

Presbyterian Senior Living Services, Inc.

Consolidated Financial Statements

December 31, 2023 and 2022

Presbyterian Senior Living Services, Inc.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2023 and 2022, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role: our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and nonfinancial aspects of our mission, extending a proud tradition of ministry that has served older persons guided by the life and teachings of Jesus for the past 117 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Dan Davis
Chief Executive Officer
Presbyterian Senior Living

Dyan McAlister
Chief Financial Officer
Presbyterian Senior Living

Independent Auditors' Report

To the Board of Directors of
Presbyterian Senior Living Services, Inc.

Opinion

We have audited the consolidated financial statements of Presbyterian Senior Living Services, Inc. (the Corporation), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets (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 December 31, 2023 and 2022, and the results of their operations, changes in net assets (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 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 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

Philadelphia, Pennsylvania
April 24, 2024

Presbyterian Senior Living Services, Inc.Consolidated Statements of Operations and Changes in Net Assets (Deficit)
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Deficit Without Donor Restrictions		
Revenues, gains and other support:		
Resident services:		
Resident services	\$ 13,831,885	\$ 13,883,664
Amortization of entrance fees	996,864	1,104,648
Total resident services	14,828,749	14,988,312
Contributions, gifts and bequests	7,596	10,080
Government stimulus	13,458	92,529
Net assets released from restrictions	13,928	36,672
Total operating revenues and other support	14,863,731	15,127,593
Expenses:		
Nursing services	2,777,435	2,693,262
Rehabilitation	644,483	624,779
Recreation and special services	513,878	464,630
Pharmacy	74,687	92,311
Social services	73,018	68,985
Physician services	24,999	25,000
Food services	2,076,522	2,106,172
Building operations and maintenance	2,501,452	2,599,675
Housekeeping	413,938	419,666
Laundry and linen	53,998	57,634
Management and general	2,655,967	2,271,935
Employee benefits	563,847	420,841
Interest	710,920	656,279
Depreciation	2,011,684	2,024,714
Fundraising	46,936	53,532
Total expenses before nonrecurring expenses	15,143,764	14,579,415
Nonrecurring expenses, COVID-19	6,025	156,271
Operating (loss) income	(286,058)	391,907
Other income (loss):		
Investment income, net of investment expense	96,782	88,612
Realized gain on investments	8,812	148,514
Unrealized gain (loss) on investments	417,934	(884,857)
Total other income (loss)	523,528	(647,731)
Revenues in excess of (less than) expenses	237,470	(255,824)
Grant revenue, capital	-	17,848
Change in net deficit without donor restrictions	237,470	(237,976)

See notes to consolidated financial statements

Presbyterian Senior Living Services, Inc.

Consolidated Statements of Operations and Changes in Net Assets (Deficit)

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Assets With Donor Restrictions		
Contributions, gifts, grants and bequests	\$ 5,074	\$ 9,569
Investment income, net of investment expense	14,003	17,945
Net assets released from restrictions	<u>(13,928)</u>	<u>(36,672)</u>
Change in net assets with donor restrictions	<u>5,149</u>	<u>(9,158)</u>
Change in net deficit	242,619	(247,134)
Net Deficit, Beginning	<u>(20,766,125)</u>	<u>(20,518,991)</u>
Net Deficit, Ending	<u><u>\$ (20,523,506)</u></u>	<u><u>\$ (20,766,125)</u></u>

