BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – **Ingleside Presbyterian Retirement Community, Inc. (D/B/A Ingleside at Rock Creek)** as of December 31, 2021

<u>ORDER</u>

An Examination of **Ingleside Presbyterian Retirement Community, Inc.**as of December 31, 2021 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 15th day of August 2024, that the attached financial condition examination report be adopted and filed as an official record of this Department.

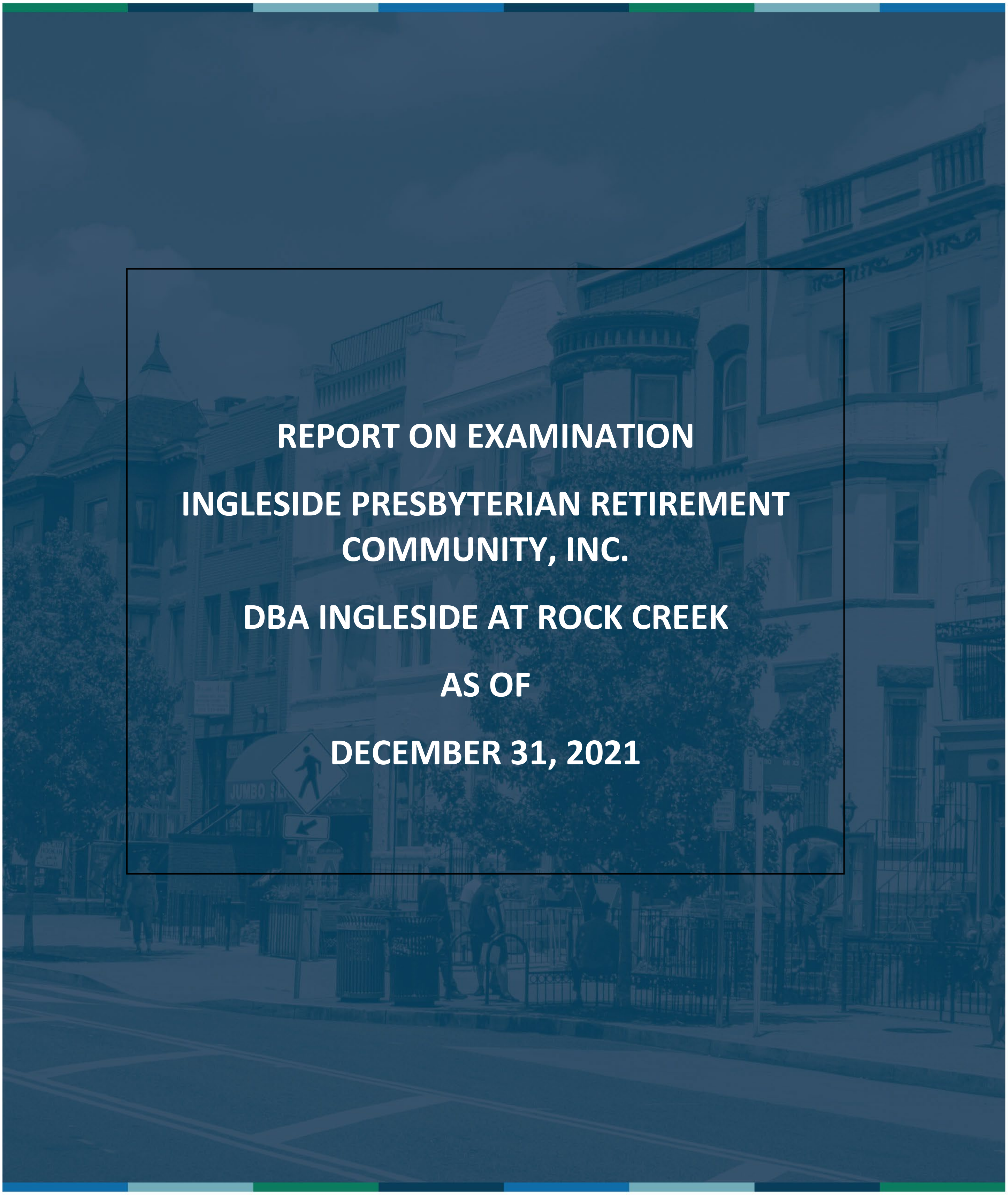
Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Philip Barlow
Associate Commissioner

DC DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

INGLESIDE PRESBYTERIAN RETIREMENT COMMUNITY, INC.

DBA INGLESIDE AT ROCK CREEK

AS OF

DECEMBER 31, 2021

DISB | GOVERNMENT OF THE DISTRICT OF COLUMBIA
MURIEL BOWSER, MAYOR

DC DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

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Washington, D.C.
May 2, 2024

The Honorable Karima M. Woods
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, N.E., Suite 801
Washington, D.C. 20002

Dear Commissioner Woods:

In accordance with the provisions of Section 44-151.13 of the District of Columbia Official Code, the Department of Insurance, Securities and Banking ("Department") performed a statutory financial examination of

Ingleside Presbyterian Retirement Community, Inc.
D/B/A Ingleside at Rock Creek

hereinafter maybe referred to as the "Facility." The administrative office of the Facility is located at 3050 Military Road, N.W., Washington, DC 20015, and the following Examination Report ("Report") is hereby respectfully submitted.

SCOPE OF EXAMINATION

This examination ("Examination"), covering the period from January 1, 2011, to December 31, 2021, including any material transactions and/or events noted occurring subsequent to December 31, 2021, was conducted by examiners of the Department. The District of Columbia Department of Health ("DOH") has primary oversight responsibility for the certification and quality of care standards and the operation of the Facility's assisted living, nursing, and skilled nursing component of the organization. Because the Continuing Care Retirement Communities ("CCRC") resident contracts include a health care guarantee (classified as an insurance model), the Department issues a Certificate of Authority, the approval and ongoing oversight of these communities, including the review of annual financial disclosure statements, residency agreements, refund provisions, and evaluation of the financial feasibility of CCRCs licensed in the District of Columbia.

