

**Westminster Ingleside King Farm
Presbyterian Retirement
Communities, Inc.
d/b/a Ingleside**

Consolidated Financial Statements
and Supplementary Information

December 31, 2022 and 2021

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Table of Contents
December 31, 2022 and 2021

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Deficit	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Consolidating Balance Sheet	28
Consolidating Statement of Operations	30
Consolidating Statement of Changes in Net Assets (Deficit)	31

Independent Auditors' Report

To the Board of Directors of
Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Opinion

We have audited the consolidated financial statements of Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside (the Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in net deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the results of its operations, changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 28 to 31 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net deficit and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

New Castle, Pennsylvania
April 28, 2023

**Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside**

Consolidated Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,669,251	\$ 6,625,386
Current portion of contributions receivable	174,518	50,000
Current portion of assets whose use is limited	7,145,394	7,492,711
Accounts receivable:		
Residents, net	3,134,788	2,111,201
Entrance fees	1,698,096	1,246,470
Prepaid expenses	<u>2,846,097</u>	<u>2,613,749</u>
Total current assets	24,668,144	20,139,517
Contributions Receivable, Net	19,340	330,052
Investments	55,719,606	70,073,193
Investments Restricted by Agreements	9,206,579	8,607,052
Assets Whose Use is Limited, Net	30,281,638	29,107,713
Property and Equipment, Net	527,704,529	538,580,506
Interest in Charitable Remainder Trusts	37,951	70,331
Beneficial Interest in Perpetual Trusts	670,330	848,121
Other Assets	<u>1,781,572</u>	<u>50,203</u>
Total assets	<u><u>\$ 650,089,689</u></u>	<u><u>\$ 667,806,688</u></u>

See notes to consolidated financial statements

**Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside**

Consolidated Balance Sheets
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Current maturities of long-term debt	\$ 5,935,000	\$ 5,730,000
Line of credit	2,500,000	-
Accounts payable:		
Trade	3,073,119	1,752,096
Construction	504,488	941,255
Current maturities of gift annuities	515,000	400,000
Entrance fees payable	10,898,703	10,361,779
Accrued interest	4,763,293	4,884,044
Accrued expenses	<u>4,471,497</u>	<u>5,027,174</u>
Total current liabilities	32,661,100	29,096,348
Long-Term Debt, Net	285,044,372	291,371,176
Priority Deposits	5,450,934	4,442,686
Other Liabilities	1,763,189	307,294
Gift Annuities Payable, Net	5,194,780	4,182,588
Deferred Revenue From Entrance Fees	94,863,381	95,012,360
Refundable Entrance Fees	<u>414,548,058</u>	<u>406,494,798</u>
Total liabilities	<u>839,525,814</u>	<u>830,907,250</u>
Net Assets (Deficit)		
Without donor restrictions	(208,775,103)	(185,356,120)
With donor restrictions	<u>19,338,978</u>	<u>22,255,558</u>
Total net deficit	<u>(189,436,125)</u>	<u>(163,100,562)</u>
Total liabilities and net deficit	<u><u>\$ 650,089,689</u></u>	<u><u>\$ 667,806,688</u></u>

See notes to consolidated financial statements

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidated Statements of Operations
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues Without Donor Restrictions		
Net resident service revenues	\$ 99,235,161	\$ 86,421,367
Stimulus grant revenue	146,976	1,511,963
Other revenues	998,492	543,079
Net assets released from restrictions	<u>984,876</u>	<u>853,875</u>
Total revenues without donor restrictions	<u>101,365,505</u>	<u>89,330,284</u>
Expenses		
Health care	20,045,271	17,766,757
Dining services	15,106,842	12,584,917
General and administrative	15,142,651	15,172,370
Plant operations	9,313,062	8,989,222
Marketing and advertising	2,971,313	3,384,150
Housekeeping and laundry	5,368,058	4,755,146
Social services and activities	6,424,490	5,654,856
Program services, support to communities	984,876	853,875
Bad debts	261,668	65,416
Depreciation	26,496,494	25,900,022
Interest	14,287,956	14,452,365
Loss (gain) on disposal of property and equipment	<u>58,846</u>	<u>(1,108)</u>
Total expenses	<u>116,461,527</u>	<u>109,577,988</u>
Operating loss	(15,096,022)	(20,247,704)
Other Income (Expenses)		
Interest and dividends	1,526,626	1,141,893
Realized (losses) gains, investments	(1,688,167)	1,639,028
Unrealized losses, investments	(9,203,047)	(366,966)
Contributions	245,311	268,992
Forgiveness of PPP loan	-	5,282,500
Other	<u>796,316</u>	<u>2,032,367</u>
Revenues less than expenses	(23,418,983)	(10,249,890)
Dissolution of WING (Note 1)	<u>-</u>	<u>10,085,580</u>
Change in net deficit without donor restrictions	<u><u>\$ (23,418,983)</u></u>	<u><u>\$ (164,310)</u></u>

See notes to consolidated financial statements

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidated Statements of Changes in Net Deficit
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Deficit Without Donor Restrictions		
Revenues less than expenses	\$ (23,418,983)	\$ (10,249,890)
Dissolution of WING (Note 1)	-	10,085,580
	<u>(23,418,983)</u>	<u>(164,310)</u>
Change in net deficit without donor restrictions	(23,418,983)	(164,310)
Net Assets With Donor Restrictions		
Contributions	3,012,189	2,851,162
Interest, dividends and realized (losses) gains, investments	(77,025)	839,208
Unrealized (losses) gains, investments	(4,154,913)	527,380
Change in value of gift annuities	(501,784)	(148,505)
Net assets released from restrictions	(984,876)	(853,875)
Change in value of interest in charitable remainder trusts	(32,380)	(11,591)
Change in value of beneficial interest in perpetual trusts	(128,228)	101,641
Distribution of perpetual trust	(49,563)	(42,828)
	<u>(2,916,580)</u>	<u>3,262,592</u>
Change in net assets with donor restrictions	(2,916,580)	3,262,592
Change in net deficit	(26,335,563)	3,098,282
Net Deficit, Beginning	<u>(163,100,562)</u>	<u>(166,198,844)</u>
Net Deficit, Ending	<u><u>\$ (189,436,125)</u></u>	<u><u>\$ (163,100,562)</u></u>

