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Roland Park Place, Inc. and Subsidiary

Consolidated Financial Statements

June 30, 2023 and 2022

Independent Auditors' Report

To the Board of Directors of
Roland Park Place, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Roland Park Place, Inc. and Subsidiary (the Corporation), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, 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 consolidated financial position of the Corporation as of June 30, 2023 and 2022, and the results of their operations, changes in their net deficit and their 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 Corporation 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 Corporation's ability to continue as a going concern within one year after the date that the 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 Corporation'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 Corporation'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.

Baker Tilly US, LLP

New Castle, Pennsylvania
October 6, 2023

Roland Park Place, Inc. and Subsidiary

Consolidated Balance Sheets
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	$ 7,832,395	$ 5,567,673
Accounts receivable, net	451,355	375,059
Prepaid expenses and other	231,472	417,366
Total current assets	8,515,222	6,360,098
Assets Whose Use is Limited	11,960,983	19,909,197
Investments	17,281,010	13,250,050
Property and Equipment, Net	101,032,254	102,962,246
Interest Rate Swap	1,202,555	-
Total assets	$ 139,992,024	$ 142,481,591
Liabilities and Net (Deficit) Assets		
Current Liabilities		
Current portion of long-term debt	$ 2,013,892	$ 2,009,521
Accounts payable, trade	643,480	1,440,184
Accounts payable, construction	-	275,065
Accrued expenses	1,784,403	1,196,589
Current portion of charitable gift annuities	700	700
Entrance fee refunds	3,106,491	3,461,176
Total current liabilities	7,548,966	8,383,235
Charitable Gift Annuities, Net	3,642	4,204
Long-Term Debt, Net	48,781,093	65,863,320
Interest Rate Swap	-	247,944
Entrance Fee Deposits	1,090,706	565,304
Refundable Entrance Fees	48,130,685	42,091,928
Deferred Revenue From Entrance Fees	40,247,722	34,209,897
Total liabilities	145,802,814	151,365,832
Net (Deficit) Assets		
Without donor restrictions	(8,873,048)	(11,715,204)
With donor restrictions	3,062,258	2,830,963
Total net deficit	(5,810,790)	(8,884,241)
Total liabilities and net deficit	$ 139,992,024	$ 142,481,591

See notes to consolidated financial statements

Roland Park Place, Inc. and Subsidiary

Consolidated Statements of Operations
Years Ended June 30, 2023 and 2022

	2023	2022
Revenue Without Donor Restrictions		
Monthly service fees	$ 16,943,240	$ 12,889,892
Amortization of entrance fees	5,903,434	4,579,047
Health care center services	5,286,667	3,602,766
Interest and dividends, net	762,514	1,334,683
Net realized (losses) gains, investments	(124,560)	2,485,325
Food service and other income	240,019	177,955
Contributions	10,296	16,647
Grant revenues	-	28,978
Net assets released from restrictions for operations	156,605	7,554
Total revenue without donor restrictions	29,178,215	25,122,847
Operating Expenses		
General and administrative	5,528,580	5,019,613
Plant maintenance	2,775,820	2,240,489
Resident services	2,639,928	2,252,288
Housekeeping and laundry	1,001,077	970,178
Food service	4,035,058	3,635,201
Health care center services	5,203,465	4,644,691
Development	126,197	130,462
Insurance and real estate taxes	1,290,255	1,523,509
Interest and amortization	2,118,757	2,207,968
Depreciation	5,499,191	5,325,525
Total operating expenses	30,218,328	27,949,924
Operating loss	(1,040,113)	(2,827,077)
Other Income (Expense)		
Change in value of interest rate swap	1,450,499	3,499,836
Paycheck Protection Program loan forgiveness income	-	2,106,949
Change in net unrealized gains and losses, investments	2,367,409	(6,101,144)
Total other income (expense)	3,817,908	(494,359)
Revenues in excess of (less than) expenses	2,777,795	(3,321,436)
Other Changes in Net Assets Without Donor Restrictions		
Net assets released from restrictions for capital	64,361	-
Change in net deficit without donor restrictions	$ 2,842,156	$ (3,321,436)

See notes to consolidated financial statements

Roland Park Place, Inc. and Subsidiary

Consolidated Statements of Changes in Net Deficit
Years Ended June 30, 2023 and 2022