See notes to consolidated financial statements

Presbyterian Senior Living Services, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net deficit	\$ 242,619	\$ (247,134)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	2,011,684	2,024,714
Proceeds from nonrefundable entrance fees and deposits	1,808,351	1,124,207
Amortization of entrance fees	(996,864)	(1,104,648)
Provision for (recoveries of) doubtful collections	12,691	(592)
Unrealized (gain) loss on investments	(417,934)	884,857
Realized gain on investments	(8,812)	(148,514)
Amortization of deferred financing costs	26,018	26,018
Changes in assets and liabilities:		
Accounts receivable	(422,523)	180,371
Entrance fee receivable	(110,199)	(401,432)
Other assets	53,391	(188,434)
Accounts payable	202,422	(220,726)
Accrued expenses	(94,183)	(75,413)
Other liabilities	41,753	422,225
CARES Act funding liabilities	-	(143,010)
Net cash provided by operating activities	<u>2,348,414</u>	<u>2,132,489</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(2,217,367)	(2,012,097)
Purchases of investments	(1,666,104)	(2,649,285)
Proceeds from sale of investments	<u>1,664,278</u>	<u>2,598,724</u>
Net cash used in investing activities	<u>(2,219,193)</u>	<u>(2,062,658)</u>
Cash Flows From Financing Activities		
Refunds of entrance fees and deposits	(2,329,628)	(1,851,660)
Proceeds from refundable entrance fees and deposits	1,800,400	2,681,628
Principal payments on long-term debt	(935,815)	(915,641)
Change in due to affiliated entity	<u>2,612,877</u>	<u>(4,455,590)</u>
Net cash provided by (used in) financing activities	<u>1,147,834</u>	<u>(4,541,263)</u>
Net change in cash, cash equivalents and restricted cash	1,277,055	(4,471,432)
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>305,641</u>	<u>4,777,073</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 1,582,696</u>	<u>\$ 305,641</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 688,001</u>	<u>\$ 617,023</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Cash and cash equivalents	\$ 100,878	\$ 153,142
Cash included in assets whose use is limited	<u>1,481,818</u>	<u>152,499</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,582,696</u>	<u>\$ 305,641</u>

See notes to consolidated financial statements

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. General Information

Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community Inc., a Continuing Care Retirement Community, (the Community) located in Glen Arm, Maryland, which provides housing, health care and other related services to the elderly. The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization.

The Community contains 113 independent living cottages, 79 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The Community covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999, whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets and all liabilities of PSSI were transferred to the Corporation, which is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

2. Summary of Significant Accounting Policies

Basis of Consolidation and Accounting

The consolidated financial statements of the Corporation include the financial position and operations of the Community and the Foundation. These consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting. All material intercompany transactions have been eliminated.

Income Taxes

The Corporation and its subsidiaries are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and have been recognized as tax-exempt under Section 501(a) of the IRC.

Use of Estimates

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

Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per bank. At times during 2023 and 2022, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements
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Restricted cash included in restricted deposits and funded reserves on the consolidated statements of financial position represents the cash portion of amounts required to be set aside by the Maryland Department of Aging to maintain and fund an operating reserve as discussed in Note 5. Restricted cash in assets whose use is limited represents cash and cash equivalents held for the Glen Meadows Foundation.

Investments and Investment Risk

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated statements of financial position 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 investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is possible that the amounts reported in the consolidated statements of financial position could change materially in the near term.

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. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

Accounts Receivable, Net

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for credit losses 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.

Included in accounts receivable, net are entrance fee receivables. 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.

Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are measured at fair value and is a portion of the investment portfolio allocable to this purpose in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

Assets Whose Use is Limited

Assets whose use is limited are measured at fair value on the consolidated statements of financial position and include assets designated for capital projects and restricted by donors for capital improvements, charity care and scholarships.

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets for property and equipment. The Corporation's policy is to capitalize items in excess of \$3,000 or for a group of items that are the same or similar in nature or function as a group totaling \$3,000 or more and benefits more than one year.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	5-40 years
Departmental equipment, furniture and fixtures	10-25 years
Vehicles	5 years

Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's long-term debt. These costs are being amortized over the life of the related debt agreement using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be \$26,018, \$26,018, \$26,018 and \$8,151 over the next four years. Unamortized deferred financing costs are a direct deduction from the associated long-term debt included on consolidated statements of financial position and associated amortization expense is included as a component of interest expense on the consolidated statements of operations and changes in net assets (deficit).

Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under residence and care agreements are included in resident deposits on the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

Deferred Revenues From Entrance Fees, Entrance Fees Payable and Amortization of Entrance Fees

Residents entering the Community execute a residence and care agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue and are reflected as a liability in entrance fees payable on the consolidated statements of financial position. The Community also offers a 50% and a 75% nonrefundable contract.

