

# **The Village at Rockville, Inc.**

Financial Statements

December 31, 2025 and 2024

# The Village at Rockville, Inc.

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Table of Contents  
December 31, 2025 and 2024

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	8

## Independent Auditors' Report

To the Board of Trustees of  
The Village at Rockville, Inc.

### Opinion

We have audited the financial statements of The Village at Rockville, Inc. (TVAR), which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TVAR as of December 31, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

## **Auditors' Responsibilities for the Audits of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 TVAR's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about TVAR's ability to continue as a going concern for a reasonable period of time.

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

*Baker Tilly US, LLP*

New Castle, Pennsylvania  
April 24, 2026

## The Village at Rockville, Inc.

Balance Sheets

December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>		<u>2025</u>	<u>2024</u>
<b>Assets</b>			<b>Liabilities and Net Assets</b>		
<b>Current Assets</b>			<b>Current Liabilities</b>		
Cash and cash equivalents	\$ 427,264	\$ 18	Accounts payable, trade	\$ 158,126	\$ 240,056
Accounts receivable, net	1,947,342	2,109,199	Accrued interest	1,144,725	1,167,010
Prepaid expenses and other assets	498,099	511,436	Accrued expenses	4,410,040	4,403,278
Current portion of assets whose use is limited	<u>1,144,725</u>	<u>2,102,010</u>	Current portion of long-term debt	-	<u>935,000</u>
Total current assets	4,017,430	4,722,663	Total current liabilities	5,712,891	6,745,344
<b>Assets Whose Use is Limited, Net</b>	13,117,442	12,092,502	<b>Deferred Revenue From Entrance Fees</b>	27,769,454	28,754,162
<b>Investments</b>	7,345,081	6,570,950	<b>Refundable Entrance Fees</b>	62,254,483	54,954,926
<b>Beneficial Interest in Supporting Organization</b>	19,557,763	15,893,650	<b>Resident Deposits</b>	664,098	1,286,149
<b>Property and Equipment, Net</b>	103,649,931	103,304,274	<b>Long-Term Debt, Net</b>	46,641,072	46,577,575
<b>Funds Held in Trust by Others</b>	1,708,851	1,624,981	<b>Annuities Payable, Net</b>	<u>56,238</u>	<u>77,277</u>
<b>Pledges Receivable, Net</b>	64,601	85,087	Total liabilities	<u>143,098,236</u>	<u>138,395,433</u>
Total assets	<u>\$ 149,461,099</u>	<u>\$ 144,294,107</u>	<b>Net Assets (Deficit)</b>		
			Without donor restrictions	227,404	173,174
			With donor restrictions	<u>6,135,459</u>	<u>5,725,500</u>
			Total net assets	<u>6,362,863</u>	<u>5,898,674</u>
			Total liabilities and net assets	<u>\$ 149,461,099</u>	<u>\$ 144,294,107</u>

See notes to financial statements

# The Village at Rockville, Inc.

## Statements of Operations

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Revenue:		
Net resident service revenue, including amortization of entrance fees 2025 \$4,524,300; 2024 \$4,663,135	\$ 42,881,506	\$ 41,898,713
Net assets released from restrictions, operations	232,683	183,806
Total operating revenue	<u>43,114,189</u>	<u>42,082,519</u>
Operating expenses:		
Salaries and wages	17,529,599	16,192,102
Employee benefits and payroll taxes	3,249,131	2,964,717
Professional fees	2,649,843	3,813,189
Ancillary and medical	2,655,972	2,830,458
Supplies	610,345	536,117
Food services	1,423,065	1,469,693
Utilities	2,189,960	1,863,696
Depreciation	6,501,122	6,209,277
Interest	2,821,215	2,876,702
Insurance	406,903	355,159
Real estate taxes	548,271	518,643
Repairs and maintenance	695,713	700,019
Advertising and marketing	245,462	239,723
Licenses, dues and subscriptions	578,596	665,514
Other operating expenses	549,409	510,973
Credit loss expense	193,247	190,130
Management fees	3,319,874	2,841,790
Total operating expenses	<u>46,167,727</u>	<u>44,777,902</u>
Deficiency of operating revenue over expenses	<u>(3,053,538)</u>	<u>(2,695,383)</u>
Nonoperating revenue (expense):		
Contributions	212,149	322,431
Interest and dividends	1,331,130	1,184,012
Other income	188,557	111,006
Realized gains	1,603,035	857,171
Change in unrealized (losses) gains	(227,103)	1,278,940
Total nonoperating revenue	<u>3,107,768</u>	<u>3,753,560</u>
Excess of operating and nonoperating revenue over expenses	<u>54,230</u>	<u>1,058,177</u>
Change in net assets without donor restrictions	<u>\$ 54,230</u>	<u>\$ 1,058,177</u>

