

Linden Ponds, Inc. and Subsidiary

**Consolidated Financial Statements and
Supplemental Information**

December 31, 2022 and 2021



Report of Independent Auditors

To the Board of Directors of Linden Ponds, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Linden Ponds, Inc. and Subsidiary (the "Community" or "LPH"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, of changes in net assets (deficit), and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Community as of December 31, 2022 and 2021, and the results of its operations 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 audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Community and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,



intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

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

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplement Schedule is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers US".

Baltimore, Maryland
April 28, 2023

Linden Ponds, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash	\$ 19,236,766	\$ 12,497,386
Short term investments	7,039,458	5,051,336
Accounts receivable	1,995,808	1,298,469
Prepaid expenses and other current assets	594,833	703,052
Promissory notes receivable	3,656,600	4,165,900
Restricted cash and cash equivalents - current	187,498	196,975
Total current assets	<u>32,710,963</u>	<u>23,913,118</u>
Non-current assets		
Beneficial interest in National CCRC Business Trust I	42,339,202	41,219,340
Resident capital cash	5,617,884	3,243,596
Certificates of deposit and annuities	176,906	186,576
Restricted funds (debt related)	28,426,779	8,776,994
Restricted reserves (statutory operating)	1,585,771	1,517,665
Funds with donor restrictions	3,703,494	3,733,557
Funds held for residents (cash, cash equivalents, and investments)	77,947	90,526
Property and equipment, net	278,055,057	283,418,705
Right of use asset	—	2,752
Total non-current assets	<u>359,983,040</u>	<u>342,189,711</u>
Total assets	<u>\$ 392,694,003</u>	<u>\$ 366,102,829</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,127,514	\$ 4,826,164
Claims reserve (insurance related)	782,315	675,583
Bonds payable - current	3,070,000	2,355,000
Resident refunds payable	8,860,786	7,424,032
Other current liabilities	177,397	140,682
Total current liabilities	<u>18,018,012</u>	<u>15,421,461</u>
Non-current liabilities		
Funds held for residents (payable)	77,947	90,526
Advance deposits	1,448,200	1,004,700
Resident entrance fees, net of accumulated amortization of \$29,516,205 and \$29,329,827 for 2022 and 2021, respectively	349,235,537	337,547,738
Bonds payable - non-current	147,100,444	108,036,066
Other non-current liabilities	—	30,465
Total non-current liabilities	<u>497,862,128</u>	<u>446,709,495</u>
Total liabilities	<u>515,880,140</u>	<u>462,130,956</u>
Net assets (deficit)		
Without donor restrictions	(126,889,631)	(99,761,684)
With donor restrictions	3,703,494	3,733,557
Total net assets (deficit)	<u>(123,186,137)</u>	<u>(96,028,127)</u>
Total liabilities and net assets (deficit)	<u>\$ 392,694,003</u>	<u>\$ 366,102,829</u>

The accompanying notes are an integral part of these consolidated financial statements

Linden Ponds, Inc. and Subsidiary
Consolidated Statements of Operations
December 31, 2022 and 2021

	2022	2021
Operating revenue and other support		
Resident occupancy revenue	\$ 61,416,000	\$ 57,662,290
Ancillary fee revenue	6,790,878	6,282,787
Amortization of non-refundable resident entrance fees	1,984,028	1,894,894
Other revenue	1,416,644	2,156,899
Net assets released from restriction used for operations	268,815	269,681
Total operating revenue and other support	<u>71,876,365</u>	<u>68,266,551</u>
Operating expenses		
Salaries, wages and benefits	32,499,381	29,829,983
Professional and contracted services	8,594,569	7,668,025
Supplies	5,696,033	5,732,887
General and administrative	6,645,884	6,193,132
Management fees	2,938,637	2,477,634
Interest	6,733,854	8,666,408
Real estate taxes	1,857,856	1,938,244
Depreciation	12,001,911	11,679,527
Expenses incurred related to net assets with donor restrictions	268,815	269,681
Total operating expenses	<u>77,236,940</u>	<u>74,455,521</u>
Operating loss	(5,360,575)	(6,188,970)
Non-operating income and (expenses)		
Reversal of prior amortization	—	(65,071)
Investment return, net	385,766	21,931
Change in beneficial interest in National CCRC Business Trust I	(6,880,138)	3,436,028
Loss on extinguishment of debt	(15,273,000)	—
Total non-operating (expenses)/income	<u>(21,767,372)</u>	<u>3,392,888</u>
Excess of expenses over revenue	<u>\$ (27,127,947)</u>	<u>\$ (2,796,082)</u>

The accompanying notes are an integral part of these consolidated financial statements

Linden Ponds, Inc. and Subsidiary
Consolidated Statements of Changes in Net Assets (Deficit)
December 31, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets (deficit) January 1, 2021	\$ (96,764,677)	\$ 3,201,540	\$ (93,563,137)
Restricted contributions and net investment return	—	801,698	801,698
Net assets released from restriction used for operations	—	(269,681)	(269,681)
Excess of expenses over revenue	(2,796,082)	—	(2,796,082)
Capital contribution to related organization	(200,925)	—	(200,925)
Change in net assets (deficit)	(2,997,007)	532,017	(2,464,990)
Net assets (deficit) December 31, 2021	\$ (99,761,684)	\$ 3,733,557	\$ (96,028,127)
Restricted contributions and net investment return	—	238,752	238,752
Net assets released from restriction used for operations	—	(268,815)	(268,815)
Excess of expenses over revenue	(27,127,947)	—	(27,127,947)
Change in net assets (deficit)	(27,127,947)	(30,063)	(27,158,010)
Net assets (deficit) December 31, 2022	\$ (126,889,631)	\$ 3,703,494	\$ (123,186,137)

The accompanying notes are an integral part of these consolidated financial statements

Linden Ponds, Inc. and Subsidiary
Consolidated Statements of Cash Flows
for the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets (deficit)	\$ (27,158,010)	\$ (2,464,990)
Adjustments to reconcile change in net assets (deficit) to net cash and restricted cash and cash equivalents provided by operating activities		
Loss on extinguishment of debt	15,273,000	—
Reversal of prior amortization	—	65,071
Depreciation	12,001,911	11,679,527
Amortization of non-refundable resident entrance fees	(1,984,028)	(1,894,894)
Gain on disposals of fixed assets	—	(13,124)
Amortization of bond premium	(274,285)	(29,349)
Amortization of bond discount	236,182	2,933,766
Amortization of cost of issuance	172,765	118,503
Change in unrealized loss on investments	82,675	35,011
Change in beneficial interest in National CCRC Business Trust I	6,880,138	(3,436,028)
Proceeds from non-refundable entrance fees	4,955,540	4,899,900
Spend down	(3,893,902)	(3,929,703)
(Increase)/decrease in accounts receivable	(697,339)	1,298,235
Decrease in prepaid expenses and other current assets	108,219	245,128
Increase/(decrease) in accounts payable and accrued expenses	464,065	(243,864)
Increase in claims reserve (insurance related)	106,732	22,989
Increase/(decrease) in other current liabilities	36,715	(19,441)
Decrease in other non-current liabilities	(27,713)	(504,034)
Net cash provided by operating activities	<u>6,282,665</u>	<u>8,762,703</u>
Cash flows from investing activities		
(Increase)/decrease in short-term investments	(2,070,797)	618,495
Decrease in limited use cash, cash equivalents and investments	420,783	526,328
Purchases of beneficial interest in National CCRC Business Trust I	(8,000,000)	(2,000,000)
Purchases of property and equipment	(6,800,974)	(4,599,782)
Proceeds from sale of property and equipment	—	13,124
Net cash used in investing activities	<u>(16,450,988)</u>	<u>(5,441,835)</u>
Cash flows from financing activities		
Payments for debt issuance costs	(1,192,728)	(86,825)
Proceeds from refundable entrance fees	46,918,161	48,316,694
Refunds of refundable entrance fees	(31,918,418)	(39,365,539)
Proceeds from bond issuance	45,275,421	—
Repayments of bonds payable	(17,355,981)	(3,166,443)
Principal payments of bonds payable	(2,355,000)	(2,265,000)
Net cash provided by financing activities	<u>39,371,455</u>	<u>3,432,887</u>
Increase in cash and restricted cash and cash equivalents	29,203,132	6,753,755
Cash and restricted cash and cash equivalents, beginning of year	<u>27,290,968</u>	<u>20,537,213</u>
Cash and restricted cash and cash equivalents, end of year	<u>\$ 56,494,100</u>	<u>\$ 27,290,968</u>
Supplemental cash flow disclosure:		
Change in funds held for residents	\$ (12,579)	\$ 19,702
Purchases of property and equipment in accounts payable and accrued expenses	133,126	295,837
Change in assets and liabilities under finance lease	(30,465)	(30,466)
Cash paid for interest	6,103,115	5,637,581

