



Annual Disclosure Statement June 30, 2023

Pines Village Retirement Communities, Inc.
A nonprofit (501-c-3) charitable corporation
organized to provide housing and services for older adults.

Corporate Office
3303 Pines Village Circle
Valparaiso, Indiana 46383

Notice to Prospective Residents

All prospective residents should read this disclosure statement in its entirety before entering into any contract or written agreement or paying any fee. Additionally, a representative of the provider is available during normal business hours to answer any questions relating to this disclosure statement and the representations contained herein.

Table of Contents

- I. The Provider
- II. The Manager
- III. Management's Discussion & Analysis of Financial Condition
- IV. The Home
- V. Services
- VI. Cancellation of the Contract
- VII. Management & Principle Owners of the Provider, Manager
- VIII. Opinion of Independent Accountants
- IX. Financial Statements
- X. Form of Continuing Care Agreements

I. The Provider

Pines Village Retirement Communities, Inc. was incorporated as Indiana Retirement Communities, Inc. (IRC) in November 1984 as a nonprofit charitable corporation. It was organized to obtain permanent financing and to establish a sound financial program for the Pines Village Apartments. The City of Valparaiso issued Economic Development Bonds which IRC used to purchase the Pines Village apartments from the developing corporation, the Porter County Council of Church Women and their corporation, Pines Village, Inc. Pines Village opened May 1, 1983, and was essentially completed by July 15, 1983. The transfer was completed on October 23, 1985.

Indiana Retirement Communities, Inc. changed its corporate name to Pines Village Retirement Communities effective February 5, 2001. Pines Village properties include Pines Village Apartments (3303 Pines Village Circle, Valparaiso), and Meridian Woods Homes and Community Center (Meridian Woods subdivision is located north of Bullseye Lake Rd. on Campbell St., Valparaiso). The Board of Directors is composed of Porter County business and professional men and women who are concerned with providing quality housing and related services for older adults. Our mission statement: *We celebrate life.*

II. The Manager

All properties are managed by Pines Village Retirement Communities, Inc. The Board hires the Chief Executive Officer whom they hold responsible for day-to-day operations. The Board meets on a regular basis and reviews programs closely. For specifics on the CEO please see *VII Management & Principle Owners of the Provider, Manager.*

III. Management's Discussion & Analysis of Financial Condition.

- A. Liquidity.** Pines Village has 211 days cash on hand in 2022 and 378 days when including investment accounts. Pines Village has one debt covenant tied to liquidity and that is a debt service coverage ratio (DSC) of 1.10. For 2022 the DSC ratio for Pines Village was 2.05.

The number of new apartment residents has doubled since the onset of COVID in 2020. The average apartment occupancy for 2022 was 72%. The cottage homes continue to be very much in demand and turnover quickly. Occupancy is 100% for these units. With each turnover, PVRC retains 10% of the entrance fee.

In 2022, Pines Village received federal financial assistance through the Provider Relief Fund to help cover some of the lost revenue since 2020. Inflation coupled with the increase in the cost of recruiting and retaining staff has resulted in higher than historical fee increases. The fee increases occur annually in the month of May at the discretion of the management and the Board of Directors.

- B. Capital Resources.** Originally, there were two financial plans available for Pines Village apartments: 1) Life Benefit plan – high entry fee with low monthly fee that included a declining refund upon move-out and a provision for financial assistance toward assisted living and/or nursing care in a health care center; and 2) low entry fee with a high monthly fee that did not include a refund upon move-out. When the larger entry fees were paid, these were utilized to pay off the Bond issue or to build reserves. The Life Benefit option is no longer available, and the rental monthly fee

plan brings in more income on an ongoing basis with no refund or long-term liabilities.

The \$3,200,000 Bond issue of October 23, 1985, was used to purchase the apartment complex from the Porter County Council of Church Women, Inc. The land, some development costs, and the construction loan were paid with the funds. On December 30, 1992, the Bond issue of 10/23/85 was retired with a new \$5,000,000 Economic Development Bond Issue from the City of Valparaiso. A tax-exempt, commercial-type issue of \$100,000 denominations, backed by a Letter of Credit issued by Chase Bank, dropped the interest rate significantly. The Bond Funds were used to construct 40 additional apartments for assisted living. These apartments were completed in November 1994. Occupancy began September 19, 1994. This debt was retired in December 2007.

In July 2000, a Bond Anticipation Note was obtained through the City of Valparaiso and Bank One (now JPMorgan Chase Bank) in the amount of \$2,800,000 to begin the development of the Meridian Woods subdivision. This note was refinanced with a City of Valparaiso, Indiana Economic Development First Mortgage Revenue Note, Series 2004 in the amount of \$2,544,257 in February 2004, for a period of five years. This was fully repaid in 2008 by the proceeds of the bond issue described next.

A \$10,595,000 Bond issue was obtained in May 2008 through the City of Valparaiso with a Letter of Credit from Centier Bank to finance the renovation of the Pines Village campus. This issue also fully repaid the above Bond Anticipation Note. The renovation project was multi-faceted, and included an increase in common areas, a new wellness suite and fitness center, new kitchen and dining areas to accommodate growing demand; new apartments and attached garages for residents; a new corridor connecting the north building to the heart of the community, a second driveway and new loading dock, a new utility service elevator, new finishes and enhanced lighting in hallways and common areas, an increase in administrative space, and general updating of physical plant, equipment and finishes. Renovations were completed in 2009. Beyond the physical aspect of the renovation to the main campus, this bond issue built up our cash reserves through the repayment of professional fees advanced during the planning stages, through investment of unspent bond proceeds during the building construction, and through the capitalization of interest included in the bond proceeds during the construction period.

In December 2018, a construction loan for \$1,250,000 was obtained from Centier Bank to finance a renovation on the north side of the building. The renovations were completed in 2019 and included improvements and enlargement of the North parking lot and a new entry that can be accessed directly from this parking lot. The renovation also included a new outdoor patio dining area with seating, umbrellas, lighting, grill, and pizza oven. Indoor renovations included an expansion and redesign of the north kitchen and dining room, additional public seating areas for residents with new furniture and fixtures, and extensive improvements to corridor walls, lighting fixtures and floors.

As part of the Board of Directors' Strategic Plan for Pines Village, adjacent

residential and commercial properties have been acquired for future growth. In 2022, one rental home adjacent to the Meridian Woods Campus was sold and the proceeds used to purchase another adjacent home to Pines Village Campus and to pay off existing home mortgages. The organization currently owns 8 properties adjacent to the campus with one used as a rental. In 2020, Pines Village purchased 5 acres of adjacent property with an existing 75,000 sq ft building for \$400,000 receiving a \$2.2 million-dollar in-kind donation. In 2023, this building and the 2 remaining adjacent homes to the Pines Village campus will be torn down. The demolition will be partially funded through a grant from the City of Valparaiso and from the sale of a portion of the Northeast corner lot. Future development of the resulting green space will be determined by the Board of Directors.

C. Results of Operations. Occupancy and turn-over of units directly affect the bottom line. Current and historical figures are provided below. The past three years as of December 31 are as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Number of Apts.	150	150	150
Number of Homes	78	78	78
Occupancy, yearend – apartments	79.0%	75.0%	71.0%
Occupancy, yearend-patio homes	100%	100%	100%
New Occupants – apartments	15	25	34
New Occupants – patio homes	13	11	16
Cash provided by Operations.	\$3,047,353	\$1,767,847	\$2,643,297
Entry Fees, Continuing Care	\$1,973,900	\$1,480,000	\$2,107,800
Total Income	\$7,695,782	\$6,606,992	\$6,711,038
Expenses incl. interest, excl. depreciation	\$5,820,195	\$5,242,391	\$5,574,681
Interest expense	\$ 404,472	\$ 345,698	\$ 372,105
Bonds Retired	\$ 290,000	\$ 305,000	\$ 320,000
Refunded to former residents.	\$ 800,910	\$ 1,332,000	\$ 1,645,921
Capital improvements.	\$1,439,251	\$ 406,760	\$1,186,073
Total Borrowings at year end	\$9,634,536	\$9,280,388	\$8,741,814
Cash Liquidity gain (loss)	\$ 471,774	\$ 206,867	\$ 253,232
FUND BALANCE (net worth)	\$7,564,735	\$7,853,713	\$7,741,832
Donor Restricted Funds	\$1,428,138	\$1,549,900	\$1,432,872
Cash and cash equivalents, at end of year	\$2,976,567	\$2,968,177	\$3,223,172

* Cash equivalents include all certificates of deposit that are easily convertible to cash with nominal sacrifice of interest income prior to maturity.

When the homes at Meridian Woods are re-leased, the organization retains 10% of the entry fee. Therefore, unlike the apartments, turnover in this residential market is a positive event. At year end the average age of the one hundred seventeen residents in Meridian Woods is 80. In 2022, eight homes turned.