	2023	2022
Net Deficit Without Donor Restrictions		
Revenues in excess of (less than) expenses	$ 2,777,795	$ (3,321,436)
Net assets released from restrictions for capital	64,361	-
Change in net deficit without donor restrictions	2,842,156	(3,321,436)
Net Assets With Donor Restrictions		
Contributions	138,271	97,575
Interest and dividends, net	82,254	145,498
Net realized gains, investments	(3,835)	277,390
Change in net unrealized gains and losses, investments	235,571	(706,804)
Net assets released from restrictions for operations	(156,605)	(7,554)
Net assets released from restrictions for capital	(64,361)	-
Change in net assets with donor restrictions	231,295	(193,895)
Change in net deficit	3,073,451	(3,515,331)
Net Deficit, Beginning	(8,884,241)	(5,368,910)
Net Deficit, Ending	$ (5,810,790)	$ (8,884,241)

See notes to consolidated financial statements

Roland Park Place, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net deficit	$ 3,073,451	$ (3,515,331)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation	5,499,191	5,325,525
Amortization of deferred financing costs	62,820	62,721
Bad debt expense	215,686	59,882
Net realized (gains) losses, investments	128,395	(2,762,715)
Change in net unrealized gains and losses, investments	(2,602,980)	6,807,948
Change in value of interest rate swap	(1,450,499)	(3,499,836)
Proceeds from entrance fees, existing units	4,989,568	4,293,810
Amortization of entrance fees	(5,903,434)	(4,579,047)
Paycheck Protection Program loan forgiveness income	-	(2,106,949)
Change in assets and liabilities:		
Accounts receivable	(291,982)	23,327
Prepaid expenses	185,894	(52,908)
Accounts payable	(796,704)	718,362
Accrued expenses	587,814	(389,670)
Entrance fee deposits	525,402	(2,235,163)
Net cash provided by (used in) operating activities	4,222,622	(1,850,044)
Cash Flows From Investing Activities		
Purchases of property and equipment	(3,844,265)	(19,181,549)
Net (purchases) sales of investments and assets whose use is limited	(3,742,112)	4,103,890
Net cash used in investing activities	(7,586,377)	(15,077,659)
Cash Flows From Financing Activities		
Proceeds from borrowings on long-term debt	-	22,084,361
Payments on long-term debt	(17,140,676)	(26,825,122)
Proceeds from refundable entrance fees, existing units	4,477,600	2,535,090
Proceeds from entrance fees, new units	13,013,160	30,310,451
Refunds of entrance fees	(4,854,996)	(2,791,100)
Change in annuities payable	(562)	-
Net cash (used in) provided by financing activities	(4,505,474)	25,313,680
Net change in cash, cash equivalents and restricted cash	(7,869,229)	8,385,977
Cash, Cash Equivalents and Restricted Cash, Beginning	15,701,624	7,315,647
Cash, Cash Equivalents and Restricted Cash, Ending	$ 7,832,395	$ 15,701,624
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents	$ 7,832,395	$ 5,567,673
Assets whose use is limited:		
Resident entrance fee deposits	-	5,871,560
Trustee held funds	-	4,262,391
Total cash, cash equivalents and restricted cash	$ 7,832,395	$ 15,701,624
Supplementary Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 2,118,757	$ 2,207,968
Supplemental Disclosure of Noncash Investing and Financing Activities		
Paycheck Protection Program loan forgiveness income	$ -	$ 2,106,949
Accounts payable, construction	$ -	$ 275,065

See notes to consolidated financial statements

1. Corporation Operations

Roland Park Place, Inc. (RPP) is a not-for-profit corporation that owns and operates a retirement community known as Roland Park Place in Baltimore, Maryland which consists of 305 residential units (220 independent living units and 41 assisted living units), two guest apartment units and a health care center with 44 comprehensive nursing care beds. Roland Park Place Health Care Corporation (HCC), a wholly owned subsidiary of RPP, provides professional ambulatory and other medical services to residents of RPP.

The Corporation has evaluated subsequent events through October 6, 2023, which is the date the consolidated financial statements were available to be issued.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of RPP and HCC (together, the Corporation). All material intercompany balances and transactions have been eliminated in consolidation.

