

# **Harrogate, Incorporated**

Financial Statements

December 31, 2022 and 2021

# Harrogate, Incorporated

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## Independent Auditors' Report

To the Board of Trustees of  
Harrogate, Incorporated

### Opinion

We have audited the financial statements of Harrogate, Incorporated (the Corporation), which comprise the balance sheet as of December 31, 2022, and the related statements of operations and changes in net deficit and cash flows for the year then ended, and the related notes to the financial statements.

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

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Other Matter

The financial statements of the Corporation as of December 31, 2021, were audited by other auditors whose report dated April 19, 2022, expressed an unmodified opinion on those statements.

### Responsibilities of Management for the Financial Statements

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

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

### Auditors' 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the 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 the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

*Baker Tilly US, LLP*

Philadelphia, Pennsylvania  
April 20, 2023

# Harrogate, Incorporated

Balance Sheets

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash	\$ 2,676,107	\$ 3,290,430
Accounts receivable, net	1,696,379	1,870,578
Prepaid and other current assets	362,565	338,783
Investments	2,685,932	2,015,114
Assets limited as to use	513,777	798,044
Interest rate swap	770,941	-
Property and equipment, net	23,593,726	23,204,755
Other assets	867,794	645,571
	<u>33,167,221</u>	<u>32,163,275</u>
Total assets	<u>\$ 33,167,221</u>	<u>\$ 32,163,275</u>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,418,743	\$ 1,757,286
Long-term debt, net of unamortized financing costs	9,404,688	7,313,287
Interest rate swap	-	192,736
Refundable entrance fees	29,203,959	29,401,964
Other liabilities	217,721	454,257
Deferred nonrefundable entrance fees, net	10,031,789	9,577,258
	<u>50,276,900</u>	<u>48,696,788</u>
Total liabilities	<u>50,276,900</u>	<u>48,696,788</u>
<b>Net Assets (Deficit)</b>		
Without donor restrictions	(18,651,234)	(17,518,209)
With donor restrictions	1,541,555	984,696
	<u>(17,109,679)</u>	<u>(16,533,513)</u>
Total net assets (deficit)	<u>(17,109,679)</u>	<u>(16,533,513)</u>
Total liabilities and net assets (deficit)	<u>\$ 33,167,221</u>	<u>\$ 32,163,275</u>

See notes to financial statements

# Harrogate, Incorporated

Statements of Operations and Changes in Net Deficit  
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Changes in Net Deficit Without Donor Restrictions</b>		
Revenue and other support:		
Monthly service fees:		
Independent living	\$ 10,636,964	\$ 10,255,383
Health center	5,129,243	5,417,582
Deferred entrance fees recognized	2,229,723	2,498,484
Interest and dividends	100,434	128,361
Grant income	-	116,041
Contributions	106,037	105,836
Other	2,572	33,409
Net assets released from restrictions	<u>112,590</u>	<u>64,494</u>
Total revenue and other support	<u>18,317,563</u>	<u>18,619,590</u>
Expenses:		
Salaries	7,881,007	7,276,671
Employee benefits	1,012,154	1,029,885
Payroll taxes	800,317	752,231
General and administrative	3,061,987	2,986,201
Bed debt expense	212,370	463,729
Interest	525,551	431,796
Supplies and other	2,853,496	2,650,090
Food and food supplies	1,106,541	925,661
Depreciation and amortization	<u>2,662,489</u>	<u>2,451,802</u>
Total expenses	<u>20,115,912</u>	<u>18,968,066</u>
Operating loss	<u>(1,798,349)</u>	<u>(348,476)</u>
Investment loss, net	(154,665)	(4,581)
Loss on disposal of property and equipment	(371,741)	(109,650)
Impairment loss	-	(775,295)
Forgiveness of economic relief loan	-	1,479,999
Change in value of split-interest agreements	<u>228,053</u>	<u>(18,945)</u>
Revenues (less than) in excess of expenses	(2,096,702)	223,052
Change in value of interest rate swap	<u>963,677</u>	<u>(192,736)</u>
Change in net deficit without donor restrictions	<u>(1,133,025)</u>	<u>30,316</u>
<b>Change in Net Assets With Donor Restrictions</b>		
Interest and dividends	20,875	31,250
Contributions	697,945	31,523
Net assets released from restrictions	(112,590)	(64,494)
Investment return	<u>(49,371)</u>	<u>22,495</u>
Change in net assets with donor restrictions	<u>556,859</u>	<u>20,774</u>
Change in net deficit	(576,166)	51,090
<b>Net Deficit, Beginning</b>	<u>(16,533,513)</u>	<u>(16,584,603)</u>
<b>Net Deficit, Ending</b>	<u>\$ (17,109,679)</u>	<u>\$ (16,533,513)</u>

