

The Village at Providence Point, Inc.

Financial Statements

December 31, 2022 and 2021

C O N T E N T S

Independent Auditors' Report	1 - 2
------------------------------	-------

Financial Statements:

Balance Sheets	3
Statements of Operations and Changes in Net (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 12

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Village at Providence Point, Inc.
Annapolis, Maryland

Report on the Audits of the Financial Statements

Opinions

We have audited the financial statements of The Village at Providence Point, Inc. (Organization), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations and changes in net (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

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

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 Audits of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audits of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

New Castle, Pennsylvania
May 9, 2023

THE VILLAGE AT PROVIDENCE POINT, INC.

BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Prepaid expenses and other current assets	\$ 18,585	\$ 25,760
Current portion of assets whose use is limited	249,375	135,771
Total current assets	267,960	161,531
ASSETS WHOSE USE IS LIMITED	8,678,744	4,365,859
PROPERTY AND EQUIPMENT	21,587,726	16,481,754
RIGHT-OF-USE ASSET	564,532	768,364
Total assets	\$ 31,098,962	\$ 21,777,508
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Accrued expenses	\$ 82,523	\$ 8,125
Accrued interest	249,375	135,771
Total current liabilities	331,898	143,896
DUE TO AFFILIATES	26,526,036	18,526,499
RESIDENT DEPOSITS	8,153,804	3,867,797
LONG-TERM DEBT, net	9,257,364	9,111,782
LEASE LIABILITY	564,532	768,364
Total liabilities	44,833,634	32,418,338
NET ASSETS (DEFICIT)		
Without donor restrictions	(13,740,772)	(10,640,830)
With donor restrictions	6,100	-
Total net assets (deficit)	(13,734,672)	(10,640,830)
Total liabilities and net assets (deficit)	\$ 31,098,962	\$ 21,777,508

See Notes to Financial Statements

THE VILLAGE AT PROVIDENCE POINT, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET (DEFICIT)

Years Ended December 31, 2022 and 2021

	2022	2021
CHANGES IN NET (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Revenue:		
Net resident service revenue	\$ 2,300	\$ -
Operating expenses:		
Salaries and wages	\$ 393,104	\$ 308,068
Employee benefits and payroll taxes	73,624	60,196
Professional fees	305,839	65,317
Supplies	7,931	12,334
Food services	1,910	788
Depreciation	370,043	-
Insurance	646	-
Repairs and maintenance	6,298	-
Utilities	1,760	1,920
Advertising and marketing	1,651,318	621,047
Licenses, dues, and subscriptions	44,679	22,275
Other operating expenses	246,090	220,112
Total operating expenses	3,103,242	1,312,057
(Deficiency) of operating revenue over expenses	(3,100,942)	(1,312,057)
Nonoperating revenue:		
Contributions	1,000	-
(Deficiency) of operating and nonoperating revenue over expenses	(3,099,942)	(1,312,057)
CHANGES IN NET (DEFICIT) WITH DONOR RESTRICTIONS		
Contributions	6,100	-
Change in net (deficit)	(3,093,842)	(1,312,057)
Net (deficit):		
Beginning	(10,640,830)	(9,328,773)
Ending	\$ (13,734,672)	\$ (10,640,830)

See Notes to Financial Statements

THE VILLAGE AT PROVIDENCE POINT, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	\$ (3,093,842)	\$ (1,312,057)
Adjustments to reconcile change in net (deficit) to net cash and restricted cash (used in) operating activities:		
Depreciation	370,043	-
Changes in assets and liabilities:		
Prepaid expenses and other current assets	7,175	22,561
Accrued expenses	188,002	140,896
Net cash (used in) operating activities	(2,528,622)	(1,148,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,330,433)	(4,754,179)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	9,500,000
Payments for financing costs	-	(424,613)
Net change in resident deposits	4,286,007	3,655,974
Change in due to affiliates	7,999,537	(2,532,630)
Net cash provided by financing activities	12,285,544	10,198,731
Net increase in restricted cash	4,426,489	4,295,952
Restricted cash:		
Beginning	4,501,630	205,678
Ending	\$ 8,928,119	\$ 4,501,630
Restricted cash includes:		
Resident deposits	\$ 8,148,395	\$ 3,864,671
Trustee held funds	779,724	636,959
	\$ 8,928,119	\$ 4,501,630
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Capitalized interest expense	\$ 498,750	\$ 135,771
Capitalized deferred financing costs	\$ 145,582	\$ 36,395