See notes to consolidated financial statements

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net deficit	\$ (26,335,563)	\$ 3,098,282
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	26,496,494	25,900,022
Loss (gain on sale) on disposal of property and equipment	58,846	(1,108)
Amortization of deferred financing costs	375,840	375,074
Amortization of bond premium, net	(767,644)	(802,108)
Change in allowance for doubtful accounts	105,717	(266,098)
Net realized losses (gains), investments	1,688,167	(1,639,028)
Net unrealized losses (gains), investments	13,357,960	(160,414)
Change in interest in charitable remainder trusts	32,380	11,591
Change in value of beneficial interest in perpetual trusts	128,228	(101,641)
Proceeds from nonrefundable entrance fees	13,675,511	13,787,889
Amortization of nonrefundable entrance fees	(13,939,077)	(13,801,341)
Contributions restricted for long-term purposes	(3,012,189)	(2,851,162)
Forgiveness of PPP loan	-	(5,282,500)
Dissolution of WING	-	(10,085,580)
Changes in assets and liabilities:		
Accounts receivable, residents	(1,129,304)	(228,930)
Contribution receivable	186,194	(707)
Prepaid expenses and other assets	(1,963,717)	(267,907)
Accounts payable	1,321,023	(2,350,433)
Gift annuities	1,127,192	2,091,174
Accrued interest and expenses and other liabilities	706,184	(92,713)
Net cash provided by operating activities	<u>12,112,242</u>	<u>7,332,362</u>
Cash Flows From Investing Activities		
Sales of investments and assets whose use is limited	12,329,612	39,931,584
Purchases of investments and assets whose use is limited	(14,140,551)	(64,300,264)
Proceeds from sale of property and equipment	-	6,883
Purchases of property and equipment	<u>(16,116,130)</u>	<u>(15,031,290)</u>
Net cash used in investing activities	<u>(17,927,069)</u>	<u>(39,393,087)</u>
Cash Flows From Financing Activities		
Proceeds from line of credit	2,500,000	-
Payments of long-term debt	(5,730,000)	(3,738,745)
Contributions restricted for long-term purposes	3,012,189	2,851,162
Distribution received from perpetual trust	49,563	42,828
Proceeds from refundable entrance fees, net of priority deposits	28,864,510	35,290,202
Proceeds from entrance fees, new units, net of priority deposits	12,180,257	29,667,782
Refunds of entrance fees	<u>(31,710,091)</u>	<u>(33,729,148)</u>
Net cash provided by financing activities	<u>9,166,428</u>	<u>30,384,081</u>
Net change in cash, cash equivalents and restricted cash and cash equivalents	3,351,601	(1,676,644)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	<u>24,491,907</u>	<u>26,168,551</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u><u>\$ 27,843,508</u></u>	<u><u>\$ 24,491,907</u></u>
Supplementary Disclosure of Cash Flow Information		
Interest paid	<u><u>\$ 14,638,976</u></u>	<u><u>\$ 15,126,565</u></u>
Supplementary Disclosure Noncash Financing and Investing Activities		
Accounts payable, construction	<u><u>\$ 504,488</u></u>	<u><u>\$ 941,255</u></u>
Forgiveness of PPP loan	<u><u>\$ -</u></u>	<u><u>\$ 5,282,500</u></u>

See notes to consolidated financial statements

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside (Ingleside) was formed in November 2011, and began operations during 2015. Ingleside is a Virginia nonstock corporation that provides management and support services and is the sole member or parent company of the following affiliates:

King Farm Presbyterian Retirement Community, Inc. (King Farm), doing business as Ingleside at King Farm, operates a continuing care retirement community providing housing, health care and other related services to residents on a campus containing 368 independent living apartment units, 32 assisted living units, 32 assisted living memory support units and a 45-bed skilled nursing facility. King Farm's continuing care retirement community is located in Rockville, Maryland.

Westminster Presbyterian Retirement Community, Incorporated (Lake Ridge), doing business as Westminster at Lake Ridge, operates a continuing care retirement community providing housing, health care and other related services to residents on a campus containing 235 independent living units, 40 assisted living units and a 44-bed skilled nursing facility. Lake Ridge's continuing care retirement community is located in Lake Ridge, Virginia.

The Ingleside Presbyterian Retirement Community, Inc. (Rock Creek), doing business as Ingleside at Rock Creek, operates a continuing care retirement community providing housing, health care and other related services to residents on a campus containing 232 independent living apartment units, 21 assisted living units, 32 assisted living memory support units and a 34-bed skilled nursing facility. Rock Creek's continuing care retirement community is located in Washington, D.C.

Westminster Ingleside Presbyterian Foundation, Inc. (the Foundation) raises money through charitable giving for Rock Creek, Lake Ridge and King Farm.

Ingleside at Home, Inc. (IAH) provides home care services.

The Westminster Ingleside Group, LLC (WING) provided development services, including the planning, development, financing, construction and project management activities related to facilities owned and operated by affiliated organizations, and managed the planning, development and execution of construction projects. It operated in Washington, D.C., Maryland and Virginia. During January 2021, WING ceased operations and was dissolved. The affiliated entities have capitalized, as property and equipment, approximately \$10,085,580 of development services provided by WING in connection with various projects. Such amounts were previously eliminated with the net assets (deficit) without donor restrictions of WING and approximate the fair value of the Organization's retained interest in WING. Accordingly, upon derecognition of WING, a gain on dissolution totaling \$10,085,580 is included within change in net deficit without donor restrictions for the year ended December 31, 2021, on the accompanying consolidated statement of operations.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Principles of Consolidation

The consolidated financial statements include the accounts of Ingleside, King Farm, Lake Ridge, Rock Creek, the Foundation, IAH and WING after elimination of all significant interrelated balances and transactions, and are collectively referred to as the Organization.

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less. Cash, cash equivalents and restricted cash and cash equivalents reported in the consolidated statements of cash flows are comprised of the following items reported in the consolidated balance sheets at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 9,669,251	\$ 6,625,386
Restricted cash and cash equivalents included in assets whose use is limited	<u>18,174,257</u>	<u>17,866,521</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 27,843,508</u>	<u>\$ 24,491,907</u>

Amounts included in restricted cash and cash equivalents, included in assets whose use is limited on the accompanying consolidated balance sheets, represent amounts pledged as collateral; amounts held by the trustees as required under the Organization's trust indenture and amounts for residents deposits held in escrow.

Accounts Receivable

The Organization assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management during periodic review of individual accounts and based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Organization has exhausted all collection efforts and accounts are deemed impaired. The allowance for doubtful accounts totaled approximately \$452,000 and \$346,000 at December 31, 2022 and 2021, respectively.