See notes to financial statements

**Harrogate, Incorporated**

## Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flows From Operating Activities</b>		
Change in net deficit	\$ (576,166)	\$ 51,090
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Economic relief loan forgiveness	-	(1,479,999)
Impairment loss	-	775,295
Loss on disposal of property and equipment	371,741	109,650
Proceeds from nonrefundable entrance fees	3,145,607	2,662,066
Refundable entrance fees applied to financial assistance	55,296	(137,808)
Unrealized loss (gain) on investments and assets limited as to use	190,852	(45,279)
Loss on sale of investments and assets limited as to use	13,184	76
Bad debts and financial assistance	539,493	748,519
Depreciation and amortization	2,662,489	2,451,802
Amortization of deferred bond discount	-	4,932
Write-off of deferred bond discount	-	12,956
Amortization of deferred financing costs	41,101	11,054
Write-off of deferred bond issuance costs	-	24,423
Change in value of split interest agreements	(228,053)	18,945
Fair value of donated securities	(666,686)	-
Change in value of interest rate swap contract	(963,677)	192,736
Amortization of deferred application and entrance fees	(2,229,723)	(2,498,484)
Changes in operating assets and liabilities:		
Accounts receivable	(400,023)	(1,251,926)
Prepaid and other current assets	(23,782)	134,055
Accounts payable and accrued expenses	(338,543)	192,715
Refundable advance, grant	-	(116,041)
Deferred gift plans support	(32,200)	(32,199)
Net cash provided by operating activities	<u>1,560,910</u>	<u>1,828,578</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(3,278,616)	(2,522,371)
Proceeds from sale of property and equipment	-	1,050
Costs of acquiring contracts	(343,091)	(303,903)
Purchase of investments and assets limited as to use	(2,964,876)	(130,587)
Proceeds from sale of investments and assets limited as to use	<u>2,999,536</u>	<u>1,093,867</u>
Net cash used in investing activities	<u>(3,587,047)</u>	<u>(1,861,944)</u>
<b>Cash Flows From Financing Activities</b>		
Repayment of mortgage bonds payable	(139,700)	(6,640,000)
Proceeds from long-term debt	2,190,000	7,600,000
Deferred financing fees	-	(220,175)
Proceeds from refundable entrance fees	3,522,610	2,633,506
Refunds of deposits and refundable advances	<u>(4,202,535)</u>	<u>(2,509,569)</u>
Net cash provided by financing activities	<u>1,370,375</u>	<u>863,762</u>
Net (decrease) increase in cash	(655,762)	830,396
<b>Cash and Restricted Cash and Cash Equivalents, Beginning</b>	<u>3,748,346</u>	<u>2,917,950</u>
<b>Cash and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 3,092,584</u>	<u>\$ 3,748,346</u>
<b>Supplemental Disclosure of Cash Flow Data</b>		
Interest paid	<u>\$ 421,241</u>	<u>\$ 378,431</u>
<b>Reconciliation of Cash and Restricted Cash and Cash Equivalents to the Statement of Financial Position</b>		
Cash in current assets	\$ 2,676,107	\$ 3,290,430
Cash and cash equivalents in assets limited as to use	<u>416,477</u>	<u>457,916</u>
	<u>\$ 3,092,584</u>	<u>\$ 3,748,346</u>

See notes to financial statements

# Harrogate, Incorporated

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Notes to Financial Statements  
December 31, 2022 and 2021

## 1. Organization and Summary of Significant Accounting Policies

### Organization and Business

Harrogate, Incorporated (the Corporation) was formed as a nonprofit corporation in the State of New Jersey on September 14, 1982 and is located in Lakewood, New Jersey. The sole function of the Corporation is to provide resident housing, skilled nursing care, maintenance and medical assistance for qualified senior citizens. This community operates under the life care concept in which residents enter into an occupancy agreement which requires payment of a one-time entrance fee and a monthly fee. Generally, these payments entitle residents to the use and privileges of the community. The residents do not acquire an interest in real estate and property. The Corporation provides a life care retirement community for individuals 62 years of age or older and is composed of 253 apartments and a health center containing 68 skilled nursing care beds.

### Use of Estimates

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

### Cash and Cash Equivalents

The Corporation considers all highly liquid financial instruments with maturities of three months or less at date of purchase to be cash equivalents, except for those classified as assets limited as to use and investments. For purposes of the statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less.

### Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues and other support less than expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheets are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

### Assets Limited as to Use

The Corporation separately accounts for and reports various funds which are restricted by third parties for specific purposes. These assets are recorded at fair value which is determined by reference to quoted market prices at December 31, 2022 and 2021.



# Harrogate, Incorporated

Notes to Financial Statements

December 31, 2022 and 2021

## Accounts Receivable

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowances are estimated by management based on general factors such as payor mix, aging of the receivables and historical collection experience. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and accounts are deemed impaired.