The Examination was conducted in accordance with examination policies and standards established by the Department consistent with the provisions of Chapter 1A of Title 44, 'Continuing

Care Retirement Communities Act of the District of Columbia, as well as the guidance contained in the Financial Accounting Standards Board (FASB) accounting standard updates (ASU) Chapter 14 "Financial Accounting and Reporting by Continuing Care Retirement Communities" of the American Institute of Certified Public Accountants (AICPA) Health Care Audit and Accounting Guide, and Actuarial Standard of Practice #3 (ASOP 3) "Practices Related to Continuing Care Retirement Communities" of the American Academy of Actuaries."

All accounts and activities of the Facility were considered in accordance with the risk-focused examination process. This may include assessing the principles used and significant estimates made by management, an evaluation of the overall financial statement preparation, a review of the business policies and practices, and verification and evaluation of assets and liabilities of the Facility. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly. The Examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the Examination, an adjustment is identified and considered material, the impact of such adjustment will be commented upon separately in this Report following the Facility's financial statements. This Examination will not cover market conduct-related areas that typically include the quality of continuing care facilities, continuing care services, advertising and sales material, and grievance resolution.

This Report includes significant findings of facts, as mentioned in Section 31-1402 of the Code. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the Report but were separately communicated to the Facility and/or other regulators.

The Facility was audited annually by an independent public accounting firm, Baker Tilly US, LLP (the "CPA"), for the years 2011 through 2021. The firm expressed an unmodified opinion on the financial statements of the Facility for the Calendar years 2011 through 2021. We placed substantial reliance on the audited financial statements for calendar years 2011 through 2021 and consequently performed minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2021. We reviewed the working papers prepared by the CPA related to the audit for the year ended December 31, 2021, and relied upon whenever possible and applicable to assist in the completion of examination procedures.

SUMMARY OF SIGNIFICANT FINDINGS

Financial Condition:

The Facility has an accumulated deficit on its balance sheet, and it has historically recognized significant losses over the past several years, including a loss of $17.5 million for the year ended December 31, 2020, which was exacerbated by the COVID-19 global health pandemic. The Facility's financials for the fiscal year ending 2021 reflect improved solvency and improved financial position with a loss of $8.9 million, including improved cash flows from operations.

Bank Loan Covenant – Forbearance agreement:

The Facility is required to maintain certain performance and financial covenants as per the terms of its 2017A Bonds financing loan agreements. During 2020, the Facility missed certain loan covenants and operated under a forbearance agreement. The lender on the bond's payable issued a default forbearance and reservation of right letter due to a shortfall of certain stipulated Days Cash on Hand ("DCOH") requirements. Per management, the Facility has remediated the violation since then and is currently compliant with its covenants. It is not operating under a forbearance agreement or extension with its lender. For further discussion, see "Note 2. Bond Debt" in the financial statements of this report.

Cyber Data Breach

On January 2, 2018, the Facility's affiliated Parent Member entity, Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. ("Ingleside"), was notified by a computer forensics firm that an unknown individual had gained access to Ingleside's system through its medical portal on or around June 1, 2017, and thereafter placed keylogger malware on the systems. From then to the date of discovery, there was a period of exposure where the unknown individual was capable of capturing data through the use of keylogger malware. The computer forensics company also concluded that a full forensics analysis of Ingleside's system would be unable to determine whether any personally identifiable information ("PII") and protected health information ("PHI") had been exfiltrated.

Per Management, Ingleside has taken steps to prevent a similar event from occurring in the future, and to protect the privacy and security of the information in its systems. This includes upgrading its firewall and installing upgraded antivirus and malware security. This also includes requiring all new user credentials/passwords and adopting dual-factor authentication, which requires secondary confirmation of an individual's access to the network. Ingleside has also provided additional staff training on identifying unauthorized access.

The District of Columbia *Security Breach Protection Amendment Act of 2019*, as adopted and codified pursuant to D.C. Code § 28–3851, et al., requires Reporting Cybersecurity Breaches to the District. However, it appears that since the data breach occurred in 2017 and was closed in the first half of 2018, the Facility was not subject to these requirements.

HISTORY

The Facility, also known as *Ingleside At Rock Creek*, is a 501 (c) (3) not-for-profit charitable organization chartered in 1906 under its former name, The Presbyterian Home of D.C. chartered by members of the Presbyterian Church in Washington, D.C. Ingleside at Rock Creek continues an historic affiliation with the Presbyterian churches of the region. However, it is independent of the church and maintains an active outreach to people of all faiths throughout the region.

The Facility is owned and operated by an affiliated Parent Member entity, Westminster Ingleside King Farm Presbyterian Retirement Communities, Inc. d/b/a Ingleside ("Ingleside"), a Virginia nonstock corporation that provides management and support services. Ingleside is the umbrella organization for the Ingleside family of communities, including the Facility, Westminster at Lake Ridge, and Ingleside at King Farm. They each operate independently of the others financially but gain economies of scale on purchasing powers. Other affiliates include Ingleside at Home ("IAH"), a home-based care program, and Westminster Ingleside Foundation (the "Foundation"), which supports the communities' charitable activities. Per Management, the Ingleside entities are not part of an obligated group or, in any other way, responsible for the liabilities of any other Ingleside member.

