LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Audit and Oversight Committee
Lexington Retirement Community, Inc.
dba: Kendal at Lexington
Lexington, Virginia

We have audited the accompanying financial statements of Lexington Retirement Community, Inc. dba: Kendal at Lexington, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit and Oversight Committee
Lexington Retirement Community, Inc.
dba: Kendal at Lexington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lexington Retirement Community, Inc. dba: Kendal at Lexington as of December 31, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
April 14, 2021

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,154,308	$ 507,921
Accounts Receivable, Net of Allowance for Doubtful Accounts of $182,210 in 2020 and $117,224 in 2019	753,939	526,548
Contributions Receivable and Other	42,311	70,711
Entry Fee Receivable	922,705	1,197,224
Prepaid Expenses and Other	380,579	324,182
Current Portion of Assets Limited as to Use	4,205,014	5,060,794
Total Current Assets	8,458,856	7,687,380
INVESTMENTS	27,811,173	29,773,454
ASSETS LIMITED AS TO USE		
By Trustee Under Bond Indenture	5,205,571	6,436,698
By Board	3,483,821	3,387,072
Escrowed Deposits	400,710	761,269
By Donors	1,748,028	2,755,359
Total	10,838,130	13,340,398
Less: Current Portion of Assets Limited as to Use	(4,205,014)	(5,060,794)
Total Assets Limited as to Use	6,633,116	8,279,604
PROPERTY AND EQUIPMENT		
Land	824,971	824,971
Buildings and Improvements	87,653,537	63,705,327
Equipment and Furniture	5,681,597	4,371,828
Construction in Progress	1,521,532	16,761,966
Total	95,681,637	85,664,092
Less: Accumulated Depreciation	(29,251,617)	(26,862,165)
Property and Equipment, Net	66,430,020	58,801,927
OTHER ASSETS		
Contributions Receivable	18,577	66,731
Insurance Deposits	376,368	375,119
Beneficial Interest in Charitable Remainder Unitrust Receivable	28,020	25,507
Total Other Assets	422,965	467,357
Total Assets	$ 109,756,130	$ 105,009,722

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2020 AND 2019

	2020	2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 2,004,727	$ 1,050,000
Accounts Payable and Accrued Expenses	3,256,567	4,302,324
Accrued Interest Payable	986,716	993,517
Due to The Kendal Corporation	273,963	16,668
Entry Fee Refund Payable	726,142	489,871
Refundable Advance	404,535	-
Total Current Liabilities	7,652,650	6,852,380
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	46,224,378	47,019,296
Deferred Entrance Fee Revenue	42,272,049	39,980,763
Refundable Contract Obligations	239,550	239,550
Entry Fee Deposits	400,710	761,269
Total Long-Term Liabilities	89,136,687	88,000,878
Total Liabilities	96,789,337	94,853,258
NET ASSETS		
Without Donor Restrictions	7,656,036	3,861,084
Without Donor Restrictions - Board Designated	3,483,821	3,387,072
Total Net Assets Without Donor Restrictions	11,139,857	7,248,156
With Donor Restrictions	1,826,936	2,908,308
Total Net Assets	12,966,793	10,156,464
Total Liabilities and Net Assets	$ 109,756,130	$ 105,009,722

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
REVENUE		
Net Residential Services Revenue	$ 8,462,021	$ 6,856,008
Health Center Fees	5,451,211	5,349,306
Amortization of Deferred Entry Fees	3,794,091	3,614,285
Investment Income	828,061	733,992
Unrealized Gain (Loss) on Equity Securities	1,308,535	2,138,304
Contributions	525	1,990
Other Income	233,853	393,299
Provider Relief Funds	310,085	
Net Assets Released from Restrictions	36,189	65,470
Total Revenue	20,424,571	19,152,654
OPERATING EXPENSES		
General and Administrative	2,353,688	2,134,853
Housekeeping and Laundry	417,400	361,319
Maintenance	1,039,201	1,074,071
Food Service	2,026,413	1,883,932
Health Service	4,508,573	4,211,245
Employee Benefits	1,576,020	1,478,887
Utilities	677,306	569,755
Real Estate Taxes	305,211	286,747
Affiliation and Service Fee	559,140	468,504
Interest Expense	1,543,856	936,214
Depreciation Expense	2,791,626	2,221,163
Provision for Bad Debt (Recovery) Expenses	108,116	(505)
Total Operating Expenses	17,906,550	15,626,185
INCOME FROM OPERATIONS	2,518,021	3,526,469
NONOPERATING LOSS		
Loss on Disposal of Property and Equipment	(41,367)	(108,635)
Total Nonoperating Loss	(41,367)	(108,635)
EXCESS OF REVENUE OVER EXPENSES	$ 2,476,654	$ 3,417,834

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
EXCESS OF REVENUE OVER EXPENSES	$ 2,476,654	$ 3,417,834
OTHER CHANGES IN NET ASSETS - WITHOUT DONOR RESTRICTIONS		
Unrealized Gain on Fixed Income Securities and Other Investments	53,691	33,011
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	1,361,356	1,800
Increase in Net Assets - Without Donor Restrictions	3,891,701	3,452,645
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	172,823	141,480
Investment Income	153,888	200,522
Provision for Bad Debt Expense	(13,051)	(419)
Change in the Beneficial Interest in Charitable Remainder Unitrust Receivable	2,513	5,226
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	(1,361,356)	(1,800)
Net Assets Released from Restrictions Used for Operations	(36,189)	(65,470)
Increase (Decrease) in Net Assets - With Donor Restrictions	(1,081,372)	279,539
INCREASE IN NET ASSETS	2,810,329	3,732,184
Net Assets - Beginning of Year	10,156,464	6,424,280
NET ASSETS - END OF YEAR	$ 12,966,793	$ 10,156,464

See accompanying Notes to Financial Statements.