The accompanying notes are an integral part of these consolidated financial statements

Linden Ponds, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

1. Organization

Linden Ponds, Inc. (the "Community") is a Maryland non-stock corporation established on September 2, 2002 operating a not-for-profit continuing care retirement community ("CCRC") located in Hingham, Massachusetts. As of December 31, 2022, the Community's available units totaled 1,218 and included 1,086 independent living units, 22 assisted care units, 66 skilled nursing beds, and 44 memory care units. As of December 31, 2022, there were 1,193 occupied units, which consisted of 1,063 independent living units, 22 assisted care units, 65 skilled nursing beds, and 43 memory care units. As of December 31, 2021, there were 1,171 occupied units, which consisted of 1,052 independent living units, 19 assisted care units, 57 skilled nursing beds, and 43 memory care units.

National Senior Communities, Inc. ("NSC"), a not-for-profit organization, was organized to support the Community and 15 other not-for-profit organizations that operate retirement communities. NSC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state income tax regulations. NSC is the sole member of the Community and appoints all directors of the Community's Board.

Hingham Campus, LLC ("HC") is a Maryland limited liability company which is a wholly owned subsidiary of the Community and is the owner of the land and buildings.

The Community contracts with Erickson Senior Living, LLC ("ESL") to provide management services as described in footnote 5. There are various agreements associated with the management of the Community whereby ESL is considered a related party.

Coronavirus Disease 2019 Funding Programs

The Community participates in certain government programs that provide funding related to the Coronavirus Disease 2019 ("COVID-19") pandemic. These funds have reduced the overall net impact of COVID-19 on the Community's financial performance.

Under the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act"), cash has been granted to the Community in the Public Health and Social Services Emergency Fund ("Provider Relief Fund") program. During the years ended December 31, 2022 and 2021, the Community recognized in other revenue, grants received from the Provider Relief Fund totaling \$0 and \$484,168, respectively, based on laws and regulations, as well as interpretations issued by the Department of Health and Human Services ("HHS"), governing the funding that was publicly available through December 31, 2022. These grants were made available to healthcare providers to reimburse for healthcare expenses or lost revenues attributable to COVID-19 which were not reimbursed from other sources, nor which other sources were obligated to reimburse. The funds received by the Community are subject to future audits and potential adjustment in future periods and may need to be repaid in whole or in part to the government.

Through its Public Assistance program, the Federal Emergency Management Agency ("FEMA") provides assistance to not-for-profit organizations responding to major disasters or emergencies. Under the program's "Emergency Protective Measures" category, healthcare providers may be eligible for reimbursement of costs associated with providing facilities for medical care or expanding existing medical care capacity during the COVID-19 public health emergency. Generally, FEMA provides such awards on the basis of actual costs incurred. For the years ended December 31, 2022 and 2021, the Community recognized \$208,677 and \$157,670, respectively, in other revenue from this FEMA program.

Beyond the grants described above, the Community has recognized \$309,099 and \$489,197 of other revenue for grants received from other state and local government sources in response to pandemic relief efforts for the years ended December 31, 2022 and 2021, respectively.

Linden Ponds, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

In addition to government programs that provide direct funding relief, the CARES Act also allowed employers the ability to temporarily defer the employer portion of social security payroll taxes in 2020. As of December 31, 2021, the Community repaid the first portion and deferred \$1,000,520 of the remaining employer portion of Social Security payroll taxes. This balance was repaid in the year ended December 31, 2022.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the Community and its wholly owned subsidiary, HC (collectively, "LPH").

Cash

LPH utilizes a controlled disbursement account that funds checks as they are presented for payment which may result in a book overdraft due to timing. There was no book overdraft as of December 31, 2022 and 2021.

Insurance

LPH participates in insurance plans which cover claims for employee health, professional and general liability, workers' compensation and property insurance.

Claims Reserve (insurance related)

Claims reserves are estimated accrued insurance liabilities for the employee health plan, professional and general liability and workers' compensation insurance plans. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided. Claims incurred but not reported represent amounts accrued for the current year which were actuarially determined to be the amount of potential claim payments for events occurring prior to year-end, including excess amounts covered by reinsurance. The Community does not discount this liability.

Employee Health Plan

LPH participates in a self-funded employee health plan with other NSC communities that are managed by ESL. A specific stop loss policy has been purchased to reduce a portion of the plan risk. The specific stop loss reimbursement policy covers medical and prescription drug claims totaling more than \$600,000 and \$450,000 for the years ended December 31, 2022 and 2021, respectively, per member per calendar year. Symetra Life Insurance Company provides the excess coverage and reimburses the plan for amounts over the specific stop loss deductible. NSC participants in the plan share in the payment of claims within the deductible based on their percentage of participation in the plan.

For the years ended December 31, 2022 and 2021, expenses related to the employee health plan were \$1,872,154 and \$2,194,408 respectively, and are included in salaries, wages and benefits on the Consolidated Statements of Operations. The liability for future health claims was \$209,912 and \$224,930 as of December 31, 2022 and 2021, respectively, and is included in claims reserve (insurance related) on the Consolidated Balance Sheets.

Professional and General Liability Insurance

LPH participates in a high retention professional and general liability insurance plan with ESL and other communities managed by ESL. The program has a \$5,000,000 per claim retention with a \$5,000,000 professional and general liability retention aggregate. Continental Casualty Company ("CNA") provides the lead excess coverage. To the extent a participant incurs a

Linden Ponds, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

loss, all participants will share in paying for that loss, subject to the retention and the aggregate limits.

For the years ended December 31, 2022 and 2021, expenses related to the professional and general liability plans were \$250,902 and \$267,476, respectively, and are included in insurance expense on the Consolidated Statements of Operations. LPH follows the accounting policy of establishing reserves for all losses unpaid at the end of the year, including the excess amounts covered by CNA. These reserves have been established by management through consultation with actuaries and are recorded at the expected value to be paid. The liability for the anticipated payment for future professional and general liability claims was \$408,906 and \$398,897 as of December 31, 2022 and 2021, respectively, and is included in claims reserve (insurance related) on the Consolidated Balance Sheets.