The nonrefundable portion of the fee is amortized to revenue over the estimated life expectancy of each resident using the straight-line method, which approximates the period of time that services under the resident agreements are expected to be transferred to residents and the Corporation's performance obligation to the residents is satisfied, and is classified as deferred revenues from entrance fees on the consolidated statements of financial position.

The portion of the guaranteed fee refundable upon reoccupancy is not being amortized and is reflected as a liability in entrance fees payable on the consolidated statements of financial position. The agreements provide for potential death or termination refunds of the nonrefundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit. The gross contractual refund obligations under existing resident agreements was \$14,603,365 at December 31, 2023.

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements
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Net Assets (Deficit)

Net assets, revenues, gains and other 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 deficit available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets available for use 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.

Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets (deficit) as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements.

The Corporation reports noncash gifts 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 support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Resident Services Revenue

Resident services revenue is 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. Resident services revenue is recognized as performance obligations are satisfied.

Resident services revenue is primarily comprised of independent living, assisted living and health center revenue streams, which are primarily derived from providing housing, skilled nursing, personal care and independent living 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, personal care and independent living revenues are recognized on a daily or month-to-month basis as services are rendered. Resident services revenue includes revenues from therapy services, other services such as housekeeping, laundry, transportation and other revenues from residents are considered one performance obligation which is satisfied over time as services are rendered. Revenue for performance obligations satisfied at a point in time is generally recognized when services are provided to the resident in a retail setting (for example, pharmaceuticals and medical equipment), and the Corporation does not believe it is required to provide additional goods or services related to that sale.

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Notes to Consolidated Financial Statements

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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. Net resident service revenues for recurring and routine monthly services are generally billed monthly in advance. Resident services revenue for ancillary services is generally billed monthly in arrears.

The Corporation receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. The Corporation's agreements with third-party payors provide for payments at amounts different from established rates. 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. A summary of the payment arrangements with major third-party payors follows:

Medicaid - Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

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. 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 which are subject to review and adjustment by the Medicare program.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates based upon contractual obligations (i.e. the terms/rates agreed upon in the respective contracts).

Charity Care

Charity care is measured based on the Corporation's direct and indirect costs of providing charity care services. If the Corporation's costs cannot be specifically attributed to services provided to charity care patients, the Corporation uses reasonable techniques to estimate these costs.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates, to residents who meet the certain need-based criteria. These criteria consider resident income and expenses, financial resources, state and federal government requirements and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	\$ 819,253	\$ 752,461
Additional benevolent care provided at amounts less than pre-established charges for private pay services	611,789	551,025
Giving and income designated for resident financial support	4,667	6,319

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements
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Advertising and Promotion

Advertising and promotion costs are expensed in the years incurred. Total advertising and promotion expense for the years ended December 31, 2023 and 2022, was \$47,406 and \$48,792, respectively.

Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (deficit), which includes a performance indicator of operations labeled as "revenues in excess of (less than) expenses." Changes in net deficit without donor restrictions which is exclude from this measure is grant revenue, capital.

Subsequent Events

The Corporation has evaluated subsequent events through April 24, 2024, which is the date the consolidated financial statements were available to be issued.

3. Resident Services Revenue

The Corporation disaggregates revenue from contracts with customers 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 which include the following:

- Payors (Medicare, Medicaid, managed or other insurance) have different reimbursement and payment methodologies
- Length of the resident's stay or service
- Method of reimbursement (fee-for-service or capitation)
- Corporation's line of business that provided the service (skilled nursing, assisted living, independent living and outpatient)

The composition of resident services revenue by payor and level of care for the years ended December 31:

	2023					
	Independent Living	Assisted Living	Health Center	Outpatient	Other	Total
Private pay	\$ 6,473,618	\$ 3,055,216	\$ 1,441,790	\$ 29,202	\$ 4,800	\$ 11,004,626
Medicare	309,404	186,323	1,041,975	-	-	1,537,702
Medicaid	-	-	1,041,517	-	-	1,041,517
Other	-	-	143,947	16,171	87,922	248,040
Subtotal	6,783,022	3,241,539	3,669,229	45,373	92,722	13,831,885
Amortization of nonrefundable entrance fees						996,864
Total	<u>\$ 6,783,022</u>	<u>\$ 3,241,539</u>	<u>\$ 3,669,229</u>	<u>\$ 45,373</u>	<u>\$ 92,722</u>	<u>\$ 14,828,749</u>

Presbyterian Senior Living Services, Inc.