LEXINGTON RETIREMENT COMMUNITY, INC.
DBA: KENDAL AT LEXINGTON
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	$ 2,810,329	$ 3,732,184
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Loss on Disposals of Property and Equipment	41,367	108,635
Unrealized and Realized Loss (Gain) on Investments and Assets Limited As to Use	(1,462,450)	(2,328,778)
Depreciation Expense	2,791,626	2,221,163
Provision for Bad Debt (Recovery) Expenses	108,116	(505)
Amortization of Deferred Financing Costs	52,248	52,246
Entry Fee Amortization	(3,794,091)	(3,614,285)
Deferred Entry Fees Received, Net of Refunds	2,898,352	3,285,723
Amortization of Original Issue Premium	(211,736)	(224,445)
(Increase) Decrease in:		
Accounts Receivables, Net	(335,507)	(144,622)
Contributions Receivable and Other	74,041	114,489
Prepaid Expenses and Other	(56,397)	(136,824)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(243,920)	(570,530)
Accrued Interest Payable	(6,801)	(15,214)
Refundable Advance	404,535	
Due to Kendal Corporation	257,295	7,308
Net Cash Provided by Operating Activities	3,327,007	2,486,545
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(11,262,923)	(16,293,800)
Purchases and Sales of Investments, Net	3,424,731	(9,833,320)
Withdraws (Deposit) of Self Insurance	(1,249)	221,792
Decrease in Assets Limited As to Use	1,015,111	14,197,366
Net Cash Used by Investing Activities	(6,824,330)	(11,707,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
First Generation Entry Fees Received, Net of Refunds	3,337,256	8,853,242
Repayment of Long-Term Debt	(1,050,000)	(1,020,000)
Proceeds from PPP Loan	1,369,297	-
Net Cash Provided by Financing Activities	3,656,553	7,833,242
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	159,230	(1,388,175)
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	4,662,352	6,050,527
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 4,821,582	$ 4,662,352
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest, Net of Capitalized Interest	$ 1,971,733	$ 1,002,720

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lexington Retirement Community, Inc. (LRC) or (the Corporation) was formed March 16, 1995 as a Virginia nonstock corporation for the purpose of establishing, maintaining, operating, and managing a continuing care retirement community in Lexington, Virginia. LRC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC).

Effective March 11, 1997, LRC amended its bylaws for the purpose of affiliating with The Kendal Corporation, a Pennsylvania nonprofit organization. Certain activities of LRC require the approval of The Kendal Corporation. The amended bylaws specify the composition of LRC's board of directors and create authority for a residents' association. LRC has registered the trade name Kendal at Lexington with the Commonwealth of Virginia.

In July 2000, LRC commenced operations. LRC consists of 150 independent living residences in cottages, cottage clusters, and apartments, plus an assisted living facility for 20 residents at December 31, 2020. At December 31, 2019 there were 142 independent living residences.

Effective September 6, 2001, LRC became the sole member of Lexington Health Investors, LLC (LHI). LHI was a Virginia limited liability company whose purpose was to operate a 60-bed nursing facility on approximately two acres of land, which was transferred by LRC. LHI was exempt from federal income tax under Section 501(c)(3) of the IRC. LHI financed the construction of the facility, which began in September 2001 and was completed in September 2002, through a loan from a local hospital as well as a tax-exempt bond issue. LRC was the sole member of LHI. On December 31, 2009, LHI dissolved and all assets, liabilities, and net assets were transferred to LRC.

Use of Estimates

The preparation of the 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

The Corporation considers cash and cash equivalents to include all highly liquid investments with maturities of three months or less. Cash balances are principally uninsured and subject to normal credit risks. Cash and cash equivalents within funds identified as investments held under bond indenture and escrowed deposits for entrance fees are considered restricted in nature.

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

Cash, Cash Equivalents, and Restricted Cash (Continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows at December 31, 2020 and 2019:

	2020	2019
Cash	$ 2,154,308	$ 507,921
Restricted Cash Included in Assets Held by Trustee for Construction	547	1,071,521
Restricted Cash Included in Assets Held by Trustee for Debt Service Reserve	167,067	44,465
Restricted Cash Included in Assets Held by Trustee for Principal and Interest	2,098,950	2,277,176
Restricted Cash Included in Escrowed Deposits for Entrance Fees	400,710	761,269
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statements of Cash Flows	$ 4,821,582	$ 4,662,352

Allowance for Doubtful Accounts

The Corporation provides an allowance for uncollectible accounts using management's estimate about the collectibility of past due accounts. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due more than 30 days are individually analyzed for collectibility. When all collection efforts have been exhausted, the accounts are written off against the related allowance. Management believes that the allowance for doubtful accounts is adequate to provide for estimated uncollectible accounts associated with the accounts receivable balances.

Entry Fee Receivable

Entry fee receivable represents entrance fees that are deferred for up to 12 months after a resident occupies a unit. The receivable is expected to be collected during the next 12 months and is, therefore, categorized as a current asset as of December 31, 2020 and 2019. Management determined that no allowance is necessary on the entry fee receivable.

Investments

Investments are comprised primarily of mutual funds, equity securities and debt securities and are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Investment income, including interest and dividends, unrealized gains (losses) on equity securities, declines in market value deemed to be other than temporary and earnings on trustee held funds, are reported as investment income, and included in the deficiency of revenue over expenses. The cost of substantially all securities sold is based on the specific identification method. Unrealized gains (losses) from fixed income and other securities are excluded from the excess of revenue over expenses.

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

Investments (Continued)

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the risk associated with certain investments, it is reasonably possible that changes in the value of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under bond indenture agreements, escrowed deposits, and certain donor-restricted assets. In addition, unrestricted resources designated by the Corporation’s board are reported as assets limited as to use. Assets limited as to use are carried at fair value. Certain amounts required for obligations classified as current liabilities are reported in current assets.

The Corporation’s board has designated a portion of cash and investments for specific purposes, which include future capital replacements and repairs, fellowship assistance, employee education, and other general purposes. The Corporation’s board retains control of these assets and may at its discretion subsequently use the funds for other purposes.