## Concentrations of Credit Risk

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

The Corporation grants credit without collateral to its residents, primarily related to providing residential and healthcare related services. Credit risk related to accounts receivable, residents is limited due to the fact that open balances are deducted from any refundable portion of entrance fees payable to the departing resident or their estate upon re-occupancy. An allowance for doubtful accounts is provided when there are no entrance fees payable to a resident or when an outstanding balance exceeds the entrance fee payable and management determines that the resident's account may not be collectible. If an existing resident is unable to pay the monthly service fee, the resident can apply for financial assistance. The Corporation charges the difference between what the resident can pay and the monthly service fee to financial assistance. For the years ended December 31, 2022 and 2021, financial assistance was \$327,124 and \$284,790, respectively.

The Corporation's health center includes patients who are residents of the community as well as individuals from outside of the community. Health care services are covered by private pay, Medicare and other supplemental insurance. In evaluating the collectability of health center receivables, the Corporation analyzes its past history and identifies trends for each of its major payor sources or revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of allowance for doubtful accounts.

At December 31, 2022 and 2021, the total allowance for doubtful accounts was \$135,773 and \$429,861, respectively.

The mix of receivables from residents, patients and third-party payers at December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare and supplemental insurance	59 %	68 %
Residents and other accounts receivable	41	32
Total	<u>100 %</u>	<u>100 %</u>

## **Harrogate, Incorporated**

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Notes to Financial Statements  
December 31, 2022 and 2021

### **Performance Indicator**

The statements of operations and changes in net deficit includes revenues (less than) in excess of expenses as the performance indicator. Changes in net deficit without donor restrictions, which are excluded from revenues (less than) in excess of expenses, consistent with industry practice, include the change in the value of the interest rate swap.

### **Interest Rate Swap Contract**

The Corporation uses an interest rate swap contract to manage risks related to interest rate movements. The Corporation recognizes its interest rate swap contract as a derivative, which is recognized on the balance sheet at fair value at the end of each period. The interest rate swap contract is designated as and met all of the criteria for a cash flow hedge.

The Corporation documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Corporation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap contract to convert the variable rate debt to a fixed rate and not for speculative purposes. The Corporation anticipates that this contract will continue to be effective.

### **Costs of Acquiring Contracts**

The Corporation capitalizes the costs directly associated with obtaining each residency agreement (see Note 3). Capitalized costs consist of commissions paid out to marketing staff and packing and moving expenses incurred on specific resident contracts. These costs are recorded as costs of acquiring contracts and are amortized over the expected life of the resident. The account is written down to zero when the residency agreement is terminated due to resident death or move out. As of December 31, 2022 and 2021, costs of acquiring contracts amounted to approximately \$799,000 and \$561,000, respectively, which is included in other assets on the balance sheets. Amortization expense related to these capitalized costs amounted to \$144,585 and \$71,377 for the years ended December 31, 2022 and 2021, respectively, and are included in depreciation and amortization expense.

### **Obligation to Provide Future Services**

The Corporation periodically calculates the present value of the net cost of future service and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net obligation to provide future service and use of facilities (discounted at 3.5%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. Deferred revenue from entrance fees exceeded the calculation of the present value of the net cost of future services. Therefore, an additional liability for an obligation to provide future services and use of facilities is not required as of December 31, 2022 and 2021.

### **Endowment Funds**

The Corporation has determined that the New Jersey Uniform Prudent Management of Institutional Funds Act (NJUPMIFA), an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), applies to the Corporation's endowment funds.

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

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### Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Depreciation and amortization are computed using the straight-line method principally over the following estimated useful lives:

	<u>Years</u>
Land and building improvements	20
Buildings	25-40
Furniture, fixtures and equipment	5-15
Vehicles	3-5

The Corporation reviews its long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable.

### Charitable Gift Annuities

The Corporation provides programs to fund gift annuity contracts for individuals desiring to participate. The Corporation is required, by state mandate, to establish a reserve which amounted to approximately \$120,000 and \$380,000 at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Corporation has approximately \$120,000 and \$401,000, respectively, in assets limited to use for the gift annuity contracts.

### Advertising Costs

The Corporation expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately \$545,000 and \$521,000 in 2022 and 2021, respectively.

### Deferred Financing Costs

Deferred financing costs consist of debt origination and related fees and are presented in the balance sheet as a direct deduction from the carrying amount of the debt balances to which such costs relate. Amortization of deferred financing costs is amortized using the straight-line method, which approximates the effective interest rate method, over the term of the debt. Amortization of these costs is included with interest expense in the statements of operations and changes in net deficit.

### Functional Allocation of Expenses

The costs of providing the Corporation's programs and supporting services have been summarized on a functional basis in the statements of operations and changes in net deficit. Costs that can be identified with a specific program or support service are charged directly to that program or support service. Staff costs are allocated based on time and effort. Costs associated with occupancy are allocated based upon square footage. Management and general expenses include costs not identifiable with any specific program, but which provide for the overall support and direction of the Corporation.

# Harrogate, Incorporated

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Notes to Financial Statements  
December 31, 2022 and 2021

## Net Assets (Deficit)

The accompanying financial statements present information regarding the Corporation's financial position and operations according to two classes of net assets based on the existence or absence of donor-imposed restrictions. The two categories are differentiated as follows:

**Without Donor Restrictions** - Net assets (deficit) without donor restrictions represent funds available for support of the Corporation's functions and operations that are not externally restricted for identified purposes by donors. Net assets (deficit) without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Corporation and an outside party other than a donor.