See notes to financial statements

## The Village at Rockville, Inc.

Statements of Changes in Net Assets  
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Excess of operating and nonoperating revenue over expenses	\$ 54,230	\$ 1,058,177
<b>Changes in Net Assets With Donor Restrictions</b>		
Contributions and earnings	558,772	696,685
Change in value of funds held in trust by others	83,870	(29,775)
Net assets released from restriction, operations	(232,683)	(183,806)
Change in net assets with donor restrictions	409,959	483,104
Change in net assets	464,189	1,541,281
<b>Net Assets, Beginning</b>	<u>5,898,674</u>	<u>4,357,393</u>
<b>Net Assets, Ending</b>	<u>\$ 6,362,863</u>	<u>\$ 5,898,674</u>

See notes to financial statements

# The Village at Rockville, Inc.

## Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 464,189	\$ 1,541,281
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,501,122	6,209,277
Credit loss expense	193,247	190,130
Amortization of deferred financing costs	63,497	63,496
Amortization of entrance fees	(4,524,300)	(4,663,135)
Proceeds from nonrefundable entrance fees	3,539,592	3,073,066
Realized gains	(1,603,035)	(857,171)
Change in unrealized losses (gains)	227,103	(1,278,940)
Change in value of funds held in trust by others	(83,870)	29,775
Change in annuities payable	(21,039)	15,374
Changes in assets and liabilities:		
Accounts receivable	(31,390)	(439,977)
Prepaid expenses and other assets	13,337	(61,629)
Accounts payable, trade and accrued expenses	(245,116)	733,183
Net cash provided by operating activities	<u>4,493,337</u>	<u>4,554,730</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of investments and assets whose use is limited	(5,422,984)	(2,078,016)
Sales of investments and assets whose use is limited	1,523,629	1,200,979
Purchases of property and equipment	(6,699,116)	(6,044,013)
Net cash used in investing activities	<u>(10,598,471)</u>	<u>(6,921,050)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt	(935,000)	(895,000)
Net change in resident deposits	(622,051)	643,645
Proceeds from refundable entrance fees, turnover units	11,552,211	7,621,747
Refunds of entrance fees	(4,252,654)	(3,874,235)
Change in pledges receivable, net	20,486	(65,087)
Change in due to affiliates, net	-	(859,579)
Net cash provided by financing activities	<u>5,762,992</u>	<u>2,571,491</u>
Net change in cash and cash equivalents and restricted cash	(342,142)	205,171
<b>Cash and Cash Equivalents and Restricted Cash, Beginning</b>	<u>6,108,592</u>	<u>5,903,421</u>
<b>Cash and Cash Equivalents and Restricted Cash, Ending</b>	<u>\$ 5,766,450</u>	<u>\$ 6,108,592</u>

See notes to financial statements

## The Village at Rockville, Inc.

### Statements of Cash Flows

Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
<b>Cash and Cash Equivalents and Restricted Cash Include</b>		
Cash and cash equivalents	\$ 427,264	\$ 18
Assets held under trust indenture	<u>5,339,186</u>	<u>6,108,574</u>
	<u>\$ 5,766,450</u>	<u>\$ 6,108,592</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 2,780,003</u>	<u>\$ 2,834,528</u>
Property and equipment included in accrued expenses	<u>\$ 147,663</u>	<u>\$ -</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Change in beneficial interest in supporting organization through due to affiliates	<u>\$ -</u>	<u>\$ (5,240,532)</u>

See notes to financial statements

# The Village at Rockville, Inc.

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Notes to Financial Statements

December 31, 2025 and 2024

## 1. Nature of Organization and Summary of Significant Accounting Policies

### Nature of Organization

The Village at Rockville, Inc. (TVAR), a not-for-profit corporation incorporated in the District of Columbia, operates a retirement community in Rockville, Maryland, which includes approximately 240 independent living units, 50 assisted living units and 160 skilled nursing beds. TVAR is a faith-based, not-for-profit ministry partner of the Metro D.C. Synod of the Evangelical Lutheran Church in America (ELCA), serving people of all beliefs.