Concentration of Credit Risk

The Corporation maintains its cash accounts at commercial banks. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in the bank may exceed FDIC insurable limits. The funds on deposit in brokerage accounts are insured by the SIPC up to $500,000.

Property and Equipment

The Corporation capitalizes all expenditures for property and equipment with costs over $1,000 and an estimated life greater than one year. The cost of maintenance and repairs are charged against operations as incurred. Property and equipment is stated at cost or at fair value at the date of donation. Depreciation of office furniture and equipment is computed using the straight-line method over estimated useful lives ranging from 3 to 20 years. Buildings and improvements are depreciated on a straight-line basis over 3 to 40 years. Depreciation expense was $2,791,626 and $2,221,163 and for the years ended December 31, 2020 and 2019, respectively.

Net Assets

The Corporation reports information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Include net assets available for use in general operations and not subject to donor restrictions. At times, the governing board can designate, from net assets without donor restrictions, net assets for a board-designated purposes.

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

Net Assets (Continued)

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as an increase in net assets without donor restrictions.

Deferred Entrance Fee Revenue

Nonrefundable entry fees paid by residents pursuant to a continuing care contract are recorded as deferred revenue and amortized into operating revenue over the actuarially determined life expectancy of each resident or couple, adjusted annually (time-based). Upon death of a sole surviving resident, any remaining unamortized portion of the entry fee is recognized as revenue.

A resident may terminate their contract at any time during the first 90 days, without notice. After that, 30 days' notice is required. In both instances, the paid entry fee is decreased by 2% per month. Amounts refundable are equal to the original fee paid less 2% for each month of occupancy. At December 31, 2020 and 2019, the portion of deferred entry fee revenue subject to such refund provisions amounted to approximately $16,745,000 and $17,171,000, respectively.

Other contracts include a 50% and a 90% refundable option upon the death of the resident or upon termination by the resident. Refunds are payable once the resident's unit is reoccupied. Refundable amounts under these contracts are not amortized to revenue.

Obligation to Provide Future Services

The Corporation annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred entry fee revenue. If the present value of the net cost of future services and the use of facilities exceeds the deferred entry fee revenue, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5% in 2020 and 2019, based on the expected long-term rate of return on investments. Increases or decreases in the obligation are charged or credited to operations, respectively. This calculation did not result in a liability as of December 31, 2020 and 2019.

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

Charitable Gift Annuities

The Corporation receives assets from donors under gift annuity agreements in exchange for a promise to pay a fixed amount during the annuitant's or specified beneficiary's life. Assets received are recorded at fair value, and a liability is recognized for the present value of future cash flows expected to be paid to the donor. Contribution revenue is recognized for the difference between these amounts. Adjustments to the annuity liability are made annually to reflect changes in the discount rate and the life expectancies of the donors. As of December 31, 2020 and 2019, the Corporation was not the beneficiary of charitable gift annuities.

Charitable Remainder Unitrust

The Corporation is the beneficiary of one charitable remainder unitrust. Each year, the trustees pay the recipients during the recipient's life an annuity amount. Upon the death of the recipient, the trustee will distribute the principal and income of the trust. The trust requires the Corporation to use the principal and income for a specified purpose.

Performance Indicator

The statement of operations include excess of revenues over expenses, known as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator, include unrealized gains (losses) on investments from fixed income and other securities and net assets released from restrictions used for purchase of property and equipment.

Net Residential and Health Center Fees Revenue (Resident Services Revenue)

Resident services revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the residents and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

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

Net Residential and Health Center Fees Revenue (Resident Services Revenue) (Continued)

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in the facility receiving skilled nursing services or residents receiving services in the facility. The Corporation measures the performance obligation from admission into the facility, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the residents. The Corporation does not believe it is required to provide additional goods or services related to that sale. The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation’s policy and/or implicit price concessions provided to residents. The Corporation determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience.

Medicare and Medicaid

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegation of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Medicare Reimbursement

The Balanced Budget Act of 1997 modified how payment is made for Medicare SNF services. SNFs are reimbursed on the basis of a prospective payment system (PPS). The PPS payment rates are adjusted for case mix and geographic variation in wages and cover all costs of furnishing SNF covered services (routine, ancillary, and capital related costs). Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

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

Net Residential and Health Center Fees Revenue (Resident Services Revenue) (Continued)

Medicare Reimbursement (Continued)

Nursing facilities licensed for participation in the Medicare and Medical Assistance programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, Centers for Medicare and Medicaid Services (CMS) may impose sanctions and penalties during the period of noncompliance. Such a payment ban would have a negative impact on the revenues of the licensed nursing facility. The Centers for Medicare and Medicaid Services (CMS) recently finalized the Patient Driven Payment Model (PDPM) to replace the existing Medicare reimbursement system effective October 1, 2019. Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident’s length of stay.

Medicaid Reimbursement

Beginning in 2017, the Virginia Department of Medical Assistance Services (DMAS), with the support of the Governor and the General Assembly, began transitioning Medicaid members that have full Medicaid coverage and are age 65 or older or are disabled, to a mandatory Medicaid managed care program (MCO), referred to as the Commonwealth Coordinated Care Plus (CCC Plus). The CCC Plus program consists of six managed care health plans and became effective for the Corporation’s Medicaid residents November 1, 2017. The Corporation is reimbursed by each MCO according to their contract. Currently, all six organization use the Commonwealth of Virginia Medicaid Fee Schedule.

Net Residential Services Revenue

Residential service revenue is comprised of revenue from the independent living services (Residential Living). Residential services revenue is recorded at established rates with vacancies and absence allowances deducted to arrive at net residential services revenue. Monthly residential occupancy fees are recognized as revenue in the month of assessment.

Health Center Fees Revenue

Health center fees revenue is comprised of revenue from the assisted living and skilled nursing facility.

