINESS

Chase Memorial Nursing Home Company, Inc. d/b/a ChaseHealth Rehab and Residential Care (the “ChaseHealth”) is a not-for-profit corporation established to own and operate an eighty-bed skilled nursing facility in New Berlin, New York. ChaseHealth is organized under the provisions of the New York State Public Health Law and is subject to regulation by the Department of Health of the State of New York.

ChaseHealth is a subsidiary of FGS, Inc. d/b/a Good Shepherd Communities (the Company) and is affiliated with Good Shepherd-Fairview Home, Inc. (the Home), Good Shepherd-Fairview Foundation, Inc. d/b/a Good Shepherd Communities Foundation (the Foundation), Good Shepherd Village at Endwell, Inc. (the Village), Chase Housing Corporation, and Chase Memorial Community Center, Inc. (the Center).

ChaseHealth is affiliated with New Berlin Day Care Services, Inc., and New Berlin Family Practice, Inc. That Board has voted and is in the process of dissolving New Berlin Day Care Services, Inc. and New Berlin Family Practice, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
ChaseHealth’s financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America (GAAP). Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. ChaseHealth’s income from operations includes all revenue and expenses without donor restrictions. Grant income, contribution income, and miscellaneous income are reported below operating results. ChaseHealth uses the following classifications of net assets:

- **Net Assets Without Donor Restrictions**
  Net assets that are not subject to donor imposed stipulations utilized to carry out the general activities and operations of ChaseHealth.

- **Net Assets With Donor Restrictions**
  Net assets that are subject to donor imposed stipulations. These stipulations may expire by the passage of time, be fulfilled or removed by actions of ChaseHealth pursuant to those stipulations, or remain in perpetuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit (NFP) entities.

ASU 2016-14 includes many changes affecting the presentation and accounting for ChaseHealth's financial statements, including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications;
- Eliminating the requirement to disclose the components of investment return as well as reporting investment return net of external and direct internal investment expenses;
- Requiring qualitative and quantitative disclosure regarding ChaseHealth's liquidity and availability of resources (Note 3); and
- Accounting for underwater endowment funds.

ASU 2016-14 is effective for ChaseHealth's fiscal year ending December 31, 2018 and was applied retrospectively with the exception of the disclosures regarding liquidity and availability of resources, which are presented for the current year only. The effects of this ASU have been included in these financial statements. There is no effect on total net assets or changes in net assets.

Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. For the purposes of the statements of cash flows, cash and cash equivalents exclude amounts maintained in investment portfolios. ChaseHealth maintains cash and cash equivalents at financial institutions which periodically may exceed federally insured limits. ChaseHealth has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, ChaseHealth 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 residents who have third-party coverage, ChaseHealth analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay residents (which includes both residents without insurance and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), ChaseHealth records a provision for bad debts when it appears residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between resident and patient billings and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

ChaseHealth has maintained a comparable allowance for doubtful accounts for self-pay residents for the year ended December 31, 2018 as it has not experienced significant write-offs or additional negative trends in the collection of amounts from self-pay residents. ChaseHealth does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Property, Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair market value, if donated, less accumulated depreciation. Certain property and equipment was valued at fair value at the date ChaseHealth obtained a new sole member, in accordance with pushdown accounting (See Note 3). Depreciation is computed using the straight-line method over estimated useful lives of the respective assets, which range from three (3) to forty (40) years. It is ChaseHealth's policy to capitalize all assets with a cost of $500 or greater and an estimated useful life of three or more years. Maintenance and repairs are charged to expense. The cost of property and equipment retired or otherwise disposed of and related accumulated depreciation is removed from the accounts.

Long-Lived Assets

ChaseHealth assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable by comparing the expected undiscounted future cash flows of the assets with the respective carrying amounts as of the date of assessment. Should aggregate expected future cash flows be less than the carrying value, an impairment would be recognized, measured as the difference between the carrying value and the fair value of the asset. During 2018 and 2017, ChaseHealth did not record any impairment charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Asset

Intangible asset consists of bed licenses that have been determined to have an indefinite life. Generally accepted accounting principles require that the unamortized value of indefinite life intangible assets be evaluated annually, or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. The evaluation determines whether the amount reflected on the balance sheet as an asset has been impaired - that is, whether the asset's carrying value exceeds the fair value. Quantitative evaluations of indefinite life intangible assets may be avoided if qualitative assessments indicate a greater than fifty percent likelihood that the carrying value of the asset exceeds its fair value. In management's opinion, there has been no impairment to the value of the recorded indefinite life intangible asset during the years ended December 31, 2018 and 2017.

Assets Whose Use is Limited

Assets whose use is limited consist of the following:

Life Focus Alternative Program - The Life Focus Alternative program provides funds for the care of plants and animals at ChaseHealth. At December 31, 2018 and 2017, cash restricted for the Life Focus Alternative program was $5,603 and $8,666, respectively.

Sunshine Fund Program - The Sunshine Fund program provides the funding for special activities primarily for the benefit of residents, and occasionally including staff members. At December 31, 2018 and 2017, cash restricted for the Sunshine Fund Program was $4,720 and $2,704, respectively.