Entrance fee receivables are evaluated for collectability prior to residents being admitted to the community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Investments, Assets Whose Use is Limited and Investment Risk

Assets whose use is limited include assets held by the trustees as required under trust indenture and assets limited for other purposes. Amounts available to meet current liabilities have been classified as current assets in the consolidated balance sheets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues less than expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

Investments are comprised of a variety of financial instruments. The fair values reported in the consolidated balance sheets are subject to various risks, including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the consolidated balance sheets could change materially in the future.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Property and equipment with a value over \$1,500 is capitalized. Interest expense from borrowings to fund construction projects is capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

Contributions Receivable

Contributions receivable include unconditional promises to give, a charitable remainder trust and a bequest receivable. Contributions receivable are recorded at estimated net realizable value, discounted to present value using a discount rate of 3.8%, which approximates the present value of their future cash flows. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Investments Restricted by Agreements and Gift Annuities

The Foundation receives certain gifts whereby it is contractually obligated to make periodic payments to the donor for the remainder of his or her life. Currently, gift annuity contributions are deposited into an investment portfolio at a financial institution. The assets received are recorded at fair value, as investments restricted by agreements in the accompanying consolidated balance sheets. A gift annuity payable is recorded at the present value of the future cash flows expected to be paid to the designated beneficiary using the applicable mortality table and discounted at a rate of 1.85% and 1.65% at December 31, 2022 and 2021, respectively.

Maryland regulations require a segregated reserve fund with assets at least equal to fund adequate reserves on its outstanding annuity agreement, which the Foundation maintains in compliance with this requirement.

Entrance Fees

Under King Farm's entrance fee plans for independent living units, entrance fees are received in advance. Residents may select either a 90% or 50% refundable plan, or a nonrefundable (fully declining) plan. Under the nonrefundable plan, the entrance fee is initially refundable, but becomes nonrefundable over a 25 month period. Refunds of entrance fees generally occur only after the residential living unit vacated has been reoccupied, a new entrance fee has been received and the resident no longer lives in the community. The gross amount of contractual refund obligations under existing agreements at King Farm as of December 31, 2022 and 2021 approximates \$217,000,000 and \$215,000,000, respectively.

All contracts currently offered are fee-for-service contracts under which residents pay the current per diem rate for assisted living or skilled nursing care. Residents may use the refundable entrance fee for the excess costs of assisted living or skilled nursing care over the independent living costs if chosen.

Under Lake Ridge's entrance fee plans for independent living units, entrance fees are received in advance. Residents may select either a 50% or 90% refundable plan, or a nonrefundable (fully declining) plan. Under the nonrefundable plan, the entrance fee is initially refundable, but becomes nonrefundable over a 25 month period. Only fee-for-service contracts are offered to new residents. Prior to 2010, Lake Ridge offered life care contracts which included 10%, 50%, 90% or 100% refundable options as well as a nonrefundable (fully declining) plan. Refunds of entrance fees under all options generally occur only after the residential living unit vacated has been reoccupied, a new entrance fee has been received and the resident no longer lives in the community. The gross amount of contractual refund obligations under existing agreements at Lake Ridge as of December 31, 2022 and 2021 approximates \$37,070,000 and \$39,134,000, respectively.

Life care residents are entitled to assisted living or skilled nursing care, as needed, with minor increases in the current monthly service fee. Fee-for-service residents pay the current per diem rate for assisted living or skilled nursing care.

Under Rock Creek's entrance fee plans for independent living units, entrance fees are received in advance. Residents may select either a 50% or 90% refundable plan, or a nonrefundable (fully declining) plan. Under the nonrefundable plan, the entrance fee is initially refundable, but becomes nonrefundable over a 25 month period. Only fee-for-service contracts are offered to new residents. Prior to 2009, Rock Creek offered life care contracts which included 50%, 90% or 100% refundable options as well as a nonrefundable (fully declining) plan.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Refunds of entrance fees under all options generally occur only after the residential living unit vacated has been reoccupied, the new entrance fee has been received, and the resident no longer lives in the community. The gross amount of contractual refund obligations under existing agreements at Rock Creek as of December 31, 2022 and 2021 approximates \$182,397,000 and \$178,079,000, respectively.

Life care residents are entitled to assisted living or skilled nursing care, as needed, with minor increases in the current monthly service fee. Fee-for-service residents pay the current per diem rate for assisted living or skilled nursing care. Fee-for-service residents may use the refundable entrance fee for the excess costs of assisted living or skilled nursing care over the independent living costs if chosen.

The refundable component of entrance fees received under the refundable plans is not amortized to income. These fees are classified as refundable entrance fees in the consolidated balance sheets.

Deposits from prospective residents totaled \$5,450,934 and \$4,442,686 at December 31, 2022 and 2021, respectively.

Amounts refundable to residents who terminated their residency agreements were \$10,898,703 and \$10,361,779 at December 31, 2022 and 2021, respectively. These amounts are classified as entrance fees payable in the consolidated balance sheets.

Obligation to Provide Future Services

Rock Creek and Lake Ridge calculate an obligation to provide future services and the use of facilities to current residents. The liability is the present value (discounted at 6%) of the net cost of providing future service and use of facilities, minus the balance of unamortized deferred revenue, plus depreciation of facilities to be charged related to the contracts, plus unamortized costs of acquiring the initial continuing-care contracts, if applicable. There was no liability estimated at December 31, 2022 and 2021.

Leases

Effective January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2021 consolidated financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the non-cancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Organization recorded finance lease right-of-use assets and lease liabilities of approximately \$1,713,000 and \$1,794,000, respectively, which are included in other assets and other liabilities in the accompanying consolidated balance sheet at December 31, 2022. The Organization did not have any operating lease right-of-use assets or lease liabilities at December 31, 2022.

Deferred Financing Costs

Deferred financing costs of represent costs incurred in connection with the issuance of long-term debt. These costs are reported in the consolidated balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the effective interest method.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Charity Care

The Organization extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates.

Net Assets (Deficit)

Net assets (deficit), revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets (deficit) and changes therein are classified and reported as follows:

Net Deficit Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net deficit without donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with 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 to net assets without donor restrictions. Donor-restricted gifts are solicited, received and recorded by the Foundation.

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of skilled nursing, assisted living, independent living and other resident service streams, which are primarily derived from providing housing, skilled nursing, assisted living and other services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Organization has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, the Organization considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, assisted living, independent living and other resident services are recognized on a daily or month-to-month basis as services are rendered.

The Organization receives revenue for services under third-party payor programs, including Medicare, Medical assistance and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. The Organization estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Marketing and Advertising

The Organization expenses marketing and advertising costs as incurred. Marketing and advertising expense totaled approximately \$2,971,000 and \$3,384,000 during 2022 and 2021, respectively.

Income Taxes

Ingleside, King Farm, Lake Ridge, Rock Creek, IAH and the Foundation are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from income taxes on related activities pursuant to Section 509(a) of the IRC.