National Lutheran, Inc. (NLI), a Maryland not-for-profit corporation, is the parent corporation of a system doing business as National Lutheran Communities & Services (NLCS). NLCS is a faith-based, not-for-profit ministry partner of the Delaware-Maryland Synod, the Metro D.C. Synod and the Virginia Synod of the ELCA, serving people of all beliefs.

NLI provides management and support services and is the sole member or parent of The Village at Rockville, Inc. (TVAR), The Village at Orchard Ridge, Inc. (TVOR), The Legacy at North Augusta, Inc. (TLNA), The Village at Providence Point, Inc. (TVPP), Augsburg Lutheran Home of Maryland, Inc. d/b/a Augsburg Acorn Foundation (AAF) and Community Services, LLC, which is the sole member of myPotential Maryland, LLC (myPotential MD) and myPotential Virginia, LLC (myPotential VA).

### Basis of Accounting

The financial statements of TVAR have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

### Use of Estimates

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

### Cash and Cash Equivalents

TVAR considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, excluding those classified as investments and assets whose use is limited.

### Accounts Receivable

Accounts receivable are reported net of an allowance for credit losses, which represents TVAR's estimate of expected losses at the balance sheet date. Accounts are written off when they are determined to be uncollectible. The adequacy of the TVAR's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, a review of specific accounts and expected future economic conditions and market trends. Adjustments are made to the allowance as necessary. The allowance for credit losses was not significant as of December 31, 2025 and 2024.

## The Village at Rockville, Inc.

Notes to Financial Statements

December 31, 2025 and 2024

### Contract Balances

Contract liabilities represent the Organization's obligation to transfer goods or services to a resident for which the Organization has received consideration (or the amount is due) from the resident.

TVAR's beginning and ending contract liabilities are separately presented on the balance sheets as of December 31, 2025 and 2024. Contract liabilities as of December 31, 2023 are as follows:

Deferred revenue from entrance fees	\$ (30,344,231)
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### Beneficial Interest in Supporting Organization

TVAR maintains support agreements with National Lutheran, Inc. and National Lutheran Home for the Aged, Inc. (NLHA) relative to TVAR's long-term debt. NLI is the parent to both TVAR and NLHA; NLHA is an affiliate of TVAR. The support agreements outline that NLI and NLHA will provide access to capital to maintain TVAR's long-term debt requirements. Although the support agreements are with both NLI and NLHA, NLHA holds the investments that are providing the beneficial interest to TVAR. As of December 31, 2025, the investments held by NLHA are comprised of cash and cash equivalents (7%), marketable equity securities (45%), mutual funds (15%), and fixed income securities (33%). Approximately 44.33% and 36.32% of the combined investments are attributable to TVAR as of December 31, 2025 and 2024, respectively. The percentage of combined investments is calculated based on a monthly allocation, adjusted for any necessary reallocations specific to TVAR. Investment income (including realized and unrealized gains and interest and dividends) is also based on this allocation.

### Assets Whose Use is Limited, Investments and Beneficial Interest in Supporting Organization

Assets held as operating reserves and assets held under indenture agreements are classified as assets whose use is limited and are reported separately on the accompanying balance sheets. Assets whose use is limited and investments are reported on the accompanying balance sheets at fair value, based on quoted market prices as provided by a national exchange, and beneficial interest in supporting organization is valued at net asset value (NAV) based on the TVAR's percent interest.