With the issuance of bonds, which are variable rate bonds, Pines Village entered into an interest rate swap agreement with a fixed interest rate at 3.294% for initially 74% of the bonds outstanding. This coverage declines a little each year, and as of May 1, 2023, it is 39%. This mitigates our risk as interest rates climb over the term of the bond. We also have a letter of credit provided by Centier bank, with credit enhancement provided by Wells Fargo at a fee rate of 1.5%. At year end the variable rate on the bond was 3.85%. The risk on the portion not covered by the swap is mitigated by the earnings on cash reserves. For the twelve months ended April 30, 2023 (the annual cycle of the bond), we have had an effective interest rate of 4.29% on the principal bond balance of \$7,545,000.

The interest rate swap contract created a non-operating feature on our financial statements, on both the balance sheet and on the statement of operations. On the latter there is a decrease of \$281,484 representing the change in market valuation of the swap contract at year end. This is a “paper adjustment” and will fluctuate from year to year based on mid-term interest rate markets and the remaining term of the contract. It has no operating impact to Pines Village.

D. Other.

The Good Samaritan Fund was created to help reduce the financial burden on residents who encounter unanticipated changes in their financial position. This assistance allows them to continue to remain in the Pines Village community. The Good Samaritan Fund was established at the Porter County Community Foundation in 2006 and is funded by donations and board-approved allocations. The estate of Marcella Owens, Pine Village’s first resident, bequeathed \$513,386 to the Good Samaritan Fund in 2017 and 2018 and the fund was renamed The Marcella Owens Good Samaritan Fund. At the end of the year, the fund balance was \$1,252,103.

In the past, the property tax exemption held since Pines Village’s inception has been challenged by the Porter County Assessor. As Pines Village continues its charitable purpose to provide for the needs of the aging as recognized by the Indiana Constitution, Pines Village has been successful in defending its property tax exemption status. Management does not anticipate any future challenge by the Porter County Assessor but continues to monitor state legislative activities that could impact the Organization’s property tax status and tracks the amount and type of benefits provided to the local community and its’ overall charitable work.

IV. The Home

- A. Pines Village** employs approximately 107 team members. The leadership team includes the CEO, CFO, Home Health Administrator, VP Nutrition Services and Community Education, VP Resident Services, Corporate Relations Director,

Meridian Woods Director, Facilities Director, Human Resources Director, and Administrative Assistant. This team meets regularly to discuss operational concerns and progress toward the organization's goals.

- B. Pines Village Apartments** consists of a two-story frame building with brick and vinyl exterior, a Class A fire-rated roof, an automatic sprinkler protection system with Alert Alarm tie-in with the Valparaiso Fire Department, and smoke detectors which automatically alert the staff for 24-hour monitoring. The building has firewalls, creating seven fire zones, alleviating the need to evacuate the entire building in the event of a fire alarm.

The outside grounds include a paved walkway around the property, two ponds, raised garden plots, professional landscaping, artwork, and benches. In 2019, a large lighted patio with outdoor seating and pizza oven were added to the property as part of the renovation project of the North end.

The campus building includes: lobby area, staff office space, kitchen with delivery dock, two dining rooms, café and bistro areas, display cooking area, art gallery, fireside lounge, library, beauty salon, wellness suite with a fitness center, therapy room, massage room, activity room, free public Wi-Fi access in all areas of the building, a multi-purpose room with multimedia support, guest room accommodations, employee lounge, employee training room, laundry rooms on every wing with a total of eleven laundry facilities, and three elevators, one of freight size.

The campus building currently has a total of 150 apartments with 111 apartments located in the south portion. There are 14 studio apartments at a minimum of 375 square feet that contain a large L-shaped room with kitchen, three closets and bathroom. There are 68 one-bedroom apartments (some include a patio or balcony) at 465 to 771 square feet with a living room, kitchen, bedroom, three closets and bathroom. There are 29 two-bedroom apartments (most include a patio or balcony) at 729 to 913 square feet with a living room, kitchen, two bedrooms, two bathrooms and five closets. The apartment bathrooms have been modified and have full accessibility.

In 1994 additional apartments with accessibility features were added to the north side of the campus building. This addition houses 23 studio apartments (16 include a patio or balcony) from 375 to 578 square feet with a kitchenette, living/sleeping room, three closets and bathroom. There are also 16 one-bedroom apartments (10 include a patio or balcony) from 514 square feet to 560 square feet with a kitchenette, living room, bedroom, three closets and bathroom. The apartment bathrooms have full accessibility.

In 2019, a renovation of the North end was completed and included a new entry and patio area, expanded dining room, remodeled kitchen, large parking lot, seating areas with new furnishings, lighting and flooring.

In 2022, the Wi-Fi networks and security systems were updated at the Pines Village campus and the Meridian Woods Community Center.

For resident safety, all apartments located at the campus building have an emergency response system that is used to alert staff when assistance is needed. Emergency pull cords are in the bedroom and bathroom of every apartment. Residents may also elect to wear a personal help button. The Resident Check In system allows residents to push a button in their apartment to check in twice daily as a wellness or safety check. These safety features are available to all residents at no additional charge. To allow for continued business operations and service delivery during a power outage or weather emergency, a generator was installed.

Pines Village has a bus that accommodates up to 16 residents. The bus makes regularly scheduled rounds within the community and is also used for planned excursions, programs and events. The bus has a wheelchair lift and can accommodate two wheelchairs. Pines Village also has a minivan which increases the transportation services available to residents.

The Application Fee is \$250, and the Entry Fee is \$2,500. The fee range for the Apartments as of May 2023, is \$2,355-\$5,140 per month. When two people occupy one apartment, a second person fee of \$575 is charged.

In 2017 the Pines Village Main Campus Capital Improvement Fund was established at the Porter County Community Foundation. The board designated funds were invested in a portfolio of 50/50 stocks and bonds. The year-end balance of the fund is \$103,614.

- C. Meridian Woods.** In 1998 Pines Village purchased a 39-acre undeveloped site on Campbell Street (Meridian Road) about 1.5 miles from the main Pines Village campus to develop the Meridian Woods subdivision. During 1999 and 2000 homes were developed in Parcel A. Development was funded through EDC Bond Anticipation Notes in the amount of \$2.8 million and Pines Village funds.

In 2003, Pines Village executed an agreement with two local developers for construction and development of homes to be built over the next several years. These will be funded through a life lease agreement (see the Meridian Woods Residency Agreement for specific terms). In 2007 a third developer was added, replacing one exiting the project.

Pines Village has ownership of the following: Parcel A-12 homes, Parcel B-20 homes, Parcel C-8 homes, Parcel D-14 homes, Parcel E-18 homes, Parcel F-6 homes. The homes range from 1245 – 2393 square feet in size. As of May 2023, each unit is assessed a service fee that is based upon square footage with a range from \$575 to \$635 per month and has a life lease reimbursement agreement.

Meridian Woods homes are designed to facilitate safety and aging in place. All homes are handicap accessible with wider doorways and hallways, levered door handles and electrical outlets 24 inches from the floor. Windows are lower to allow people in wheelchairs to easily view outdoors. Bathrooms are equipped with grab bars, higher toilet stools, easy-access showers, single lever faucets and non-skid floors. Garage floors are level with the home.

Meridian Woods residents are given priority access to Pines Village Apartments and may access dining services, home care, housekeeping, transportation and handyman services from Pines Village.

In 2014 the Meridian Woods Capital Improvement Fund was established at the Porter County Community Foundation and the funds were invested in a portfolio of 50/50 stocks and bonds. (Previously the funds were invested in certificates of deposit.) The year-end balance of the fund is \$702,441.

- D. Meridian Woods Community Center**, formerly Campbell St. Café, is a gathering place for seniors located in the Meridian Woods subdivision. In 2023, management made the decision to close the restaurant service due to low demand. The building is now open 24/7 to residents and any senior adults in the outside community who pay a minimal membership fee. Resident and member use of the center includes a fitness center, programs and activities, public wi-fi, free snacks and beverages, courtesy center and an entertainment gathering place.
- E. Banta Senior Center**, under the management of the Valparaiso Parks and Recreation Department (VPRD), is a community senior center that serves as a nutritional, fitness, educational and social center. Since 2010, Pines Village has prepared meals for the center's nutritional program and in July 2016, Pines Village was awarded a service provider contract from Northwest Indiana Community Action Corporation to also manage the center's nutritional program. For the year ended 2022, 6,971 meals were served to seniors at the Banta Senior Center Nutrition site.
- F. Meals on Wheels.** In 2010, Pines Village entered into an agreement with the Visiting Nurse Association of Porter County to provide food for the Meals on Wheels program. For the year ended 2022, a total of 78,398 meals were prepared for seniors participating in the Meals on Wheels program.
- G. United Way Partner Agency.** Since 2018, Pines Village has been a member agency of the United Way of Porter County with the privilege of applying for grant funding. Pines Village was awarded a funding contract to meet the nutritional meals for the elderly population in the region.

H. Veteran's Breakfast Program – In 2017, Pines Village began to offer a free monthly breakfast to all veterans in the Northwest Indiana region. In 2020 and 2021, this program was put on hold due to the coronavirus pandemic. The program resumed in 2022 and Pines Village served breakfast to 451 Veterans from the community.

I. Other. In 2011 Pines Village discontinued the use of the Assisted Living Residency Agreement due to resident requests for more choices in health care packaging and de-bundling of services, resident costs incurred in moving to another apartment, and the desire to avoid the emotional and physical stress associated with moving. Expansion of home health care services across the entire campus building became possible.