WING was subject to income tax as it was a limited liability company (and previously a limited liability partnership) but had elected to be taxed as a C-Corporation and filed federal tax returns and tax returns in the District of Columbia.

The Organization follows the FASB accounting standard for *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in income taxes recognized in an Organization's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on de-recognition, classification, interest and penalties and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

Measure of Operations

The consolidated statements of operations include the determination of operating loss. Operating loss includes only those revenues and expenses that are an integral part of its program activities and that are used to support operations, and excludes other income and expenses, if any.

Performance Indicator

The consolidated statements of operations include the determination of revenues less than expenses. Changes in net deficit without donor restrictions that are excluded from revenues less than expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets) and the gain on dissolution of WING.

Future Accounting Standards

During March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities could elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. During December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. These amendments defer the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The Organization is currently assessing the effect that electing the optional expedients and exceptions included in ASU No. 2020-04 would have on its results of operations, financial position and cash flows.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Subsequent Events

The Organization evaluated subsequent events for recognition or disclosure through April 28, 2023, the date the consolidated financial statements were issued.

2. Net Resident Service Revenues

The Organization disaggregates revenues from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenues and cash flows as affected by economic factors.

Net resident service revenues consist of the following for the years ended December 31, 2022 and 2021:

	2022				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	\$ 8,993,983	\$ 18,239,316	\$ 47,797,791	\$ 1,004,330	\$ 76,035,420
Medicare	6,067,015	-	-	-	6,067,015
Medical assistance	3,193,649	-	-	-	3,193,649
Amortization of nonrefundable entrance fees	-	-	13,939,077	-	13,939,077
Total	<u>\$ 18,254,647</u>	<u>\$ 18,239,316</u>	<u>\$ 61,736,868</u>	<u>\$ 1,004,330</u>	<u>\$ 99,235,161</u>
	2021				
	Skilled Nursing	Assisted Living	Independent Living	Other Resident Services	Total
Self-pay	\$ 6,725,003	\$ 13,441,447	\$ 43,585,362	\$ 735,201	\$ 64,487,013
Medicare	5,140,732	-	-	-	5,140,732
Medical assistance	2,992,281	-	-	-	2,992,281
Amortization of nonrefundable entrance fees	-	-	13,801,341	-	13,801,341
Total	<u>\$ 14,858,016</u>	<u>\$ 13,441,447</u>	<u>\$ 57,386,703</u>	<u>\$ 735,201</u>	<u>\$ 86,421,367</u>

Payment terms and conditions for the Organization's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service revenues for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenues collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying consolidated balance sheets. In 2022 and 2021, the Organization recognized approximately \$13,325,000 and \$12,059,000, respectively, of revenues that were included in the deferred revenue from entrance fees balance as of January 1, 2022 and 2021. The Organization applies the practical expedient in the FASB's ASU No. 2014-09, and therefore, does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The Organization has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medical Assistance - Under the Maryland Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (ADLs), and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.

Under the District of Columbia's Medicaid Program, per-diem rates are based on a prospective payment case-mix reimbursement system, subject to certain ceilings and adjustments, and adjusted semi-annually.

Under the Virginia Department of Medical Assistance Services Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in ADLs, and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.

Medicare - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on the Organization's clinical assessment of its residents. The Organization is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

The Organization also has entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to the Organization under these agreements includes prospectively determined rates per day or discounts from established charges.

3. Fair Value Measurements, Investments and Assets Whose Use is Limited and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined 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. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the Organization for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The following tables present financial instruments reported at fair value at December 31, 2022 and 2021, by caption on the consolidated balance sheets:

	2022			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Investments and assets whose use is limited:				
Equity securities	\$ 32,866,453	\$ 32,866,453	\$ -	\$ -
Mutual funds:				
Equity	9,740,440	9,740,440	-	-
Fixed income	26,845,199	26,845,199	-	-
Fixed income securities:				
Corporate bonds	4,600,814	-	4,600,814	-
Government	8,042,466	-	8,042,466	-
Total measured at fair value	82,095,372	\$ 69,452,092	\$ 12,643,280	\$ -
Cash and cash equivalents	20,257,845			
Total investments and assets whose use is limited	\$ 102,353,217			
Interest in charitable remainder trusts	\$ 37,951	\$ -	\$ -	\$ 37,951
Beneficial interest in perpetual trusts	\$ 670,330	\$ -	\$ -	\$ 670,330

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

	2021			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Assets:				
Investments and assets whose use is limited:				
Equity securities	\$ 40,691,310	\$ 40,691,310	\$ -	\$ -
Mutual funds:				
Equity	11,399,234	11,399,234	-	-
Fixed income	31,261,640	31,261,640	-	-
Fixed income securities:				
Corporate bonds	4,829,771	-	4,829,771	-
Government	7,800,797	-	7,800,797	-
Total measured at fair value	95,982,752	\$ 83,352,184	\$ 12,630,568	\$ -
Cash and cash equivalents	19,297,917			
Total investments and assets whose use is limited	\$ 115,280,669			
Interest in charitable remainder trusts	\$ 70,331	\$ -	\$ -	\$ 70,331
Beneficial interest in perpetual trusts	\$ 848,121	\$ -	\$ -	\$ 848,121

Investments and assets whose use is limited is presented together in the tables above as there are various investment and cash accounts that are allocated between the investment and assets whose use is limited lines on the consolidated balance sheets.

	2022	2021
Current portion of assets whose use is limited	\$ 7,145,394	\$ 7,492,711
Investments	55,719,606	70,073,193
Investments restricted by agreements	9,206,579	8,607,052
Assets whose use is limited, net	30,281,638	29,107,713
Total investments, investments held by agreement and assets whose use is limited	\$ 102,353,217	\$ 115,280,669

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Valuation Methodologies

Equity securities and mutual funds are valued at closing price reported on the quoted market prices in active markets.

Fixed income securities are valued at closing price reported on the quoted market prices in active markets for the same or similar securities.

Interest in charitable remainder trusts is valued at the fair market value of the trusts.

Beneficial interest in perpetual trusts is Valued based on the interest in the fair value of the underlying investments which approximates the present value of estimated net future cash flows to be received from the trusts.

The Organization measures its interests in charitable remainder and perpetual trusts at fair value based on the fund's underlying investments using unobservable inputs (Level 3) in accordance with accounting principles generally accepted in the United States of America.