Workers' Compensation

LPH is covered by a commercial workers' compensation policy from the Arch Insurance Company. Deductible amounts per the policy are covered by a separate policy that limits the Community's exposure to their monthly premiums. For the years ended December 31, 2022 and 2021, expenses related to the workers' compensation plan were \$503,123 and \$430,974, respectively, and are included in salaries, wages and benefits on the Consolidated Statements of Operations.

Property Insurance

LPH participates in a high deductible property insurance plan with ESL and other communities managed by ESL. Beginning in 2022, the plan has a \$10,000,000 retention per occurrence, and American International Group provides the lead excess coverage. Previously, the plan had a \$500,000 deductible, and CNA provided the excess coverage. To the extent a participant incurs a loss, all participants will share in paying for that loss, subject to the deductible.

For the years ended December 31, 2022 and 2021, expenses related to the property insurance plan were \$533,654 and \$411,550, respectively, and are included in insurance expense on the Consolidated Statements of Operations. The liability for future property insurance claims was \$138,565 and \$34,669 as of December 31, 2022 and 2021, respectively, and is included in claims reserve (insurance related) on the Consolidated Balance Sheets.

Concentration of Credit Risk

Financial instruments, which subject LPH to concentrations of credit risk, consist primarily of cash, cash equivalents and certificates of deposit. Cash and cash equivalents include overnight investment arrangements with banks and investments. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. LPH has not experienced any losses on these funds.

Promissory Notes Receivable

Promissory notes receivable consist of short-term receivables from residents related to payment of the final installment of their entrance fee. Often, there is a timing difference between when the sale of a prospective resident's home will be finalized and the due date of the final installment on their resident entrance fee. In these cases, a short-term promissory note is issued by the resident. If the resident pays the note on or before the agreed upon due date, no interest is charged. If the resident does not pay the note by the agreed upon due date, interest may be charged from the day the note was issued through the date of payment. The promissory notes receivable balance was \$3,656,600 and \$4,165,900 as of December 31, 2022 and 2021, respectively.

Linden Ponds, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Resident Capital Cash, Advance Deposits and Resident Entrance Fees

Residents are required to remit entrance fees, which vary in amount depending upon the unit to be occupied. Prospective residents are required to make certain installment payments prior to the final settlement of the given unit. These amounts are included in resident capital cash and advance deposits on the Consolidated Balance Sheets. Timing differences may cause resident capital cash to not be equal to advance deposits.

Entrance fees on settled units are shown as resident entrance fees on the Consolidated Balance Sheets and are reported net of amortization and spend down. In general, for each Residence and Care Agreement ("RCA") issued prior to the introduction of the 90% contracts discussed below, entrance fees are fully refundable when the unit has been vacated and released, all outstanding obligations of the resident have been paid, and the unit has been resettled and paid for by a new resident with a fee amount greater than or equal to the previous entrance fee amount.

The currently offered RCA's provide for a refundable amount of 90% of the total entrance fee and a 10% non-refundable portion ("90% contracts"). Eligibility for a refund under the 90% contracts is established when the RCA has terminated, the unit has been vacated and released, all outstanding obligations have been paid and funds are available in the Refund Account, which is the balance established to fund eligible resident refunds. The Refund Account is funded from new residents who have settled an independent living unit with a new 90% contract. The refunds are made in sequential order, based on when a former resident has met eligibility for a refund and funds are available in the Refund Account. The refund on these units is not tied to the resettlement of the former resident's specific unit. For the 90% contracts, when the unit is released, the amount of the fully refundable portion of the resident entrance fee is reclassified from resident entrance fees, a non-current liability, to resident refunds payable, a current liability on the Consolidated Balance Sheets. For all entrance fee refunds due under the previous RCA, the fee is reclassified when the former resident's unit is resettled.

The 10% non-refundable portion is treated as deferred revenue and amortized into revenue on a straight-line basis over an 8.5 year period, which approximates the estimated average length of time a resident resides at the Community based on Community and industry data, or over a shorter period if the RCA is terminated sooner. The amount of amortization related to the 10% non-refundable portion of the deposit was \$1,984,028 and \$1,894,894 for the years ended December 31, 2022 and 2021, respectively, and is included in amortization of non-refundable resident entrance fees on the Consolidated Statements of Operations.

Entrance fees may be used to satisfy monthly fees if insufficient resident funds are available, resulting in a spend down of the resident's entrance fees. The amounts charged to spend down are subsequently recovered by the Community through a reduction of the amounts refunded to the resident when they leave the Community and any required refund is made. Residents' final bills are also charged to spend down which reduces the amount of their refundable entrance fee under the terms of the RCA. For the years ended December 31, 2022 and 2021, spend down activity to offset monthly charges was \$3,893,902 and \$3,929,703, respectively.

Linden Ponds, Inc. and Subsidiary
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The composition of resident entrance fees, net, was as follows as of December 31:

	2022	2021
Fully refundable contracts		
Resident entrance fees	\$ 90,875,346	\$ 107,339,745
Less: Accumulated amortization	(9,044,392)	(10,657,092)
90% Contracts		
Resident entrance fees		
90% refundable portion	265,124,899	238,728,659
10% non-refundable portion	30,224,591	27,025,601
Less: Accumulated amortization	(20,471,813)	(18,672,735)
Less: Spend down	(7,473,094)	(6,216,440)
Resident entrance fees, net	<u>\$ 349,235,537</u>	<u>\$ 337,547,738</u>

Limited Use Cash, Cash Equivalents and Investments

LPH has restricted cash equivalents - current, resident capital cash, certificates of deposit and annuities, restricted funds (debt related), funds with donor restrictions, and funds held for residents that are comprised of cash, cash equivalents and investments, stated at fair market value. Income related to limited use cash, cash equivalents and investments is included in investment return, net, on the Consolidated Statements of Operations.

The following table provides a reconciliation of cash and restricted cash and cash equivalents reported within the Consolidated Balance Sheets that sum to the total of the same amounts shown in the Consolidated Statements of Cash Flows as of December 31:

	2022	2021
Cash	\$ 19,236,766	\$ 12,497,386
Restricted cash and cash equivalents - current	187,498	196,975
Resident capital cash	5,617,884	3,243,596
Restricted funds (debt related)	28,426,779	8,776,994
Restricted reserves (statutory operating)	1,585,771	1,517,665
Funds with donor restrictions	1,361,455	967,826
Funds held for residents (cash)	77,947	90,526
Cash and restricted cash and cash equivalents	<u>\$ 56,494,100</u>	<u>\$ 27,290,968</u>

Amounts included in restricted cash equivalents - current represent amounts required to be set aside by a contractual agreement with an insurer for the payment of general and professional liability claims. Restricted cash included in resident capital cash represents amounts required to be set aside until the unit settles. Restricted cash included in restricted funds (debt related) is required per the bond agreements. Restricted cash included in restricted reserves (statutory operating) is maintained per state requirements. Refer to the Community's policy regarding its Operating Reserve below. Amounts included in funds with donor restrictions and funds held for residents (cash) include cash that has been contributed to funds but not yet invested.