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

Net Residential and Health Center Fees Revenue (Resident Services Revenue) (Continued)

Health Center Fees Revenue (Continued)

The composition of the Corporation's health center fees revenue by primary payor for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Traditional Medicaid	$ 9,443	$ 43,370
Traditional Medicare	1,450,357	1,512,180
Private Pay, Managed Care Organizations and Other (Including Medicare and Medicaid MCO's)	3,991,411	3,793,756
Total Health Center Fees Revenue	$ 5,451,211	$ 5,349,306

The composition of revenue based on service lines, method of reimbursement and timing of revenue recognition for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Service Lines:		
Residential Living	$ 8,462,023	$ 6,856,008
Skilled Nursing	4,795,794	4,715,237
Assisted Living	655,417	634,069
Retail Sales (Dining)	94,918	177,717
Rental Income	23,108	50,377
Other Ancillary Charges	115,827	165,205
Total	$ 14,147,087	$ 12,598,613
Method of Reimbursement:		
Fee for Services	$ 14,029,061	$ 12,370,519
Other	118,026	228,094
Total	$ 14,147,087	$ 12,598,613
Timing of Revenue and Recognition:		
Health Care Services Transferred Over Time	$ 14,029,061	$ 12,370,519
Sales at Point in Time	118,026	228,094
Total	$ 14,147,087	$ 12,598,613

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

Net Residential and Health Center Fees Revenue (Resident Services Revenue) (Continued)

Occupancy Percentages

During the years ended December 31, 2020 and 2019, the occupancy percentages and the percentages of the Borden Health Center residents covered under the Medicaid program, Medicare program, private pay, managed care organizations (MCO) and other were as follows:

	2020	2019
Traditional Medicaid	- %	1 %
Traditional Medicare	15	13
Private Pay, Managed Care Organizations and Other (Including Medicare and Medicaid MCO's)	85	86
Total	100 %	100 %

Revenue from resident's deductibles and coinsurance are included in the categories presented above based on the primary payor.

Professional Liability Insurance

The Corporation's professional liability insurance is on the claims made basis.

Income Taxes

The Corporation has been granted exempt status relative to federal and state corporate income taxes under Section 501(c)(3) of the IRC and applicable state codes. The Corporation follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard has no impact on the Corporation's financial statements.

New Accounting Standard – ASU No. 2018-13

Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes and modifies disclosure requirements retrospectively for non-public entities. The ASU is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. The Corporation adopted the ASU for the year ended December 31, 2020.

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

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through April 14, 2021, the date the financial statements were available to be issued.

NOTE 2 RELATED PARTY TRANSACTIONS

On December 1, 2014, Kendal at Lexington entered into an Affiliation Agreement with the Kendal Corporation of Kennett Square, Pennsylvania. Under the terms of the Affiliation Agreement, The Kendal Corporation has certain reserve powers which include approval of any change in purpose, incurring indebtedness over a certain threshold, the manner in which the Kendal name is used, material changes in contracts with residents, certain real estate transactions, dissolution, acquisition, merger or change in control of the corporation, selection of new board members, amendment to certain sections of the bylaws and Articles of Incorporation of Kendal at Lexington. The Kendal Corporation also has the right to review the operation, strategic, and other plans, projections, and performance of its Affiliates and may request, or require, changes, if it deems them necessary. The bylaws also specify that the two organizations may have certain board members in common, and that the president of The Kendal Corporation, or his/her designee, is entitled to attend the board meetings, ex officio.

The Kendal Corporation does not own its affiliates or any of their assets. The Kendal System is a federal-type model that seeks to be sensitive to local environments, with the most decision-making at the local level, added to the benefit of being part of a larger, national system. Oversight of each Kendal organization is provided by a local volunteer board of directors, and residents and community members serve together on those boards.

The Kendal Corporation maintains reserve funds, which are available according to the purpose of each fund, solely at the discretion of The Kendal Corporation board of directors; these funds include Contingency Reserve and a System Growth Fund. The Kendal Corporation sponsors pension, deferred compensation, and self-insured medical plans for employees, which affiliates may participate in.

Effective November 17, 2016, Kendal at Lexington entered into an agreement for Development Services with the Kendal Corporation for project direction, planning, and coordination of design, budget, financing, and oversight of construction of expansion and renovation project. Total fees of $243,750 and $30,984 were incurred for the years ended December 31, 2020 and 2019, respectively (See Note 12).

Kendal at Lexington pays a System Fee to The Kendal Corporation as defined by the Affiliation Agreement. Total system fees of $559,140 and $468,504 were incurred for the years ended December 31, 2020 and 2019, respectively.

NOTE 3 ENTRY FEE DEPOSITS

As of December 31, 2020 and 2019, some prospective residents have paid an entry fee deposit, signed a Residency Agreement, and selected a unit. These deposits (which are refundable if the prospective resident does not move in) are held in escrow and are reflected in the financial statements as assets limited as to use. Under the terms of the escrow agreement, interest on these deposits is the property of the Corporation and is recorded as investment income by the Corporation when earned. Upon individual occupancies, deposits will be released from escrow and recorded as deferred entry fee revenue on the balance sheets. As of December 31, 2020 and 2019, entry fee deposits for the new Sunrise Ridge cottages were $-0- and $539,439, respectively. The remaining balance of $400,710 and $221,830, respectively, represents deposits on existing units.

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE

Fund Held by Bond Trustee

The Corporation is required to hold the funds in various accounts based on the terms in the Indenture dated October 1, 2016 and Supplemental Indentures for Series 2017A and 2017B dated December 1, 2017.

Debt Service Reserve Funds

Debt service reserve funds have been established to provide a reserve for payment of principal and interest on the bonds in the event the Corporation's principal and interest payments are insufficient to meet debt service requirements.

Construction Fund

Construction fund has been established to hold bond proceeds temporarily for the Phase III expansion and renovation project.

Interest Funds

Interest funds have been established to pay interest costs related to 2016, Series 2017A and 2017B bond debt.

Principal Funds

Principal funds have been established to service the required principal payments to bondholders.