The Facility's single campus includes 14 acres of land bounded by Military Road and Rock Creek Park in Northwest Washington, DC. It provides retirement housing, health care services, and other services designed to meet the physical, social, and psychological needs of elderly residents in return for an entrance fee at the time the resident enters the community and ongoing monthly fees.

The Facility's current business model is as a Fee-for-Service (Type C) CCRC community on a single campus that includes 233 independent living units, 21 assisted living units, 32 assisted living memory support units, and 34 skilled nursing beds. The Facility offers several living options and levels of assistance. These include independent living, health care, priority admission to assisted living or nursing care, short-term rehabilitation/skilled nursing care, and specialized memory care or assistance with daily life activities.

Residents who are accepted for admission to an independent living unit at the Facility are required to sign a Residency Agreement prior to occupancy. The Agreement contains all the terms and conditions regarding housing and continuing care to which both the resident and the CCRC institution agree. It defines the costs of benefits and services to be received by the resident, as well as the conditions required to live in the community.

Residence in a CCRC requires a significant financial commitment, and the cost is based on a variety of factors, including the size of the apartment chosen and the type of resident contract signed. Residents' payments to a CCRC include a deposit or the total entrance fee for the apartment selected, and it mainly consists of two components: an entrance fee (a lump sum fee paid up-front) and a monthly fee.

MANAGEMENT AND CONTROL

Board of Directors:

The Facility's Bylaws provide that the responsibility for the control and management of the business and affairs of the Facility is vested in the Board of Directors ("BOD"), composed of no less than eleven (11) and no more than seventeen (17) directors, of whom at least one Director shall be a resident of the Facility as provided in Section 44-151.10 of the DC Official Code. Additionally, the President and Vice President of the Women's Board Corporation composed of representatives of each participating Presbyterian Church shall be ex officio Directors with voting rights. Directors duly elected and serving as of December 31, 2021, were as follows:

Name and Residence	**Principal Business Affiliation**
Bruce M. Bartels Jaffrey, NH	Chair of the Board of Directors Retired
William (Bill) Leahy, MD Chevy Chase, MD	Vice Chair of the Board Retired
Nancy Kuhn Washington, DC	Secretary Retired
Lynn O'Connor Rockville, MD	President and CEO, Ex-officio member of the Board Ingleside, Westminster Ingleside Foundation, Ingleside at Rock Creek, Westminster at Lake Ridge, Ingleside at King Farm and Ingleside at Home
Suzanne Krammer Washington, DC	Ex-officio member of the Board Co-President of Ingleside at the Rock Creek Service Board Committee
Robert (Bob) Bremner Washington, DC	Board Member Retired – Resident Director at Ingleside at Rock Creek
Alice C. Buhl Rockville, MD	Board Member Resident Director at Ingleside at King Farm Executive Director – St. Louis Metropolitan Association for Philanthropy Sr. VP – Council on Foundations
Dale H. Clark Lake Ridge, VA	Board Member Retired – Resident Director at Westminster At Lake Ridge

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Sally Cox Washington, DC	Board Member COO, Central Union Mission
Hugh F. Hill, MD, JD Bethesda, MD	Board Member Retired
Carolyn Johnson Chevy Chase, MD	Board Member Director, Interfaith Workers' Vocational Services
Gregg E. Johnson Potomac, MD	Board Member, (Non-voting) Managing Director BIA Capital Strategies
Janet Hasse Kelly Washington, DC	Board Member Retired Board Chair for Westminster Ingleside Foundation
John Kreutzer Alexandria, VA	Board Member First Vice President, Wiles-Kreutzer Group of Truist
Jay-Newton Small Washington, DC	Board Member CEO and Founder – Memory Well
Lucille Smiley, Ex- Officio Washington, DC	Board Member and Ex-Officio Co-President of the Ingleside at Rock Creek Service Board Committee Chair of the outreach committee
Robyn I. Stone, PH.D. Washington, DC	Board Member Executive Director & Sr. Vice President – Leading Age
Denis Von Kaeppler Portola Valley, CA	Board Member Retired
Steven L. Wagner Washington, DC	Board Member Self-Employed - SLW Group LLC

The composition of the Board of Directors on December 31, 2021, was in compliance with the Facility's by-laws.

Officers and Key Personnel:

The By-laws provide that the Facility's officers shall consist of a Chair, a President/CEO, a Secretary, and, if deemed advisable by the board, a Vice Chair and one or more Vice-Presidents and Assistant Secretaries. The officers shall be elected by the Board of Directors and shall serve until the next annual meeting of Directors and until his/her successor is duly elected. The following were Officers of the Facility and serving as of December 31, 2021:

Bruce M. Bartels	Chair
William (Bill) Leahy, MD	Vice Chair
Lynn O'Connor	President/Chief Executive Officer
Nancy Kuhn	Secretary
Felix Rosenwasser	Executive Director
Jamie Spencer	Interim Chief Financial Officer
Dusanka-Delovska Trajkova	Chief Information Officer
Christine Podles	Chief Operating Officer
Amanda Massetti	Controller
Salvatore J. Albanese	Sr. VP of HR & Compliance
Karis Wilson Jones	Sr. Director of Healthcare Services

Committees:

The Facility's Bylaws require the establishment of certain committees to fulfill the BOD's governance and oversight responsibilities, carry out the required duties of the BOD, and make reports, recommendations, and otherwise advise the BOD. As of December 31, 2021, the Facility had established the following standing committees of the Board of Directors:

Executive Committee
Audit and Compliance Committee
Finance and Investment Committee
Governance Nominations Committee
Quality of Life and Care Committee

Conflict of Interest:

The Facility has adopted a Code of Conduct Principles that provides standards by which all individuals, including directors and employees, shall conduct themselves to protect and promote organizational-wide integrity. The Code of Conduct requires that whenever a director, officer, or key employee has a financial or personal interest in any matter conflicting with the organization, the affected person shall fully disclose the nature of the interest before any activity is undertaken.