National CCRC Business Trust I

LPH began investing in the National CCRC Business Trust I ("Business Trust") in July 2019. The Business Trust was established by NSC to invest excess cash of its supported organizations in order to achieve long-term investment goals. NSC serves as the Trustee and has the executive management and control of the funds within the Business Trust. The Trustee invests with The Vanguard Group, Inc. and its group of registered mutual funds to limit the costs and fees incurred by the Business Trust. The Trustee has the power to conduct, operate and carry on the business of the pooled investments fund, which includes buying, holding and selling securities on behalf of the

Linden Ponds, Inc. and Subsidiary
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Business Trust. Redemptions from the Business Trust are permitted quarterly upon 90 calendar days' advance notice and take place as of the last business day each calendar quarter after the month end net asset value is established. There are no current designations on the assets held within the Business Trust, therefore the funds are not considered limited use. The investments held within the Business Trust are accounted for by the Community under the equity method of accounting. The Business Trust uses the net asset value per share multiplied by the number of shares held by LPH to determine LPH's share of the net assets held within the Business Trust.

LPH's investment activity related to the Business Trust was as follows as of and for the years ended December 31:

	Business Trust	
	2022	2021
Shares owned	2,089,695	1,706,086
Value of investment	\$ 42,339,202	\$ 41,219,340
Contributions made	8,000,000	2,000,000
Change in beneficial interest	(6,880,138)	3,436,028

Condensed financial statements and related information of the Business Trust as of December 31 are as follows:

	Business Trust	
	2022	2021
Assets	\$ 1,007,304,780	\$ 1,133,309,018
Liabilities	186,330	92,217
Net assets	1,007,118,450	1,133,216,801
Net asset value per share	20.26	24.16
Net investment income	33,911,201	47,184,491
Realized and unrealized (loss)/gain from investments	(218,509,552)	48,039,303
Net (decrease)/increase in net assets	(184,598,351)	95,223,794

Property and Equipment, Net

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of 3 to 40 years. Improvements to property and equipment that substantially extend the useful life of the asset are capitalized. Repair and maintenance costs are expensed as incurred. Gains or losses on the disposition of property and equipment are recorded at the time of the disposition.

The useful lives of property and equipment are as follows:

	Useful Life
Land improvements	15
Building and building improvements	7 - 40
Furniture and fixtures	7
Equipment and vehicles	3 - 5

Deferred Financing Costs

Financing costs incurred in connection with the issuance of Revenue Bonds by the Massachusetts Development Finance Agency ("MDFA") as well as Finance Agency Bonds by the Virginia Small Business Financing Authority are included in bonds payable, net of current portion on the Consolidated Balance Sheets. These costs are being amortized over the term of the related bond issuance using the straight-line method which approximates the effective interest rate method.

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Valuation of Long-Lived Assets

The Community accounts for the valuation of long-lived assets under the guidance for *Accounting for the Impairment or Disposal of Long-Lived Assets*. This guidance requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. Management has reviewed the valuation of long-lived assets and has determined that no events of impairment occurred for the years ended December 31, 2022 and 2021.

Lease Accounting

The Community evaluates whether a contract is or contains a lease at the inception of the contract. Upon lease commencement, the date on which a lessor makes the underlying asset available to the Community for use, the Community classifies the lease as either an operating or finance lease. Most of the Community's equipment leases are classified as operating leases.

The Community, as lessee, recognizes a right of use asset and lease liability on the Community's Consolidated Balance Sheets for its operating and finance leases as of the lease commencement date. A right of use asset represents the Community's right to use an underlying asset for the lease term while the lease liability represents an obligation to make lease payments measured on a discounted basis. Options to extend a lease are factored into the measurement of the lease liability when it is reasonably certain that the Community will exercise the option. For the Community's leases where the rate implicit in the lease is not readily available, the Community utilizes its estimated incremental borrowing rate in determining the present value of lease payments based on information available at commencement of the lease, which reflects the fixed rate at which the Community could borrow a similar amount for the same term on a collateralized basis. Right of use assets are measured at an amount equal to the initial lease liability, plus any prepaid lease payments (less any incentives received, such as reimbursement for leasehold improvements) and initial direct costs, at the lease commencement date. Leases with an initial term of 12 months or less are not recorded on the Community's balance sheets and instead are recognized as lease expense as incurred. The Community has lease agreements with lease and non-lease components, and as a practical expedient has elected to account for lease and non-lease components together as a single combined lease component for real estate and equipment leases, from both a lessee and lessor perspective.

For operating leases, lease expense is recognized on a straight-line basis over the lease term and is included in total expenses on the Consolidated Statements of Operations. The right of use asset is generally reduced each period by an amount equal to the difference between the operating lease expense and the amount of interest expense on the lease liability utilizing the effective interest method. For finance leases, the Community recognizes interest expense on the lease liability utilizing the effective interest method. Additionally, the right of use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term, unless the lease contains an option to purchase the underlying asset that the Community is reasonably certain to exercise, in which case the asset is depreciated over the useful life of the underlying asset.

For leases qualifying for the short-term lease exemption, the Community recognizes lease payments on a straight-line basis over the lease term and variable lease payments are expensed as incurred. These expenses are included as components of total expenses on the Consolidated Statements of Operations.

Refer to the Community's revenue recognition policy for discussion of the accounting policy for residency agreements, which include the lease of an asset.

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The Community is also a lessor of space leased to third parties, and recognizes sublease income on a straight-line basis over the lease term in other revenue on the Consolidated Statements of Operations.

Compensated Absences

LPH records a liability for amounts due to employees for future absences that are attributable to services performed in the current and prior periods, which is included in accounts payable and accrued expenses on the Consolidated Balance Sheets. The expenses related to these absences are included in salaries, wages and benefits on the Consolidated Statements of Operations.

Net Assets (Deficit)

To account for donor-imposed restrictions placed on the use of resources, net assets (deficit) are classified as follows:

Without Donor Restrictions

Net assets (deficit) without donor restrictions represent resources that are not restricted by donor-imposed stipulations, including funds of \$42,339,202 and \$41,219,340 invested in the Business Trust as of December 31, 2022 and 2021, respectively. They are available for the support of all Community operations and services. Net assets (deficit) without donor restrictions are free of donor imposed restrictions and include all revenue, expenses, gains and losses that are not changes in net assets (deficit) with donor restrictions.

With Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations. These restrictions may or may not expire by the passage of time or by the fulfillment of certain actions pursuant to those stipulations.

Capital Contribution to Related Organization

The Community renewed its agreement with NSC ("Affiliation Agreement") in 2020. Pursuant to the Affiliation Agreement, the Community may make a contribution to the Mission Fund to be used as approved by the NSC Board for the benefit of one or more of its communities or to support NSC's corporate purposes or charitable mission.

Excess of Expenses Over Revenue

The Consolidated Statements of Operations include excess of expenses over revenue, which includes all revenue and expenses that are an integral part of the Community's activities.

Revenue Recognition

Resident occupancy revenue

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

Under the Community's RCAs, which are generally for the resident's lifetime, but can be terminated at any time by the resident with 60 days' notice, the Community provides continuing care services to residents for a stated daily or monthly fee. The Community recognizes revenue for continuing care services under the RCA for independent living in accordance with the provisions of ASC 842, *Leases* ("ASC 842"). The Community recognizes revenue for assisted care services, skilled nursing residency and care, memory care residency and therapy services in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The Community has determined that the

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continuing care services included under the daily or monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time.

The independent living portion of resident occupancy revenue that qualified under the provisions of the lease guidance was \$42,335,285 and \$39,944,143 for the years ended December 31, 2022 and 2021, respectively.