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Board-Designated Funds

The board-designated funds are designated for the following:

	2020	2019
Capital Reserve Fund	$ 2,360,353	$ 2,141,121
Phase III Project	428,331	444,362
Undesignated	356,211	323,127
Executive Search	-	171,016
Resident Financial Assistance	247,132	224,178
Staff Education	91,794	83,268
Total	$ 3,483,821	$ 3,387,072

Escrowed Deposits

The escrowed deposits are cash restricted for deposits made by prospective residents.

Investments

Investments, recorded at fair value, are summarized by type of investment as follows:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	$ 7,486,006	$ 7,486,006	$ 12,508,450	$ 12,508,450
Mutual Funds	20,075,002	15,777,536	16,514,997	13,679,824
Fixed Income and Equities	250,165	250,000	750,007	750,000
Total	$ 27,811,173	$ 23,513,542	$ 29,773,454	$ 26,938,274

Assets Limited as to Use

Assets limited as to use, recorded at fair value, are summarized by type of investment as follows:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Cash and Cash Equivalents	$ 1,323,174	$ 1,323,174	$ 4,154,430	$ 4,154,430
U.S. Government Securities	2,939,006	2,885,315	1,012,780	1,001,655
Fixed Income	-	-	2,030,755	2,008,870
Mutual Funds	6,575,950	6,575,950	6,142,433	6,142,433
Total	$ 10,838,130	$ 10,784,439	$ 13,340,398	$ 13,307,388

NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Assets Limited as to Use (Continued)

The composition of assets limited as to use is as follows:

	2020	2019
Held by Trustee for Construction	$ 547	$ 1,071,521
Held by Trustee for Debt Service Reserve	3,106,074	3,088,001
Held by Trustee for Bond Principal and Interest	2,098,950	2,277,176
Board-Designated Funds	3,483,821	3,387,072
Escrowed Deposits for Entry Fees	400,710	761,269
By Donors	1,748,028	2,755,359
Total	$ 10,838,130	$ 13,340,398

Investment income from investments and assets limited as to use is as follows:

	2020	2019
Without Donor Restrictions:		
Dividends and Interest Income, Net of Fees	$ 828,016	$ 733,698
Net Realized Gain (Loss) on Investments	45	294
Total	$ 828,061	$ 733,992
Net Unrealized Gain (Loss) on Investments	$ 1,362,226	$ 2,171,315
With Donor Restrictions:		
Dividends and Interest Income, Net of Fees	$ 53,660	$ 43,353
Net Realized Loss on Investments	3	21
Net Unrealized Gain (Loss) on Investments	100,225	157,148
Total	$ 153,888	$ 200,522

NOTE 5 NET ASSETS

Net assets with donor restrictions are comprised of the following:

	2020	2019
Health Centers Renovations	$ -	$ 1,230,908
Resident Financial Assistance (Fellowship Fund)	1,628,728	1,425,844
Contributions Receivable	78,908	152,949
Staff Education	82,285	77,104
Other	37,015	21,503
Total	$ 1,826,936	$ 2,908,308

Net assets with donor restrictions held in perpetuity at December 31, 2020 and 2019 were $255,922 for resident financial assistance and $54,932 for staff education.

NOTE 5 NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The Commonwealth of Virginia adopted the Uniform Prudent Management of Institutional Funds Act (the Act) effective during 2008. The board of directors of the Corporation has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as net assets with donor restrictions (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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.

The endowment remains in net assets with donor restrictions until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, the Corporation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

The following were the changes in the endowment net assets for the years ended December 31, 2020 and 2019:

	With Donor Restrictions
Endowment Net Assets - December 31, 2018	$ 411,808
Contributions	26,500
Investment Income, Net of Fees	13,985
Net Appreciation Realized and Unrealized Gains, Net	50,701
Net Asset Releases	(44,393)
Endowment Net Assets - December 31, 2019	458,601
Contributions	-
Investment Income, Net of Fees	16,374
Net Appreciation Realized and Unrealized Gains, Net	30,583
Net Asset Releases	(31,513)
Endowment Net Assets - December 31, 2020	$ 474,045

NOTE 5 NET ASSETS (CONTINUED)

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Corporation to retain as a fund of perpetual duration. As of December 31, 2020 and 2019, there were no deficiencies of this nature that are reported in assets with donor restrictions.

Other Policies

The Corporation has established guidelines for accepting, investing, managing and using donor restricted and donor unrestricted endowments. Once the requirements are met to establish an endowment, a portion of the endowment is deemed expendable for spending. Up to 5% of the three-year rolling average market value of the endowment principal, appreciated/depreciated value and unspent investment earnings at year-end is deemed expendable. Any funds not expended in that year, may be carried over for future use.

NOTE 6 CONSTRUCTION IN PROGRESS

At December 31, 2020, construction in progress consists of $1,086,965 related to Phase III renovations and expansion of the community and $434,567 for other projects. During 2020, approximately $25,000,000 of construction on progress was placed in service for eight residential living cottages, a maintenance building, an emergency access road, expansion and renovation of the main dining room and a portion of the Webster Assisted Living Center and the Benjamin Borden Health Center renovation and expansion. The entire Phase III expansion is expected to be completed by mid-year 2021 at a cost of slightly over $40,000,000.

NOTE 7 LONG-TERM DEBT

In October 2016, the Industrial Development Authority of the city of Lexington, Virginia, issued $28,210,000 of tax-exempt Residential Care Facility Refund Revenue Bonds. Principal is due annually on January 1 of each year. Interest is due semiannually on January 1 and July 1 beginning January 1, 2017.

NOTE 7 LONG-TERM DEBT (CONTINUED)

The proceeds of the Series 2016 Bonds were used to refund the Authority's Residential Care Facilities Mortgage Revenue Bonds Series 2007A, to fund a debt service reserve fund for the Series 2016 Bonds, and to finance cost of issuing the Series 2016 Bonds. At the time of issuance, a portion of the proceeds were placed into escrow to refund the Series 2007A Bonds on January 1, 2017. The Series 2007A Bonds were no longer outstanding and deemed to be fully deceased. The Series 2016 Bonds were issued at a premium of $1,765,790.