**With Donor Restrictions** - Net assets (deficit) with donor restrictions are those whose use by the Corporation has been limited by donors to a specific period or purpose. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions, or when the stipulated time has passed. Other donor-imposed restrictions on net assets are permanent in nature. These net assets have been restricted by donors to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restrictions is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets (deficit) without donor restrictions.

## Revenue Recognition

### Monthly Service Fee Income

Monthly service fee income is reported at the amount that the Corporation expects to be entitled in exchange for providing residential services and amenities as well as health care services. Residential and medical services are provided to residents in accordance with signed residency agreements (see Note 3). Health care services are also provided to nonresidents with payment due from patients and third-party payors (including health insurers and government programs). Residents are billed a monthly fee for services and nonresidents or third-party payors are billed several days after services are performed. Revenue is recognized as performance obligations are satisfied.

The performance obligation for residents under a residential agreement is that the Corporation is standing ready each month to provide residential and medical services to the resident based on his or her needs. The performance obligation is satisfied over time and is recognized based on the monthly service fee amounts. The monthly service fees are specified in the resident agreement and are the transaction price as they are considered a monthly option to extend the contract.

The performance obligation for nonresidents is satisfied over time as patients in the health center receive inpatient acute care services. Revenue is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation measures the performance obligation from admission into the health center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge.

The Corporation determines the transaction price for nonresidents in the health center based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements and historical experience.

## Harrogate, Incorporated

Notes to Financial Statements

December 31, 2022 and 2021

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

**Medicare** - Certain health care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules.

**Other** - Payment agreements with certain commercial insurance carriers provide payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Corporation has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by payors and service lines. The following tables provide details of these factors.

The composition of service fee income by primary payor for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Residents, independent living	\$ 10,636,964	\$ 10,255,383
Residents, health center	1,944,803	1,913,020
Private pay, health center	688,196	1,238,361
Medicare, health center	1,840,676	1,747,094
Other insurance, health center	655,568	519,107
Total	<u>\$ 15,766,207</u>	<u>\$ 15,672,965</u>

The composition of service fee income based on its line of business for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Independent living	\$ 10,636,964	\$ 10,255,383
Health center	5,129,243	5,417,582
Total	<u>\$ 15,766,207</u>	<u>\$ 15,672,965</u>

### Grants

Revenue from grants with resource providers such as the government agencies are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to the Corporation, the revenue from the grant is accounted for as an exchange transaction. For purposes of determining whether a transfer of asset is a contribution or an exchange, the Corporation deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. Moreover, the execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider.

## **Harrogate, Incorporated**

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Notes to Financial Statements  
December 31, 2022 and 2021

Revenue from grants that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Revenue from grants that are accounted for as contributions is recognized when performance requirements are met and/or allowable qualifying expenditures have been incurred. Cash received in excess of revenue recognized is recorded as refundable advances. There were no refundable advances outstanding as of December 31, 2022 and 2021. At December 31, 2022 and 2021 all of the Corporation's grants are accounted for as conditional contributions as there are either certain performance requirements to be met or allowable qualifying expenses need to be incurred.

### **Contributions**

Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Corporation has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Corporation fails to overcome the barrier. The Corporation recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contributions without donor restrictions.

### **Entrance Fees**

Upon occupancy, the nonrefundable deferred portion of the entrance fees is amortized on the straight-line basis to income over the estimated remaining life of the residents. The refundable portion of the entrance fees, which are refunded upon reoccupancy, is included in refundable entrance fees until the refunds are paid.

### **Income Taxes**

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. The Corporation is also exempt from state and local income taxes.

The Corporation's federal and state income tax returns prior to calendar year 2018 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. There were no uncertain tax positions at December 31, 2022 and 2021.

The Corporation's policy is to recognize interest related to tax matters in interest expense and penalties in operating expenses.

### **Reclassifications**

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 presentation.

### **Subsequent Events**

The Corporation has evaluated subsequent events through April 20, 2023, which is the date the financial statements were available to be issued.

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

### 2. Liquidity and Availability

Financial assets available for general expenditure within one year consist of the following:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash	\$ 2,676,107	\$ 3,290,430
Accounts receivable, net	1,696,379	1,870,578
Investments	2,685,932	2,015,114
Assets limited as to use	<u>513,777</u>	<u>798,044</u>
Total financial assets	<u>7,572,195</u>	<u>7,974,166</u>
Less amounts not available to be used within one year:		
Board-designated endowment fund	200,340	259,662
Net assets with donor restrictions	1,541,555	984,696
Assets limited as to use	<u>513,777</u>	<u>798,044</u>
Financial assets not available to be used within one year	<u>2,255,672</u>	<u>2,042,402</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,316,523</u>	<u>\$ 5,931,764</u>

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources.