The Community determines the transaction price based on standard charges for continuing care services provided, reduced by contractual adjustments (explicit price concessions) provided to third-party payers where applicable. The Community estimates contractual adjustments and discounts based on contractual agreements and historical experiences. The Community evaluates a resident's ability to pay for provided services through an assessment of their available assets, future sources of revenue and the security of their entrance fee at the time of entrance to the Community. Through this evaluation, the Community has determined that it does not offer implicit price concessions. The lack of implicit price concessions is considered in estimating the transaction price billed to residents and the amounts the Community expects to collect based on its collection history with those residents. Residents who meet the Community's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

Medicare: Certain nursing care services are paid at prospectively determined rates based on clinical, diagnostic and other factors. Other services are paid based on cost-reimbursement methodologies subject to certain limits.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per occasion of service, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates.

Generally, residents who are covered by third-party payers are responsible for related deductibles and coinsurance which vary in amount. Management estimates the transaction price for residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments. Subsequent changes to the estimate of the transaction prices are generally recorded as adjustments to resident occupancy revenue or ancillary fees in the period of the change. These changes to estimates that were recorded in the subsequent period were insignificant for the years ended December 31, 2022 and 2021. Subsequent changes that are determined to be the result of an adverse change in a payer's ability to pay are recorded as a reduction to revenue and were not significant for the years ended December 31, 2022 and 2021.

Ancillary fees

Ancillary fees, which include nursing and aide services, pharmacy charges, housekeeping, dining room sales and other services provided to the residents of the Community, are reported at the amount that reflects the consideration to which the Community expects to be entitled in exchange for providing these services. The Community recognizes revenue for these ancillary services in accordance with the provisions of ASC 606. Each service provided under the contract is capable of being distinct, therefore, the services are considered individual and separate performance obligations, which are satisfied as services are provided, and revenue is recognized as services are provided.

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Disaggregation of Revenue

The Community disaggregates its revenue from contracts with customers by payer source as well as the main lines of business, as the Community believes it best depicts how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. See details in the tables below.

The composition of resident occupancy revenue by payer and level of care was as follows for the years ended December 31:

	2022				
	Independent living	Assisted care	Skilled nursing and other	Memory care	Total
Private pay	\$ 42,335,285	\$ 2,362,061	\$ 7,464,403	\$ 5,393,225	\$ 57,554,974
Medicare and Medicaid	—	—	3,223,572	—	3,223,572
Third party	—	—	637,454	—	637,454
Total resident occupancy revenue	<u>\$ 42,335,285</u>	<u>\$ 2,362,061</u>	<u>\$ 11,325,429</u>	<u>\$ 5,393,225</u>	<u>\$ 61,416,000</u>

	2021				
	Independent living	Assisted care	Skilled nursing and other	Memory care	Total
Private pay	\$ 39,944,143	\$ 2,249,333	\$ 6,019,562	\$ 5,484,687	\$ 53,697,725
Medicare and Medicaid	—	—	3,202,155	—	3,202,155
Third party	—	—	762,410	—	762,410
Total resident occupancy revenue	<u>\$ 39,944,143</u>	<u>\$ 2,249,333</u>	<u>\$ 9,984,127</u>	<u>\$ 5,484,687</u>	<u>\$ 57,662,290</u>

The composition of ancillary fees by payer and level of care was as follows for the years ended December 31:

	2022				
	Independent living	Assisted care	Skilled nursing and other	Memory care	Total
Private pay	\$ 2,846,096	\$ 164	\$ 2,531,127	\$ 39	\$ 5,377,426
Medicare and Medicaid	—	—	486,645	—	486,645
Third party	69,738	—	857,069	—	926,807
Total ancillary fees	<u>\$ 2,915,834</u>	<u>\$ 164</u>	<u>\$ 3,874,841</u>	<u>\$ 39</u>	<u>\$ 6,790,878</u>

	2021				
	Independent living	Assisted care	Skilled nursing and other	Memory care	Total
Private pay	\$ 2,188,318	\$ 14	\$ 2,784,512	\$ 39	\$ 4,972,883
Medicare and Medicaid	—	—	517,046	—	517,046
Third party	23,531	—	769,327	—	792,858
Total ancillary fees	<u>\$ 2,211,849</u>	<u>\$ 14</u>	<u>\$ 4,070,885</u>	<u>\$ 39</u>	<u>\$ 6,282,787</u>

Income Taxes

LPH is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state income tax regulations. HC is a single member limited liability company and has elected to be disregarded for federal and state income tax purposes. The financial statement activity of HC is reflected on LPH's books and records. Management has evaluated LPH's tax positions and has concluded that LPH has taken no uncertain tax positions that would require recognition or disclosure in the consolidated financial statements.

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Estimates

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. Certain financial statement line items, which were not material for separate disclosure, were combined into a higher level presentation. The Community assessed these changes and has concluded that they are immaterial to the previously issued financial statements; however, the Community is reclassifying the previously issued financial statements as of December 31, 2021 and for the year then ended so that financial results may be viewed comparatively. The following table summarizes the effects of the reclassifications on the financial statement line items indicated as of and for the year ended December 31:

	2021 (As Previously Reported)	Adjustments	2021 (As Reported)
<u>Balance Sheet</u>			
Accounts receivable	1,300,974	(2,505)	1,298,469
Inventory	235,883	(235,883)	—
Prepaid expenses and other current assets	464,664	238,388	703,052
Certificates of deposit and annuities	—	186,576	186,576
Certificates of deposit (insurance related)	9,677	(9,677)	—
Certificates of deposit (purchasing card related)	176,899	(176,899)	—
Restricted funds (bond/operating reserve related)	10,294,659	(10,294,659)	—
Restricted funds (debt related)	—	8,776,994	8,776,994
Restricted reserves (statutory operating)	—	1,517,665	1,517,665
Accounts payable and accrued expenses	(4,808,372)	(17,792)	(4,826,164)
Other current liabilities	(158,474)	17,792	(140,682)
<u>Statement of Operations</u>			
Other revenue	2,155,087	1,812	2,156,899
Total revenue, gains and other support	68,264,739	1,812	68,266,551
Supplies	(2,991,778)	(2,741,109)	(5,732,887)
Dietary and other supplies	(2,741,109)	2,741,109	—
General and administrative	—	(6,193,132)	(6,193,132)
Building grounds and maintenance	(1,468,802)	1,468,802	—
Utilities	(2,938,658)	2,938,658	—
Administrative and other	(893,435)	893,435	—
Resident relations	(176,671)	176,671	—
Insurance	(725,878)	725,878	—
Total expenses	(74,465,833)	10,312	(74,455,521)
Investment return, net	34,055	(12,124)	21,931
Total non-operating income/(expenses)	3,405,012	(12,124)	3,392,888
<u>Statement of Cash Flows</u>			
Decrease/(increase) in accounts receivable	1,295,730	2,505	1,298,235
Decrease/(increase) in inventory	250,166	(250,166)	—
Increase in prepaid expenses and other current assets	(2,533)	247,661	245,128
(Decrease)/increase in accounts payable and accrued expenses	(247,552)	3,688	(243,864)
Decrease in other current liabilities	(15,753)	(3,688)	(19,441)

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Recently Issued Accounting Pronouncements

In December 2022, the FASB issued Accounting Standards Update ("ASU") 2022-06, *Reference Rate Reform: Deferral of the Sunset Date of Topic 848*. This guidance provides relief from the application of certain contract modification guidance during the transition to alternative reference rates, including LIBOR. Optional expedients are provided for contract modification that replace a reference rate affected by reference rate reform and related contemporaneous modifications, including prospective contract modifications for debt contracts. Exceptions are provided for changes to the critical terms of a hedging relationship due to reference rate reform. Expedients are provided for cash flow hedging relationships and fair value hedging relationships. These provisions are available from March 12, 2020 until December 31, 2024. The Community is currently evaluating the effect of reference rate reform on its contracts.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized, and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The standard is required to be applied using the modified retrospective approach with a cumulative-effect adjustment to net assets, if any, upon adoption. ASU 2016-13 is effective for the Community for fiscal years beginning after December 15, 2022. The Community is currently evaluating the impact of this update on the consolidated financial statements.