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 and Cash Equivalents and Restricted Cash

For purposes of the consolidated statements of cash flows, cash, cash equivalents and restricted cash includes investments in highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts Receivable, Net

The Corporation 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 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 Corporation has exhausted all collection efforts and accounts are deemed impaired. The allowance for uncollectible accounts was approximately $148,000 and $80,000 at June 30, 2023 and 2022, respectively.

Investments, Assets Whose Use is Limited and Investment Risk

Investments and assets whose use is limited are reported in the accompanying consolidated balance sheets at their fair value, based on quoted market prices as provided by a national exchange. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's 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 near term.

Assets whose use is limited consist of board-designated, resident entrance fee deposits, trustee held funds and donor-restricted investments.

Property and Equipment, Net

Property and equipment are reported at cost. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives. The Corporation's capitalization policy is to review invoices in excess of $1,000 to determine if they should be capitalized. Expenditures that extend the useful lives of the asset or significantly increase their capacity are capitalized. Interest incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during 2023 or 2022.

Charitable Gift Annuities

Assets received under charitable gift annuities are recorded at fair value and maintained in separate investment accounts and classified as assets whose use is limited.

Liabilities related to charitable gift annuities issued by the Corporation are recorded at the present value of the future interest payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as unrestricted donations in the consolidated statements of operations. Changes in the present value of the liability are shown as other income in the accompanying consolidated statements of operations. The Corporation uses published mortality tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately 2.2% to determine the present value of the determined liability.

Maryland regulations require a segregated reserve fund of assets at least equal to fund the Corporation's outstanding charitable gift annuity agreements. The Corporation believes they are in compliance with this requirement.

Net Deficit

Net (deficit) assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets 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 revenue 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. 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. 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.

Deferred Financing Costs

Deferred financing costs were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying consolidated balance sheets as a direct reduction from the carrying value of the debt and amortized on a straight-line basis, which approximates the effective interest method.

Entrance Fees

Entrance fees are received under the terms of the Residence and Care Agreements (Agreements). Some agreements (traditional contracts) provide for a portion of the entrance fee to be refundable during the first five years of residency, subject to the conditions of the Agreements and in compliance with the Maryland Department of Aging. After the first five years, these agreements are 100% nonrefundable. Other agreements (nontraditional contracts) provide the resident a 90% refund of the original fee upon subsequent re-occupancy of the unit, regardless of the amount of time that has passed. These fees are classified as refundable entrance fees on the consolidated balance sheets and are not amortized into income. The remaining 10% of this fee is not refundable under any circumstances.

The remaining nonrefundable portion of the entrance fees is classified as deferred revenue from entrance fees and amortized into revenue using the straight-line method over the estimated remaining life expectancy of the residents. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The Corporation's Agreements provide for a certain number of nursing care days at free or reduced rates as stated on the contract. Amortization of independent living revenue from entrance fees was $5,903,434 and $4,579,047 for the years ended June 30, 2023 and 2022, respectively.

Deposits received from applicants, generally $1,000 per unit, represent good faith refundable deposits which may be applied to the initial (10%) payment of the advance fee due upon execution of the Agreements. The remaining portion of the advance fee is due prior to occupancy.

Contractual refund obligations under all contracts are approximately $72,048,715 and $60,345,000 at June 30, 2023 and 2022, respectively.

Obligation to Provide Future Service

The Corporation calculates the present value of the net cost of future service and use of facilities to be provided to current residents on an annual basis and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net obligation to provide future service and use of facilities (discounted at 5%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. No such liability existed at either June 30, 2023 or 2022.

Derivative Financial Instrument

The Corporation entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage its interest rate risk on its long-term debt. The interest rate swap agreement is reported at fair value in the consolidated balance sheets and related changes in fair value are reported in the consolidated statements of operations as change in value of interest rate swap.

Monthly Service Fees and Health Care Center Services Revenue

Monthly service fees and health care center services revenues are reported at the amount that reflects the consideration the Corporation 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. Monthly service fees and health care center services revenue are recognized as performance obligations are satisfied.