The following table summarizes the roll forward of Level 3 assets for the years ended December 31, 2022 and 2021:

	Perpetual Trusts	Remainder Trusts
Balance, January 1, 2021	\$ 789,308	\$ 81,922
Change in value of trusts	101,641	(11,591)
Distribution of perpetual trust	<u>(42,828)</u>	<u>-</u>
Balance, December 31, 2021	848,121	70,331
Change in value of trusts	(128,228)	(32,380)
Distribution of perpetual trust	<u>(49,563)</u>	<u>-</u>
Balance, December 31, 2022	<u><u>\$ 670,330</u></u>	<u><u>\$ 37,951</u></u>

Assets whose use is limited is classified as follows as of December 31, 2022 and 2021:

	2022	2021
Assets whose use is limited:		
Repairs and replacement funds	\$ 168,822	\$ -
Debt service reserve funds	19,081,403	18,878,300
Debt service funds	7,145,407	7,492,724
Maryland and DC reserve funds	<u>11,031,400</u>	<u>10,229,400</u>
Total assets whose use is limited	37,427,032	36,600,424
Less current portion	<u>(7,145,394)</u>	<u>(7,492,711)</u>
Assets whose use is limited, net	<u><u>\$ 30,281,638</u></u>	<u><u>\$ 29,107,713</u></u>

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. Liquidity and Availability of Resources

The following table reflects the Organization's financial assets available for general expenditures within one year of the December 31 consolidated balance sheets. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of assets whose use is limited, interest in charitable remainder trusts, beneficial interest in perpetual trusts and interest in donor-restricted net assets of the Foundation.

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 9,669,251	\$ 6,625,386
Investments	55,719,606	70,073,193
Accounts receivable, net	4,832,884	3,357,671
 Total financial assets	 \$ 70,221,741	 \$ 80,056,250

As part of the Organization'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. The Organization invests cash in excess of daily requirements in short-term investments. As stated in Note 3, the Organization designated a portion of its investments as an operating reserve to comply with the requirements of the Maryland Department of Aging and District of Columbia Reserve Requirements and thus they are not included in the schedule above. Although the Organization does not intend to utilize the operating reserve for general expenditures as part of its annual budget and approval process, amounts designated as operating reserves could be made available as necessary. The operating reserves are included in assets whose use is limited on the consolidated balance sheets and do not have third-party restrictions or limitations on the withdrawal and subsequent liquidation of such funds. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied.

5. Beneficial Interest in Trusts

Perpetual Trusts

The Organization is the sole beneficiary of trusts which provide distribution of all of the net income, as defined in the agreements, earned by the trust. The principal of each trust must remain in perpetuity. The trusts are measured based on the fair market value of the trusts' assets. Changes in the trusts' market value are recorded as restricted in the consolidated statements of changes in net deficit. Dividends received from the trusts are recorded as investment income with donor restrictions. The fair market value of the trusts was \$670,330 and \$848,121 at December 31, 2022 and 2021, respectively.

Charitable Remainder Trusts

The Organization is the beneficiary of several irrevocable charitable remainder trusts. Funds from the trusts will be distributed upon the deaths of the donors or their beneficiaries. The net present value of the anticipated benefit to be received is recorded as an asset on the consolidated balance sheets at fair value. The Organization has recorded \$37,951 and \$70,331 at December 31, 2022 and 2021, respectively. These trusts are classified as net assets with donor restrictions.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

6. Property and Equipment, Net

Property and equipment at December 31, 2022 and 2021 was comprised of the following:

	2022	2021
Land	\$ 32,925,592	\$ 32,925,592
Buildings and building improvements	658,226,808	646,248,491
Furniture and equipment	39,224,779	38,609,548
Construction in progress	6,612,504	5,248,564
	736,989,683	723,032,195
Less accumulated depreciation	(209,285,154)	(184,451,689)
Property and equipment, net	<u>\$ 527,704,529</u>	<u>\$ 538,580,506</u>

No construction commitments existed at December 31, 2022.

7. Long-Term Debt, Net

King Farm 2017 Bonds

In November 2017, the Mayor and Council of Rockville (the Issuer) issued, on behalf of King Farm, \$224,280,000 of tax-exempt revenue bonds in three series; Economic Development Revenues Bonds, Series 2017A and 2017B and Tax-Exempt Mandatory Paydown Securities Series 2017C (collectively, the 2017 Bonds). Series 2017A Bonds amounted to \$65,705,000 and are payable annually in varying installments beginning in 2019 through 2038, plus interest payable semi-annually at rates ranging from 2.25% to 5.00%. Series 2017B Bonds amounted to \$76,275,000 and are payable in varying installments beginning in 2035 through 2047, plus interest payable semi-annually at rates ranging from 4.25% to 5.00%. Series 2017C Bonds amounted to \$82,300,000 and were originally due in three installments beginning in 2024 through 2026, plus interest payable semi-annually at rates ranging from 2.50% to 3.50%. The proceeds from the 2017 Bonds were used to refund the 2007 and 2015 Bonds, and to fund construction for Phase II of the Organization's continuing care retirement community.

The Series 2017C Bonds were repaid during 2020 with the proceeds from entrance fees received.

King Farm is required to maintain certain financial covenants as per the terms of the 2017 Bonds financing documents, including a debt service coverage ratio and days cash on hand requirement.

King Farm Land Enhancement Loan Payable

In 2006, King Farm entered into a \$1,230,000 unsecured land enhancement loan payable agreement. The loan is noninterest bearing and is due in annual installments of \$60,000, with a final payment of \$30,000 due upon maturity.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Lake Ridge 2016 Bonds

In October 2016, the Industrial Development Authority of the County of Prince William, Virginia issued, on behalf of Lake Ridge, \$46,510,000 of tax-exempt Mortgage Revenue Bonds in six series (the Lake Ridge 2016 Bonds) with an original issue premium, net of original and underwriter discounts of \$2,975,596. The proceeds from the 2016 Bonds were primarily used to refund long-term debt and pay for various capital improvements.

Lake Ridge Serial Bonds totaling \$8,740,000 are due in varying annual installments beginning in 2018 through 2026, plus interest payable semi-annually at rates ranging from 1.75% to 5.00%. Lake Ridge Term Bonds totaling \$37,770,000 are due in varying annual installments from 2027 through 2046, plus interest payable semi-annually at rates ranging from 4.00% to 5.00%.

Lake Ridge 2015 Term Loan

In October 2015, Lake Ridge entered a variable rate, interest only draw-down taxable term loan under which proceeds will be advanced within five years for up to \$10,000,000 with Truist Bank (the Lake Ridge 2015 Term Loan). Interest is at a floating rate of one-month LIBOR plus 1.85% (5.98% and 1.94% at December 31, 2022 and 2021, respectively). Principal will amortize starting in the 61st month over a 25 year amortization period. The Lake Ridge 2015 Term Loan is being used for capital improvement projects.