Resident Funds Held in Trust - ChaseHealth acts as a custodian for resident funds. These funds are expended at the direction of its nursing facility residents for personal items. At December 31, 2018 and 2017, resident funds held in trust were $27,194 and $23,734, respectively.

Advanced Training Initiative - Funds received through the Advanced Training Initiative grant that have yet to be expended for their intended purpose. At December 31, 2018 and 2017, cash restricted for the Advanced Training Initiative was $44,609 and 44,785.

Revenue Recognition

ChaseHealth's patient service revenue is reported at estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to changes in case mix indexes and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. It is not possible to determine the extent of additional liability (or receivable) resulting from governmental audits conducted in subsequent years.

Laws and regulations governing reimbursement are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Healthcare resident service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from payor sources, is as follows:

	2018	2017
Self-pay	$ 1,346,079	$ 906,083
Medicaid	3,530,419	3,408,688
Medicare	966,713	835,586
Other	412,435	336,978
Resident service revenue, net	$ 6,255,646	$ 5,487,335

Universal Settlement

New York State (the "State") and Residential Health Care Facilities statewide have entered into a settlement agreement ("Universal Settlement") to resolve outstanding appeals and pending litigation for rate years prior to January 1, 2012 (the "Rate Period"). Significant terms of the settlement include:

- Facilities forfeit their right to appeal or litigate any rate matters during the Rate Period, except those that were specifically excluded.

- The Office of the Medicaid Inspector General has agreed to waive the right to audit the rates for the Rate Period.

As part of the Universal Settlement, the State established a pool of funds to be awarded to the facilities. The amount is expected to be paid in five installments over the next four to five years. ChaseHealth was awarded $245,000. ChaseHealth recognized revenue of $48,927 for both of the years ended December 31, 2018 and 2017 related to this arrangement. The recognized amounts represent four years of authorized Universal Settlement payments by the State. Additional revenue related to Universal Settlement is expected to be recognized as the payments are received.

New York State Cash Receipt Assessment

In April 2002, the State of New York approved a 6% assessment on nursing facilities' cash receipts, with the exception of Medicare cash receipts, to provide funding for workforce recruitment and retention awards authorized pursuant to Chapter 1 and subsequently amended by Chapter 82 of the Laws of 2002. Effective April 2011, April 2012, and November 2012, the State of New York implemented changes on assessment for nursing facilities' cash receipts to 7.2%, 7.0%, and 6.8%, respectively.

A significant portion of this assessment is reimbursed to ChaseHealth, at varying rates depending on payor, and is included in healthcare resident service revenue. Total assessment expense for the years ended December 31, 2018 and 2017 was $315,129 and $227,473, respectively, and is included in operating expenses in the accompanying statements of operations and changes in net assets.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets and without donor restrictions if they are received without donor stipulations. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of net assets without donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (Continued)
The Home acquired grant awards under the New York Vital Access/Safety Net Provider Program (the “Program”) to be used to improve ChaseHealth’s financial status and viability. The Program was established to support healthcare services for fragile, elderly, and low income populations by providing more effective services that meet community needs. The Program is regularly evaluated by the Department of Health regarding performance against financial, operational, and quality metric goals established during the application process. The total amount awarded was $1,065,000 that is entirely passed through the Home and recorded as contribution income in the statements of operations and changes in net assets. ChaseHealth recorded contribution income of $87,708 and $315,586 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes
ChaseHealth is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the ChaseHealth's tax-exempt purpose may be subject to taxation as unrelated business income. ChaseHealth has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

Allocation of Certain Expenses
The statements of functional expenses present expenses by both functional and natural classification. Certain categories of expenses are attributable to one or more program or supporting functions, and these expenses are allocated to the reported functional columns. These expenses include salaries, supplies and other, employee benefits, and management services - related party. Management services - related party is allocated based on cost studies and/or actual amounts incurred at the Company. Salaries, supplies and other, and employee benefits are allocated based on direct charges.

Reclassification
Certain reclassifications have been made to the financial statements for the year ended December 31, 2017. These reclassifications are for comparative purposes only and have no effect on changes in net assets as originally reported.

3. LIQUIDITY

ChaseHealth is primarily supported by cash flows from its operating activities. ChaseHealth has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The goal is to maintain financial assets on hand to meet 30 days of normal operating expense, which are, on average, approximately $508,000.

As more fully described in Note 6, ChaseHealth also has a committed line of credit in the amount of $75,000, which it could draw upon in the event of an unanticipated liquidity need. The amount borrowed on the line of credit as of December 31, 2018 was $32,624. Part of ChaseHealth’s ability to meet its cash needs is dependent on timely collection of its accounts receivable. ChaseHealth employs procedures specifically designed to collect accounts receivable as quickly as possible.