See Notes to Financial Statements

THE VILLAGE AT PROVIDENCE POINT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Nature of the Organization: The Village at Providence Point, Inc. (Organization), a Maryland not-for-profit corporation, was formed to acquire and develop property located in Annapolis, Maryland, as a continuing care retirement community. The Organization will offer independent living apartments, cottages, and health care suites. The Organization has entered into a land purchase option and developer agreements related to the project. The project is in its planning and development stages and the Organization began incurring costs related to this project in 2019, while in previous years, costs were funded by National Lutheran, Inc. (NLI). During July 2020, the Organization received approvals from the Maryland Department of Aging and began marketing the project. In March 2022, the Organization received unanimous approval from the City of Annapolis' planning and zoning commission.

NLI is a not-for-profit Maryland corporation affiliated with the Evangelical Lutheran Church in America (ELCA). The Members of NLI are the Delaware-Maryland Synod, Metropolitan Washington, DC Synod, and the Virginia Synod of the ELCA.

NLI is the parent corporation and sole member of the Organization, which is a member of a system doing business as National Lutheran Communities and Services (NLCS). As a member of NLCS, the Organization shares in the control, support, and services of NLCS.

Basis of accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

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

Property and equipment: Property and equipment are reported at cost, or if donated, at fair value. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives (3 – 40 years). The Organization's capitalization policy is to review invoices in excess of \$5,000 to determine if they should be capitalized. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building and land improvements. Expenditures that extend the useful lives of the assets or significantly increase their capacity are capitalized.

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

Deferred financing costs: Financing costs were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The capitalized amortization of deferred financing costs, included in property and equipment on the accompanying balance sheets, totaled \$145,582 and \$36,395 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization was \$181,977 and \$36,395 as of December 31, 2022 and 2021, respectively.

THE VILLAGE AT PROVIDENCE POINT, INC.

NOTES TO FINANCIAL STATEMENTS

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

Net assets (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 assets (deficit) without donor restrictions.

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

(Deficiency) of operating and nonoperating revenue over expenses: The statements of operations and changes in net (deficit) include the determination of (deficiency) of operating and nonoperating revenue over expenses as the performance indicator.

Income tax status: The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by the organization and recognize a tax liability or asset if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of December 31, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

Generally, tax returns for years ended December 31, 2019, and thereafter remain subject to examination by federal and state tax authorities.

Advertising: The Organization follows the policy of charging advertising costs to expense as incurred. Total advertising expense amounted to \$1,651,318 and \$621,047 for the years ended December 31, 2022 and 2021, respectively.

Maryland operating reserve: In accordance with Maryland law governing continuing care retirement communities, the Organization would be required to set aside operating reserves totaling 15% of the facility's net operating expenses (as defined) for the most recent audited fiscal year (will increase to 25% beginning January 1, 2023). Due to the Organization's circumstance of being in the planning and development phase, there is no operating reserve required as of December 31, 2022 or 2021.

Subsequent events: The Organization has evaluated subsequent events for recognition and disclosure through May 9, 2023, which is the date the financial statements were issued.

Note 2. Liquidity and Availability of Resources

For the years ended December 31, 2022 and 2021, there were no or minimal liquid and available resources for The Village at Providence Point, Inc. However, the Organization has been able to obtain funding from the parent company, NLI, and through financing. When revenue is collected in the future, as part of the Organization's liquidity management, there is a policy to structure the financial assets to be available as general expenditures, liabilities, and other obligations come due.