Rock Creek 2017 Bonds

In August 2017, the District of Columbia issued \$129,595,000 of tax-exempt bonds on behalf of Rock Creek in two series (\$108,595,000 Series 2017A Project Revenue Bonds at a fixed interest rate ranging from 4.125% to 5.000%, and \$21,000,000 Series 2017B Entrance Fee Principal Redemption Bonds at a fixed interest rate of 3.875%, (together, the Rock Creek Series 2017A-B Bonds). Interest on the Rock Creek Series 2017A-B Bonds is payable semi-annually beginning January 1, 2018. Principal payments on the Series 2017A Bonds are to be paid annually beginning on July 1, 2022 with a final maturity on July 1, 2052. The Series 2017B Bonds were repaid during 2020.

In addition, in August 2017, the District of Columbia issued tax-exempt, direct purchase bank revenue bonds, Series 2017C-1, Series 2017C-2 and 2017D, to be advanced on a draw-down basis, which are not to exceed \$14,250,000, \$11,500,000 and \$34,750,000, respectively. Interest was payable monthly on the drawn portion of the Series 2017C-1, Series 2017C-2 and Series 2017D Bonds at a variable rate. The Series 2017C-1, Series 2017C-2 and 2017D Bonds were repaid during 2020.

Proceeds from the Rock Creek Series 2017 Bonds were deposited into a project fund, which will be used to pay construction costs associated with the repositioning project; used to fund various debt service reserve, interest and liquidity accounts, as required by the bond documents; and used to fund transactions costs associated with the issuance of the Series 2017 Bonds.

Rock Creek is required to maintain certain finance covenants as per the terms of the 2017A Bonds financing documents.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.

d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Security for the Long-Term Debt

The long-term debt is secured by first mortgage liens on and security interest in the each of the Organizations' property and equipment and a security interest in the respective Organizations' gross revenues, as defined in the applicable agreements.

Each of the long-term debt agreements have certain financial covenants that need to be met.

Line of Credit

In October 2022, Rock Creek secured a line of credit with an independent third-party bank in the amount of \$5,000,000. The line of credit bears interest at an adjusted term Secured Overnight Financing Rate (SOFR) as defined in the line of credit agreement (5.73% at December 31, 2022). The line of credit matures on October 11, 2023. Rock Creek had borrowings of \$2,500,000 on the line of credit at December 31, 2022.

Paycheck Protection Program

On May 5, 2020, Ingleside received loan proceeds in the amount of \$5,282,500 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (as amended by the Economic Aid Act (EAA) on December 27, 2020) and was administered through the Small Business Administration (SBA). The PPP provided loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans were uncollateralized and guaranteed by the SBA and were forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintained its payroll levels and used the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount was reduced if the borrower terminated employees or reduced salaries and wages more than 25% during the covered period. The Organization initially recorded the funds as long-term debt. The Organization met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during 2021. Legal release was received during November 2021, therefore, the Organization recorded forgiveness income of \$5,282,500 within other income (expenses) in the accompanying consolidated statement of operations for the year ended December 31, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Long-Term Debt Summary

	<u>2022</u>	<u>2021</u>
King Farm 2017 Bonds	\$ 131,990,000	\$ 134,680,000
King Farm Land Enhancement Loan Payable	330,000	390,000
Lake Ridge 2016 Bonds	42,110,000	43,080,000
Lake Ridge 2015 Term Loan	9,066,667	9,466,667
Rock Creek 2017 Bonds	<u>106,985,000</u>	<u>108,595,000</u>
	290,481,667	296,211,667
Less current maturities	<u>(5,935,000)</u>	<u>(5,730,000)</u>
Long-term debt, excluding deferred financing costs	284,546,667	290,481,667
Bond premium, net	9,018,397	9,815,365
Bond discount, net	(1,810,053)	(1,839,377)
Deferred financing costs, net of accumulated amortization	<u>(6,710,639)</u>	<u>(7,086,479)</u>
Long-term debt, net	<u><u>\$ 285,044,372</u></u>	<u><u>\$ 291,371,176</u></u>

Scheduled principal payments on long-term debt are as follows:

Years ending December 31:	
2023	\$ 5,935,000
2024	6,195,000
2025	6,465,000
2026	6,750,000
2027	7,050,000
Thereafter	<u>258,086,667</u>
	<u><u>\$ 290,481,667</u></u>

Interest expense totaled \$14,287,956 and \$14,452,365 during 2022 and 2021, respectively. Amortization of the bond premium, net of bond discount, during 2022 and 2021 of \$767,644 and \$802,108, respectively, is included as a component of interest expense on the consolidated statements of operations and is computed using the effective interest method over the life of the related bonds. Amortization of deferred financing costs is also included in interest expense and totaled \$375,840 and \$375,074 during 2022 and 2021, respectively.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

8. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31 consist of the following:

	2022	2021
Purpose restricted:		
Resident support	\$ 9,695,253	\$ 9,661,808
Operations and other	5,545,253	8,821,449
Interest in charitable remainder trusts	37,951	70,331
Restricted in perpetuity:		
Kreider Scholarship	486,931	465,468
Employee Scholarship Fund	1,027,072	906,773
Resident support and employee scholarship	1,585,124	1,367,848
Beneficial interest in perpetual trusts	670,330	848,121
Other	291,064	113,760
	<u>\$ 19,338,978</u>	<u>\$ 22,255,558</u>

9. Expenses by Nature and Function

The consolidated financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Costs of these categories were allocated on estimates of time and effort. The Organization believes substantially all utilities, property taxes, depreciation and interest, bad debts and loss on disposal of property and equipment are applicable to program services. As such, these expenses were reported in the resident services columns below. The Organization's expenses for resident services (including health care, dining services, plant operations, housekeeping and laundry and social services and activities) and general and administrative (including general and administrative and marketing and advertising) are as follows for the years ended December 31:

	2022		
	Resident Services	General and Administrative	Total
Salaries and wages	\$ 28,463,701	\$ 7,663,194	\$ 36,126,895
Employee benefits and payroll taxes	5,866,146	1,037,054	6,903,200
Supplies and other expenses	4,468,366	721,648	5,190,014
Food services	5,868,254	61,759	5,930,013
Repairs and maintenance	1,225,533	1,428,166	2,653,699
Utilities	4,620,571	-	4,620,571
Professional services	7,009,700	3,831,890	10,841,590
Other marketing and advertising	-	583,690	583,690
Insurance	621,662	1,097,128	1,718,790
Property taxes	788,101	-	788,101
Depreciation	26,496,228	266	26,496,494
Interest	14,175,750	112,206	14,287,956
Bad debts	261,668	-	261,668
Loss on sale of property and equipment	58,846	-	58,846
Total	<u>\$ 99,924,526</u>	<u>\$ 16,537,001</u>	<u>\$ 116,461,527</u>