In December 2017, the Industrial Development Authority of the city of Lexington, Virginia, issued $20,380,000 of tax-exempt Residential Care Facility Revenue Bonds Series 2017A. Interest is due semiannually on January 1 and July 1 beginning July 1, 2018. Principal payments begin in 2038.

The proceeds of the Series 2017A Bonds are to be used to (1) pay the costs of improvement to Kendal at Lexington, including, but not limited to (a) 30 new residential cottages, (b) an expansion and renovation to the existing dining facility and the addition of a second floor exterior patio, (c) an expansion and renovation to the existing Benjamin Borden Nursing Health Center, (d) the expansion and renovation to the existing Webster Assisted Living Health Center, (e) the construction of a new emergency road access to the Community, (f) the construction of a new maintenance facility and (g) the lowering of the road to the main entrance, (2) pay all or a portion of the costs of issuance in connection with the issuance of the Series 2017A Bonds, and (5) pay working capital and other routine capital expenditures. The bonds were issued at a premium of $1,477,102.

In addition, the Authority issued its Residential Care Facility Revenue Bond Series 2017B in the principal amount up to $13,000,000. The Series 2017B was sold directly to STI Institutional & Government, Inc. (an Affiliate of SunTrust Bank). The Series 2017B Bond was to be used to (1) pay the costs of the Series 2017 project, (2) pay a portion of the cost of issuance in connection with the issuance of the Series 2017B Bond, (3) fund interest on the Series 2017B Bond prior to, during and up to one year after the completion of the Series 2017 Project, and (4) pay working capital and other routine capital expenditures. Interest is due monthly. The rate is equal to 67.0% of LIBOR, plus .5% multiplied by the Margin Rate Factor. The maturity date is January 1, 2023. At December 31, 2020 and 2019, the outstanding debt on the Series 2017B Bonds was $50,001.

NOTE 7 LONG-TERM DEBT (CONTINUED)

The components and maturities of long-term debt are as follows:

Description	2020	2019
Series 2016:		
Tax-Exempt Serial Bonds, Maturing between 2020 and 2024 at 4.00% and Amounts Ranging from $1,080,000 to $1,215,000	$ 4,590,000	$ 5,640,000
Tax-Exempt Term Bond, 2.75%, Maturing 2026	2,565,000	2,565,000
Tax-Exempt Term Bond, 4.00%, Maturing 2031	6,480,000	6,480,000
Tax-Exempt Term Bond, 3.25%, Maturing 2031	760,000	760,000
Tax-Exempt Term Bond, 4.00%, Maturing 2037	8,815,000	8,815,000
Tax-Exempt Term Bond, 3.375%, Maturing 2037	1,900,000	1,900,000
Series 2017B:		
Variable Intermediate Term Bond, .7337% Maturing January 1, 2023.	50,001	50,001
Series 2017A:		
Tax-Exempt Term Bonds, 5.0%. Maturing 1/1/2042	7,965,000	7,965,000
Tax-Exempt Term Bonds, 4.0%. Maturing 1/1/2043	1,840,000	1,840,000
Tax-Exempt Term Bonds, 5.0%. Maturing 1/1/2048	10,575,000	10,575,000
Paycheck Protection Program		
PPP Loan, 1.0%, Maturing 5/1/2022	1,369,297	-
Long-Term Debt	46,909,298	46,590,001
Unamortized Debt Issuance Costs	(1,090,660)	(1,142,907)
Unamortized Bond Premium	2,410,467	2,622,202
Total	48,229,105	48,069,296
Less: Current Portion of Long-Term Debt	(2,004,727)	(1,050,000)
Long-Term Debt, Net of Current Portion	$ 46,224,378	$ 47,019,296

As of December 31, 2020, aggregate principal maturities for long-term debt and bond premium amortization over the next five years and thereafter are as follows:

Year Ending December 31,	Amount	Bond Premium
2021	$ 2,004,727	$ 198,658
2022	1,569,570	177,220
2023	1,220,001	156,690
2024	1,215,000	136,973
2025	-	117,584
Thereafter	40,900,000	1,623,342
Total	$ 46,909,298	$ 2,410,467

NOTE 7 LONG-TERM DEBT (CONTINUED)

A summary of interest expense is as follows:

	2020	2019
Interest Costs Incurred	$ 1,805,442	$ 1,815,907
Less: Amounts Capitalized	(261,586)	(879,693)
Net Interest Expense	$ 1,543,856	$ 936,214

Interest income earned on project funds totaling $32,995 and $290,369 was capitalized during 2020 and 2019 as a reduction of construction in progress.

The Corporation has pledged certain assets, including, but not limited to gross receipts, which include all revenues, investments, accounts, inventory and entry fees, to the extent they are not held in escrow under Virginia requirements; as well as the rights under the residency agreements. Donor-restricted gifts cannot be used as collateral. There is a lien on, as well as a security interest in, all fixtures, furniture, and equipment.

Among other things, the Corporation is required to meet certain marketing and financial covenants under the security agreements related to the bond issues. There are financial and operational covenants associated with the bonds. As of December 31, 2020, management is not aware of any instances of noncompliance with the required covenants.

Paycheck Protection Program

On May 1, 2020 the Company received proceeds in the amount of $1,369,298 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the “PPP Loan”). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Company fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The covered period is the time that a business has to spend their PPP Loan funds.

NOTE 8 RETIREMENT PLANS

The Corporation participates in The Kendal Corporation Pension Plan, a noncontributory defined benefit plan along with other entities affiliated with The Kendal Corporation. An employee is eligible for the plan when the employee has worked 1,000 hours per year, attained the age of 21, and has completed one year of eligible service. In order to be vested, an employee needs five years of vesting service. A year of vesting service is earned when an employee works at least 1,000 hours. Total expenses related to the plan during fiscal 2020 and 2019 were $39,000 and $-0-, respectively. On January 1, 2015, the plan was frozen.