THE VILLAGE AT PROVIDENCE POINT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Assets Whose Use is Limited

The assets whose use is limited are presented on the balance sheets as follows as of December 31:

	2022	2021
Escrow fund	\$ 8,148,395	\$ 3,864,671
Trustee held funds	779,724	636,959
Assets whose use is limited	\$ 8,928,119	\$ 4,501,630

Note 4. Fair Value Measurements

Authoritative guidance regarding *Fair Value Measurements* establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value, and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The levels of the fair value hierarchy are as follows:

- Level I Quoted prices in active markets for identical assets or liabilities.
- Level II Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level III Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The tables below present the balances of assets measured at fair value on a recurring basis as of December 31:

	2022		
	Carrying Value	Fair Value	Level I
Reported at fair value:			
Assets:			
Assets whose use is limited:			
Cash and cash equivalents	\$ 8,928,119	\$ 8,928,119	\$ 8,928,119
	2021		
	Carrying Value	Fair Value	Level I
Reported at fair value:			
Assets:			
Assets whose use is limited:			
Cash and cash equivalents	\$ 4,501,630	\$ 4,501,630	\$ 4,501,630

Cash and cash equivalents: Fair values, which are the amounts reported on the balance sheets, are based on multiplying number of units held by \$1 per unit.

THE VILLAGE AT PROVIDENCE POINT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment

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

	2022	2021
Buildings and building improvements	\$ 1,243,741	\$ -
Furniture and equipment	250,613	-
Construction in progress	<u>20,463,415</u>	16,481,754
	21,957,769	16,481,754
Less accumulated depreciation	<u>(370,043)</u>	-
	<u>\$ 21,587,726</u>	<u>\$ 16,481,754</u>

Construction in progress as of December 31, 2022, consists of project development costs for a future expansion/repositioning project. The Organization has various development and purchase agreements in place subject to future project approvals.

The total interest cost incurred during the years ended December 31, 2022 and 2021, was \$498,750 and \$135,771, respectively, which was capitalized as part of the cost of project development.

Note 6. Related Party Transactions

NLI is the sole member of the Organization and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed.

Various entities that are part of the NLCS system make working capital advances to each other as needed. Related party transactions bear no interest and have no stated repayment terms.

The following represents net amounts due to affiliated organizations as of December 31:

	2022	2021
NLI	\$ 26,059,320	\$ 18,526,499
Due to other affiliated organizations	<u>466,716</u>	-
	<u>\$ 26,526,036</u>	<u>\$ 18,526,499</u>

Note 7. Long-Term Debt

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

	2022	2021
Series 2021 Fixed Rate Taxable Bonds, at 5.25 percent, payable in semiannual installments of interest only, beginning January 2022 to satisfy annual debt service requirements with a final payment of principal due September 2024.	\$ 9,500,000	\$ 9,500,000
Less deferred financing costs	<u>242,636</u>	388,218
Total long-term debt	<u>\$ 9,257,364</u>	<u>\$ 9,111,782</u>

The financing obtained during 2021 was used to reimburse the parent, NLI, for past development costs and pay for current development costs.

THE VILLAGE AT PROVIDENCE POINT, INC.

NOTES TO FINANCIAL STATEMENTS

It is management's intention to repay the taxable bonds with proceeds from tax-exempt permanent financing for the project on or before June 30, 2024. This will be dependent upon the timing of a favorable resolution to the appeal related to entitlements (Note 11).

Note 8. Leases

The Organization has entered into a non-cancelable lease arrangement for office space under which the Organization is the lessee.

The amounts recognized as the right-of-use (ROU) asset related to the operating lease is listed in the asset section of the accompanying balance sheets net of accumulated amortization. The related lease liability for the operating lease is listed in the liabilities section of the accompanying balance sheets. The Organization does not have variable lease payments, options required to be recognized as part of a lease ROU asset, or residual value guarantees. The Organization's lease does not contain non-lease components.

A schedule of future minimum lease payments due under operating leases as of December 31, 2022, follows:

Years Ending December 31:

2023	\$	231,453
2024		237,239
2025		120,084
		<hr/>
Total lease payments		588,776
Less effects of discounting		(24,244)
		<hr/>
Total lease obligation	\$	<u>564,532</u>

As of December 31, 2022, the weighted-average remaining lease term for all operating leases was 2.5 years.

The Organization utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with operating leases as of December 31, 2022, was 3.25%.