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

	2021		
	Resident Services	General and Administrative	Total
Salaries and wages	\$ 24,366,733	\$ 8,057,356	\$ 32,424,089
Employee benefits and payroll taxes	5,292,060	1,290,280	6,582,340
Supplies and other expenses	3,837,217	1,000,759	4,837,976
Food services	4,732,483	17,104	4,749,587
Repairs and maintenance	1,247,201	1,673,534	2,920,735
Utilities	4,504,945	-	4,504,945
Professional services	6,635,826	3,334,907	9,970,733
Other marketing and advertising	-	773,430	773,430
Insurance	536,171	1,137,304	1,673,475
Property taxes	723,983	-	723,983
Depreciation	25,900,022	-	25,900,022
Interest	14,452,365	-	14,452,365
Bad debts	65,416	-	65,416
Gain on sale of property and equipment	(1,108)	-	(1,108)
Total	\$ 92,293,314	\$ 17,284,674	\$ 109,577,988

10. Retirement Plan

The Organization sponsors a defined contribution retirement plan. The Organization's contributions to the plan were \$425,738 and \$395,142 in 2022 and 2021, respectively.

11. Charity Care

The Organization extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenues.

The Organization maintains records to identify and monitor the level of charity care it provides. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the residents receiving charity care. The level of charity care provided by the Organization amounted to approximately \$491,000 and \$247,000 in 2022 and 2021, respectively. The Organization also provides services to indigent residents under the Medicaid program which reimburses the Organization at less than established rates. The costs incurred to provide these services exceeded actual reimbursement by \$1,431,000 in 2022 and \$1,166,000 in 2021.

12. Medical Malpractice Claims Coverage

The Organization maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed the Organization's insurance coverages or will have a material adverse effect on the consolidated financial statements.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

13. Concentrations of Credit Risk

The Organization grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies.

The Organization maintains cash, restricted cash and cash equivalents accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash, restricted cash and cash equivalents accounts.

14. Contingency

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidating Balance Sheet

December 31, 2022

	<u>Ingleside</u>	<u>King Farm</u>	<u>Lake Ridge</u>	<u>Rock Creek</u>	<u>Foundation</u>	<u>Ingleside at Home</u>	<u>Eliminations</u>	<u>Total</u>
Assets								
Current Assets								
Cash and cash equivalents	\$ 430,882	\$ 4,252,172	\$ 695,793	\$ 2,736,411	\$ 1,193,764	\$ 360,229	\$ -	\$ 9,669,251
Current portion of contributions receivable	-	-	-	-	174,518	-	-	174,518
Current portion of assets whose use is limited	-	1,579,022	2,063,607	3,502,765	-	-	-	7,145,394
Accounts receivable:								
Residents, net	-	450,083	1,469,315	738,504	-	476,886	-	3,134,788
Entrance fees	-	1,698,096	-	-	-	-	-	1,698,096
Prepaid expenses	410,394	1,050,552	707,774	651,106	9,820	16,451	-	2,846,097
Due from affiliate, net	1,003,273	670,554	767,487	-	-	-	(2,441,314)	-
Total current assets	1,844,549	9,700,479	5,703,976	7,628,786	1,378,102	853,566	(2,441,314)	24,668,144
Contributions Receivable, Net	-	-	-	-	19,340	-	-	19,340
Investments	-	9,866,049	9,997,786	21,730,537	14,125,234	-	-	55,719,606
Investments Restricted by Agreements	-	-	-	-	9,206,579	-	-	9,206,579
Assets Whose Use is Limited, Net	-	12,995,624	3,112,602	14,173,412	-	-	-	30,281,638
Property and Equipment, Net	74,202	259,010,596	57,886,194	210,714,532	-	19,005	-	527,704,529
Loan Receivable From Affiliates	-	989,921	2,989,922	491,985	-	-	(4,471,828)	-
Interest in Charitable Remainder Trusts	-	-	-	37,951	-	-	-	37,951
Beneficial Interest in Perpetual Trusts	-	-	-	670,330	-	-	-	670,330
Interest in Net Assets of the Foundation	-	3,885,380	3,183,474	10,927,202	-	-	(17,996,056)	-
Other Assets	1,731,370	-	-	23,597	26,605	-	-	1,781,572
Total assets	<u>\$ 3,650,121</u>	<u>\$296,448,049</u>	<u>\$ 82,873,954</u>	<u>\$266,398,332</u>	<u>\$ 24,755,860</u>	<u>\$ 872,571</u>	<u>\$ (24,909,198)</u>	<u>\$650,089,689</u>

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidating Balance Sheet

December 31, 2022

	Ingleside	King Farm	Lake Ridge	Rock Creek	Foundation	Ingleside at Home	Eliminations	Total
Liabilities and Net Assets (Deficit)								
Current Liabilities								
Current maturities of long-term debt	\$ -	\$ 2,855,000	\$ 1,405,000	\$ 1,675,000	\$ -	\$ -	\$ -	\$ 5,935,000
Line of credit	-	-	-	2,500,000	-	-	-	2,500,000
Accounts payable:								
Trade	262,735	481,758	1,031,298	1,261,768	15,895	19,665	-	3,073,119
Construction	-	110,221	-	394,267	-	-	-	504,488
Current maturities of gift annuities	-	-	-	-	515,000	-	-	515,000
Entrance fees payable	-	4,659,892	1,083,234	5,155,577	-	-	-	10,898,703
Accrued interest	-	1,084,886	1,043,188	2,635,219	-	-	-	4,763,293
Accrued expenses	1,557,419	1,531,656	647,204	645,775	-	89,443	-	4,471,497
Due to affiliates, net	-	-	484,364	1,784,218	105,590	67,142	(2,441,314)	-
Total current liabilities	1,820,154	10,723,413	5,694,288	16,051,824	636,485	176,250	(2,441,314)	32,661,100
Long-Term Debt, Net	-	133,878,430	51,150,206	100,015,736	-	-	-	285,044,372
Priority Deposits	-	1,611,589	650,653	3,188,692	-	-	-	5,450,934
Loan Payable to Affiliates	-	-	-	2,995,873	-	1,475,955	(4,471,828)	-
Other Liabilities	1,763,189	-	-	-	-	-	-	1,763,189
Gift Annuities Payable, Net	-	-	-	-	5,194,780	-	-	5,194,780
Deferred Revenue From Entrance Fees	-	41,865,242	23,758,291	29,239,848	-	-	-	94,863,381
Refundable Entrance Fees	-	207,346,219	34,490,048	172,711,791	-	-	-	414,548,058
Total liabilities	3,583,343	395,424,893	115,743,486	324,203,764	5,831,265	1,652,205	(6,913,142)	839,525,814
Net Assets (Deficit)								
Without donor restrictions	66,778	(102,862,224)	(36,007,047)	(69,731,979)	539,003	(779,634)	-	(208,775,103)
With donor restrictions	-	3,885,380	3,137,515	11,926,547	18,385,592	-	(17,996,056)	19,338,978
Total net assets (deficit)	66,778	(98,976,844)	(32,869,532)	(57,805,432)	18,924,595	(779,634)	(17,996,056)	(189,436,125)
Total liabilities and net assets (deficit)	\$ 3,650,121	\$296,448,049	\$ 82,873,954	\$266,398,332	\$ 24,755,860	\$ 872,571	\$ (24,909,198)	\$650,089,689