Since 2011, the new Pines Village Apartment Residency Agreement has been used for all apartments being turned over. New residents requesting assisted living or home health care services were offered these services through the home health division, Pines Village Home Health Care, under the Pines Village Home Health Care Financial Agreement. For the Pines Village Apartment Residency Agreement please see *X Form of Continuing Care Agreements*.

V. Services

A. Pines Village services included in the monthly fee:

- One meal per day
- Apartment cleaned twice per month
- Trash and recycling pick up
- Laundering of linens weekly
- Coin-free laundry rooms
- Maintenance services
- Transportation services
- Daily programs and events
- Fitness Center
- Chaplain and Vesper Services
- Resident Services
- Lifeline personal help buttons
- Security and Emergency response
- Daily check in system
- Utilities (except phone)
- Cable TV
- Courtesy Center
- Reserved parking space
- PINES VILLAGE TV station
- Health screenings and programs
- Automated Emergency Notification Call System

B. Meridian Woods services included in the monthly fee:

- Repair and maintenance of the home's exterior, furnished appliances and operating systems by maintenance staff and vendors
- Replacement of furnace filters, smoke detector batteries, outside light bulbs, dryer vent cleaning
- Snow removal, lawn care, sprinkler system, pest control
- Weekly trash pick-up
- Utilities and street lighting supplied to common areas/grounds.
- Property and liability insurance on the home and common areas
- Priority access to Pines Village apartments
- Use of Meridian Woods common areas.
- Use of Community Center, including unsupervised fitness center and courtesy center
- Discounted rates on meals at Pines Village
- Social, recreational, spiritual, cultural, wellness and management services available at the Community Center and Pines Village
- Counseling, social services including linkage to community support programs
- Chaplain and vesper service
- Transportation services
- Emergency response activation system
- Automated Emergency Notification Call System

C. Pines Village services available for an additional fee (see Auxiliary Services Rate Sheet):

- Additional Meals (resident/guest)
- Catering
- Beauty Salon
- Home health care services
- Additional Housekeeping and Laundry Services
- Guest rooms

D. Home Health Care

December 1, 1997, Pines Village established a state licensed private duty home health care agency. These services were initially established to provide services for the residents living in the Assisted Living apartments. After renovations in 2009 we were able to offer more home health service across the main Pines Village campus. There are five Registered Nurses, four Licensed Practical Nurses and thirteen Home Health Aides that staff the agency. Home health care services are available for the residents of Pines Village and Meridian Woods for an additional fee.

Pines Village Apartments and Meridian Woods residents may purchase the following services on a scheduled basis through an ala carte or packaged plans of care depending on their location:

- Assistance with showering or bathing
- Assistance with dressing
- Assistance with personal grooming
- Assistance with incontinence products
- Daily bed making and weekly linen change
- Light meal preparation or escort to dining room
- Weekly personal laundry service
- RN case management
- Medication set up
- Medication reminders, assistance or administration
- Assistance with blood glucose monitoring
- Assistance with oxygen use or nebulizers
- Basic foot care

E. The Community

The Pines Village main campus and Meridian Woods campus are located on the north side of Valparaiso, in Porter County, Indiana. Valparaiso is an energetic city of about 34,000 and growing. The numerous economic developments and quality of life projects have made Valparaiso a destination city. Valparaiso's central location near Chicago, close to the state of Michigan and in the heart of the Midwest near major highways (I-80/90, I-65, US 30, US 6) is ideal for our residents and especially convenient for families who like to visit. Valparaiso is just a 12-mile drive to Lake Michigan and the Indiana Dunes State Park, and an hour to downtown Chicago accessible via train and bus services.

Vibrant and charming, Valparaiso is a family focused, volunteer oriented and pedestrian and bicycle friendly community, offering a variety of recreational activities; over 15 lush parks with playgrounds, lakes, picnic pavilions, frisbee golf; a robust downtown featuring new townhomes and apartment housing developments, street-side cafes, specialty shops, wineries and brew houses, theaters, Central Park Plaza and pavilion featuring outdoor markets, concerts, festivals, movies, splash park, and skating arena. A generational project is underway that includes a youth sports complex, a new activity center for adults, a state-of-the-art skatepark, and a new modernized Boys and Girls Club. Valparaiso University and Ivy Tech Community College offer continuing education for adults, and satellite campuses of Purdue University and Indiana University are close by.

Health care is readily accessible with the Northwest Health Porter Hospital and St. Mary Medical Center located on the north side of Valparaiso and just minutes from Pines Village. Numerous immediate care and outpatient health care clinics are also plentiful.

Pines Village staff has actively participated in community organizations and efforts, including:

- Valparaiso University, IUN, Purdue University Northwest, Porter County Career Center -internship site
- Northwest Indiana Nursing Honor Guard
- LeadingAge Indiana
- Valparaiso Parks Department
- Tobacco Education & Prevention for Porter County
- United Way of Porter County
- Chamber of Commerce: Greater Valparaiso and Duneland
- Valparaiso Arts Commission
- Valparaiso Human Relation Council
- Veteran Services
- Valparaiso Creative Council

VI. Cancellation of the Contract

Pines Village has separate residency agreements (contracts) for Pines Village Apartments and Meridian Woods Homes. The Pines Village Apartments are rental units. The Meridian Woods homes are life lease units. Please refer to each residency agreement for the detailed contractual terms.

Pines Village Apartments Rental Plan

Residents who apply for a Pines Village Apartment pay a \$250 application fee. Upon move-in, the resident pays a one time, non-refundable \$2,500 entry fee. Residents pay a monthly service fee/rent (fees vary according to apartment selected) that includes room and board and the package of services outlined in section *V. Services*. Pines Village has the right to increase the monthly service fee at any time with 30-day notice, although traditionally rent increases have only been imposed annually in May.

Meridian Woods Homes Life Lease Plan

Residents who apply for a Meridian Woods Home pay a \$250 application fee. Residents who move into a home at Meridian Woods pay a one-time entry fee and a monthly service fee (fees vary according to home selected). The monthly service fee includes the package of services outlined in section *V. Services*. Upon termination of the Meridian Woods agreement, Pines Village shall refund an entrance fee equal to 90% charged to the subsequent occupant. Pines Village has the right to increase the monthly service fee annually. In addition, Pines Village has the right to impose a special assessment for major capital improvements if there are insufficient assets in the reserve account.

Cancellation of the Contract

Pine Village Apartments and Meridian Woods residents have the right to cancel the agreement via a written 30-day cancellation notice. In the event of a grievance, Pines

Village has the right to issue a 30-day written cancellation notice.

Management may cancel an agreement under the following conditions:

- The resident is a danger to themselves or others.
- The resident violates or fails to observe the terms of the residency agreement.

VII. Management & Principle Owners of the Provider, Manager

Management and Ownership of all properties is vested in the nonprofit Pines Village Retirement Communities, Inc. (see *I The Provider* and *II The Manager*)

- A. Following is the list of the Board of Directors of Pines Village as of May 2023. Each Director serves a three-year term and may be re-elected one time. If the Director is completing a term, they may be re-elected twice to serve two full terms.

President/Second Term: Doug Smith

President, Smith Ready Mix

Treasurer/Second Term: Todd Wagenblast

VP, CFO, Indiana Beverage, Inc.

Secretary/Second Term: Marilyn Buczkowski

Retired

Director/Second Term: Caleb Walma

Vice President-Relationship Manager II, First Merchants Bank

Director/Second Term: Scott Bozik

Attorney/Partner, Blanchly, Tabor Bozik Hartman

Director/First Term: George Douglas

Director of Development, City of Valparaiso

Director/First Term: Joan Bondi

CFO, HealthLinc

Director/First Term: Tim Scannell

Managing Director, Hightower Great Lakes

Director/First Term: Joel Troxel

Founder/Business Consultant, JET Consulting Services, Inc

B. Leadership Team

Martin Sonnenberg, BSB, Chief Executive Officer

Martin received a Bachelor of Science in Business administration with a major in Accounting from Valparaiso University. He has also taken continuing education programs at Northwestern University, University of North Carolina, and the University of Chicago. Prior to joining the Pines Village team in 2021, Martin worked 16 years at Task Force Tips, serving as President, CFO, and a variety of other roles. Martin currently serves on the Valparaiso Park Board and has previously served in leadership capacities at a number of local non-profits including Valparaiso Chamber of Commerce as Board Chair, Valparaiso Parks Foundation as Board Chair, Liberty Bible Church as Treasurer, Victory Christian Academy as Board Chair, and Valparaiso Rotary Foundation as Board Chair.

Denise Schroeder, CPA, BSB, Chief Financial Officer

Denise received a Bachelor of Science Degree in Business with a major in Accounting from Indiana University and is a Certified Public Accountant. Prior to joining the Pines Village finance department in 2013, Denise worked in cost and public accounting for over twenty-five years and served as Treasurer for several non-profits. In 2015, she was promoted to Chief Financial Officer and serves on subcommittees of the organization and has served as Acting CEO. Denise is a member of the LeadingAge Indiana Inaugural Leadership VIP class of 2015.