Notes to Consolidated Financial Statements

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	2022					Total
	Independent Living	Assisted Living	Health Center	Outpatient	Other	
Private pay	\$ 6,951,150	\$ 3,031,441	\$ 1,403,091	\$ 40,237	\$ 4,905	\$ 11,430,824
Medicare	317,057	183,600	1,138,172	-	-	1,638,829
Medicaid	-	-	684,130	-	-	684,130
Other	-	244	28,904	15,967	84,766	129,881
Subtotal	<u>7,268,207</u>	<u>3,215,285</u>	<u>3,254,297</u>	<u>56,204</u>	<u>89,671</u>	13,883,664
Amortization of nonrefundable entrance fees						<u>1,104,648</u>
Total	<u>\$ 7,268,207</u>	<u>\$ 3,215,285</u>	<u>\$ 3,254,297</u>	<u>\$ 56,204</u>	<u>\$ 89,671</u>	<u>\$ 14,988,312</u>

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

The composition of investments and assets whose use is limited as of December 31 is as follows:

	2023	2022
Cash	\$ 1,260,407	\$ -
Money market funds	221,411	152,499
Marketable equity securities	261,998	449,798
Mutual funds:		
Equity	2,549,178	1,970,665
Fixed income	1,471,461	1,433,602
Total investments and assets whose use is limited	5,764,455	4,006,564
Less:		
Restricted deposits and funded reserves (Note 5)	(3,132,171)	(1,871,764)
Assets whose use is limited:		
Designated for renovations and charity care	(829,381)	(744,749)
Total investments	<u>\$ 1,802,903</u>	<u>\$ 1,390,051</u>

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 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.

Presbyterian Senior Living Services, Inc.

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The following is a description of the valuation methodologies used for instruments measured at fair value:

Money market funds are valued based on the carrying amount which approximates fair value due to the short-term nature of these instruments.

Marketable equity securities and mutual funds are valued at fair value based on quoted market prices in active markets.

The investments and assets whose use is limited included in the above table are measured at fair value and considered Level 1 financial instruments. Cash is presented in the tables above in the total line to reconcile total assets whose use is limited and investments to the consolidated statements of financial position.

5. Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. Effective January 1, 2023, the reserve requirement was increased from 15% to 25% by the Maryland Department of Aging. The calculation methodology remained unchanged. Annual contributions to the operating reserve equaling at least 25% for 2023 and 15% for 2022, of the calculated reserve amount are required. As of December 31, 2023 and 2022, the operating reserve fund balance was \$3,132,171 and \$1,871,764, respectively, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made based on the following computations:

Total 2022 operating expenses	\$ 14,579,415
Less:	
Depreciation	(2,024,714)
Amortization	<u>(26,018)</u>
Total expenses subject to operating reserve (A)	<u>12,528,683</u>
Operating reserve requirement - 25% of (A)	<u>3,132,171</u>
Operating reserve fund as of December 31, 2023	<u><u>\$ 3,132,171</u></u>
Total 2021 operating expenses	\$ 14,395,948
Less:	
Depreciation	(1,891,504)
Amortization	<u>(26,018)</u>
Total expenses subject to operating reserve (A)	<u>12,478,426</u>
Operating reserve requirement - 15% of (A)	<u>1,871,764</u>
Operating reserve fund as of December 31, 2022	<u><u>\$ 1,871,764</u></u>

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6. Liquidity

The Corporation's financial assets available for general expenditures, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 100,878	\$ 153,142
Investments	1,802,903	1,390,051
Accounts receivable, net	<u>1,347,286</u>	<u>827,255</u>
Total	<u>\$ 3,251,067</u>	<u>\$ 2,370,448</u>

As a 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. In addition, the Corporation invests cash in excess of daily requirements in short-term investments.