Investment income is included in nonoperating revenue (expense) unless the income or loss is restricted by donor or law or related to unrealized gains or losses on alternative investments. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

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

## **The Village at Rockville, Inc.**

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Notes to Financial Statements  
December 31, 2025 and 2024

### **Property and Equipment**

Property and equipment are reported at cost or, if donated, at fair value. Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives (3-40 years). TVAR's capitalization policy is to capitalize amounts in excess of \$5,000. The general range of estimated useful lives is five to twenty years for furniture and equipment and fifteen to forty years for buildings and building and land improvements. Expenditures that extend the useful lives of the asset or significantly increase their capacity are capitalized. Interest expense from borrowings to fund construction projects is capitalized.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

### **Pledges Receivable**

Pledges receivable are stated at outstanding balances and are discounted for their present value. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance for uncollectable pledges is based on management's assessment of the collectability of pledges receivable and was \$17,000 and \$23,000 as of December 31, 2025 and 2024, respectively.

### **Funds Held in Trust by Others**

TVAR has been named as a beneficiary of a number of perpetual and charitable remainder trusts which are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when TVAR is notified of the trust's existence. TVAR receives the distributions of earnings from perpetual trusts whose principal is to be held in perpetuity. The earnings from these trusts are recorded as investment income. Depending upon the terms of the remainder trusts, TVAR may receive payments over a specified period of time or at a future date.

Perpetual trusts are valued based upon the fair value of the underlying investments. The change in the fair value of perpetual trusts is reported as a change in net assets with donor restrictions. The fair value of remainder trusts is based upon a calculation of the present value of the estimated future benefits to be received when the trust's assets are distributed and are recorded as net assets with donor restrictions.

### **Gift Annuities**

Liabilities related to gift annuities issued by TVAR are recorded at the present value of the future payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as contributions without restrictions on the statements of operations. TVAR uses published mortality tables adopted by the United States Internal Revenue Service (IRS) and an assumed discount rate of approximately 0.05% to 7.50% to determine the present value of the actuarially determined liability. Maryland regulations require a segregated reserve fund with assets at least equal to fund adequate reserves on its outstanding annuity agreement which TVAR maintains in compliance with this requirement.

## The Village at Rockville, Inc.

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Notes to Financial Statements

December 31, 2025 and 2024

### Entrance Fees

TVAR's policy requires payment of an entrance fee for admittance to an independent living residence under a type C fee-for-service contract. TVAR currently offers traditional, 50% guaranteed refund, and 80% guaranteed refund entrance fee options. Agreements feature an amortization provision whereby the nonrefundable component of the entrance fee is earned ratably over a future time period following the initial date of occupancy. After this time period has ended, no refund is due to the resident. The nonrefundable component is contractually earned by TVAR as follows:

**Traditional Entrance Fee** - After applying the 10% administrative fee, the remaining entrance fee is contractually earned by TVAR over 24 months, at which time no refund will be payable to the resident.

**50% Entrance Fee** - Guarantees a refund amount that is the greater of either 50% of the entrance fee paid, or an amount equal to the entrance fee paid less a 10% administrative fee, and less than a sum equal to 1.67% of 90% of the entrance fee paid for each month between the occupancy date and the termination date limited to 24 months.

**80% Entrance Fee** - Guarantees a refund amount of 80% of the entrance fee paid.

Contracts containing varying refund provisions no longer offered by TVAR to new residents remain in force.

The nonrefundable portion of the entrance fees are accounted for as deferred revenue from entrance fees and are amortized into earned revenue using the straight-line method over the estimated remaining life of the residents. At the time of death or contract termination, the remaining nonrefundable balance is recognized as revenue. The remaining life expectancy of the residents is adjusted annually based on actuarial information. The refundable portion of the entrance fees is not amortized into income and is reported as refundable entrance fees liability. Contractual refund obligations amounted to approximately \$65,133,000 and \$67,038,000 as of December 31, 2025 and 2024, respectively.

TVAR also has a rental agreement requiring no entrance fee.

### Deferred Financing Costs

Financing costs were incurred in connection with the issuance of long-term debt. These costs are reported on the accompanying balance sheets as a reduction of long-term debt and are being amortized over the life of the debt using the straight-line method, which approximates the effective interest method. The amortization of deferred financing costs, included in interest expense on the accompanying statements of operations, totaled \$63,497 and \$63,496 for the years ended December 31, 2025 and 2024, respectively.

### Net Assets

Net assets, revenue, gains and losses are classified based on 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** - Net assets available for use in general operations and not subject to donor restrictions. All revenue 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 assets without donor restrictions.