3. LIQUIDITY (Continued)

ChaseHealth's financial assets available to meet cash needs for general expenditure within one year of December 31, 2018 are:

Financial assets at December 31, 2018*	$ 1,957,713
Less: Financial assets unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Life Focus Alternative program	(5,603)
Sunshine Fund program	(4,720)
Advanced training initiative	(44,609)
Resident funds held in trust	(27,194)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,875,587

**Total assets, less nonfinancial assets (property and equipment, prepaid expenses, and intangible assets)*

4. ACQUISITION

ChaseHealth was acquired by the Company on August 3, 2017. The Company was appointed as the sole member of ChaseHealth. The Company recognized a gain on bargain purchase of $2,710,134 due to the increase in value of its property and equipment to fair value along with recording an intangible asset of $1,183,084 for bed licenses in accordance with ASC 805-50-50 *Business Combinations*. ChaseHealth elected to apply pushdown accounting to its individual financial statements for the year ended December 31, 2017. This election required ChaseHealth to record the change in fair value through net assets without donor restrictions.

ChaseHealth recognized the following change in net assets in its financial statements on the date of acquisition:

	Book Value	Fair Market Value	Difference
Building and improvements	$ 1,935,920	$ 2,094,900	$ 158,980
Furniture and equipment	952,627	24,451	(928,176)
Land improvements	30,739	-	(30,739)
Vehicles	66,850	-	(66,850)
Land	3,315	3,315	-
Subtotal	2,989,451	2,122,666	(866,785)
Less, accumulated depreciation	(2,393,835)	-	2,393,835
Property and equipment, net	595,616	2,122,666	1,527,050
Intangible asset - bed licenses	-	1,183,084	1,183,084
Total	$ 595,616	$ 3,305,750	$ 2,710,134

4. ACQUISITION (Continued)

Fair Value Considerations
The fair value of ChaseHealth was estimated by applying the discounted cash flow method. Information for comparable transactions was derived from publicly available information. Management believes that this information was appropriate for use in its evaluation of ChaseHealth.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2018	2017
Building and improvements	$ 2,094,900	$ 2,094,900
Furniture and equipment	72,284	28,819
	2,167,184	2,123,719
Less: accumulated depreciation	(79,601)	(22,941)
	2,087,583	2,100,778
Land	3,315	3,315
Property and equipment, net	$ 2,090,898	$ 2,104,093

Depreciation expense was $57,708 and $63,541, respectively, for the years ended December 31, 2018 and 2017.

6. LINE OF CREDIT

ChaseHealth has a line of credit of $75,000 available with a financial institution. Interest was 5.50% and 5.25% at December 31, 2018 and 2017, respectively. The outstanding balance on this line was $32,624 and $42,163 for the years ended December 31, 2018 and 2017, respectively.

The terms of the line of credit require ChaseHealth to maintain financial covenants, including a debt service coverage ratio. As of December 31, 2018, ChaseHealth was in compliance with the required covenant. As of December 31, 2017, ChaseHealth received a waiver for the required covenant.

7. NATURE, PURPOSE AND AMOUNT OF RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions are available for the following purposes at December 31:

	2018	2017
Net assets with donor restrictions that can be satisfied by action of ChaseHealth or the passage of time:		
Capital campaign	$ -	$ 2,617
Life Focus Alternative program	5,603	8,666
Sunshine Fund program	4,720	2,704
	$ 10,323	$ 13,987

Net assets were released from restriction for program expenditures.

8. EMPLOYEE BENEFIT PLAN

ChaseHealth provides retirement benefits to substantially all of its employees who are twenty years of age and have worked 1,000 or more hours through a flexible 401(k) profit sharing benefit plan. Qualified employees may make elective deferrals to the Plan pursuant to salary deferral agreements. ChaseHealth may make a discretionary profit sharing contribution. Covered employees are entitled to distributions beginning at normal retirement age (age sixty five) equal to their vested portion of employer benefit contributions. Participants become partially vested after one year with full vesting after five years of service. Benefit expense was $15,982 and $32,245 for the years ended December 31, 2018 and 2017, respectively.

Effective December 31, 2018 the 401(k) profit sharing benefit plan was amended to freeze and terminate. No further contributions are permitted or made under the plan with respect to plan compensation earned on or after December 31, 2018.

9. RELATED PARTY TRANSACTIONS

Management Services

The Company provides certain operating and administrative services to ChaseHealth. The costs of these services are based on an allocation and totaled $375,000 and $273,360 for the years ended December 31, 2018 and 2017, respectively. The Home is acting as the intermediary between the Company and ChaseHealth for processing payments for these operating and administrative services.

Balances resulting from related-party transactions, which are included in due (to)/from related parties in the accompanying balance sheets, consisted of the following at December 31:

	2018	2017
The Village	$ (795)	$ (161,708)
The Home	(673,980)	(369,183)
The Foundation	9,376	-
The Company	(30,850)	-
The Center	(118,388)	(144,595)
Total	$ (814,637)	$ (675,486)

10. SUPPLEMENTAL CASH FLOW INFORMATION

	2018	2017
Cash paid during the year for interest	$ 2,032	$ 3,682
Non-cash financing and investing activities:		
Assets increased in value due to pushdown accounting	$ -	$ 1,527,050
Intangible asset recorded due to pushdown accounting	$ -	$ 1,183,084

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 13, 2019, which is the date the financial statements were available to be issued.