3. Leases

The Community has operating and finance leases for certain equipment used in the operation of the Community. Equipment leases contain fixed monthly lease payments, and in some circumstances annual rent escalators. The future minimum lease payments recognized on the balance sheets include fixed payments and any variable payments utilizing an index or rate known on the lease commencement date. These lease arrangements are generally for terms of one to three years and may contain an option to renew for one to two additional years. Generally, the Community does not consider any additional renewal periods to be reasonably certain of being exercised, as comparable equipment could be identified within the same area for comparable lease rates.

The Community's total lease cost associated with its leases was as follows for the years ended December 31:

	2022	2021
Finance lease cost		
Amortization of right of use assets	\$ 21,969	\$ 30,217
Interest on lease liabilities	476	957
Operating lease cost	2,752	14,007
Total lease cost	<u>\$ 25,197</u>	<u>\$ 45,181</u>

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The supplemental balance sheet information related to leases was as follows as of December 31:

	2022	2021
Operating		
Lease right of use assets	\$ —	\$ 2,752
Lease liabilities		
Other current liabilities	\$ —	\$ 2,752
Total operating lease liabilities	<u>\$ —</u>	<u>\$ 2,752</u>
Finance		
Property and equipment, net	\$ 38,466	\$ 60,435
Lease liabilities		
Other current liabilities	\$ 30,465	\$ 30,465
Other non-current liabilities	—	30,465
Total finance lease liabilities	<u>\$ 30,465</u>	<u>\$ 60,930</u>

The weighted-average discount rate and weighted-average remaining lease term of the Community's leases was as follows as of December 31:

	2022	2021
Weighted average discount rate		
Operating	0.00%	2.76%
Finance	2.01%	2.01%
Weighted average remaining lease term (in years)		
Operating	—	0.20
Finance	1.00	2.01

As of December 31, 2022, the future payments due under leases were:

	Finance
2023	\$ 31,524
2024	—
2025	—
2026	—
2027	—
Years thereafter	—
Total future minimum lease payments	<u>31,524</u>
Less: Amount representing interest	<u>(1,059)</u>
Lease liabilities recognized	<u>\$ 30,465</u>

In addition, the Community has leased space to various vendors who provide services to the residents as an accommodation. These agreements have terms from 1 to 5 years and most are for a fixed monthly rate; however, some do include a variable component in the final monthly price.

The future payments to be received under current operating lease agreements where the Community is the lessor (including resident contracts for Independent Living units) as of December 31, 2022 were approximately \$42.7 million in each of the next five years.

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4. Property and Equipment, Net

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

	2022	2021
Land and land improvements	\$ 22,321,108	\$ 21,991,490
Building and building improvements	361,540,509	357,022,474
Furniture and fixtures	2,224,738	2,327,456
Equipment and vehicles	6,418,784	5,694,176
	<u>392,505,139</u>	<u>387,035,596</u>
Less: Accumulated depreciation	(119,605,977)	(108,929,361)
	<u>272,899,162</u>	<u>278,106,235</u>
Open projects	5,155,895	5,312,470
Total property and equipment, net	<u>\$ 278,055,057</u>	<u>\$ 283,418,705</u>

Depreciation expense was \$12,001,911 and \$11,679,527 for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, LPH disposed of assets totaling \$1,325,295 and \$915,647, respectively. There were gains of \$0 and \$13,124 related to these disposals for the years ended December 31, 2022 and 2021, respectively, which are included in other revenue on the Consolidated Statements of Operations.

5. Management and Marketing Agreement

On September 8, 2011, LPH and ESL entered into a Management and Marketing Agreement. ESL will provide management and marketing services to LPH during the term of this agreement in exchange for a management fee and allocation of certain costs to the Community as discussed below. The agreement has been amended various times since inception, including on June 30, 2020; the 2020 agreement expires on November 1, 2040. The management fee includes a Base Fee, which increases annually by the increase in the Consumer Price Index for the Baltimore-Towson Metropolitan Statistical Area and a monthly Incentive Fee, which may not exceed 25% of the applicable Base Fee, based on the applicable percentage of the total actual occupancy fees over the applicable Base Fee. Management fees for the years ended December 31, 2022 and 2021 were \$2,938,637 and \$2,477,634, respectively. On February 22, 2023, the agreement was amended and restated effective as of January 1, 2023 to clarify certain matters; however, the expiration date mentioned above did not change.

The direct and shared costs allocated to LPH by ESL for the years ended December 31, 2022 and 2021 were \$5,848,918 and \$5,444,198, respectively, and are included in professional and contracted services and salaries, wages and benefits on the Consolidated Statements of Operations. Direct and shared costs include salaries and benefits for management personnel and the use of services such as finance, legal, human resources, information systems, and operations.

6. Defined Contribution Plan

LPH maintains a defined contribution plan for LPH employees meeting certain eligibility requirements. Eligible employees may contribute up to 50% of their salary subject to the maximum allowed by the Internal Revenue Code on a pretax basis. LPH may make discretionary contributions to the plan equal to a percentage of the participant's elective deferrals. Total expense recognized by LPH was \$463,643 and \$529,077 for the years ended December 31, 2022 and 2021, respectively, and is included in salaries, wages and benefits on the Consolidated Statements of Operations.

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7. Fair Value of Financial Instruments

The fair value measurement standard establishes measurement criteria and a hierarchy for ranking the quality and reliability of the information used to determine fair values. Fair value is a market-based measurement that defines the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

As of December 31, 2022 and 2021, LPH had no assets or liabilities carried at fair value that required Level 3 classification.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below was valued utilizing the market approach.

The following table summarizes the valuation of LPH's financial instruments by the above pricing levels as of:

	December 31, 2022		
	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Current assets			
Short term investments			
Money market funds	\$ 190,275	\$ —	\$ 190,275
Fixed income securities	—	4,392,249	4,392,249
U.S. agency securities	—	827,902	827,902
Equity securities	1,629,032	—	1,629,032
Restricted cash and cash equivalents - current			
Money market funds	187,498	—	187,498
	<u>\$ 2,006,805</u>	<u>\$ 5,220,151</u>	<u>\$ 7,226,956</u>
Non-current assets			
Resident capital cash			
Cash	\$ 5,617,884	\$ —	\$ 5,617,884
Certificates of deposit and annuities			
Certificates of deposit	—	176,906	176,906
Restricted funds (debt related)			
Money market funds	28,426,779	—	28,426,779
Restricted reserves (statutory operating)			
Cash	1,585,771	—	1,585,771
Funds with donor restrictions			
Cash	1,361,455	—	1,361,455
Fixed income securities	1,373,013	—	1,373,013
Equity securities	969,026	—	969,026
Funds held for residents (cash, cash equivalents, and investments)			
Cash	77,947	—	77,947
	<u>\$ 39,411,875</u>	<u>\$ 176,906</u>	<u>\$ 39,588,781</u>