Sara Olejniczak, BA, Vice President of Resident Services

Sara received a Bachelor of the Arts Degree in Sociology from Valparaiso University. Sara began her career at Pines Village twenty-five years ago in the dining department and was promoted to Dining Services Director. In 2019, Sara transitioned to Resident Services Director and in 2020, was promoted to Vice President of Resident Services. Her current responsibilities include resident program and events, transportation, spiritual life, social services, resident IT, fitness and volunteer programs for both campuses, and she currently chairs the Pine Village Safety Committee. Sara is a member of the Valparaiso Chamber of Commerce Leadership Academy of 2012.

Amy Page, IOM, Corporate Relations Director

Amy is a graduate of Moser Business School and was awarded the IOM graduate recognition for completing a comprehensive course of study in nonprofit management through the U.S. Chamber of Commerce Foundation's Institute for Organization Management program. Prior to joining the Pines Village team in 2009, Amy served as the Vice President/Member Services for the Greater Valparaiso Chamber of Commerce for 8 years and Amy is the director of the Village Gallery (Pines Village art gallery). She has served on the Education Committee for LeadingAge Indiana and board member of the Valparaiso Creative Council Board.

Michele Murphy Wise, MHA, MA, RDN, Vice President Nutrition Services and Community Education

Michele received a Master of Healthcare Administration, Master of Applied Behavioral Sciences and Bachelor of Science in Human Nutrition from Valparaiso University. Michele came to Pines Village in March 2016 having worked for over twenty- five years in acute care, home health care, hospice and nutrition consulting. Her primary responsibilities include direct oversight of Dining Services, educational programming for dining services, home health and the community at large and alternate Home Health Administrator. Michele is a member of the Academy of Nutrition and Dietetics, South Shore Leadership Academy Class of 2015 and the Society of Innovators of Northwest Indiana.

Renee Ives, BSN, RN, Home Health Administrator

Renee began working at Pines Village in 2013 and has held several positions within the Home Health department. She received her Associate of Science in Nursing Degree from Ivy Tech Community College and her Bachelor of Science in Nursing Degree from Purdue University Calumet. Renee was appointed to Home Health Administrator in 2021 with current duties including day-to-day oversight of the clinical activities in the Home Health Department. Renee also serves as a board member for the Northwest Indiana Nursing Honor Guard.

Deana Kennoy, BA, Meridian Woods Director

Deana received a Bachelor of Arts in Elementary Education from Purdue University. Deana worked alongside her father in their family business, Stolpe Real Estate, for 15 years. During that time, Deana marketed Meridian Woods homes for Pines Village. Deana joined the Pines Village team in 2018 as the Meridian Woods Director and her current responsibilities include marketing the homes, overseeing maintenance, resident services, and internal marketing. Deana is a member of the Valparaiso Chamber of Commerce Leadership Academy Class of 2019 and the Greater Northwest Indiana Association of Realtors.

Melissa Neuberg, BHA, Facilities Director

Melissa received her Bachelor of Science in Healthcare Administration minoring in Human Resources from Purdue University Northwest. She began working at Pines Village as Facilities Director in 2019 and is responsible for the maintenance and housekeeping departments and she serves on the Safety Committee. Prior to joining the Pines Village team, Melissa worked as Office Manager and Project Administrator for 28 years with a local engineering firm. She was directly involved in obtaining and overseeing state and federally funded grant and loans which assisted several local communities fund construction projects.

Jessica Miggins, MBA, BHA, Human Resources Director

Jessica received a Master of Business Administration degree from Keller Graduate School of Management and a Bachelor of Health Administration degree from Governors State University. Jessica joined the Pines Village team in March 2020 with experience in Human Resource Operations and Health Administration from both for-profit and nonprofit healthcare organizations. Jessica is a member of Tobacco Education & Prevention for Porter County and Northwest Indiana SHRM.

Stacey Bradley, Executive Assistant and Office Manager

Stacey is a lifelong resident of Valparaiso and prior to joining the Pines Village team in April 2021, she made a career as a legal secretary and law office manager. With 30 years of office experience, she has happily transitioned from the legal field and uses what she learned in her prior office settings to now serve as the Executive Assistant to the CEO and Front Office Manager.

VIII. Opinion of Independent Accountants, attached.

IX. Financial Statements, for years ended December 31, 2022 and 2021, attached.

X. Form of Continuing Care Agreements, attached.



FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2022 and 2021

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

CONTENTS

	Page
Independent Auditor's Report	1-2
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-23



Independent Auditor's Report

Board of Directors
Pines Village Retirement Communities, Inc.

Opinion

We have audited the accompanying financial statements of Pines Village Retirement Communities, Inc., a not-for-profit organization, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pines Village Retirement Communities, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pines Village Retirement Communities, Inc. 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 Pines Village Retirement Communities, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 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 Pines Village Retirement Communities, Inc.'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 Pines Village Retirement Communities, Inc.'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.

Katy, Aggarwal Miller, LLP

Indianapolis, Indiana
May 30, 2023

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

**BALANCE SHEETS
December 31, 2022 and 2021**

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and equivalents	\$ 2,806,880	\$ 2,548,648
Restricted cash		5,000
Certificates of deposit	416,292	414,529
Resident receivables	54,981	53,836
Other current assets	91,132	106,583
Total Current Assets	<u>3,369,285</u>	<u>3,128,596</u>
OTHER ASSETS		
Assets limited as to use	2,733,570	3,370,477
Deferred commissions	148,081	182,390
Other assets	14,441	34,459
Total Other Assets	<u>2,896,092</u>	<u>3,587,326</u>
PROPERTY AND EQUIPMENT, net	<u>22,165,533</u>	<u>22,480,283</u>
COLLECTIONS (Note 1)		
TOTAL ASSETS	<u>\$ 28,430,910</u>	<u>\$ 29,196,205</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 349,065	\$ 111,517
Accrued liabilities and other	265,328	259,765
Current portion of long-term debt	381,920	371,744
Total Current Liabilities	<u>996,313</u>	<u>743,026</u>
LONG-TERM DEBT, net	<u>8,275,726</u>	<u>8,814,717</u>
OTHER LONG-TERM LIABILITIES		
Other liabilities	1,807	15,884
Deferred revenue from advance fees	984,152	936,120
Refundable advance fees	10,369,533	10,489,714
Interest rate swap derivative	61,547	343,031
Total Other Long-term Liabilities	<u>11,417,039</u>	<u>11,784,749</u>
Total Liabilities	<u>20,689,078</u>	<u>21,342,492</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	6,208,960	6,203,813
Designated by the Board	100,000	100,000
Total Without Donor Restrictions	<u>6,308,960</u>	<u>6,303,813</u>
With Donor Restrictions		
Purpose restrictions	759,901	744,204
Endowments	672,971	805,696
Total With Donor Restrictions	<u>1,432,872</u>	<u>1,549,900</u>
Total Net Assets	<u>7,741,832</u>	<u>7,853,713</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,430,910</u>	<u>\$ 29,196,205</u>

See accompanying notes.

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2022 and 2021

	2022	2021
REVENUE, GAINS, AND OTHER SUPPORT		
Pines Village apartment revenue	\$ 4,286,937	\$ 4,197,356
Meridian Woods lease revenue	282,928	430,036
Meridian Woods service fees	493,967	462,465
Other service income	1,008,693	1,011,637
Contributions	88,619	38,789
Government grant income	109,965	
Rental income	18,765	28,550
Campbell Street Café	15,782	13,438
Investment return	(323,092)	360,343
Gain on sale of property and equipment	113,150	
Gain on involuntary conversion	511,131	
Miscellaneous income	44,473	20,068
Net assets released from restrictions used in operations	59,720	44,310
Total Revenue, Gains, and Other Support	6,711,038	6,606,992
OPERATING EXPENSES		
Personnel expenses	3,219,376	3,028,520
Professional fees	152,005	146,172
Food	467,857	412,087
Supplies	148,815	143,256
Occupancy	487,507	468,825
Equipment services	84,749	73,396
Marketing and advertising	45,564	49,568
Resident care and programs	13,494	15,176
Real estate taxes	13,418	12,294
Utility	453,967	455,113
Interest expense	372,105	345,698
Depreciation and amortization	1,412,694	1,396,235
Miscellaneous expenses	115,824	92,286
Total Expenses	6,987,375	6,638,626
CHANGE IN NET ASSETS FROM OPERATIONS	(276,337)	(31,634)
CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENT	281,484	198,850
EXCESS OF REVENUE OVER EXPENSES AND CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 5,147	\$ 167,216

See accompanying notes.

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2022 and 2021

	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 5,147</u>	<u>\$ 167,216</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted contributions	50,917	38,080
Change in value of funds held at Community Foundation	(108,225)	127,992
Net assets released from restrictions	<u>(59,720)</u>	<u>(44,310)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(117,028)</u>	<u>121,762</u>
CHANGE IN NET ASSETS	(111,881)	288,978
NET ASSETS		
Beginning of Year	<u>7,853,713</u>	<u>7,564,735</u>
End of Year	<u><u>\$ 7,741,832</u></u>	<u><u>\$ 7,853,713</u></u>

See accompanying notes.