THE VILLAGE AT PROVIDENCE POINT, INC.**NOTES TO FINANCIAL STATEMENTS****Note 9. Expenses by Nature and Function**

The Organization's expenses for general and administrative purposes are as follows for the year ended December 31, 2022:

	Resident Services	General and Administrative	Total
Salaries and wages	\$ -	\$ 393,104	\$ 393,104
Employee benefits and payroll taxes	-	73,624	73,624
Professional fees	-	305,839	305,839
Supplies	-	7,931	7,931
Food services	-	1,910	1,910
Depreciation	-	370,043	370,043
Insurance	-	646	646
Repairs and maintenance	-	6,298	6,298
Utilities	-	1,760	1,760
Advertising and marketing	-	1,651,318	1,651,318
Licenses, dues, and subscriptions	-	44,679	44,679
Other operating expenses	-	246,090	246,090
Total	\$ -	\$ 3,103,242	\$ 3,103,242

The Organization's expenses for general and administrative purposes are as follows for the year ended December 31, 2021:

	Resident Services	General and Administrative	Total
Salaries and wages	\$ -	\$ 308,068	\$ 308,068
Employee benefits and payroll taxes	-	60,196	60,196
Professional fees	-	65,317	65,317
Supplies	-	12,334	12,334
Food services	-	788	788
Utilities	-	1,920	1,920
Advertising and marketing	-	621,047	621,047
Licenses, dues, and subscriptions	-	22,275	22,275
Other operating expenses	-	220,112	220,112
Total	\$ -	\$ 1,312,057	\$ 1,312,057

The financial statements report certain expense categories that are attributable to more than one health care or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to the functions based on square footage basis.

Due to the Organization not yet being operational, in 2022 and 2021, all of the expenses are general and administrative. Fundraising expenses are incurred through NLI.

NOTES TO FINANCIAL STATEMENTS

Note 10. Insurance Claims Coverage

The Organization participates in a reciprocal risk retention group (RRRG) through National Lutheran, Inc. (Parent). The coverage is provided on a claims-made basis. General liability coverages were provided for the Organization in the amount of \$1,000,000 per event and \$3,000,000 per annual aggregate. Each claim has a \$50,000 self-insured retention, prior to the primary insurance coverage. The Organization also has an excess umbrella policy for general liability coverage. The excess umbrella limit is \$15,000,000 in the aggregate. The Organization funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRRG. As of December 31, 2022, no such adjustments to premiums are deemed necessary.

Note 11. Contingencies

The health care industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local government 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 health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayment for patient services previously billed. The Organization is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

The project is contingent upon several factors including zoning approvals, and pre-sale deposits. Management is continuing to address and obtain final zoning approvals (Note 13). Pre-sale deposits are required to be at 160 to close on financing for the project. The Organization has 131 pre-sale deposits as of December 31, 2022.

Note 12. Commitments

The Organization entered into a Purchase and Sale agreement with the seller of the land on December 27, 2016. The Purchase and Sale agreement has been amended three times since that date, for various reasons, including a reduction in the land being acquired, and adjustments to the payment terms. The Organization is making earnest payments, otherwise known as deposits to the seller of the land that the project is planned to be located. Such payments will be applied against the final purchase price of the land, after final municipal approvals are received and the land transaction is closed. On June 5, 2020, the Organization executed a third amendment to the Purchase and Sale agreement, which extended the prior agreed upon closing date to no later than June 30, 2022. On March 18, 2022, the Organization executed a fourth amendment to the Purchase and Sale agreement, which extended the prior agreed upon closing date to no later than December 31, 2023. The Organization also has a Maryland Department of Aging certificate of registration for the project, that is effective through December 31, 2023. Management believes this certificate can be extended as long as the project remains feasible.

Construction drawings are complete, and permits have been obtained for the project. Although the project is ready to be formally bid, there are no material formal construction commitments as of December 31, 2022.

Note 13. Subsequent Event

In January of 2023, the Ann Arundel County Circuit Court vacated the City of Annapolis Planning and Zoning approval of the project forest conservation variance on the basis that the Planning and Zoning commission failed to conduct sufficient independent analysis of variances granted. As of April 26, 2023, a supplemental opinion and order was issued supporting the original approval of the project in March 2022. The decision can and is expected to be repealed within 30 days of issuance. Although this may cause delays in starting the project, management does not believe that this issue is detrimental to the project's viability at this time.