7. Related-Party Transactions

Presbyterian Senior Living provides the Corporation with various management and administrative services, including a full-time licensed administrator who is responsible for the Community's operation, a full-time bookkeeper and a human resources employee. The Corporation incurred fees under the arrangement of \$1,547,316 and \$1,423,716 for the years ended December 31, 2023 and 2022, respectively. This fee is classified as management and general expenses on the consolidated statements of operations and changes in net assets (deficit).

As of December 31, 2023 and 2022, the amounts payable to Presbyterian Senior Living were \$22,605,651 and \$19,992,774, respectively, and is included in due to affiliated entity on the consolidated statements of financial position. The amounts due are subordinate to principal and interest payments on the Corporation's long-term indebtedness. The parent has pledged continued support and has the financial ability to provide continued support to the Corporation if needed.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2023 and 2022, the Corporation incurred expenses related to Prelude of \$104,123 and \$114,661, respectively, for information services provided by Prelude.

In March of 2022, the Corporation began purchasing rehabilitation services from Benchmark Therapies, Inc., an affiliate. During 2023 and 2022, the Corporation incurred fees of \$631,361 and \$524,152, respectively, of which \$132,042 and \$118,858 is included in accounts payable as of December 31, 2023 and 2022, respectively.

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8. Property and Equipment

A summary of property and equipment and accumulated depreciation as of December 31 is as follows:

	2023		2022	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 14,182,370	\$ -	\$ 14,182,370	\$ -
Land and improvements	3,111,886	2,986,405	3,111,886	2,926,820
Building and improvements	51,508,732	41,021,106	49,832,282	39,259,831
Departmental equipment, furniture and fixtures	3,474,403	2,977,596	3,290,660	2,855,332
Vehicles	275,683	265,428	275,683	260,505
Construction in progress	1,083,807	-	790,270	-
	<u>\$ 73,636,881</u>	<u>47,250,535</u>	<u>\$ 71,483,151</u>	<u>45,302,488</u>
Net book value		<u>\$ 26,386,346</u>		<u>\$ 26,180,663</u>

Land consists of 455 acres, of which 60 acres are utilized for the Community. The remaining land may be available for future expansion.

9. Long-Term Debt

Long-term debt as of December 31 consisted of the following:

	2023	2022
Term loan, principal and interest are payable in equal monthly installments of \$100,483, interest is fixed at 6% through November 2027 when the rate will reset to SOFR plus 2.50% through maturity in April 2032.	\$ 8,531,007	\$ 9,317,527
Term loan, principal and interest are payable in equal monthly installments of \$23,935, interest is fixed at 3.80% through April 2027. Principal balloon payment and interest outstanding are due in April 2027.	3,503,109	3,652,404
Total	12,034,116	12,969,931
Less deferred financing costs	(86,204)	(112,222)
Total long-term debt	<u>\$ 11,947,912</u>	<u>\$ 12,857,709</u>

The above obligations are subject to various covenants, which include the achievement of certain pre-established financial indicators.

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Scheduled maturities for the five years subsequent to December 31, 2023 and thereafter are as follows:

Years ending December 31:	
2024	\$ 989,252
2025	1,049,359
2026	1,111,234
2027	1,170,704
2028	1,172,354
Thereafter	<u>6,541,213</u>
Total	<u>\$ 12,034,116</u>

10. Medical Malpractice Claims Coverage

The Corporation 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 have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Caring community	\$ 26,079	\$ 22,980
Community enhancement	13,423	12,276
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for:		
Educational scholarship	2,487	1,416
Benevolent care and capital improvements	277,857	278,275
Subject to endowment spending policy and appropriation:		
Educational scholarship	51,633	51,383
Benevolent care and capital improvements	<u>368,307</u>	<u>368,307</u>
	<u>\$ 739,786</u>	<u>\$ 734,637</u>

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Community enhancement	\$ 578	\$ 2,355
Restricted-purpose spending rate distributions and appropriations:		
Educational scholarship	-	2,000
Capital improvements and community enhancement	<u>13,350</u>	<u>32,317</u>
Total	<u>\$ 13,928</u>	<u>\$ 36,672</u>

12. Endowments

The endowments consist of donor-restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence described in state laws. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation considers the following factors:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Presbyterian Senior Living Services, Inc.