Effective July 1, 2006, the Corporation participates in a defined contribution plan under IRC Section 403(b) through The Kendal Corporation. The plan contains an employer grant and/or match component for eligible employees. Effective January 1, 2015, The Kendal Corporation established a defined contribution plan under 401(a) of the IRC. Kendal at Lexington participates in the plan. Eligible employees must have attained age 21 and must complete one eligibility year of service. The Corporation's grant and/or matching contribution is discretionary. All employees are eligible to make contributions to the 403(b) plan. The Corporation may elect a basic contribution percentage of annual compensation or a grant subject to certain limitations. Contributions accrued by the Corporation were $283,008 and $254,173 for the years ended December 31, 2020 and 2019, respectively.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Corporation grants credit without collateral to their residents, most of whom are insured under third-party payor agreements. The mix of the Corporation's net receivables from residents and third-party payors as of December 31 was as follows:

	2020	2019
Traditional Medicare	37 %	27 %
Traditional Medicaid	-	4
Residents, Managed Care Organizations and Other (Including Medicare and Medicaid MCO's)	63	69
Total	100 %	100 %

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Corporation emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the fair value hierarchy for the balances of the assets of the Corporation measured at fair value on a recurring basis as of December 31:

December 31, 2020	Level 1	Level 2	Level 3	Total
Investments:				
Cash and Cash Equivalents	$ 7,486,006	$ -	$ -	$ 7,486,006
Mutual Funds	20,075,002	-	-	20,075,002
Fixed Income	250,165	-	-	250,165
Total	$ 27,811,173	$ -	$ -	$ 27,811,173
Assets Limited as to Use:				
Cash and Cash Equivalents	$ 1,323,174	$ -	$ -	$ 1,323,174
U.S. Government Securities	2,939,006	-	-	2,939,006
Fixed Income	-	-	-	-
Mutual funds	6,575,950	-	-	6,575,950
Total	$ 10,838,130	$ -	$ -	$ 10,838,130
Beneficial Interest in Charitable Remainder Unitrust	$ -	$ -	$ 28,020	$ 28,020

December 31, 2019	Level 1	Level 2	Level 3	Total
Investments:				
Cash and Cash Equivalents	$ 12,508,450	$ -	$ -	$ 12,508,450
Mutual Funds	16,514,997	-	-	16,514,997
Fixed Income	750,007	-	-	750,007
Total	$ 29,773,454	$ -	$ -	$ 29,773,454
Assets Limited as to Use:				
Cash and Cash Equivalents	$ 4,154,430	$ -	$ -	$ 4,154,430
U.S. Government Securities	1,012,780	-	-	1,012,780
Fixed Income	2,030,755	-	-	2,030,755
Mutual funds	6,142,433	-	-	6,142,433
	$ 13,340,398	$ -	$ -	$ 13,340,398
Beneficial Interest in Charitable Remainder Unitrust	$ -	$ -	$ 25,507	$ 25,507

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments and Assets Limited as to Use

Investments and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. government and corporate obligations and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Beneficial Interest in Charitable Remainder Unitrust

Fair values of the beneficial interest in a charitable remainder unitrust are determined based upon good faith estimates of the trust's assets less the present value of estimated future payments to the recipient. The present value is based upon an estimated discount rate and applicable mortality tables and, accordingly, is classified as using a Level 3 input.

The following table provides a summary of unobservable inputs related to the Organization's Charitable Remainder Unitrust as of December 31, 2020:

Instrument	Fair Value	Principle Valuation Technique	Unobservable Inputs
Charitable Remainder Unitrust	$28,020	PV of Trust Investments	Term of Distributions

NOTE 11 FUNCTIONAL EXPENSES

The Corporation provides residential and health care services to residents. The functional expenses are allocated based on a wage allocation if the expense is not directly attributable specifically to program, general and administrative or fundraising. The functional allocation of these expenses related to these services is as follows:

	2020			
	Continuing Care Expenses	General and Administrative	Fundraising	Total
Wages	$ 5,020,263	$ 1,082,521	$ 4,621	$ 6,107,405
Payroll taxes	361,491	77,949	-	439,440
Legal	-	4,809	-	4,809
Accounting Fees	-	103,989	-	103,989
Consulting Services	873,048	296,355	-	1,169,403
Office Expense	1,534,605	330,907	403	1,865,915
Occupancy	786,216	169,532	-	955,748
Property and Liability Insurance	-	210,842	-	210,842
Repairs and Maintenance	22,290	4,806	-	27,096
Printing, Books, and Periodicals	19,770	4,263	30	24,063
Travel	3,796	818	-	4,614
Conferences and Meetings	9,859	2,126	-	11,985
Interest Expense	-	1,543,856	-	1,543,856
Depreciation	2,296,443	495,183	-	2,791,626
Dues and Licenses	14,119	3,044	200	17,363
Miscellaneous Expense	4,206	907	-	5,113
Information Technology	3,885	280,908	1,384	286,177
Advertising	81,363	17,544	-	98,907
System Fees	-	559,140	-	559,140
Other Employee Benefits	1,027,397	221,538	-	1,248,935
Pension Expense	264,890	57,118	-	322,008
Bad Debt Expense	-	108,116	-	108,116
Total Functional Expenses	$ 12,323,641	$ 5,576,271	$ 6,638	$ 17,906,550