Monthly service fees and health care center services revenues are primarily comprised of skilled nursing, assisted living, independent living and other resident revenue streams, which are primarily derived from providing nursing, assisted living and housing services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. The Corporation 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 Corporation 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 revenues are recognized on a daily or month-to-month basis as services are rendered.

The Corporation receives revenue for services under third-party payor programs, including Medicare. 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 Corporation 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.

Payment terms and conditions for the Corporation's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Monthly service fees and health care center services revenue for recurring and routine monthly services are generally billed monthly in advance. Monthly service fees and health care center services revenue 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 revenue from entrance fees in the accompanying consolidated balance sheets. The Corporation applies the practical expedient in Accounting Standards Codification (ASC) 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

Paycheck Protection Program

On April 23, 2020, the Corporation received loan proceeds in the amount of $2,106,949 under the Paycheck Protection Program (PPP) which was established as part of the CARES Act and is administered through the Small Business Administration (SBA). The PPP provides 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 are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion is payable over two years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, 10 months after the end of the covered period. The Corporation may request to repay the loan over five years and the request is subject to the approval of the lender. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

The Corporation met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during 2021. Legal release was received during September 2021, therefore, the Corporation recorded the loan forgiveness income of $2,106,949 within its consolidated statements of operations in 2022.

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.

Donated Services

A significant number of volunteers annually donate their services to the Corporation. The value of these services is not reflected in the consolidated financial statements.

Measure of Operations

The Corporation's operating loss includes all operating revenues and expenses that are an integral part of its program and supporting activities. Nonoperating activities are limited to the change in value of interest rate swap, the change in net unrealized gains and losses, investments and other activities considered to be more unusual and nonrecurring in nature.

Revenues in Excess of (Less Than) Expenses

The consolidated statements of operations include the determination of revenues in excess of (less than) expenses as the performance indicator. Changes in net deficit without donor restrictions which are excluded from the performance indicator include net assets released from restrictions for capital improvements.

Tax Status

RPP and HCC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 509(a) of the IRC.

New Accounting Pronouncement

Reference Rate Reform

During March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 to contracts, hedging relationships and other transactions that reference London Interbank Offer Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The Corporation elected the optional practical expedient for debt contract modifications related to the discontinuation of reference rates included on ASU No. 2020-04 during 2023. The adoption of the optional practical expedient has not and is not expected to have a material effect on the consolidated financial statements.

Reclassification

Certain reclassifications have been made to the 2022 financial statements to conform to the presentation used in 2023.

3. Monthly Service Fees and Health Care Center Services Revenues

The Corporation disaggregates revenue from contracts with residents by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Monthly service fees and health care center services revenues consist of the following for the years ending June 30:

	2023				
	Independent Living	Assisted Living	Skilled Nursing	Other	Total
Self-pay	$ 14,397,582	$ 2,606,609	$ 2,421,824	$ 75,317	$ 19,501,332
Medicare	-	-	2,094,770	492,730	2,587,500
Other	-	-	141,075	-	141,075
Total monthly service fees and health care center services revenues	$ 14,397,582	$ 2,606,609	$ 4,657,669	$ 568,047	$ 22,229,907

	2022				
	Independent Living	Assisted Living	Skilled Nursing	Other	Total
Self-pay	$ 10,713,809	$ 2,234,583	$ 1,758,910	$ 255,222	$ 14,962,524
Medicare	-	-	859,113	523,779	1,382,892
Other	-	-	147,242	-	147,242
Total monthly service fees and health care center services revenues	$ 10,713,809	$ 2,234,583	$ 2,765,265	$ 779,001	$ 16,492,658

The Corporation has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangement with the major third-party payor is as follows:

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. Therapy services provided to Medicare B beneficiaries are paid at the lesser of a published fee schedule or actual charges.

As described above, the Medicare Part A rate is based on clinical, diagnostic and other factors. The determination of these rates is partially based on the Corporation's clinical assessment of its residents. The Corporation 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 Medicare program.

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

Fair Value Measurements

The Corporation measures its assets whose use is limited, investments and interest rate swap 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 Corporation 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. The Corporation held no Level 3 instruments as of June 30, 2023 and 2022.