Corporate Records:

The recorded minutes of the Board of Directors and certain committees were reviewed for the period under examination. Based on our review, it appears the minutes documented the Facility's significant transactions and events, and the directors approved those transactions and events.

MANAGEMENT AGREEMENTS

The Facility has a Management Services Agreement entered into effective May 6, 2015, with its affiliate Ingleside. The agreement sets forth the terms and conditions whereby Ingleside agrees to act as agent of the Facility, to serve as the manager of the Community, including the real estate, and in connection therewith, to recommend and regularly evaluate policies and goals of the Facility, implement the policies, budgets, directives, and goals for the Community established by the Facility, to manage the day-to-day operations of the Community in accordance with the Facility's policies, directives and goals, to provide the Facility with relevant information as to past operations, and to make recommendations as to the future operation of the Community. Management fees incurred totaled $1,628,807 during 2021 and included in general and administrative expenses on the statements of operations.

Ingleside is to maintain a system of financial controls for the Community using the software provided at other similar communities managed by Ingleside and provide the Facility with financial statements and annual budgets for operating revenue and expense, capital expenditures, and cash flow forecasts for the Community, and recommend a schedule of resident Entrance Fees, Monthly Service Fees and other charges. The Management Services Agreement does not provide for any cancellation by the Facility. The Facility is obligated to pay Ingleside a management services fee (the "System Fee") equal to a percentage of revenues, including the build-up of appropriate reserves. The System Fee is subordinate to the payment of obligations for the Series 2017 Bonds (Refer to Note 2).

The Facility's affiliate, Westminster Ingleside Group, LLC (WING), provided development services, including the planning, development, financing, construction, and project management activities related to facilities owned and operated by affiliated organizations, and managed the planning, development, and execution of construction projects. It operated in Washington, DC, Maryland and Virginia. The Facility incurred management fees of $1,420,243 during 2020 to WING for development services related to its construction projects. The majority of these costs were capitalized to property and equipment during 2020. During January 2021, WING ceased operations.

The Facility also has agreements with several third-party vendors for special services, including Unidine Corporation, which provides residents with dining services, including supplies and the operation of dining rooms at the facility.

TERRITORY AND PLAN OF OPERATION

The Facility conducts business in the District of Columbia as a CCRC licensed pursuant to the Continuing Care Retirement Communities Act of 2004 (DC Official Code § 44-151.01 *et seq.*) as amended. As indicated under the "History" section of this Report, the Facility offers a continuum of services with a wide range of living options and levels of assistance services to elderly residents. These include independent living, assisted living, memory support assisted living, and short-term rehabilitation/skilled nursing care. There are written agreements effective for the life of the resident or for a specific period between the resident and the community, which offer a continuum of housing, services, and health care, all on one campus. The Agreement contains all the terms and conditions regarding housing and continuing care to which both the resident and the CCRC institution agree. It defines the costs of benefits and services to be received by the resident, as well as the conditions required to live in the community.

As noted previously above in the "History" section, the Facility's sole member is Ingleside, and the related communities and affiliates include seven (7) corporations: four (4) Not-for-Profit 501 (c)(3) entities; one (1) Foundation 501 (c)(3); one (1) Parent Corporation 501 (c)(3), and one (1) For-Profit Limited Liability Company. Ingleside, Inc. is a single-member entity of each community and the Foundation. The four (4) Entities and the Foundation are affiliates of Ingleside, Inc., but they are not an obligated group.

The Facility currently offers 90%, 50%, and 0% refundable Fee-For-Service (Type C) contracts. These contracts are also broken further into high, medium, and low entrance fee contracts. For instance, the high entrance fee contracts pay a higher entrance and a lower monthly fee for the same unit as compared to the medium entrance fee contracts. The high, medium, and low entrance fee contracts are actuarially equivalent in price for each type of unit.

The Facility had offered several types of contracts in the past, mostly Life Care contracts that were discontinued in January 2009. Life Care residents are entitled to assisted living or skilled nursing care, as needed, with minor increases in the current monthly service fee. The refundable life care plans have a guaranteed refund component, which is 50 percent, 90 percent, or 100 percent of the entrance fee paid, depending on the chosen agreement. The nonrefundable portion of the fee is initially refundable but generally becomes nonrefundable over a 25-month period. Fee-for-service residents pay the current per diem rate for assisted living or skilled nursing care.

Fee-for-service residents may use some of their refundable portion of the entrance fee towards payments of facility-provided assisted living and skilled nursing room and board fees. Residents are also required to pay a monthly fee for services and amenities. A monthly fee is assigned to each type of residence based on single or double occupancy, the size of the unit, and the floor. The Facility may adjust the monthly fee at its discretion from time to time based on operating costs and the community's financial needs. Residents are given thirty (30) days' notice of changes in monthly fees. The Facility also provides benevolence support for residents who qualify for financial assistance or who run out of funds as a fulfillment of the organization's mission and purpose.

The estimated number of residents under contract for continuing care at the Facility as of December 31, 2021, was 316. Revenue is derived from services under various third-party payor programs, including Medicare, Medicaid, and other third-party reimbursement sources. The Facility also received investment income and gifts/donations/contributions with and without donor restrictions.

FIDELITY BOND AND OTHER INSURANCE

The Facility had fidelity bond coverage of $100,000 with a deductible of $5,000. The Facility also carried other insurance coverage for property, building contents, and liability with the minimum coverage as required by District of Columbia Official Code §44-111.01.