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	December 31, 2021		
	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Current assets			
Short term investments			
Money market funds	\$ 42,727	\$ —	\$ 42,727
Fixed income securities	—	2,608,155	2,608,155
U.S. agency securities	—	138,164	138,164
Equity securities	2,262,290	—	2,262,290
Restricted cash and cash equivalents - current			
Money market funds	196,975	—	196,975
	<u>\$ 2,501,992</u>	<u>\$ 2,746,319</u>	<u>\$ 5,248,311</u>
Non-current assets			
Resident capital cash			
Cash	\$ 3,243,596	\$ —	\$ 3,243,596
Certificates of deposit and annuities			
Certificates of deposit	—	186,576	186,576
Restricted funds (debt related)			
Money market funds	8,776,994	—	8,776,994
Restricted reserves (statutory operating)			
Cash	1,517,665	—	1,517,665
Funds with donor restrictions			
Cash	967,826	—	967,826
Fixed income securities	1,559,872	—	1,559,872
Equity securities	1,205,859	—	1,205,859
Funds held for residents (cash, cash equivalents, and investments)			
Cash	90,526	—	90,526
	<u>\$ 17,362,338</u>	<u>\$ 186,576</u>	<u>\$ 17,548,914</u>

Cash and Money Market Funds

These investments are carried at amortized cost which approximates fair value. These investments are considered Level 1 investments because they use unadjusted quoted market prices in active markets for identical assets or liabilities.

Certificates of Deposit

Certificates of deposit have original maturities of more than three months and are considered short-term investments. These investments are carried at amortized cost which approximates fair value. Computed prices and frequent evaluation versus market value render the certificates of deposit a Level 2 investment.

Fixed Income Securities and Equity Securities (Level 1)

These investments are actively traded on a primary exchange and are valued at the last sale price on the security's primary exchange, which renders them a Level 1 investment. The fair market value of these securities fluctuates with the underlying stock price. Significant changes in the stock price of the underlying equity are analyzed and any other-than-temporary impairments are recorded upon determination.

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Fixed Income Securities (Level 2)

These investments are not actively traded on a primary exchange which renders them a Level 2 investment. These investments fluctuate in value based upon changes in the interest rates. Significant changes in the credit quality of the underlying entity are analyzed and any other-than-temporary impairments are recorded upon determination.

U.S. Agency Securities

For investments in U.S. agency securities, fair value is based on the average of the last reported bid or ask prices which renders them a Level 2 investment. These investments fluctuate in value based upon changes in interest rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while LPH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

8. Bonds Payable

Series 2011

On September 21, 2011, MDFA issued \$28,892,865 in Series 2011B zero coupon bonds (Series 2011B bonds). Due to scheduled maturity date of November 15, 2056, the total series was discounted at 6.13% over the life of the bonds, resulting in an initial issue discount of \$27,057,908. The discount is amortized into interest expense over the life of the bonds using the effective interest rate method. The Community redeemed \$3,166,443 for the year ended December 31, 2021, in accordance with the loan agreement regarding excess cash on hand. The related discount of \$2,800,539 at the time of redemption for the year ended December 31, 2021, was recorded as interest expense on the Consolidated Statements of Operations. The discount was \$15,294,129 for the year ended December 31, 2021, and is included in bonds payable, net of current portion on the Consolidated Balance Sheet. Amortization related to the bond discount was \$133,227 for the year ended December 31, 2021, and is included in interest expense on the Consolidated Statements of Operations. The Series 2011B bonds were extinguished through the refinancing of debt and the issuance of the Series 2022 Obligated Group bonds discussed below.

Series 2018

On November 15, 2018, at the request of LPH, the MDFA issued \$117,170,000 of Revenue Bonds (Linden Ponds, Inc. Facility) Series 2018, used together with available funds of the Community to redeem all of the previously outstanding bonds and notes with the exception of the Series 2011B zero coupon bonds.

The Series 2018 bonds are fixed rate, tax exempt bonds, with various maturities and coupon rates as presented in the table below:

Maturity Date	Amount	Coupon	Premium
11/15/2023	\$ 11,345,000	4.000%	\$ —
11/15/2028	14,085,000	5.000%	539,033
11/15/2033	17,975,000	5.000%	282,747
11/15/2038	22,940,000	5.000%	—
11/15/2046	50,825,000	5.125%	—
	<u>\$ 117,170,000</u>		<u>\$ 821,780</u>

Linden Ponds, Inc. and Subsidiary

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The bondholders have been granted a security interest in all the receipts and assets of LPH. In the Mortgage Agreement, LPH has granted a first lien on LPH's respective interests in the land and buildings, including future buildings and improvements.

Deferred financing costs of \$2,993,141 and bond premium of \$787,556 for Series 2018 are included in bonds payable, net of current portion on the Consolidated Balance Sheets, and are being amortized by the effective interest method over the life of the bonds. Amortization of cost of issuance was \$172,765 and \$118,503 for the years ended December 31, 2022 and 2021, respectively, and is included in interest on the Consolidated Statements of Operations. Amortization of bond premium was \$274,285 and \$29,349 for the years ended December 31, 2022 and 2021, respectively, and is included in interest on the Consolidated Statements of Operations.

Obligated Group of National Senior Communities, Inc.

On March 1, 2022, Linden Ponds, Inc. became a member of the Obligated Group of National Senior Communities, Inc. (the "Obligated Group"), which consists of five other members: Ann's Choice, Inc., Brooksby Village, Inc., Cedar Crest Village, Inc., Greenspring Village, Inc., Seabrook Village, Inc. (each a "Member" and collectively, the "Obligated Group Members"). The Obligated Group Members are jointly and severally liable for all Obligated Group indebtedness through a claim on and a security interest in all of the receipts and in certain Pledged Assets as established by the Master Trust Indenture ("MTI"). Pursuant to the MTI, the Obligated Group is required to achieve a minimum Historical Debt Service Coverage Ratio of 1.2 and 120 Days Cash On Hand for each fiscal year.

The Obligated Group's total balance of bonds payable was \$652,082,970 and \$580,081,782 as of December 31, 2022 and 2021, respectively, excluding any indebtedness of LPH.

Series 2022 Bonds

Concurrent with joining the Obligated Group, at the request of LPH, the Public Finance Authority issued its Revenue Bonds (The Obligated Group of National Senior Communities, Inc.), Series 2022 (the "Series 2022 Bonds") in the aggregate par amount of \$41,710,000, plus an original issue premium of \$3,565,421. Proceeds from the Series 2022 Bonds were used to (a) refund the previously issued Series 2011B in the outstanding principal amount of \$17,355,981, (b) fund the construction of a new continuing care facility, a pedestrian skyway bridge and other capital improvements to existing facilities, (c) fund capitalized interest on a portion of the Series 2022 Bonds, and (d) pay costs of issuance related to the transaction.

Deferred financing costs of \$1,192,728 incurred in connection with the Series 2022 Bonds are included in bonds payable, net of current portion on the Consolidated Balance Sheets, and are amortized over the life of the bonds using the straight-line method, which approximates the effective interest rate method.