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ (111,881)	\$ 288,978
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Advance and application fees received	2,107,800	1,480,000
Amortization of advance fees to lease revenue	(282,928)	(430,036)
Contributions restricted for investment in endowment		(300)
Contributions restricted for purchase of equipment	(25,000)	(29,100)
Net depreciation (appreciation) in funds held at the Community Foundation	435,468	(483,784)
Amortization of deferred commissions	34,309	56,258
Depreciation of property and equipment	1,378,385	1,339,977
Gain on sale of property and equipment	(113,150)	
Gain on involuntary conversion	(511,131)	
Amortization of deferred financing costs	9,759	10,161
Change in fair value of interest rate swap agreement	(281,484)	(198,850)
Changes in certain operating assets and liabilities:		
Resident receivables	(1,145)	15,041
Other assets	25,269	16,607
Deferred commissions		(7,500)
Accounts payable	(12,460)	23,091
Accrued liabilities and other	(8,514)	(312,696)
Net Cash Provided by Operating Activities	<u>2,643,297</u>	<u>1,767,847</u>
INVESTING ACTIVITIES		
Insurance proceeds received related to involuntary gain	516,427	
Purchases of property and equipment	(1,186,073)	(406,760)
Proceeds from sales of property and equipment	239,400	
Maturity of certificates of deposit	414,529	629,786
Purchases of certificates of deposit	(416,292)	(414,529)
Additions to assets limited as to use	(4,061)	(14,311)
Draws from assets limited as to use	205,500	301,581
Net Cash Provided (Used) by Investing Activities	<u>(230,570)</u>	<u>95,767</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	(538,574)	(354,147)
Refund of advance fees	(1,645,921)	(1,332,000)
Collections of contributions restricted for investment in endowment		300
Collections of contributions restricted for purchase of equipment	25,000	29,100
Net Cash Used by Financing Activities	<u>(2,159,495)</u>	<u>(1,656,747)</u>
NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH	253,232	206,867
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Beginning of Year	<u>2,553,648</u>	<u>2,346,781</u>
End of Year	<u>\$ 2,806,880</u>	<u>\$ 2,553,648</u>

See accompanying notes.

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2022 and 2021

	2022	2021
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Cash and equivalents	\$ 2,806,880	\$ 2,548,648
Restricted cash		5,000
	<u>2,806,880</u>	<u>2,553,648</u>
TOTAL CASH AND EQUIVALENTS AND RESTRICTED CASH	<u>\$ 2,806,880</u>	<u>\$ 2,553,648</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 351,341	\$ 337,457
Noncash investing and financing activities:		
Purchases of property and equipment with accounts payable	8,226	9,318
Refundable advance fees reclassified into accounts payable	251,100	

See accompanying notes.

PINES VILLAGE RETIREMENT COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2022 and 2021

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Pines Village Retirement Communities, Inc. (the Organization) is an Indiana not-for-profit, charitable organization which has provided housing and services to older adults since 1985. The Organization is a continuing care retirement community with two campuses in Valparaiso, Indiana: Pines Village and Meridian Woods. Pines Village includes 150 independent and assisted living apartments. Meridian Woods is a 39-acre retirement community with a mix of 78 duplexes and cottages, all designed for aging. In addition to housing, the Organization owns and operates The Village Gallery at Pines Village, a display of artwork, and the Campbell Street Café at Meridian Woods, both of which are open to the public.

Basis of Presentation: The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- **Net Assets Without Donor Restrictions** are not subject to donor-imposed restrictions and may be used at the discretion of the Organization's management and Board of Directors. This net asset category includes board-designated net assets.
- **Net Assets With Donor Restrictions** are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire in the same year in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, and when a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of operations and changes in net assets. Restrictions expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service.

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 amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue expenses. Actual results could differ from those estimates.

Cash and Equivalents consist of cash in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. The Organization has not experienced any losses from its bank accounts.

Restricted Cash includes cash received from residents for entrance fees to Meridian Woods prior to occupancy or the start of construction for a new home held in escrow until permitted to be released under state regulations.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit: Current certificates of deposit have original maturity dates of greater than three months but are maturing within the next year and were purchased with excess operating cash. Long-term certificates of deposit mature in more than one year. Certificates of deposit are reported at cost plus accrued interest. Interest income is included in income from operations unless the income or loss is restricted by donor or law.

Resident Receivables: Resident receivables are based on gross charges. The allowance for doubtful accounts is determined by management based on the Organization's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews resident receivables, adjusts the allowance based on current circumstances, and charges off uncollectible receivables when all attempts to collect have failed. Management determined no allowance was necessary at December 31, 2022 and 2021.

Assets Limited to Use: Assets limited as to use primarily include designated assets set aside by the board of directors for specific purposes, over which the board retains control, and may, at its discretion, subsequently use for other purposes; assets with donor restrictions; and assets held by the Porter County Community Foundation, Inc. (the Community Foundation). Funds held at the Community Foundation are reported at fair value. Investment return (including interest income and the change in value of funds held at the Community Foundation) is included in income from operations unless the return is restricted by donor or law.

Deferred Commissions represent the unamortized portion of initial direct costs to obtain Meridian Woods leases that would not have been incurred if the leases had not been obtained. Deferred commissions are amortized using the straight-line method over the life expectancy of the residents. Amortization of deferred commissions totaled \$34,309 in 2022 and \$56,258 in 2021 and is included in depreciation and amortization in the accompanying statements of operations.

Property and Equipment are stated at cost for purchased assets, or at fair value at the date of donation for donated assets, less accumulated depreciation. Capitalized interest is recorded as part of the acquisition cost of an asset during the period of time required to complete the asset for its intended use. Depreciation is computed on the straight-line method over the estimated useful lives ranging from three to 40 years, as determined for each individual asset.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. No adjustments to the carrying amount of property and equipment were required in 2022 and 2021.

Collections: Collection items consist of art objects that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in net assets. Contributions of collection items are not recognized in the statements of operations. Proceeds from deaccessions or insurance recoveries are reflected on the statements of operations and changes in net assets based on the absence or existence and nature of donor-imposed restrictions. If collection items are sold, the proceeds from the sale are used to purchase additional collection items.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Financing Costs incurred upon the issuance of debt are capitalized and amortized over the term of the related debt using the effective interest method. Related amortization expense is included in interest expense. Deferred financing costs are presented as a reduction of the carrying amount of long-term debt.

Revenue Recognition: The Organization generates most of its revenue from providing its residents with the right to occupy apartments and homes within the community and for providing various services to the residents. Residents pay 100% of their billings from personal resources. The Organization does not participate in any federal or state reimbursement programs. The Organization evaluates the financial performance of these activities primarily by comparing actual financial results against its annual budget.

The Organization's primary sources of revenue are as follows:

- **Pines Village Apartment Revenue** represents operating lease and related revenue for the 150 independent and assisted living apartments. The apartments are leased under operating leases requiring monthly payments which provide housing and various services, including certain meals, cleaning services, utilities, resident activities, amenities, and scheduled transportation. The operating leases generate rental income from residents and operating cash flow for the Organization. Variable lease payments consist of various other fees, including entry fees and emergency response fees, among others. Variable lease payments are charged based on the terms and conditions included in the resident leases. The monthly payments are billed and due within the month in which the apartments are leased and services are provided, and the related revenue is recognized in that same month. The Organization has elected a practical expedient to combine the lease and nonlease components of the lease agreements and accounts for the combined components under ASC 842, *Leases*. The lease agreements continue during the resident's lifetime, or in the event of two residents, the survivor's lifetime, unless otherwise terminated. The lease agreements may be terminated by providing at least a 30-day notice by residents for any reason and by the Organization for various reasons specified in the lease agreements.
- **Meridian Woods Lease Revenue:** The operating lease agreements for the 78 patio homes on the Meridian Woods campus require advance entrance fees to be paid prior to and during the construction of the homes or prior to occupancy for homes being re-occupied.

The agreements stipulate that a portion of the advance entrance fees will be refundable to the occupant upon the reoccupancy of the home, which is recorded as the long-term liability, refundable advance fees. When the contract limits the refund to the proceeds of reoccupancy, the refundable portion is amortized to Meridian Woods lease revenue using the straight-line method over the estimated useful life of the homes. At December 31, 2022, the homes related to contracts with refundable entrance fees subject to amortization had an average remaining useful life of 25.3 years. When the contract does not limit the refund to the proceeds of reoccupancy, the refundable portion is not subject to amortization. At December 31, 2022 and 2021, \$9,205,069 and \$9,325,250, respectively, of the refundable advance fees were subject to amortization. At December 31, 2022 and 2021, \$1,164,464, respectively, of the refundable advance fees were not subject to amortization. There were no contracts executed during 2022 and 2021 that were not subject to amortization and no contracts terminated in 2022 and 2021 that were not subject to amortization. During 2021, one contract that was not previously subject to amortization was determined by management to be a contract subject to amortization upon further evaluation of the contract and reclassified accordingly. Refundable advance fees are reclassified into accounts payable upon the reoccupancy of the home until remitted to the applicable resident.