PENSION AND INSURANCE PLANS

The Facility provides retirement benefits to its employees through a defined contribution 401(k) plan. Under the plan, the Facility matches employee contributions up to 3% of the employee's compensation. The retirement expenses for 2021 were $81,339.

ACCOUNTS AND RECORDS

The Facility's general accounting records consisted of an automated general ledger and subsidiary ledgers designed for the Health Care Industry. The Facility's accounting records, procedures, practices, and supporting data were reviewed to the extent deemed necessary.

The Facility's Information Technology General Controls ("ITGC") and General Application Controls ("GAC") were also reviewed by the CPA. The review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The Examination does not attest to the fair presentation of the financial statements included herein. The following financial statements are based on the audited financial statements filed by the Facility with the Department and present the financial condition and results of operations as reported by the Facility for the period ending December 31, 2021. No adjustments were made to the statements filed with the Department as a result of this Examination.

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

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Balance Sheet
Assets
As of December 31, 2021

Cash and cash Equivalents	$	1,867,112
Current portion of assets whose use is limited (**Note 5**)		3,473,142
Accounts Receivable:		
Residents, net		689,974
Entrance fees		342,000
Prepaid expenses and other current asset		700,354
Total Current Assets		7,072,582
Investments		31,197,616
Assets Whose Use is Limited, Net (**Notes 5&6**)		13,480,802
Property and Equipment, Net		211,261,873
Interest in Charitable Remainder Trusts (**Note 8**)		70,331
Beneficial Interest In Perpetual Trusts (**Note 8**)		848,121
Interest in Net Assets of the Foundation (**Note 8**)		12,095,919
Loan Receivable from Affiliate (**Note 10**)		534,231
Other Assets		23,598
Total Assets	$	276,585,073

Balance Sheet
Liabilities and Net Assets
As of December 31, 2021

Current liabilities	
Current maturities of long-term debt (**Note 2**)	$ 1,610,000
Accounts payable:	
Trade	975,661
Construction	507,352
Refundable entrance fees (**Note 3**)	3,749,751
Accrued interest	2,668,041
Accrued expenses	851,319
Interest payable to affiliates (**Note 10**)	1,178,112
Due to affiliates, net	643,517
Total Current Liabilities	12,183,753
Long-Term Debt, net (**Note 2**)	101,481,986
Loans Payable to Affiliates (**Note 10**)	4,141,088
Priority Deposits	2,483,419
Deferred Revenue From Entrance Fees (**Note 4**)	30,431,542
Refundable Entrance Fees (**Notes 1&3**)	170,258,829
Total liabilities	320,980,617
Net Assets (Deficit) (**Note 5**)	
Net assets (deficit) without donor restrictions	(57,700,979)
Net assets with donor restrictions	13,305,435
Total net assets (deficit)	(44,395,544)
Total liabilities and net assets (deficit)	$ 276,585,073

Statement of Operations
As of December 31, 2021

Revenue Without Donor Restrictions		
Net resident services revenue	$	28,428,079
Stimulus grant revenue (**Note 9**)		281,037
Other revenues		362,427
Total Revenues without donor restrictions		29,071,543
Expenses		
Health Care		7,108,217
Dining services		3,846,783
General and administrative		4,790,295
Plant operations		2,742,475
Marketing and advertising		1,076,389
Housekeeping and laundry		2,357,950
Social services and activities		2,181,499
Bad debts		40,000
Depreciation		7,969,821
Interest		5,931,707
(Gain) loss on disposal of property & equipment		(1,108)
Total Expenses		38,044,028
Operating loss		(8,972,485)
Other Income (Expenses)		
Interest and dividends		467,853
Net realized gains and losses, investments		274,946
Net unrealized gains and losses, investments		281,294
Other		1,224,948
Revenue less than expenses		(6,723,444)
Change in net deficit without donor restrictions	$	(6,723,444)

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COMPARATIVE FINANCIAL POSITION OF THE FACILITY

The comparative financial position of The Facility for the five-year period ended December 31, 2021, is as follows:

	2021	2020	2019	2018	2017	2016
Assets	$ 276,585,073	$ 263,750,597	$ 280,955,024	$ 258,641,839	$ 236,411,484	$ 88,381,719
Liabilities	320,980,617	303,079,298	307,976,888	279,681,619	251,740,011	100,403,371
Net (deficit) assets	(44,395,544)	(39,328,701)	(27,021,864)	(21,039,780)	(15,328,527)	(12,021,652)
Total Revenues	29,071,543	22,503,466	14,323,179	15,480,370	19,700,067	19,993,821
Total expenses	38,044,028	39,982,795	26,659,760	19,493,699	23,507,362	21,462,782
Total Gain/(loss)	(8,972,485)	(17,479,329)	(12,336,581)	(4,013,329)	(3,807,295)	(1,468,961)

NOTES TO FINANCIAL STATEMENTS

Note 1. Obligation to Provide Future Services:

A continuing-care retirement facility expects to provide services and the use of facilities to individuals over their remaining lives under continuing-care contract agreements. If the advance fees and periodic fees charged are insufficient to meet the costs of providing future services and the use of facilities, the continuing care retirement facility should record a liability based on actuarial assumptions (such as mortality and morbidity rates), on estimates of future costs and revenues, and on the specific facility's historical experience and statistical data. The liability related to continuing-care contracts should be the present value of future net cash flows, minus the balance of unamortized deferred revenue, plus depreciation of facilities to be charged related to the contract, plus unamortized costs of acquiring the related initial continuing-care contracts, if applicable.