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidating Statement of Operations

Year Ended December 31, 2022

	Ingleside	King Farm	Lake Ridge	Rock Creek	Foundation	Ingleside at Home	Eliminations	Total
Revenues Without Donor Restrictions								
Net resident service revenues	\$ -	\$ 38,096,830	\$ 26,082,863	\$ 32,749,643	\$ -	\$ 2,305,825	\$ -	\$ 99,235,161
Stimulus grant revenue	-	97,085	20,120	29,771	-	-	-	146,976
Other revenues	-	189,501	15,226	793,765	-	-	-	998,492
Net assets released from restrictions	-	-	-	-	984,876	-	-	984,876
Total revenues without donor restrictions	-	38,383,416	26,118,209	33,573,179	984,876	2,305,825	-	101,365,505
Expenses								
Health care	-	6,273,837	6,877,836	6,893,598	-	-	-	20,045,271
Dining services	-	6,481,159	3,752,853	4,872,830	-	-	-	15,106,842
General and administrative	5,372,756	5,087,266	3,665,002	4,863,342	228,066	2,171,132	(6,244,913)	15,142,651
Plant operations	-	3,369,056	2,943,615	3,000,391	-	-	-	9,313,062
Marketing and advertising	492,202	932,904	677,025	869,182	-	-	-	2,971,313
Housekeeping and laundry	-	1,528,112	1,115,669	2,724,277	-	-	-	5,368,058
Social services and activities	-	2,668,700	1,309,540	2,446,250	-	-	-	6,424,490
Program services, support to communities	-	-	-	-	984,876	-	-	984,876
Fundraising	-	-	-	-	705,330	-	(705,330)	-
Bad debts	-	5,000	248,334	8,334	-	-	-	261,668
Depreciation	115,036	11,877,114	5,928,888	8,571,136	266	4,054	-	26,496,494
Interest	49,715	6,312,664	2,288,264	5,766,252	112,206	77,238	(318,383)	14,287,956
Loss on sale of property and equipment	-	12,354	1,206	45,286	-	-	-	58,846
Total expenses	6,029,709	44,548,166	28,808,232	40,060,878	2,030,744	2,252,424	(7,268,626)	116,461,527
Operating (loss) income	(6,029,709)	(6,164,750)	(2,690,023)	(6,487,699)	(1,045,868)	53,401	7,268,626	(15,096,022)
Other Income (Expenses)								
Interest and dividends	50,956	429,293	811,468	554,844	(1,552)	-	(318,383)	1,526,626
Realized losses, investments	-	(394,553)	(172,709)	(1,120,905)	-	-	-	(1,688,167)
Unrealized losses, investments	-	(2,143,690)	(1,659,672)	(5,312,572)	(87,113)	-	-	(9,203,047)
Contributions	-	-	-	-	245,311	-	-	245,311
Other	37,066	379,248	-	335,332	44,670	-	-	796,316
Gifts in-kind fundraising	-	-	-	-	705,330	-	(705,330)	-
Management fees	6,244,913	-	-	-	-	-	(6,244,913)	-
Revenues in excess of (less than) expenses and change in net asset (deficit) without donor restrictions	\$ 303,226	\$ (7,894,452)	\$ (3,710,936)	\$ (12,031,000)	\$ (139,222)	\$ 53,401	\$ -	\$ (23,418,983)

Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc.
d/b/a Ingleside

Consolidating Statement of Changes in Net Assets (Deficit)

Year Ended December 31, 2022

	<u>Ingleside</u>	<u>King Farm</u>	<u>Lake Ridge</u>	<u>Rock Creek</u>	<u>Foundation</u>	<u>Ingleside at Home</u>	<u>Eliminations</u>	<u>Total</u>
Net Assets (Deficit) Without Donor Restrictions								
Revenues in excess of (less than) expenses and change in net assets (deficit) without donor restrictions	\$ 303,226	\$ (7,894,452)	\$ (3,710,936)	\$ (12,031,000)	\$ (139,222)	\$ 53,401	\$ -	\$ (23,418,983)
Net Assets With Donor Restrictions								
Contributions	-	-	-	-	3,012,189	-	-	3,012,189
Interest, dividends and realized gains, investments	-	-	-	-	(77,025)	-	-	(77,025)
Unrealized gains and losses, investments	-	-	-	-	(4,154,913)	-	-	(4,154,913)
Change in value of gift annuities	-	-	-	-	(501,784)	-	-	(501,784)
Net assets released from restrictions	-	-	-	-	(984,876)	-	-	(984,876)
Change in value of interest in charitable remainder trusts	-	-	-	(32,380)	-	-	-	(32,380)
Change in value of beneficial interest in perpetual trusts	-	-	-	(128,228)	-	-	-	(128,228)
Distribution of perpetual trust	-	-	-	(49,563)	-	-	-	(49,563)
Change in interest in net assets of the Foundation	-	(619,554)	(918,137)	(1,168,717)	-	-	2,706,408	-
Change in net assets with donor restrictions	-	(619,554)	(918,137)	(1,378,888)	(2,706,409)	-	2,706,408	(2,916,580)
Change in net assets (deficit)	303,226	(8,514,006)	(4,629,073)	(13,409,888)	(2,845,631)	53,401	2,706,408	(26,335,563)
Net Assets (Deficit), Beginning	(236,448)	(90,462,838)	(28,240,459)	(44,395,544)	21,770,226	(833,035)	(20,702,464)	(163,100,562)
Net Assets (Deficit), Ending	<u>\$ 66,778</u>	<u>\$ (98,976,844)</u>	<u>\$ (32,869,532)</u>	<u>\$ (57,805,432)</u>	<u>\$ 18,924,595</u>	<u>\$ (779,634)</u>	<u>\$ (17,996,056)</u>	<u>\$ (189,436,125)</u>