The following tables present financial instruments reported at fair value by caption on the consolidated balance sheets at June 30:

	2023		
	Total	**Level 1**	**Level 2**
Assets:			
Investments and assets whose use is limited:			
Mutual funds, equities:			
International index funds	$ 2,996,837	$ 2,996,837	$ -
Total stock market index funds	16,634,274	16,634,274	-
Mutual funds, fixed income	1,262,753	1,262,753	-
Corporate bonds	1,441,378	-	1,441,378
Treasury bonds	272,732	-	272,732
Agency bonds	1,473,615	-	1,473,615
Asset backed	334,729	-	334,729
Other fixed income	629,654	-	629,654
Total investments and assets whose use is limited at fair value	25,045,972	$ 20,893,864	$ 4,152,108
Cash and cash equivalents	4,196,021		
Total investments and assets whose use is limited	$ 29,241,993		
Liability:			
Interest rate swap	$ 1,202,555	$ -	$ 1,202,555

	2022		
	Total	Level 1	Level 2
Assets:			
Investments and assets whose use is limited:			
Mutual funds, equities:			
International index funds	$ 2,580,462	$ 2,580,462	$ -
Total stock market index funds	14,565,241	14,565,241	-
Mutual funds, fixed income	1,329,587	1,329,587	-
Corporate bonds	1,501,406	-	1,501,406
Treasury bonds	292,912	-	292,912
Agency bonds	1,543,084	-	1,543,084
Asset backed	409,865	-	409,865
Other fixed income	331,501	-	331,501
Total investments and assets whose use is limited at fair value	22,554,058	$ 18,475,290	$ 4,078,768
Cash and cash equivalents	10,605,189		
Total investments and assets whose use is limited	$ 33,159,247		
Liability:			
Interest rate swap	$ 247,944	$ -	$ 247,944

Investments and assets whose use is limited are presented together in the tables above as there are various investment and cash accounts that are allocated between investments and assets whose use is limited on the consolidated balance sheets. A summary of investments and assets whose use is limited as presented in the consolidated balance sheets is as follows at June 30:

	2023	2022
Assets whose use is limited:		
Board designated:		
Operating reserves fund	$ 4,075,414	$ 2,660,937
Residents' fees reserve fund	2,930,238	2,623,038
Fitness and aquatics center	749,266	663,757
Health care fund	921,890	817,778
Other	221,917	178,773
Resident entrance fee deposits	-	5,871,560
Trustee held funds	-	4,262,391
Donor-restricted investments	3,062,258	2,830,963
Total assets whose use is limited	11,960,983	19,909,197
Investments	17,281,010	13,250,050
Total assets whose use is limited and investments	$ 29,241,993	$ 33,159,247

Valuation Methodologies

Investments and assets whose use is limited are valued at fair value based on quoted market prices in active markets for equity mutual funds. Bonds, asset backed and other fixed income securities are valued based on market data for the same or comparable securities.

The fair value of interest rate swap takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate swap and considers the credit risk of the Corporation. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Corporation would pay to terminate the agreement.

Maryland Department of Aging Reserve Requirements

The Maryland Department of Aging requires providers of continuing care to maintain certain operating reserves that equal 25% of the facility's net operating expenses, as defined by the State, relating to continuing care contracts. The reserves must be kept in reasonably liquid form in the judgment of the provider.

The reserves shall be computed as of the end of the providers' current fiscal year. The Corporation has fully funded the reserve as of June 30, 2023 which is calculated as follows:

Total operating expenses for fiscal year ended June 30, 2023	$ 30,218,328
Less:	
Depreciation	(5,499,191)
Interest	(2,118,757)
Net operating expense	22,600,380
	25%
	5,650,095
I/L Units/Total Units (220/305)	72.13%
Reserve required at June 30, 2023	4,075,414
Total reserve at June 30, 2023	$ 4,075,414

Board-designated operating reserve funds were $4,075,414 at June 30, 2023, which meet the minimum statutory operating reserve requirement.

5. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the consolidated balance sheets consist of the following at June 30:

	2023	2022
Cash and cash equivalents	$ 7,832,395	$ 5,567,673
Accounts receivable, net	451,355	375,059
Investments	17,281,010	13,250,050
Total	$ 25,564,760	$ 19,192,782

As part of the Corporation'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 Corporation invests cash in excess of daily requirements in investments. As stated in Note 4, the Corporation has board-designated investments that are excluded from the table above. Although the Corporation does not intend to utilize these funds for general expenditure as part of its annual budget and approval process, amounts designated could be made available as necessary.