The Corporation has various sources of liquidity at its disposal including cash, investments and a steady revenue stream from its monthly resident service fees. Refunds due on return of capital residency agreements are not required to be repaid until the unit is reoccupied. The Corporation has invested a portion of its resources without restrictions in long-term investments, but these funds remain available and may be spent if needed. Although the Board of Trustees does not intend to spend the \$200,340 Board-designated endowment fund, the funds could be made available if necessary.

### 3. Entrance Fee Deposits, Residency Agreements and Monthly Service Fees

When a residency agreement (the Agreement) is signed, a deposit of at least 10% of the entrance fee is collected. The balance of the fee is payable prior to occupancy, but no later than 90 days from the date of the Agreement. Generally, depositors may cancel their Agreement at any time prior to admission and receive a full refund of the entrance deposit with interest.

After occupancy, residents may terminate the Agreement at any time by giving 60 days' written notice. In the event of such termination, entrance amounts will be refunded as follows:

1. On a declining balance basis reduced by 1% per month of residency or 2% - 4% per month of residency in the event the termination of the Agreement is due to the death of the resident (Traditional Residency Agreement), upon reoccupancy; or
2. On a fixed percentage (90%, 75% or 50%) basis should the resident elect to leave the community or upon the death of the resident (90%, 75% or 50% Return of Capital Residency Agreement), upon reoccupancy.

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

At December 31, 2022 and 2021, deposits of \$123,376 and \$114,603, respectively, have been received from future residents who have signed Agreements. Funds on deposit are generally classified as assets limited as to use until the final balance is collected from the resident.

As of December 31, 2022 and 2021, approximately \$40,272,000 and \$40,088,000, respectively, of Agreements were in place. The Agreements obligate the Corporation to provide residents the use of an apartment and the right to care in the health center until termination of the Agreement.

As part of the Agreement, residents are charged monthly service fees based upon rates established by the Corporation on an annual basis.

#### 4. Property and Equipment

Property and equipment are stated at cost and consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,074,852	\$ 2,074,852
Land and building improvements	25,571,466	23,113,275
Buildings	30,695,753	30,705,488
Furniture, fixtures and equipment	8,348,057	8,343,038
Vehicles	<u>217,176</u>	<u>217,176</u>
Subtotal	66,907,304	64,453,829
Less accumulated depreciation	(43,797,069)	(41,806,318)
Construction in progress	<u>483,491</u>	<u>557,244</u>
Total	<u>\$ 23,593,726</u>	<u>\$ 23,204,755</u>

Substantially all property and equipment have been collateralized under debt agreements. Depreciation expense was \$2,517,904 and \$2,380,425 in 2022 and 2021, respectively. Construction in progress relates to costs incurred for future projects of the Corporation. Assets classified as construction in progress and development fees are not currently being used by the Corporation. The Corporation will start depreciation once the assets are placed in service.

Losses on disposal of property and equipment were \$371,741 and \$109,650 for the years ended 2022 and 2021, respectively.



## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

### 5. Assets Limited as to Use

The composition of assets limited as to use is set forth in the following table:

	<u>2022</u>	<u>2021</u>
Restricted by agreement with third-party:		
Savings entrance fees	\$ 124,254	\$ 126,160
Charitable gift annuities	119,549	401,884
Total	<u>243,803</u>	<u>528,044</u>
Restricted by debt agreements:		
Debt service, term loan	<u>269,974</u>	<u>270,000</u>
Total assets limited as to use	<u>\$ 513,777</u>	<u>\$ 798,044</u>

### 6. Fair Value of Financial Instruments

The Corporation measures its investments, assets whose use is limited and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

Financial assets and liabilities carried at fair value at December 31, 2022 and 2021 are classified in the tables below in one of the three categories described above:

	2022			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash management funds	\$ 657,229	\$ -	\$ -	\$ 657,229
Certificates of deposit	-	104,489	-	104,489
Equity securities	816,135	-	-	816,135
U.S. treasuries	-	785,380	-	785,380
Corporate bonds	-	322,699	-	322,699
Total investments at fair value	<u>\$ 1,473,364</u>	<u>\$ 1,212,568</u>	<u>\$ -</u>	<u>\$ 2,685,932</u>
Assets limited as to use:				
Cash management funds	\$ 146,502	\$ -	\$ -	\$ 146,502
Equity securities	39,547	-	-	39,547
Corporate bonds	-	57,753	-	57,753
Cash and cash equivalents	269,975	-	-	269,975
Total assets limited as to use	<u>\$ 456,024</u>	<u>\$ 57,753</u>	<u>\$ -</u>	<u>\$ 513,777</u>
Interest rate swap asset	<u>\$ -</u>	<u>\$ 770,941</u>	<u>\$ -</u>	<u>\$ 770,941</u>
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (19,549)</u>	<u>\$ (19,549)</u>
	2021			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash management funds	\$ 679,417	\$ -	\$ -	\$ 679,417
Certificates of deposit	-	154,860	-	154,860
Equity securities	811,295	-	-	811,295
Corporate bonds	-	369,542	-	369,542
Total investments at fair value	<u>\$ 1,490,712</u>	<u>\$ 524,402</u>	<u>\$ -</u>	<u>\$ 2,015,114</u>
Assets limited as to use:				
Cash management funds	\$ 187,916	\$ -	\$ -	\$ 187,916
Equity securities	210,050	-	-	210,050
Corporate bonds	-	130,078	-	130,078
Cash and cash equivalents	270,000	-	-	270,000
Total assets limited as to use	<u>\$ 667,966</u>	<u>\$ 130,078</u>	<u>\$ -</u>	<u>\$ 798,044</u>
Interest rate swap liability	<u>\$ -</u>	<u>\$ (192,736)</u>	<u>\$ -</u>	<u>\$ (192,736)</u>
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (279,803)</u>	<u>\$ (279,803)</u>