**Net Assets With Donor Restrictions** - 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

## The Village at Rockville, Inc.

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Notes to Financial Statements  
December 31, 2025 and 2024

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. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with 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.

### Net Resident Service Revenue

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

Net resident service revenue is primarily comprised of the following revenue streams:

**Skilled Nursing** - Skilled nursing revenue is primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. TVAR has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenue is recognized on a daily basis as services are rendered.

**Assisted Living** - Assisted living revenue is primarily derived from providing housing and personal care services to residents at a stated monthly fee. TVAR has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenue is recognized on a month-to-month basis.

**Independent Living** - Independent living revenue is primarily derived from providing housing and services to residents. TVAR has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees on the accompanying balance sheets.

**Other Resident Services** - Other resident services revenue includes services such as housekeeping, laundry, transportation, medical supplies and other revenue from residents. TVAR has determined that other resident services revenue is considered one performance obligation which is satisfied over time as services are provided. Therefore, other resident services revenue is recognized on a daily basis as services are rendered.

Revenue from nonrefundable entrance fees received is recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which during the contractual term of the contract approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the balance sheets. Amortization of nonrefundable entrance fees included in net resident service revenue was \$4,524,300 in 2025 and \$4,663,135 in 2024.

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

TVAR receives revenue for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. TVAR estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

TVAR disaggregates revenue by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenue consists of the following for the years ended December 31:

	<b>2025</b>				
	<b>Skilled Nursing</b>	<b>Assisted Living</b>	<b>Independent Living</b>	<b>Other Resident Services</b>	<b>Total</b>
Self-pay	\$ 6,285,669	\$ 5,422,009	\$ 7,783,737	\$ 1,462,970	\$ 20,954,385
Medicare	7,828,617	-	-	-	7,828,617
Medical Assistance	8,608,660	-	-	-	8,608,660
Commercial insurance	965,544	-	-	-	965,544
Amortization of nonrefundable entrance fees	-	-	4,524,300	-	4,524,300
<b>Total</b>	<b>\$ 23,688,490</b>	<b>\$ 5,422,009</b>	<b>\$ 12,308,037</b>	<b>\$ 1,462,970</b>	<b>\$ 42,881,506</b>

  

	<b>2024</b>				
	<b>Skilled Nursing</b>	<b>Assisted Living</b>	<b>Independent Living</b>	<b>Other Resident Services</b>	<b>Total</b>
Self-pay	\$ 5,293,840	\$ 5,306,660	\$ 7,157,568	\$ 1,321,340	\$ 19,079,408
Medicare	8,292,149	-	-	-	8,292,149
Medical Assistance	8,883,614	-	-	-	8,883,614
Commercial insurance	980,407	-	-	-	980,407
Amortization of nonrefundable entrance fees	-	-	4,663,135	-	4,663,135
<b>Total</b>	<b>\$ 23,450,010</b>	<b>\$ 5,306,660</b>	<b>\$ 11,820,703</b>	<b>\$ 1,321,340</b>	<b>\$ 41,898,713</b>

TVAR has agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

**Medical Assistance** - Under the Maryland Medical Assistance Program's case-mix reimbursement system, the determination of reimbursement rates for skilled nursing costs is based upon a recipient's dependency in Activities of Daily Living (ADLs), and need for and receipt of ancillary nursing services. Each recipient is assigned a reimbursement level depending on his or her degree of dependency in ADLs.

**Medicare** - Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medical Assistance and Medicare Part A rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on TVAR's clinical assessment of its residents. TVAR is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medical Assistance and Medicare programs.

## The Village at Rockville, Inc.

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Notes to Financial Statements

December 31, 2025 and 2024

TVAR also has entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to TVAR under these agreements includes prospectively determined rates per day or discounts from established charges.

Payment terms and conditions for TVAR's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenue for recurring and routine monthly services is generally billed monthly in advance. Net resident service fee revenue for ancillary services is generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenue collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenue from entrance fees on the accompanying balance sheets.

### **Advertising**

TVAR expenses advertising costs as incurred. Advertising expense totaled \$236,712 and \$239,723 for the years ended December 31, 2025 and 2024, respectively.

### **Excess of Operating and Nonoperating Revenue Over Expenses**

The statements of operations include the determination of excess of operating and nonoperating revenue over expenses as the performance indicator.