The Facility calculates an obligation to provide future services and the use of facilities to current residents. The liability is the present value (discounted at 6 percent) of the net cost of providing future service and use of facilities, minus the balance of unamortized deferred revenue, plus depreciation of facilities to be charged related to the contracts, plus unamortized costs of acquiring the initial continuing-care contracts, if applicable.

The Facility obtained a detailed actuarial analysis that concluded that there was a $30,224,449 funding shortfall for current residents as of December 31, 2021. The Facility did not book a separate liability as the AICPA does not require recognizing this actuarial shortfall.

Note 2. Bond Debt:

2014 Bonds

During April 2014, the District of Columbia issued $29,254,000 of bonds on behalf of the Facility in three series ($19,110,000 Series 2014A Bonds at an initial fixed interest rate of 3.23 percent, $7,144,000 Series 2014B Bonds with a variable interest rate based on the London Interbank Offered Rates (LIBOR) and $3,000,000 Series 2014C (taxable) Bonds with a variable interest rate based on LIBOR), (together the Series 2014 Bonds). The bonds were purchased by Capital One Municipal Funding, Inc.

The Series 2014A Bonds were issued at a fixed rate for a term of ten years. Proceeds from the Series 2014A Bonds were used to refinance long-term debt and fund a portion of transaction costs associated with the issuance of the Series 2014 Bonds. The Series 2014A Bonds were repaid in 2020.

The Series 2014B Bonds were issued at a variable rate based on the LIBOR rate. The Series 2014B Bonds were used to reimburse for costs incurred to date in conjunction with the repositioning project, fund a portion of transaction costs associated with the issuance of the Series 2014 Bonds, and fund a portion of remaining project costs. The Series 2014B Bonds were repaid in 2020.

The Series 2014C (taxable) Bonds were issued at a variable rate based on the LIBOR rate. The Series 2014C Bonds were used to fund a portion of remaining project costs not eligible for tax-exempt financing. The Series 2014C Bonds were repaid during 2020.

2017 Bonds

In August 2017, the District of Columbia issued $129,595,000 of tax-exempt bonds on behalf of the Facility in two series ($108,595,000 Series 2017A Project Revenue Bonds at a fixed interest rate and $21,000,000 Series 2017B Entrance Fee Principal Redemption Bonds at a fixed interest rate (together the Series 2017-A-B Bonds). Interest on the Series 2017A-B Bonds is payable semi-annually beginning January 1, 2018. Principal payments on the Series 2017A Bonds are to be paid annually beginning on July 1, 2022, with a final maturity on July 1, 2052. The Series 2017B Bonds were repaid in 2020.

In addition, in August 2017, the District of Columbia issued tax-exempt, direct purchase bank revenue bonds, Series 2017C-1, Series 2017C-2, and 2017D, to be advanced on a draw-down basis, not to exceed $14,250,000, $11,500,000, and $34,750,000, respectively. Interest was payable monthly at a variable rate on the drawn portion of the Series 2017C-1, Series 2017C-2, and Series 2017D Bonds. The Series 2017C-1, Series 2017C-2, and 2017D bonds were repaid in 2020.

Proceeds from the Series 2017 Bonds were deposited into a project fund, which were used to pay construction costs associated with the repositioning project; used to fund various debt service reserve, interest and liquidity accounts, as required by the bond documents; and used to fund transactions costs associated with the issuance of the Series 2017 Bonds.

The Facility is required to maintain certain finance covenants as per the terms of the 2017A Bonds financing documents.

The bonds are secured by a first mortgage lien on a security interest in the Facility's property and equipment and a security interest in the Facility's gross revenues, as defined in the applicable agreements.

Note 3. Refundable Admission Fees:

Under entrance fee plans for independent living units, the Facility receives payments in advance. Residents may select either a 50 percent or 90 percent refundable plan, or a nonrefundable (fully declining) plan. Under the nonrefundable plan, the entrance fee is initially refundable but becomes nonrefundable over a 25-month period. Only fee-for-service contracts are offered to new residents.

Prior to 2009, the Facility offered life care contracts that included 50 percent, 90 percent, or 100 percent refundable options as well as a nonrefundable (fully declining) plan. Refunds of entrance fees under all options generally occur only after the vacated residential living unit has been reoccupied, the Facility has received a new entrance fee, and the resident no longer lives in the community. The gross amount of contractual refund obligations under existing agreements as of December 31, 2021, and 2020 approximates $178,079,000 and $166,500,000, respectively.

At December 31, 2021, and 2020, respectively, the amounts refundable to residents who terminated their residency agreements were $3,749,751 and $2,688,903. These amounts are classified as accounts payable, refundable entrance fees, in the balance sheets.

The Facility also received deposits from prospective independent living residents that were on hand in the amount of $2,483,419 at December 31, 2021.

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website: DISB.dc.gov | email: disb@dc.gov

Note 4. Deferred Admission Fees

Revenues collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied and are included in deferred revenues in the accompanying balance sheets. In 2021 and 2020, the Facility recognized approximately $4,142,000 and $3,296,000, respectively, of revenue that was included in the deferred revenue from the entrance fees balance.

Note 5. Net Assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net deficit without donor restrictions.

Net Assets classified as temporarily restricted include 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 restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Assets whose use is limited primarily include escrowed entrance fee deposits, assets held by the trustees as required under trust indenture, and an operating reserve. Amounts available to meet current liabilities have been classified as current assets in the balance sheets.

Note 6. Operating Reserve:

District of Columbia Code §44-151.08 requires that "All continuing care facilities shall maintain, after opening, operating reserves equal to 20% of the total operating costs projected for the 12-month period following the period covered by the most recent annual disclosure statement filed."