## Harrogate, Incorporated

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Notes to Financial Statements

December 31, 2022 and 2021

Cash management funds and equity securities are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Certificates of deposit are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (Level 2).

Corporate bonds and U.S. treasuries are valued using quoted market prices for similar investments (Level 2).

Interest rate swap agreement - The fair value is estimated by a third-party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified as Level 2.

The fair value of the gift annuity liability is calculated using actuarial assumptions and other present value techniques.

### 7. Endowment

The Corporation's endowment consists of funds established for a variety of purposes. The endowment includes donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Corporation has interpreted NJUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by NJUPMIFA. In accordance with NJUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the Corporation and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation (depreciation) of investments, (6) other resources of the Corporation and (7) the Corporation's investment policies.

The Corporation has adopted investment return objectives, risk parameters and strategies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes cash, money market funds, equity securities and fixed income funds, that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to growing the funds, if possible. Therefore, the Corporation expects its endowment assets, over time, to produce an average rate of return that is consistent or exceeds the market annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

The Corporation has an annual endowment spending policy that is specifically designed to assist in funding annual programming objectives and to preserve the value of the investment portfolio over time. In establishing this policy, the Corporation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Corporation expects the current spending policy to allow its endowment funds to grow at a nominal average rate based on the market annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

From time-to-time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Trustees of the Corporation has interpreted NJUPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2022 and 2021, the Corporation did not have any underwater endowment funds.

Endowment net asset composition by type of fund at December 31, 2022 and 2021 is as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 200,340	\$ -	\$ 200,340
Original donor-restricted gift amount required to be maintained in perpetuity	-	619,952	619,952
Accumulated investment gains	-	135,116	135,116
	<u>\$ 200,340</u>	<u>\$ 755,068</u>	<u>\$ 955,408</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 259,662	\$ -	\$ 259,662
Original donor-restricted gift amount required to be maintained in perpetuity	-	619,952	619,952
Accumulated investment gains	-	178,147	178,147
	<u>\$ 259,662</u>	<u>\$ 798,099</u>	<u>\$ 1,057,761</u>

Changes in endowment net assets for the year ended December 31, 2022 and 2021 are as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 259,662	\$ 798,099	\$ 1,057,761
Gain/(loss)	206	712	918
Investment income, net	37,765	20,632	58,397
Net appreciation (depreciation)	(85,117)	(49,456)	(134,573)
Management fees	(1,090)	(628)	(1,718)
Amounts appropriated for expenditure	(11,086)	(14,291)	(25,377)
Endowment net assets, ending	<u>\$ 200,340</u>	<u>\$ 755,068</u>	<u>\$ 955,408</u>

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 725,637	\$ 780,061	\$ 1,505,698
Gain/(loss)	(1,009)	723	(286)
Investment income, net	107,950	28,209	136,159
Net appreciation (depreciation)	(2,781)	22,452	19,671
Management fees	(1,627)	(680)	(2,307)
Amounts appropriated for expenditure	(568,508)	(32,666)	(601,174)
Endowment net assets, ending	<u>\$ 259,662</u>	<u>\$ 798,099</u>	<u>\$ 1,057,761</u>

### 8. Long-Term Debt

Long-term debt and financing leases consists of the following at December 31:

	2022	2021
Term loan bearing interest at the Prime Rate, with a floor of 3.25%, plus 0.25% (7.75% at December 31, 2022). The term loan requires payments of principal and interest to be made on a monthly basis with a balloon payment of approximately \$6,368,000 due at maturity in December 2028.	\$ 7,460,300	\$ 7,600,000
Delayed Draw Term Loan, bearing interest at the Prime Rate, with a floor of 3.25%, plus 0.50% (8.00% at December 31, 2022). The term loan requires payments of principal and interest to be made on a monthly basis with a balloon payment of approximately \$986,000 due at maturity in December 2028	2,190,000	-
Total	9,650,300	7,600,000
Less deferred finance cost, net	245,612	286,713
Long-term debt	<u>\$ 9,404,688</u>	<u>\$ 7,313,287</u>

In December 2021, the Corporation entered into a credit agreement with a third-party financial institution. The credit agreement consists of a term loan facility and a delayed draw term loan facility with maximum principal amounts of \$7,600,000 and \$3,000,000, respectively. Approximately \$4,335,000 of proceeds from the term loan were used to refund a prior outstanding mortgage bond payable.