In both cases, the nonrefundable portion of the advance entrance fee is recorded as the long-term liability, deferred revenue from advance fees, and amortized to Meridian Woods lease revenue using the straight-line method over the life expectancy of the residents. At December 31, 2022, the average life expectancy of the Meridian Woods residents was 13 years. Deferred revenue related to the unamortized nonrefundable portion of the advance entrance fees amounted to \$984,152 and \$936,120 at December 31, 2022 and 2021, respectively.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Meridian Woods lease revenue included \$249,897 in 2022 and \$409,709 in 2021 of amortization related to deferred revenue from advance fees outstanding as of the beginning of the respective year.

The lease agreements continue during the resident's lifetime, or in the event of two residents, the survivor's lifetime, unless otherwise terminated. The lease agreements may be terminated by providing at least a 30-day notice by residents at any time and by the Organization for various reasons specified in the lease agreements.

Refunds are payable, without interest, within 30 days of the later of the effective date of the termination of the contract or the date a new advance entrance fee and executed contract have been received from a new resident for the same residence. Alternatively, the Organization may, in its discretion, opt to execute a promissory note payable in monthly installments, including interest, to fulfill all or part of the refund obligation. Refunds are secured by real estate mortgages on the residences. The gross refundable portion of advance fees at December 31, 2022 and 2021, if all homes were to be re-occupied, totaled approximately \$14,785,000 and \$14,553,000, respectively.

- **Meridian Woods Service Fees** represent monthly fees for various services provided to residents of Meridian Woods, including certain maintenance services, resident activities, amenities, scheduled transportation, emergency response services, and grounds management. The services are included in the same resident agreements as the lease agreements described above. Since each resident has the ability to terminate the agreement by providing at least a 30-day notice, the agreements represent monthly contracts with the option to renew each month. The monthly payments are billed and due within the month in which the services are provided. The related revenue is also recognized monthly. The fees are described in the Meridian Woods lease agreements; however, Meridian Woods service fees do not qualify for the practical expedient to combine lease and nonlease components, because they do not share the same timing and pattern of revenue recognition. Thus, the Meridian Woods service fees are accounted for under ASC 606, *Revenue from Contracts with Customers*. The various services are accounted for as a single performance obligation because the services are not separately identifiable from other promises in the resident agreements, and the performance obligation of the Organization is to stand ready to provide such services as needed by each resident. The determination that the resident agreements contain a lease, the allocation of the entrance fee to the lease component and the monthly fees to the other services, and the determination that the various services represent a single performance obligation within the resident agreements are significant judgments that affect the determination of the amount and timing of revenue recognition.
- **Other Service Income** primarily consists of home health service revenue and additional meals provided to residents and their guests, as well as meals provided to external organizations. Revenue for other service income is recognized in the month the service is provided.

Resident Assistance: From time to time, as residents' financial circumstances change, some residents require assistance to remain in their apartments. In the furtherance of the Organization's mission, these residents may receive subsidies from the Organization. The total cost of resident subsidies were \$38,204 in 2022 and \$35,306 in 2021. These amounts have been excluded from resident services revenue.

Contributions and Grants are recognized as support when they are received or unconditionally promised. Grants and contracts are classified as contributions in instances in which a resource provider is not itself receiving commensurate value for the resources provided. Contributions are considered conditional when the agreement with the resource provider includes a barrier that must be overcome and either a right of return of assets transferred or right of release of a promisor's obligation to transfer assets. Conditional contributions are not recognized as revenue until the conditions are substantially met.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs are expensed as incurred and amounted to \$34,989 in 2022 and \$34,767 in 2021.

Excess of Revenue Over Expenses is considered the performance indicator in these financial statements. Certain changes in net assets without donor restriction are excluded from excess of revenue over expenses, consistent with industry practice. There were no items related to changes in net assets without donor restrictions that were excluded from the performance indicator in 2022 and 2021.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in Note 14. Directly identifiable expenses are charged to the specific programs and supporting services benefited. Expenses related to more than one function are allocated among program and support services based on occupied space (including, occupancy, utility, interest, and depreciation) or time spent by Organization staff (including, personnel expenses). General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes: The Organization is exempt from taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Organization has unrelated business income related to certain rental activities and the Café; however, there was no taxable income after deductions for the years ended December 31, 2022 and 2021.

The Organization files U.S. federal and state of Indiana information and income tax returns. The Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2019. Management believes that the Organization's income tax filing positions will be sustained on audit and does not anticipate any adjustments that will result in a material change.

Subsequent Events: The Organization has evaluated the financial statements for subsequent events occurring through May 30, 2023, the date the financial statements were available to be issued. See Note 17.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY

The Organization's financial assets available for general expenditure within one year of December 31, 2022 and 2021 were as follows:

	2022	2021
Cash and equivalents	\$2,806,880	\$2,548,648
Restricted cash		5,000
Resident receivables	54,981	53,836
Investments and assets limited as to use	<u>3,149,862</u>	<u>3,785,006</u>
Total Financial Assets	6,011,723	6,392,490
Designated by the Board	(100,000)	(100,000)

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

	2022	2021
Donor-imposed restrictions:		
Marcella Owens Good Samaritan and Veterans Charitable Funds	\$ (711,012)	\$ (707,902)
Endowment	(672,971)	(805,696)
Other	<u>(48,889)</u>	<u>(36,302)</u>
 Total Financial Assets Available Within One Year	 <u>\$4,478,851</u>	 <u>\$4,742,590</u>

It is the Organization’s policy to make sound liquidity management and investment decisions on the overall objectives governing the management of various operating and reserve balances to ensure the continued financial health of the Organization. Monetary assets of the Organization are segmented into three primary pools of funds:

- **Short-term Pool** will maintain a minimum balance of approximately three months of cash operating expenses and consists of cash and equivalents, including certificates of deposit with laddered maturities. The short-term pool is funded before the long-term pool, but after the cash reserve pool.
- **Cash Reserve Pool** consists of funds designated by the Board and minimum cash balances as related to any bond debt covenants. The Cash Reserve Pool can be invested in cash and equivalents or the Community Foundation. At December 31, 2022 and 2021, respectively, the Organization had \$100,000 in the Cash Reserve Pool designated by the Board for general use. In the event the need arises to utilize the board-designated funds for liquidity purposes, designations may be removed through Board resolution.
- **Long-term Pool** consists of the remaining monetary assets and are invested to mirror the expected timeline of the funds as needed. Total financial assets available within one year include long-term pool funds set aside by management for specific purposes of \$1,349,587 and \$1,856,879 at December 31, 2022 and 2021, respectively. These reserves, together with assets limited as to use, are described in Note 4. In general, distributions from these funds are determined by the finance committee and the Board, but they are available for general expenditure.

The Organization also has an annual budgeting policy that provides a financial framework for the operations and capital planning of the Organization. The approved operating budget is required to satisfy any financial covenants related to financing and represent a positive cash flow for each year, requiring the prioritization of capital projects.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Organization has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Organization makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Following is a description of the valuation methodologies used by the Organization for assets and liabilities that are measured at fair value on a recurring basis. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Funds Held at the Community Foundation: Valued based on the Organization’s proportionate share of the fair value of the underlying investments in the Community Foundation’s pooled investment portfolio as reported by the Community Foundation, without adjustment. See Note 7 for additional information about the characteristics of these funds.

Interest Rate Swap Derivative: The Organization estimates the fair value using the valuation provided by the counterparty, without adjustment, which utilizes a model primarily based on the applicable interest yield curve at the reporting date to estimate the amount the Organization would pay upon termination of the agreement.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Organization’s assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2022 and 2021:

	2022	Level 1	Level 2	Level 3	Total
Assets					
Assets limited as to use:					
Funds held at the Community Foundation				<u>\$2,733,570</u>	<u>\$2,733,570</u>
Liabilities					
Interest rate swap derivative			<u>\$ 61,547</u>		<u>\$ 61,547</u>
 2021					
Assets					
Assets limited as to use:					
Funds held at the Community Foundation				<u>\$3,370,477</u>	<u>\$3,370,477</u>
Liabilities					
Interest rate swap derivative			<u>\$343,031</u>		<u>\$ 343,031</u>

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a summary of the changes in Level 3 assets for the years ended December 31, 2022 and 2021:

	2022	2021
Balance at Beginning of Year	\$3,370,477	\$2,957,552
Deposits	4,061	6,232
Withdrawals	(205,500)	(77,091)
Change in value	<u>(435,468)</u>	<u>483,784</u>
Balance at End of Year	<u>\$2,733,570</u>	<u>\$3,370,477</u>

NOTE 4 - INVESTMENTS AND ASSETS LIMITED AS TO USE

Assets limited as to use consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Meridian Woods Capital Improvement Fund	\$ 702,441	\$ 952,130
Anne Lauterbach Memorial Scholarship Fund	516,184	620,417
Marcella Owens Good Samaritan Fund	1,252,103	1,490,631
Margaret M. Rivers Scholarship Fund	156,787	185,279
Pines Village Capital Improvement Fund	103,614	119,195
Veterans Charitable Fund	<u>2,441</u>	<u>2,825</u>
Total Assets Limited as to Use	<u>\$2,733,570</u>	<u>\$3,370,477</u>

Assets limited as to use consisted solely of funds held at the Community Foundation as of December 31, 2022 and 2021.