Required payments on the debt outstanding as of December 31, 2022 are as follows:

2023	\$ 3,070,000
2024	3,330,000
2025	3,480,000
2026	3,650,000
2027	3,820,000
Years thereafter	<u>132,635,000</u>
Total future principal payments	149,985,000
Less: Current portion	(3,070,000)
Less: Deferred financing costs, net	(3,834,549)
Add: Bond premium	<u>4,019,993</u>
Bonds payable, net of current portion	<u>\$ 147,100,444</u>

Linden Ponds, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

9. Net Assets With Donor Restrictions

Net assets with donor restrictions were designated for the following purposes as of December 31:

	2022	2021
Resident care	\$ 2,573,375	\$ 2,555,060
Scholarship	1,119,257	1,167,927
Staff appreciation	10,862	10,570
Total funds with donor restrictions	<u>\$ 3,703,494</u>	<u>\$ 3,733,557</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes for the years ended December 31:

	2022	2021
Resident care	\$ 112,036	\$ 128,935
Scholarship	156,779	140,746
Total net assets released from restriction	<u>\$ 268,815</u>	<u>\$ 269,681</u>

Staff appreciation funds totaling \$354,150 and \$351,330 were expended during the years ended December 31, 2022 and 2021, respectively. These amounts are included in both other revenue and salaries, wages and benefits on the Consolidated Statements of Operations.

10. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date consisted of the following as of December 31:

	2022	2021
Cash	\$ 19,236,766	\$ 12,497,386
Short-term investments	7,039,458	5,051,336
Accounts receivable	1,995,808	1,298,469
Promissory notes receivable	3,656,600	4,165,900
Beneficial interest in National CCRC Business Trust I	42,339,202	41,219,340
	<u>\$ 74,267,834</u>	<u>\$ 64,232,431</u>

The Community has assets invested in the Business Trust which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above.

As part of the Community's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and the Business Trust. These funds invested with the Business Trust may be drawn upon, if necessary, to meet unexpected liquidity needs.

Linden Ponds, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

11. Functional Expenses

LPH provides program services to residents within the Community. Operating expenses by nature and function related to providing these services were as follows for the years ended December 31:

	2022				
	Program Services			Support Services	Total
	Independent Living	Continuing Care	Ancillary Health	General and Administration	
Expenses					
Salaries, wages and benefits	\$ 11,684,741	\$ 12,934,413	\$ 2,452,235	\$ 5,427,992	\$ 32,499,381
Professional and contracted services	2,758,784	860,055	55,329	4,920,401	8,594,569
Supplies	3,706,200	1,678,890	81,595	229,348	5,696,033
General and administrative	5,274,313	653,300	7,808	710,463	6,645,884
Management fees	2,149,421	789,216	—	—	2,938,637
Interest	6,733,854	—	—	—	6,733,854
Real estate taxes	1,694,642	163,214	—	—	1,857,856
Depreciation	11,823,233	166,771	11,907	—	12,001,911
Expenses incurred related to net assets with donor restrictions	268,815	—	—	—	268,815
Total expenses	<u>\$ 46,094,003</u>	<u>\$ 17,245,859</u>	<u>\$ 2,608,874</u>	<u>\$ 11,288,204</u>	<u>\$ 77,236,940</u>

	2021				
	Program Services			Support Services	Total
	Independent Living	Continuing Care	Ancillary Health	General and Administration	
Expenses					
Salaries, wages and benefits	\$ 11,027,621	\$ 10,715,481	\$ 2,667,729	\$ 5,419,152	\$ 29,829,983
Professional and contracted services	2,326,332	727,007	52,522	4,562,164	7,668,025
Supplies	3,304,937	2,026,293	162,033	239,624	5,732,887
General and administrative	4,969,195	564,578	7,809	651,550	6,193,132
Management fees	1,744,944	732,690	—	—	2,477,634
Interest	8,666,408	—	—	—	8,666,408
Real estate taxes	1,767,970	170,274	—	—	1,938,244
Depreciation	11,474,760	192,861	11,906	—	11,679,527
Expenses incurred related to net assets with donor restrictions	269,681	—	—	—	269,681
Total expenses	<u>\$ 45,551,848</u>	<u>\$ 15,129,184</u>	<u>\$ 2,901,999</u>	<u>\$ 10,872,490</u>	<u>\$ 74,455,521</u>

Natural expenses attributable to more than one functional expense category are allocated using various cost allocation techniques such as building use and time and effort.

12. Commitments and Contingencies

LPH is subject to legal proceedings and claims which arise from the normal course of business. In the opinion of management, the amount of ultimate liability with respect to these proceedings and claims will not materially affect the financial position, cash flow or results of operations of LPH.

Linden Ponds, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

13. Subsequent Event

Subsequent events have been evaluated by management through April 28, 2023, which is the date the consolidated financial statements were issued. On February 22, 2023, the Management and Marketing Agreement was amended effective January 1, 2023. The relevant terms that changed have been provided in these footnotes, where applicable.

Supplemental Information

Linden Ponds, Inc. and Subsidiary
Consolidated Supplemental Schedule
for the years ended December 31, 2022 and 2021

(Unaudited)	2022	2021
Cash and investments		
Cash	\$ 19,236,766	\$ 12,497,386
Short-term investments	7,039,458	5,051,336
Beneficial interest in National CCRC Business Trust I	42,339,202	41,219,340
Total cash and investments	<u>\$ 68,615,426</u>	<u>\$ 58,768,062</u>
Change in cash and investments		
Cash	\$ 6,739,380	\$ 8,362,024
Short term investments	1,988,122	(653,506)
Beneficial interest in National CCRC Business Trust I	1,119,862	5,436,028
Change in cash and investments	<u>\$ 9,847,364</u>	<u>\$ 13,144,546</u>
Cash provided by business operations:		
Total operating revenue and other support	\$ 71,876,365	\$ 68,266,551
Less: Amortization of non-refundable resident entrance fees	(1,984,028)	(1,894,894)
Add: Net cash flows related to entrance fees	13,687,093	12,772,078
Cash provided by business operations	<u>83,579,430</u>	<u>79,143,735</u>
Total operating expenses	(77,236,940)	(74,455,521)
Less: Depreciation	12,001,911	11,679,527
Less: Interest expense	6,733,854	8,666,408
Cash used for operating expenses	<u>(58,501,175)</u>	<u>(54,109,586)</u>
Purchases of property and equipment (on-going)	(5,686,980)	(4,452,642)
Cash used in business operations	<u>(64,188,155)</u>	<u>(58,562,228)</u>
Net cash provided by business operations	<u>19,391,275</u>	<u>20,581,507</u>
Other sources and uses of cash:		
Net investment (loss)/income	(6,494,372)	3,457,959
Capital contribution to related organization	—	(200,925)
Net proceeds from bond issuances and drawdowns	45,275,421	—
Purchases of property and equipment (repositioning)	(1,113,994)	(147,140)
(Decrease)/increase in working capital	(19,609,900)	155,184
Debt service	(27,502,897)	(11,161,755)
Funding of statutory reserve	(68,106)	(72,301)
(Net assets released from restriction)/restricted contributions, net	(30,063)	532,017
Net cash used in non-operating activities	<u>(9,543,911)</u>	<u>(7,436,961)</u>
Total change in cash and investments	<u>\$ 9,847,364</u>	<u>\$ 13,144,546</u>

Linden Ponds, Inc. and Subsidiary
Note to Consolidated Supplemental Schedule
for the years ended December 31, 2022 and 2021

1. Basis of Presentation and Accounting

The Consolidated Supplemental Schedule presented on page 28 is derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information is presented for the purpose of providing additional analysis of the consolidated financial statements, rather than to present the financial positions and changes in net assets (deficit) of LPH, and are not a required part of the consolidated financial statements. The information is intended to expand on the sources and uses of cash generated by the operations of the Community which are monitored by management to determine the overall health and performance of the Community as a whole.