The delayed draw term loan allows for the Corporation to draw up to \$3,000,000 of funds during the delayed draw availability period which commences on December 22, 2021 and ends on December 22, 2023. As of December 31, 2022, \$2,190,000 of the funds had been drawn down. The proceeds from the delayed draw term loan are to be used only to renovate and refurbish resident units and to fund resident refund fee obligations net of any upfront fees received with respect to the re-occupancy of such unit. The credit agreement contains restrictions on the dollar amount of draw activity that can be made against the delayed draw term loan for renovations and refurbishments of model units.

## Harrogate, Incorporated

Notes to Financial Statements  
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In connection with the term loan facility, the Corporation entered into an interest rate swap contact to reduce the impact of fluctuations in interest rates. The contract took effect on December 22, 2021 and converts the variable rates defined under the term loan to a fixed rate of 5.117%. The initial notional principal amount is \$7,600,000 which decreases each month in line with principal payments made against the term loan. The interest rate swap contract expires on December 22, 2028. At December 31, 2022, the fair value of the interest rate swap contract was an asset of \$770,941.

Principal repayments on the term loan in each of the five years subsequent to December 31, 2022 and thereafter are as follows:

Years ending December 31:	
2023	\$ 160,100
2024	371,557
2025	397,902
2026	425,853
2027	455,328
Thereafter	<u>7,839,560</u>
Total	<u>\$ 9,650,300</u>

The loans originated under the credit agreement are collateralized by substantially all assets of the Corporation and all accounts and revenues arising from the operations of the property. The credit agreement contains certain annual and interim affirmative and negative covenants, including maintenance of certain financial ratios, as defined in the agreement. Outstanding principal amounts may be prepaid, however, are subject to prepayment premiums as defined in the credit agreement.

### 9. Paycheck Protection Program

In April 2020, the Corporation entered into an unsecured promissory note with OceanFirst Bank in the amount of \$1,479,999 pursuant to the Paycheck Protection Program (the PPP Loan), which was established under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) and is administered by the U.S Small Business Administration (the SBA). Under the CARES Act, PPP Loan recipients meeting certain criteria set by the SBA may be eligible for full or partial forgiveness of such loans. During the year ended December 31, 2021, the Corporation submitted its application for PPP Loan forgiveness and received notice from its lender in August 2021 that the SBA approved forgiveness of the full amount. Accordingly, the Corporation derecognized the PPP Loan and recognized a corresponding gain on debt forgiveness. There is a six-year period during which the SBA can review the Corporation's forgiveness calculation.

### 10. Consulting Services

Life Care Services (LCS), an unrelated consulting company, provides consulting services to the community in accordance with the terms of a five-year contract effective January 1, 2017. The monthly consulting fee is calculated based upon specific terms per the agreement. There is also an annual bonus incentive calculated based upon any excess of actual annual operating revenue over budgeted operating revenue. The agreement is cancelable by either party upon six months' written notice (60 days' notice with cause). The Corporation at times may utilize LCS for services outside the scope of the agreement and is billed extra for these services. In 2022 and 2021, LCS charged the Corporation approximately \$466,000 and \$479,000, respectively, for consulting fees. In December 2021, the Corporation renewed this agreement for another five-year period effective January 1, 2022.

## **Harrogate, Incorporated**

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Notes to Financial Statements

December 31, 2022 and 2021

### **11. Charitable Gift Annuity**

The Corporation has established a program to receive contributions under charitable gift annuities. Under this program, donors can contribute assets to the Corporation and in return receive a guaranteed fixed income for life. The Corporation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions. At December 31, 2022 and 2021, deferred gift plans support liabilities of \$19,549 and \$279,803, respectively, are reflected in the balance sheet.

### **12. Employee Benefit Plans**

The Corporation maintains a defined contribution annuity plan (the Plan) (Internal Revenue Code Section 403(b)) covering substantially all employees. Eligible employees are permitted to contribute up to 100% of pretax annual compensation up to Internal Revenue Service limitations. The Corporation matches 50% of employee contributions up to 3% of their compensation, which is discretionary. The Corporation also has the ability to make an additional annual discretionary contribution. All employee contributions to the Plan are fully vested, while contributions made by the Corporation vest over a three-year period. Corporate contributions to the Plan were approximately \$59,000 and \$56,000 in December 31, 2022 and 2021, respectively.

The Corporation maintains a 457(b) deferred compensation plan (457(b) Plan) for key employees. The total value of the 457(b) Plan's assets has been reported as other assets on balance sheet and totaled approximately \$198,000 and \$174,000 at December 31, 2022 and 2021, respectively. The 457(b) Plan liability has been reported as other liabilities on the balance sheet and totaled approximately \$198,000 and \$174,000 at December 31, 2022 and 2021, respectively.