Investment return consisted of the following for 2022 and 2021:

	2022	2021
Included in Operating Income:		
Interest income	\$ 4,151	\$ 4,551
Change in value of funds held at the Community Foundation – without donor restrictions	(327,243)	355,792
Included in Other Changes in Net Assets:		
Change in value of funds held at the Community Foundation – with donor restrictions	<u>(108,225)</u>	<u>127,992</u>
Total Investment Income	<u>\$(431,317)</u>	<u>\$488,335</u>

The Organization's funds held at the Community Foundation are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Primarily Related to Lease Income:		
Land	\$ 1,222,203	\$ 1,212,903
Land improvements	4,690,645	4,614,767
Buildings and improvements	<u>34,868,721</u>	<u>34,144,263</u>
	40,781,569	39,971,933
Less: Accumulated depreciation	<u>(21,657,016)</u>	<u>(20,528,880)</u>
	<u>19,124,553</u>	<u>19,443,053</u>
Other Assets:		
Transportation equipment	66,112	66,112
Furniture and fixtures	2,087,934	2,053,534
Land and building not in use	<u>2,600,000</u>	<u>2,600,000</u>
	4,754,046	4,719,646
Less: Accumulated depreciation	<u>(1,713,066)</u>	<u>(1,730,294)</u>
Add: Construction in progress		<u>47,878</u>
	<u>3,040,980</u>	<u>3,037,230</u>
Total Property and Equipment, net	<u>\$ 22,165,533</u>	<u>\$ 22,480,283</u>

In July 2022, the Organization sold a residential property adjacent to its Meridian Woods campus as owning the property was no longer considered to be in the Organization's strategic or operational interest. The Organization recognized a gain on sale of \$113,150.

NOTE 6 - LEASES AS LESSOR

The total amount of lease income from lease payments was as follows for 2022 and 2021:

	2022	2021
Pines Village apartment revenue	\$4,286,937	\$4,197,356
Meridian Woods lease revenue	282,928	430,036
Other rental income	<u>18,765</u>	<u>28,550</u>
Total Lease Income	<u>\$4,588,630</u>	<u>\$4,655,942</u>

Pines Village apartment revenue consisted of the following for 2022 and 2021:

	2022	2021
Operating lease income from lease payments, net of resident assistance	\$4,143,089	\$4,086,150
Variable lease income	<u>143,848</u>	<u>111,206</u>
Total Pines Village Apartment Revenue	<u>\$4,286,937</u>	<u>\$4,197,356</u>

NOTE 6 - LEASES AS LESSOR (CONTINUED)

At December 31, 2022, the future lease payments expected to be received in each of the next five years and thereafter were as follows:

Payable In	Lease Payments
2023	\$ 4,135,860
2024	4,135,860
2025	4,135,860
2026	3,984,300
2027	3,408,540
Thereafter	<u>13,068,240</u>
Total	<u>\$32,868,660</u>

The future lease payments were determined based on monthly fees in effect on existing contracts at December 31, 2022 over the life expectancy of the residents. The Organization may adjust monthly fees at any time, upon 30 days' prior notice to the residents. The future lease payments do not include any amounts for the Meridian Woods patio homes, as payments for the leasing of the homes is paid in advance at the beginning of the agreement. Monthly fees for other services related to Meridian Woods patio homes' residents are not treated as lease income.

The Organization estimates that its leased property will appreciate in value over time and that the residual value of the underlying assets at the end of the lease terms will be greater than their current book values. The Organization manages its exposure to residual asset risk through maintenance and improvements to its leased property. In addition, advance fees are only refundable to residents of the patio homes on the Meridian Woods campus upon reoccupancy, and most of the refunds are calculated based on the entrance fee charged to the subsequent resident.

NOTE 7 - ASSETS HELD AT THE COMMUNITY FOUNDATION

The Organization has agreements with the Community Foundation to manage two charitable designated endowment funds, the Margaret M. Rivers Scholarship Fund and the Anne Lauterbach Memorial Scholarship Fund using gifts restricted by donors for endowment funds for scholarships for the Organization's employees. Under the terms of the agreements, the Organization may make withdrawals from the funds in accordance with the spending policies of the Community Foundation. The Community Foundation has limited variance power over the funds, which gives the Community Foundation the right to vary the purpose of the funds if continued adherence to any condition or restriction is in the judgment of the Community Foundation's board unnecessary, incapable of fulfillment, or inconsistent with the charitable or other exempt purposes of the Community Foundation or needs of the community served by the Community Foundation.

The Community Foundation also manages two charitable designated endowment funds comprised of contributions and matching grants made by donors directly to the Community Foundation, for the Margaret M. Rivers Scholarship Fund and the Veterans Charitable Fund. Contributions and accumulated earnings on such gifts, which totaled \$60,281 and \$71,642 through December 31, 2022 and 2021, respectively, are not considered revenues, gains, or assets of the Organization since the contributions were made to the Community Foundation directly by donors.

See Note 11 for additional information related to the endowment funds.

NOTE 7 - ASSETS HELD AT THE COMMUNITY FOUNDATION (CONTINUED)

In addition, the Organization has agreements with the Community Foundation to manage the assets of the Marcella Owens Good Samaritan Fund, the Veterans Charitable Fund, the Meridian Woods Capital Improvement Fund, and the Pines Village Capital Improvement Fund. The purpose of the Marcella Owens Good Samaritan Fund is to provide resources to residents when financial circumstances change. The purpose of the Veterans Fund is to provide financial assistance to residents who are veterans when their financial circumstances change and/or to provide services and programs for resident and non-resident veterans. The purpose of the Meridian Woods Capital Improvement Fund is to act as a reserve fund for future capital expenditures to maintain the Meridian Woods units. The purpose of the Pines Village Capital Improvement Fund is to act as a reserve fund for future capital expenditures to maintain the Pines Village campus. Investment return related to these funds are reported as changes in net assets without donor restrictions due to the absence of donor restrictions on such income. The Organization may withdraw all or a portion of the amounts transferred, any appreciation on those transferred funds, or both, at any time.

NOTE 8 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following at December 31, 2022 and 2021:

	2022	2021
Mortgage note payable to a bank in monthly installments of \$632, including interest computed at 5.62%. The note was repaid in full in 2022.		\$ 82,253
Mortgage note payable to a bank in monthly installments of \$581, including adjustable interest computed per the terms of the agreement (4.38% at December 31, 2022), through maturity in August 2024 when a final payment is due for the unpaid principal balance. The note is secured by certain real property with a net book value of \$94,362 at December 31, 2022.	\$ 81,980	85,234
Mortgage note payable to a bank in monthly installments of \$676, including adjustable interest computed per the terms of the agreement. The note was repaid in full in 2022.		91,788
Mortgage note payable to a bank in monthly payments of principal and interest in the amount of \$8,456, including interest computed at a fixed rate of 5.22%, through maturity in May 2029 when a final payment is due for the unpaid principal balance. The loan is secured by substantially all of the assets of the Organization.	1,114,834	1,156,114
Series 2008 revenue bonds, variable rate demand obligations, issued through the City of Valparaiso, collateralized by a bank letter of credit, bearing interest at a variable rate of 3.85% at December 31, 2022, payable on the first business day of each month. The bonds are remarketed weekly or until conversion to another interest rate mode, which would involve a mandatory tender of the bonds. The bonds require annual principal payments on May 1, in remaining amounts ranging from \$335,000 to \$640,000, with final maturity in 2038.	7,545,000	7,865,000
	<u>8,741,814</u>	<u>9,280,389</u>

NOTE 8 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)

	2022	2021
Less: Unamortized deferred financing costs	\$ 84,168	\$ 93,928
Less: Current maturities	<u>381,920</u>	<u>371,744</u>
Total Long-term Debt, net	<u>\$8,275,726</u>	<u>\$8,814,717</u>

Centier Bank issued a curtailing, irrevocable letter of credit for an amount up to \$7,649,792 at December 31, 2022. The trustee may draw upon the letter of credit to secure payment of principal and interest balances due upon maturity if funds are not sufficient in the Organization's demand deposit account with the Bank. The reimbursement agreement between the letter of credit bank and the Organization calls for the Organization to reimburse the letter of credit bank for any reimbursement draws beginning on the 367th day following the date of the draw. The letter of credit automatically renews annually with a final expiration date of May 15, 2038, with the bank reserving the right to call the letter of credit with notice through May 15, 2025. The letter of credit requires the security of substantially all of the assets of the Organization and an annual fee equal to 1.50% of the outstanding principal amount plus the interest payable. Additionally, there are certain covenants related to reporting, insurance, and financial ratios which must be met.

At December 31, 2022, the aggregate maturities of long-term debt in each of the next five years were as follows:

Payable In	Principal Payments
2023	\$381,920
2024	399,263
2025	417,119
2026	434,909
2027	452,849

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Organization is exposed to certain risks in the normal course of its business operations. The Organization manages risks relating to the variability of future cash flows through the use of derivatives. The only derivative instrument used by the Organization is an interest rate swap. The interest rate swap is used by the Organization to manage the risk associated with interest rates on variable rate borrowings. The interest rate swap used by the Organization was not designated as a hedging instrument for accounting purposes. The interest rate swap is reported at fair value and all gains and losses recognized on the interest rate swap are included in the performance indicator on the statements of operations.