The Facility designated a portion of its short-term investment to comply with operating reserves requirements. Accordingly, as of December 31, 2021, the Facility has maintained an operating reserve in an escrow account totaling $6,529,400. The operating reserves are included in assets whose use is limited on the balance sheets and do not have third-party restrictions or limitations on the withdrawal and subsequent liquidation of such funds.

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Note 7. Escrow, Collection of Deposits:

District of Columbia Code §44-151.09 requires that "All continuing care facilities both prior to and after opening shall maintain escrow accounts for the total amount of any entrance fee, or any other fee or deposit that may be applied toward the entrance fee, in the following instances:

(1) The amounts received if an applicant for residence in a continuing care facility or their guardian provides a deposit with their application prior to the applicant taking up residence in the continuing care facility;
(2) If an applicant for residence in a continuing care facility or their guardian provides a deposit with their application prior to the construction or occupancy of the facility; and
(3) If a revocation order for the provider's license as a continuing care facility is under appeal."

Note 8. Beneficial Interest in Trust:

Perpetual Trusts

The Facility is the sole beneficiary of trusts that provide distribution of all of the net income, as defined in the agreements, earned by the trust. The principal of each trust must remain in perpetuity. The trusts are measured based on the fair market value of the trusts' assets. Changes in the trusts' market value are recorded as restricted in the statements of changes in net deficit. Dividends received from the trusts are recorded as investment income with donor restrictions. The fair market value of the trusts was $848,121 at December 31, 2021.

Charitable Remainder Trusts

The Facility is the beneficiary of several irrevocable charitable remainder trusts. Funds from the trusts will be distributed upon the deaths of the donors or their beneficiaries. The net present value of the anticipated benefit to be received is recorded as an asset on the balance sheets at fair value. The Facility recorded $70,331 as of December 31, 2021. These trusts are classified as net assets with donor restrictions.

Interest in Net Assets of the Foundation

The Facility is the beneficiary of contributions that are solicited, held, and invested by Westminster Ingleside Presbyterian Foundation, Inc. (the Foundation). The Facility follows accounting guidance regarding transfers of net assets to a not-for-profit organization or charitable trust that raises or holds contributions for others. This guidance requires the Facility to recognize its beneficial interest in the net assets the Foundation holds on behalf of the Facility.

These amounts are reported as interest in net assets of the Foundation in the balance sheets and totaled $12,095,919 at December 31, 2021. The change in interest in net assets of the Foundation included as a component of net assets with donor restrictions, was $1,609,379 during 2021.

Note 9. Stimulus Grant Revenue:

Stimulus grant revenue is comprised of amounts received from federal sources related to the COVID-19 pandemic In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund (PRF) to financially support healthcare providers. During 2021 and 2020, the Facility received PRF proceeds in the amount of $69,746 and $594,173 pursuant to PRF. The funding received is subject to future reporting and audit requirements. Noncompliance with the terms and conditions of the funding sources could result in repayment of some or all of the support, which can be subject to government review and interpretation.

During 2020, Ingleside received a loan pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration (SBA). The PPP was authorized in the CARES Act. Ingleside transferred cash of approximately $1,348,000 from this loan to the Facility during 2020, which was recorded as a transfer from affiliate in the accompanying statement of operations.

As of December 31, 2021, Ingleside has expended all of the PPP funds received on qualified expenses and believes that it met all of the conditions attached to the PPP, and therefore, applied for forgiveness during 2021. The legal release was received in November 2021. The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act (as amended by the Economic Aid Act on December 27, 2020, and the American Rescue Plan Act on March 11, 2021), Ingleside is required to maintain its PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. Ingleside does not believe the results of any audits or reviews by the SBA would have a material impact on the financial statements.

Note 10. Other Commitments:

During 2015, the Facility executed a loan agreement with IAH, which allows for maximum advances to IAH of $500,000. Through December 31, 2020, interest accrued monthly at a rate of the greater of 5 percent or LIBOR plus 200 basis points (5 percent as of December 31, 2020). As of December 31, 2020, total principal advances by the Facility was $500,000, and total interest, recorded as interest receivable from affiliate, was $74,400. The loan agreement with IAH was amended on January 1, 2021, to convert unpaid accrued interest to principal, accrue interest thereafter at a fixed rate of 5 percent per year, and extend the maturity date to December 31, 2031.

Monthly principal and interest payments total approximately $5,700 per month. Any unpaid principal and accrued interest will be due upon maturity. As of December 31, 2021, the total due on the note was $534,231.

During 2018, the Facility entered into promissory notes with affiliates King Farm and Lake Ridge for principal amounts of $3,500,000 each for a total of $7,000,000. As of December 31, 2021, the Promissory Note existing debt outstanding was approximately $4,141,000. The Promissory Note bears interest at an annual rate of 5.01 percent. Interest is payable annually beginning July 1, 2020, and continues through maturity. The principal balance outstanding and unpaid interest will be due on October 24, 2028. As of December 31, 2021, interest payable on the note and recorded as interest payable to affiliate was $1,178,112. During 2021, the Facility made a principal curtailment payment to King Farm of $2,000,000.

SUBSEQUENT EVENTS

During the course of fieldwork and subsequent to the examination date, December 31, 2021, the following significant subsequent events were noted.

In 2023, the Facility sought regulatory approval to renovate two unoccupied single-family homes to its inventory of independent living residences. The expansion requires the disclosures outlined in D.C. Code § 44-151.05(a)(14) and DCMR 26A-8207. The single-family homes are located on Ingleside's property, located at 3020 Military Road NW DC 20015 and 3024 Military Road NW DC 20015. According to management, both homes are fully owned by Ingleside and require renovation. The Facility does not expect to incur any additional financial obligations prior to the commencement of operations. The Facility received a no-objection letter from the Department dated August 29, 2023.