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The following schedule represents endowment net asset composition by type of fund and changes in endowment net assets for the years ended December 31, 2023 and 2022:

	With Donor Restrictions	
	2023	2022
Endowment net assets, beginning of year	\$ 699,381	\$ 714,753
Investment income	14,003	17,945
Contributions	250	1,000
Appropriation of endowment assets for expenditures	(13,350)	(34,317)
Endowment net assets, end of year	<u>\$ 700,284</u>	<u>\$ 699,381</u>

Amounts to be held in perpetuity totaled \$419,940 and \$419,690 for the years ended December 31, 2023 and 2022, respectively.

Funds With Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as net assets without donor restrictions.

The Corporation's policy states that should a fund fall below the original principal balance the Corporation would curtail spending in the fund until it returned to its original principal balance. There were no such deficiencies reported as of December 31, 2023 or 2022.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation's goal is that its endowment funds, over time, will provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus 1% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage per the policy was up to 5% for 2023 and 2022. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the endowment funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of endowment funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment assets. Accordingly, over the long term, the Corporation intends that the current spending policy will allow its endowment funds to grow at an average of inflation plus 1% annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

13. Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees who have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2023 and 2022, contributions to the plan totaled approximately \$27,963 and \$37,499, respectively.

14. Functional Expenses

The consolidated statements of operations and changes in net assets (deficit) report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis. Employee benefits and payroll taxes are allocated on the basis of total salaries and wages. Information technology and insurance are allocated on direct costs and management fees are allocated based on the home office direct costs.

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The costs of providing services and supporting activities are as follows for the years ended December 31, 2023 and 2022:

	2023		
	Resident Services	General and Administrative	Total
Salaries and wages	\$ 4,859,849	\$ 410,473	\$ 5,270,322
Employee benefits	538,960	47,570	586,530
Payroll taxes	366,923	30,392	397,315
Purchased services	1,311,806	12,476	1,324,282
Occupancy	903,725	17,162	920,887
Taxes and insurance	570,137	29,631	599,768
Management services	104,568	1,547,316	1,651,884
Office and telephone	31,331	103,546	134,877
Information technology	36,639	184,608	221,247
Supplies	350,370	10,631	361,001
Medical supplies and services	178,103	-	178,103
Food and beverage	745,617	4,647	750,264
Other operating	28,465	2,240	30,705
Depreciation and amortization	2,000,017	11,667	2,011,684
Interest	631,012	79,908	710,920
	<u>\$ 12,657,522</u>	<u>\$ 2,492,267</u>	<u>\$ 15,149,789</u>
Total cost of services provided			
	2022		
	Resident Services	General and Administrative	Total
Salaries and wages	\$ 4,498,810	\$ 221,257	\$ 4,720,067
Employee benefits	442,299	27,390	469,689
Payroll taxes	339,460	16,348	355,808
Purchased services	1,536,442	10,290	1,546,732
Occupancy	937,636	22,404	960,040
Taxes and insurance	577,697	57,825	635,522
Management services	88,776	1,423,716	1,512,492
Office and telephone	29,743	109,340	139,083
Information technology	34,523	174,170	208,693
Supplies	410,864	23,422	434,286
Medical supplies and services	365,649	-	365,649
Food and beverage	714,789	3,253	718,042
Other operating	9,830	(21,240)	(11,410)
Depreciation and amortization	2,012,971	11,743	2,024,714
Interest	582,513	73,766	656,279
	<u>\$ 12,582,002</u>	<u>\$ 2,153,684</u>	<u>\$ 14,735,686</u>
Total cost of services provided			

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15. Commitments and Contingencies

Senior Living Services 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.