In connection with the revenue bonds, the Organization has an interest rate swap agreement with a swap provider to reduce the impact of changes in the interest rates on the variable rate bonds payable. The swap agreement essentially changes the Organization's interest rate exposure on the notional amount, which was \$3,264,776 and \$3,719,908 at December 31, 2022 and 2021, respectively, to a fixed 3.294% while receiving a variable rate payment equal to 67% times the USD-LIBOR-BBA. The interest differential to be paid or received under the swap agreement is accrued and recognized as an adjustment to interest expense. The interest rate swap agreement matures on May 1, 2029. The Organization has recorded the fair value of the interest rate swap agreement, which resulted in a liability of \$61,547 and \$343,031 at December 31, 2022 and 2021, respectively. The fair value of the interest rate swap is reported on the balance sheets as a long-term liability. See Note 3 for related fair value disclosures.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Subject to Expenditures for Specified Purpose:		
Marcella Owens Good Samaritan Fund - charity care	\$ 711,012	\$ 707,902
Emergency evacuation chairs	25,000	
Pines Village residents - cancer fund	17,807	
Wi-Fi improvements		29,100
ElderStyle	3,583	3,703
Nutrition site	2,499	2,499
Veteran's breakfast		1,000
	<u>759,901</u>	<u>744,204</u>
Endowments subject to spending policy and appropriation:		
Donor-restricted for employee scholarships	<u>672,971</u>	<u>805,696</u>
 Total Net Assets With Donor Restrictions	 <u>\$1,432,872</u>	 <u>\$1,549,900</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for 2022 and 2021:

	2022	2021
Satisfaction of Purpose Restrictions:		
Employee scholarships	\$24,500	\$27,091
Nutrition site	5,000	5,000
Wi-Fi improvements	29,100	
ElderStyle	120	
Veteran's breakfast	1,000	
Screening kiosks		8,862
Outdoor dining venue		3,357
	<u>\$59,720</u>	<u>\$44,310</u>
 Total Net Assets Released from Restrictions	 <u>\$59,720</u>	 <u>\$44,310</u>

NOTE 11 - DONOR-RESTRICTED ENDOWMENT

The Organization's endowment consists of two donor-restricted endowment funds held by the Community Foundation known as the Margaret M. Rivers Scholarship Fund and the Anne Lauterbach Memorial Scholarship Fund. The primary purpose of both funds is to provide scholarships to students in the community.

NOTE 11 - DONOR-RESTRICTED ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Organization is subject to the Indiana Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions, because those assets are time restricted until the Board appropriates such amounts for expenditure. The Organization's endowment funds are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit the Organization to appropriate for expenditure, including spending from underwater funds, or accumulate so much of a donor-restricted endowment fund that the Organization determines is prudent for the uses, purposes, and duration of the endowment fund, unless there are explicit donor stipulations to the contrary. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

The endowment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Donor-restricted Endowment Funds:		
Original gifts and amounts required to be maintained in perpetuity by donors	\$534,423	\$534,423
Accumulated investment gains	<u>138,548</u>	<u>271,273</u>
Total Endowment Funds	<u>\$672,971</u>	<u>\$805,696</u>

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of gifts donated to the donor-restricted endowment or the level that the donors otherwise require the Organization to retain as a fund of perpetual duration. There were no underwater endowment funds at December 31, 2022 and 2021.

Investment and Spending Policies

The Organization's objective for the endowment funds is to provide a predictable stream of funding for the program supported by the endowment while maintaining the purchasing power of the endowment assets. The endowment funds have been invested with the Community Foundation; and therefore, asset management is governed by the investment policies and appropriations are limited to the spending policies of the Community Foundation.

The Organization has a policy to receive distributions from the Community Foundation, according to a calculation of 5% of the five-year fund balance average, not to exceed the Community Foundation's earnings on the endowment funds. In establishing this policy, the Organization considered the current spending policies of the Community Foundation and determined the policy to be within the spending policies of the Community Foundation.

NOTE 11 - DONOR-RESTRICTED ENDOWMENT (CONTINUED)

Activity in the endowment funds for 2022 and 2021 is summarized as follows:

	2022	2021
Endowment net assets at beginning of year	\$805,696	\$704,495
Net appreciation (depreciation) in funds held at the Community Foundation	(108,225)	127,992
New gifts		300
Amounts appropriated for expenditure	<u>(24,500)</u>	<u>(27,091)</u>
Endowment net assets at end of year	<u>\$672,971</u>	<u>\$805,696</u>

NOTE 12 - RETIREMENT PLAN

The Organization contributes to a defined contribution retirement plan for all employees who have attained the minimum age requirements and have completed one year of service. Voluntary employee contributions are allowable immediately upon employment up to the maximum amount permitted by law. The Organization contributes an amount equal to 2% of each eligible employee's annual compensation. In addition, the employer matching contributions equal 50% of the first 4% of voluntary employee contributions. A participant is 100% vested upon the attainment of age 59½ or completion of two years of service. Retirement plan expense was \$83,342 in 2022 and \$6,127 in 2021.

NOTE 13 - DEFERRED COMPENSATION AGREEMENT

The Organization had a deferred compensation plan for one of its executive employees. The increase in the liability each year was matched by a contribution to a designated cash account. The full balance of the designated cash account and the deferred compensation liability was paid out in 2021 per the terms of the agreement.

NOTE 14 - FUNCTIONAL EXPENSES

The Organization's expenses for 2022 and 2021 were as follows:

2022	Program Services	<u>Supporting Services</u>		Total
		General and Administrative	Rental Activities	
Personnel expenses	\$2,612,099	\$607,277		\$3,219,376
Professional fees	44,168	93,212	\$14,625	152,005
Food	467,857			467,857
Supplies	131,384	17,297	134	148,815
Occupancy	459,534	21,782	6,191	487,507
Equipment services	73,605	11,144		84,749
Marketing and advertising		45,564		45,564
Resident care and programs	13,494			13,494
Real estate taxes			13,418	13,418
Utility	448,634	5,137	196	453,967
Interest expense	352,658	10,599	8,848	372,105
Depreciation and amortization	1,352,014	42,780	17,900	1,412,694
Miscellaneous expense	<u>33,772</u>	<u>81,852</u>	<u>200</u>	<u>115,824</u>
	<u>\$5,989,219</u>	<u>\$936,644</u>	<u>\$61,512</u>	<u>\$6,987,375</u>

NOTE 14 - FUNCTIONAL EXPENSES (CONTINUED)

2021	Program Services	Supporting Services		Total
		General and Administrative	Rental Activities	
Personnel expenses	\$2,393,602	\$634,918		\$3,028,520
Professional fees	46,958	99,214		146,172
Food	412,087			412,087
Supplies	125,342	17,789	\$ 125	143,256
Occupancy	440,378	26,447	2,000	468,825
Equipment services	63,418	9,978		73,396
Marketing and advertising		49,568		49,568
Resident care and programs	15,176			15,176
Real estate taxes			12,294	12,294
Utility	450,968	3,362	783	455,113
Interest expense	321,447	11,570	12,681	345,698
Depreciation and amortization	1,308,881	64,730	22,624	1,396,235
Miscellaneous expense	<u>14,933</u>	<u>77,353</u>		<u>92,286</u>
	<u>\$5,593,190</u>	<u>\$994,929</u>	<u>\$50,507</u>	<u>\$6,638,626</u>

NOTE 15 - LITIGATION AND CONTINGENCIES

The Organization is subject to litigation arising in the ordinary course of business. The ultimate outcome for any litigation is unknown at the present time and, accordingly, no provision for any liability that might result has been made in the accompanying financial statements. In the opinion of management, any liability not covered by insurance resulting from such litigation would not be material in relationship to the Organization's financial position.

Management continues to monitor state legislative activities that could impact the Organization's property tax exemption and track the type and amount of benefits provided to the community and its overall charitable work.

NOTE 16 - INVOLUNTARY CONVERSION

In January 2022, the Organization had water damage which destroyed a portion of the building on the Organization's Pines Village campus. Under the Organization's insurance policy, property and equipment losses are reimbursed at replacement cost. There is a \$5,000 deductible related to claims filed under the policy which was paid during 2022. Management recorded a net gain on involuntary conversion of \$511,131 in 2022, which was comprised of \$516,427 of gross insurance proceeds received and \$5,296 of loss on disposal of a portion of the building.

NOTE 17 - SUBSEQUENT EVENT

In April 2023, the Organization was awarded a grant of up to \$750,000 from the City of Valparaiso (the City). The amount of funds disbursed to the Organization will be determined by the qualified expenditures incurred through December 31, 2024, as defined per the agreement. Per the agreement, the portion of the amount awarded in excess of \$300,000 is subject to repayment, without interest, by the Organization to the City at the earlier of the date a portion of certain land adjacent to the Organization's Pines Village campus is sold or December 15, 2024.