In 2022, the Facility's affiliate, Ingleside at Home (IAH), was licensed to operate in the District of Columbia. IAH began in 2013 as a way to support the residents of Westminster at Lake Ridge through home care services and extends senior care and community-based services to Northern Virginia, suburban Maryland, and Northwest DC.

In 2023, the Facility booked a $3,784,137 Employee Retention Credit (ERC) liability, which was related to and included as part of the CARES Act incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020, and before October 1, 2021. While management believes that it qualifies for the ERC under the credit's partial suspension provisions, the Facility was unable to determine whether it substantially met the ERC eligibility barriers under FASB

Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions. The grant liability is contingent upon the expiration of the statute of limitations or the conclusion of a successful audit, whichever comes first.

SUMMARY OF RECOMMENDATIONS

D.C. Code § 44–151.07 – Annual Disclosure Statement:

For the fiscal year ending 2019, the Facility failed to timely file its required annual disclosure statement revisions with the Department pursuant to D.C. Code § 44-151.07(a), which requires "Within 150 days following the end of each fiscal year, the provider shall file with the Commissioner a revised disclosure statement setting forth current information required."

In connection with the operational impacts of COVID-19 during the 2019/2020 periods, the Department put out a Bulletin concerning the public health emergency in April 2020 that allowed companies to delay filings with DISB (renewed in May 2021). The bulletin allowed for a delay in filings but did not waive the requirement.

Additionally, the disclosure statements reviewed during the exam period appear not to provide the required information pursuant to DC Code Sec 44-151.05(a)(16)(C) 'A description of any special programming, staffing, and training provided by the program for individuals with particular needs or conditions, such as cognitive impairment or confinement to bed.'

Recommendation:

The Facility has filed all its subsequent annual revised disclosure statements and shall continue to remain in compliance by filing with the Department a comprehensive, complete, and timely disclosure statement that comports with the requirements of the CCRC law on an ongoing annual basis and addresses each component area of section §44-151-05 of the Code, some of which include multiple sub-requirements.

Additionally, the Annual Disclosure statement revision shall be appropriately categorized, organized, and prepared following a standardized format that provides a table of contents and a brief narrative or executive summary of each component area required per D.C. Codes §44–151.05 and § 44-151.07 with all the mandatory enclosures/appendices of exhibits and tables that may provide detailed information.

Furthermore, the Facility shall include, where applicable, current up-to-date information and provide this information as required in its annual Disclosure revisions pursuant to the DC Code and CCRC laws and regulations.

<u>D.C. Code §44-151.05 (a) (9) – Escrow, Collection of Deposits</u>:

Pursuant to D.C. Code § 44-151.09(a), all continuing care facilities both prior to and after opening shall maintain escrow accounts for the total amount of any entrance fee, or any other fee or deposit that may be applied toward the entrance fee. It was noted that as part of the bond covenants described in Note 2 of this Report, the escrow funds are being used as security for the bond, along with other property, under the terms of the loan agreement.

D.C. Code §44-151.05 (a) (9) requires disclosure of "The provisions that have been made or shall be made to provide reserve funding or security to enable the provider to perform its obligations fully under contracts to provide continuing care at the facility, including the establishment of escrow accounts, trusts, or reserve funds, the manner in which these funds shall be invested, and the names and experience of any individuals in the direct employment or on the board of directors of the provider who shall make the investment decisions…"

However, the Facility's Disclosure Statement revisions reviewed during the exam period did not clearly disclose or contain this required information.

<u>Recommendation</u>:

In compliance with D.C. Code § 44-151.09(a), the Facility should appropriately disclose the establishment of appropriate segregated escrow resident trust fund accounts to safeguard individual residents' funds from other assets. The escrow funds shall be restricted from other assets.

<u>D.C. Code §44-151.05 – Audited Financial & Actuarial Statements</u>:

D.C. Codes §§ 44–151.07 and 44–151.05(a)(10) require the timely filing of a revised Disclosure Statement annually to the Department and its current and prospective residents that includes financial statements of the provider, certified by an independent certified public accountant as of the end of the most recent fiscal year. A copy of the 2019 audited financial statements was attached, as denoted as item #10 of the 2021 Disclosure Statement, contrary to the requirements of D.C. Code §44-151-07(b), that only the most recent financial statements of the Provider, certified by an independent certified public accountant as of the end of the most recent fiscal year, shall be included if the provider's fiscal year ended more than 120 days prior to the date of the disclosure statement.

However, the Facility completed and provided its most recent audited financial statements and actuarial study reports subsequent to the statutory 120-day requirement period.

Recommendation:

The Facility should remain cognizant of the requirements and complete and file its revised annual disclosure statement in a timely and complete form and format that includes audited financial statements as of the end of the most recent fiscal year certified by an independent certified public accountant and a comprehensive actuarial evaluation report completed at a minimum within the prior two (2) years of the date of the disclosure statement as required pursuant to the applicable D.C. law.

CONCLUSION AND SIGNATURES

The examination practices and procedures promulgated by the Department have been followed in ascertaining the financial condition of the Facility, consistent with the Charitable and Curative Institutions laws of the District of Columbia. Such procedures performed on this examination do not constitute an audit that follows generally accepted auditing standards, and no audit opinion is expressed on the financial statements in this Report. No material adjustments were identified during the examination.

Respectfully submitted,

Yohaness T. Negash

Yohaness Negash, CFE, CIA, PIR, CFE (Fraud), CISA
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking

Under the Supervision of,

Nathan K. Brown

N. Kevin Brown, CPA, CFE
Chief Examiner
District of Columbia Department of Insurance,
Securities and Banking

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website: DISB.dc.gov | email: disb@dc.gov