### **13. Impairment of Long-Lived Assets**

In December 2015, the Corporation entered into a development agreement with LCS to develop and construct a new building and renovate a portion of its existing community. Due to the uncertainty surrounding the project's future benefits and profitability, the Corporation had not moved forward with the project. In 2021, management made the final determination that they would no longer pursue completion of this project. As a result, the amount of construction in progress costs related to this project no longer have any market value. During the year ended December 31, 2021, the Corporation recorded an impairment loss of \$775,295 which reduced the asset to \$0.

## Harrogate, Incorporated

Notes to Financial Statements  
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### 14. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specific purpose:		
Professional development	\$ 134,327	\$ 154,811
Health Center improvement	621,986	-
Scholarships	30,174	31,786
	<u>786,487</u>	<u>186,597</u>
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Scholarships	96,362	125,797
Resident financial assistance	38,755	52,350
	<u>135,117</u>	<u>178,147</u>
Subject to endowment spending policy and appropriation:		
Scholarships	164,115	164,115
Resident financial assistance	100,860	100,860
General	354,976	354,977
	<u>619,951</u>	<u>619,952</u>
Total endowments	<u>755,068</u>	<u>798,099</u>
Total	<u>\$ 1,541,555</u>	<u>\$ 984,696</u>

Net assets released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donors are as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Scholarships	\$ 44,875	\$ 31,828
Professional development	20,484	-
Health Center improvement	44,700	-
Resident financial assistance	2,531	32,666
Total	<u>\$ 112,590</u>	<u>\$ 64,494</u>

### 15. Commitments and Contingencies

#### Regulatory Requirements

The Corporation is regulated by the New Jersey Department of Community Affairs pursuant to the Continuing Care Retirement Community Regulation and Financial Disclosures Act (the Act). The Act requires, among other things, that the Corporation establish and maintain liquid reserves which generally are equal to 15% of the projected operating expenses (excluding depreciation) related to contract residents. The Corporation has complied with that requirement at December 31, 2022 and 2021.



## Harrogate, Incorporated

Notes to Financial Statements

December 31, 2022 and 2021

### Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity has continued to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident Services previously billed. Management is not aware of any material incidents of noncompliance.

### Litigation

The Corporation is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of the Corporation's management, any liability resulting from such litigation would be covered by insurance and would not be material in relation to the Corporation's financial statements.

## 16. Functional Expenses

The Corporation provides housing, healthcare and other related services to residents within its geographic location. The financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest and other occupancy costs, are allocated to a function based on a square footage basis. Expenses related to providing these services, including depreciation and amortization are as follows for the years ended December 31:

	2022		
	Program Services	Management and General	Total
Salaries	\$ 6,470,061	\$ 1,410,946	\$ 7,881,007
Employee benefits	833,947	178,207	1,012,154
Payroll taxes	687,192	113,125	800,317
Insurance	288,444	15,181	303,625
Equipment rental and maintenance	93,440	23,082	116,522
Bad debt expense	-	212,370	212,370
Repairs and maintenance	353,237	9,195	362,432
Interest	499,273	26,278	525,551
Advertising and promotion	-	544,557	544,557
Real estate taxes	788,054	41,476	829,530
Supplies	319,378	44,032	363,410
Professional and consulting fees	134,541	507,741	642,282
Management fees	159,013	466,457	625,470
Program activities, services and supplies	955,619	-	955,619
Other expenses	174,261	358,802	533,063
COVID -19 expenses	997	-	997
Food and food supplies	1,106,541	-	1,106,541
Utilities	606,077	31,899	637,976
Depreciation and amortization	2,529,365	133,124	2,662,489
Total	\$ 15,999,440	\$ 4,116,472	\$ 20,115,912

## Harrogate, Incorporated

Notes to Financial Statements  
December 31, 2022 and 2021

	2021		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 5,918,766	\$ 1,219,613	\$ 7,138,379
Employee benefits	906,159	123,726	1,029,885
Payroll taxes	645,063	107,168	752,231
Insurance	234,164	12,324	246,488
Equipment rental and maintenance	114,589	18,577	133,166
Bad debt expense	-	463,729	463,729
Repairs and maintenance	291,535	16,929	308,464
Interest	410,206	21,590	431,796
Advertising and promotion	-	520,882	520,882
Real estate taxes	746,998	39,316	786,314
Supplies	351,369	28,270	379,639
Professional and consulting fees	60,790	759,238	820,028
Management fees	138,292	479,323	617,615
Program activities, services and supplies	889,468	-	889,468
Other expenses	173,965	342,152	516,117
COVID -19 expenses	73,241	-	73,241
Food and food supplies	925,661	-	925,661
Utilities	459,003	24,158	483,161
Depreciation and amortization	2,329,211	122,591	2,451,802
Total	<u>\$ 14,668,480</u>	<u>\$ 4,299,586</u>	<u>\$ 18,968,066</u>