As stated in Note 4, the Corporation designated a portion of its investments as reserve to comply with the requirements of the Maryland Department of Aging Reserve Requirements and thus they are not included in the table above. Although the Corporation does not intend to utilize the reserve for general expenditures as part of its annual budget and approval process, amounts designated could be made available as necessary. The reserves do not have third-party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

6. Property and Equipment, Net

A summary of property and equipment and the related accumulated depreciation is as follows at June 30:

	2023	2022	Depreciable Lives
Land	$ 1,013,032	$ 1,013,032	
Buildings and building equipment	137,627,564	137,537,347	5-40 years
Furniture and equipment	18,642,376	15,057,987	4-15 years
Construction-in-progress	117,692	223,099	
	157,400,664	153,831,465	
Accumulated depreciation	(56,368,410)	(50,869,219)	
	$ 101,032,254	$ 102,962,246	

7. Long-Term Debt

	2023	2022
Maryland Health and Higher Educational Facilities Authority Revenue Bond (MHHEFA) (Series 2013), payable in monthly installments (principal and interest) through April 1, 2024. Interest is payable at a fixed rate of 2.86%.	$ 1,713,892	$ 3,723,413
MHHEFA Revenue Bond (Series 2017), payable in monthly installments of interest only through May 1, 2024. Interest is adjusted monthly and equal to 80% of SOFR Index plus 135 basis points (5.22% as of June 30, 2023).	30,000,000	30,000,000
MHHEFA Revenue Bond (Series 2019A), payable in monthly installments of interest only through May 1, 2024. Interest is payable at a fixed rate of 3.32% through July 1, 2034 unless the option is chosen by the Corporation to convert the interest rate to a variable rate during the eligible five-year periods as defined in the Financing Agreement dated July 1, 2019.	20,000,000	20,000,000
MHHEFA Revenue Bond (Series 2019B), payable in monthly installments of interest only through May 1, 2024. Interest was variable rate equal to 81% of SOFR Index plus 150 basis points (2.08% as of June 30, 2022) determined on a monthly basis through July 1, 2026. This debt was extinguished during 2023.	-	15,131,155
Total	51,713,892	68,854,568
Less current portion	(2,013,892)	(2,009,521)
Less deferred financing costs, net	(918,907)	(981,727)
Long-term debt, net	$ 48,781,093	$ 65,863,320

Future maturities of long-term debt for the next five years and thereafter are as follows:

Years ending June 30:	
2024	$ 2,013,892
2025	1,813,000
2026	1,869,000
2027	1,921,000
2028	1,978,000
Thereafter	42,119,000
	$ 51,713,892

In July 2019, MHHEFA issued, on behalf of the Corporation, its Series 2019A in the amount of $20,000,000 and Series 2019B in the amount of $40,000,000. The proceeds from the Series 2019A were used to fund expansion projects, set up a capital interest and construction fund, and provide funding for financing costs. The proceeds from the Series 2019B were used to fund expansion projects.

As security for the performance of its obligations under the underlying agreements related to the Series 2013, Series 2017, Series 2019A and Series 2019B, the Corporation has granted MHHEFA a security interest in its receipts, and substantially all real and personal property. These agreements also require the Corporation to meet certain financial ratios.

Interest Rate Swap

In March 2017, the Corporation entered into an interest rate swap agreement, on its Series 2017 Revenue Bond with Fulton, which is scheduled to expire in March 2032. According to the terms of the swap agreement, if 80% of the SOFR Index (4.14% at June 30, 2023) is less than the fixed rate of 2.39%, the Corporation must make a monthly payment to the counterparty to the agreement. Conversely, if 80% of the SOFR Index is more than the fixed rate, the counterparty to the swap agreement must make a monthly payment to the Corporation. The monthly payments are calculated by multiplying the notional amount ($30,000,000 at June 30, 2023) by the difference between 80% of the SOFR Index and the fixed rate. Swap payments will be included in interest expense when they begin. The interest rate swap had a fair value of $1,202,555 and ($247,944) at June 30, 2023 and 2022, respectively.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purpose as of June 30:

	2023	2022
Resident assistance	$ 2,598,933	$ 2,439,653
Health care center	18,001	19,703
Capital projects and various other programs	445,324	371,607
Total	$ 3,062,258	$ 2,830,963

9. Retirement Plan

The Corporation provides a 403(b) plan (the Plan) for all eligible employees. All eligible employees may defer a portion of their salary into the Plan. After three months of employment, all participating employees that meet the eligibility requirements defined in the plan document are eligible for a match. The Corporation made matching contributions totaling approximately $202,000 and $205,000 for the years ended June 30, 2023 and 2022, respectively.

10. Expenses by Function and Nature

The Corporation's primary program services relate to providing housing, health care and other related services to residents within its geographic location. The consolidated financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Corporation. Costs of these categories were allocated based on estimates of time and effort. Expenses relating to providing these services are approximately as follows at June 30:

	2023			
	Resident Services	General and Administrative	Development	Total
Salaries and wages	$ 7,294,166	$ 2,261,377	$ 95,612	$ 9,651,155
Employee benefits and payroll taxes	1,642,321	741,171	23,444	2,406,936
Supplies and other expenses	1,734,583	1,349,370	7,141	3,091,094
Patient costs	787,616	-	-	787,616
Food	1,522,740	-	-	1,522,740
Repairs and maintenance	452,557	-	-	452,557
Utilities	1,382,669	-	-	1,382,669
Professional services	773,046	911,114	-	1,684,160
Advertising and marketing	-	115,512	-	115,512
Insurance	389,421	-	-	389,421
Real estate taxes	900,834	-	-	900,834
Depreciation	5,499,191	-	-	5,499,191
Bad debt expense	215,686	-	-	215,686
Interest and amortization	2,118,757	-	-	2,118,757
Total	$ 24,713,587	$ 5,378,544	$ 126,197	$ 30,218,328

	2022			
	Resident Services	General and Administrative	Development	Total
Salaries and wages	$ 6,735,168	$ 2,107,694	$ 99,494	$ 8,942,356
Employee benefits and payroll taxes	1,650,142	735,181	23,719	2,409,042
Supplies and other expenses	1,453,546	1,491,114	7,249	2,951,909
Patient costs	632,316	-	-	632,316
Food	1,256,450	-	-	1,256,450
Repairs and maintenance	342,545	-	-	342,545
Utilities	1,042,634	-	-	1,042,634
Professional services	569,215	610,233	-	1,179,448
Advertising and marketing	-	76,341	-	76,341
Insurance	355,781	-	-	355,781
Real estate taxes	1,167,727	-	-	1,167,727
Interest and amortization	2,207,968	-	-	2,207,968
Depreciation	5,325,525	-	-	5,325,525
Bad debt expense	59,882	-	-	59,882
Total	$ 22,798,899	$ 5,020,563	$ 130,462	$ 27,949,924

11. Risk

Financial instruments which subject the Corporation to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, assets whose use is limited and investments.

The Corporation maintains cash accounts, which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash accounts.

The Corporation grants credit to its residents and other third-party payors, primarily Medicare and various commercial insurance companies. The Corporation maintains reserves for potential credit losses and such losses have historically been within management's expectations.

12. Commitments and Contingencies

Self-Insured Health Insurance

The Corporation sponsors a self-funded employee benefit plan to provide healthcare benefits and services for its eligible employees and their dependents. The Corporation contracts with an insurance company to provide certain administrative and other services in connection with the plan.

Insurance

The Corporation has acquired professional and general liability coverage of $1,000,000 per occurrence with a $3,000,000 aggregate limit on a claims-made basis. Based on a review of the Corporation's prior experience and incidents occurring through June 30, 2023 and presuming the indefinite continuation of its claims-made insurance coverage, management determined that no accrual for asserted or unasserted malpractice or general claims in excess of insurance coverage is necessary at this time.

The outcome of any potential investigative, regulatory or prosecutorial activity that may occur cannot be predicted with certainty. However, in the opinion of management, any future potential losses resulting from such activity would be immaterial to the consolidated financial statements taken as a whole.

Senior Living Industry

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 effects of this matter on the Corporation, if any, are not presently determinable.