	2019			
	Continuing Care Expenses	General and Administrative	Fundraising	Total
Wages	$ 4,786,376	$ 840,451	$ 4,317	$ 5,631,144
Payroll taxes	342,952	60,220	-	403,172
Legal	-	4,250	-	4,250
Accounting Fees	-	133,140	-	133,140
Consulting Services	897,430	333,449	-	1,230,879
Office Expense	1,373,007	241,504	538	1,615,049
Occupancy	708,332	124,378	-	832,710
Property and Liability Insurance	-	156,396	-	156,396
Repairs and Maintenance	17,324	3,042	-	20,366
Printing, Books, and Periodicals	30,380	5,334	18	35,732
Travel	45,870	8,055	487	54,412
Conferences and Meetings	15,560	2,732	155	18,447
Interest Expense	-	936,214	-	936,214
Depreciation	1,889,399	331,764	-	2,221,163
Dues and Licenses	14,058	2,468	200	16,726
Miscellaneous Expense	15,049	2,642	-	17,691
Information Technology	3,808	233,377	-	237,185
Advertising	101,700	17,858	-	119,558
System Fees	-	468,504	-	468,504
Other Employee Benefits	1,037,742	182,220	-	1,219,962
Pension Expense	216,410	38,000	-	254,410
Bad Debt Recovery	-	(925)	-	(925)
Total Functional Expenses	$ 11,495,397	$ 4,125,073	$ 5,715	$ 15,626,185

NOTE 12 COMMITMENTS AND CONTINGENCIES

Compliance

The Corporation operates in the health care industry and may be subject to legal proceedings and claims from time-to-time that arise in the course of providing its services. The Corporation maintains malpractice insurance coverage on a claims-made basis, which provides coverage for claims occurring during the policy year. Management has determined that no provision is required for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Development Agreement

On November 16, 2016, the Corporation entered into a development agreement with Kendal Corporation for the management, in collaboration with the chief executive officer, of the expansion and re-positioning of its campus, including renovations and additions to the health centers, additional residential living cottages, new and expanded dining venues and kitchen renovations, an emergency access road, and a maintenance building. The agreement was amended August 9, 2018 to adjust the maximum fee to $975,000. At December 31, 2020 and 2019, $975,000 and $731,250 has been accrued and capitalized, respectively.

Other

In the normal course of business, there could be various outstanding claims and contingent liabilities. No contingent liabilities are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

NOTE 13 INSURANCE

In 2014, the Corporation began participating in an insurance risk retention group, the Peace Church Risk Retention Group (the PCRRG), a group insurance captive corporation licensed by the state of Vermont, to cover basic professional and general liability insurance on a claims-made basis. Entrance into the captive required a capital purchase of stock of $50,682. The investment is accounted by the cost method and is included in other assets on the balance sheet.

NOTE 14 SELF-INSURED GROUP HEALTH PLAN

Effective January 1, 2014, Kendal at Lexington elected to participate in a self-insured medical and prescription plan established by The Kendal Corporation for the benefit of the employees of The Kendal Corporation and the employees of participating Kendal affiliates, the “Welfare Plan”. The Kendal Corporation serves as the Welfare Plan sponsor and has established operational guidelines for the Welfare Plan as well as an oversight committee which includes representatives from participating Affiliates. With the assistance of consultants, the committee will estimate future claims as well as required premiums to fund future claims and establish required cash balances. The total premium determined for the Welfare Plan will be allocated using the participating lives for each participating entity. The premiums will be determined based on a shared risk pool and will not be adjusted to reflect the claims experience of any participating entity. There is an initial commitment of five years from the effective date of participation.

The Welfare Plan is administered by an insurance carrier and backed by a letter of credit. The Welfare Plan is responsible for funding employer liability losses to a maximum of $125,000 per participant and $1,000,000 in the aggregate per policy year. Third-party, stop-loss insurance coverage is in place for losses that exceed these amounts.

Kendal at Lexington has executed a Joinder Agreement with The Kendal Corporation to participate in the Welfare Plan effective January 1, 2014. In conjunction with execution of this agreement, Kendal at Lexington’s ownership interest in the Welfare Plan is $325,686 and $324,437 as of December 31, 2020 and 2019, respectively.

Self-Insurance expense was $880,541 and $903,869 for the years ended December 31, 2020 and 2019, respectively.

NOTE 15 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31, 2020 and 2019:

	2020	2019
Financial Assets at Year End:		
Cash and Cash Equivalents	$ 2,154,308	$ 507,921
Accounts Receivable, Net	753,939	526,548
Contributions Receivable, Net	88,908	137,442
Entry Fee Receivable	922,705	1,197,224
Investments	27,811,173	29,773,454
Assets Limited to Use:		
Funds Held by Trustee	5,205,571	6,436,698
Board-Designated	3,483,821	3,387,072
Donor-Restricted	1,748,028	2,755,359
Escrowed Deposits	400,710	761,269
Total Financial Assets	42,569,163	45,482,987
Less Amounts Not Available to be Used Within One Year:		
1st Generation Entrances Fees for Construction	2,943,032	10,439,513
Board-Designated with Liquidity Horizons Greater Than One Year	3,055,490	2,771,693
Funds Held by Trustee	5,205,571	6,436,698
Donor-Restricted with Liquidity Horizons Greater Than One Year	1,346,240	1,143,677
Contributions Receivable, Net	88,908	137,442
Escrowed Deposits	400,710	761,269
Financial Assets Not Available to be Used Within One Year	13,039,951	21,690,292
Financial Assets Available to Meet General Expenditures Within One Year	$ 29,529,212	$ 23,792,695

As of December 31, 2020, the Corporation has a net working capital of $806,206 and days (based on normal expenditures) cash on hand of 814.

NOTE 16 PROVIDER RELIEF FUNDS

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 has impacted various parts of its operations for the year ended December 31, 2020 and financial results including but not limited to, additional costs for emergency preparedness, disease control and containment, additional testing, potential shortages of health care and other personnel, and loss of revenue due to reductions in certain revenue streams. Management believes the Organization continues to take appropriate actions to mitigate the negative impact of this pandemic.

NOTE 16 PROVIDER RELIEF FUNDS (CONTINUED)

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved and received by the Community were $714,620. The PRF's are subject to certain restrictions on eligible expenses or uses and reporting requirements. As of December 31, 2020, the Organization recognized $310,085 as operating revenue in the statement of operations. At December 31, 2020, the Organization recognized $404,535 as a refundable advance liability in the balance sheet. Management believes the amounts have been recognized appropriately as of December 31, 2020.