### **Income Tax Status**

TVAR is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and has been recognized as tax exempt under Section 501(a) of the IRC. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require an organization to evaluate tax positions taken by TVAR and recognize a tax liability or asset if TVAR has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. TVAR has concluded that as of December 31, 2025 and 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Generally, tax returns for years ended December 31, 2022, and thereafter remain subject to examination by federal and state tax authorities.

### **Reclassifications**

Certain reclassifications have been made to the 2024 financial statements to conform to the presentation used in 2025.

### **Subsequent Events**

In preparing these financial statements, TVAR evaluated events that occurred through April 24, 2026, the date the financial statements were issued, for potential recognition or disclosure.

# The Village at Rockville, Inc.

Notes to Financial Statements

December 31, 2025 and 2024

## 2. Liquidity and Availability of Resources

Financial assets are considered liquid and available when convertible into cash within a year. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheets dates, comprise the following as of December 31:

	<u>2025</u>	<u>2024</u>
Financial assets:		
Cash and cash equivalents	\$ 427,264	\$ 18
Accounts receivable, net	1,947,342	2,109,199
Investments	7,345,081	6,570,950
Beneficial interest in supporting organization	19,557,763	15,893,525
	<u>\$ 29,277,450</u>	<u>\$ 24,573,692</u>

As part of TVAR's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. TVAR invests cash in excess of daily requirements in short-term investments. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied. As stated in Note 4, TVAR designated a portion of its beneficial interest in supporting organization as an operating reserve to comply with the requirements of the Maryland Department of Aging Reserve Requirements and thus they are not included in the schedule above. Although TVAR does not intend to utilize the operating reserve for general expenditures as part of its annual budget and approval process, amounts designated as operating reserves could be made available as necessary. 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.

## 3. Concentrations of Credit Risk

TVAR grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies. TVAR maintains cash, restricted cash and cash equivalents accounts, which, at times, may exceed federally insured limits. TVAR has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash, restricted cash and cash equivalents.

## 4. Fair Value Measurements

Authoritative guidance regarding *Fair Value Measurements* establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

The tables below present the balances of financial assets measured at fair value on a recurring basis as of December 31:

	<b>2025</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Reported at fair value:				
Assets:				
Assets whose use is limited:				
Cash equivalents	\$ 5,339,186	\$ 5,339,186	\$ -	\$ -
Investments:				
Cash equivalents	403,599	403,599	-	-
Equity securities	2,062,594	2,062,594	-	-
Mutual funds	2,860,833	2,848,173	12,660	-
Fixed income securities	765,367	576,799	188,568	-
Exchange traded funds	1,252,688	1,252,688	-	-
Total investments	7,345,081	7,143,853	201,228	-
Beneficial interest in supporting organization measured at NAV	19,557,763			
Total	32,242,030			
Funds held in trust by others	1,708,851	-	-	1,708,851
Total assets	<u>\$ 33,950,881</u>	<u>\$ 12,483,039</u>	<u>\$ 201,228</u>	<u>\$ 1,708,851</u>
	<b>2024</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Reported at fair value:				
Assets:				
Assets whose use is limited:				
Cash equivalents	\$ 6,108,574	\$ 6,108,574	\$ -	\$ -
Investments:				
Cash equivalents	405,944	405,944	-	-
Equity securities	1,865,720	1,865,720	-	-
Mutual funds	2,507,968	2,501,689	6,279	-
Fixed income securities	703,290	543,558	159,732	-
Exchange traded funds	1,088,028	1,088,028	-	-
Total investments	6,570,950	6,404,939	166,011	-
Beneficial interest in supporting organization measured at NAV	15,893,650			
Total	28,573,174			
Funds held in trust by others	1,624,981	-	-	1,624,981
Total assets	<u>\$ 30,198,155</u>	<u>\$ 12,513,513</u>	<u>\$ 166,011</u>	<u>\$ 1,624,981</u>

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

In accordance with the Maryland Department of Aging reserve requirements governing continuing care retirement communities (Note 6), TVAR maintains an operating reserve based on a percentage of the facility's net operating expenses for the most recent audited fiscal year. These funds have been reclassified from the beneficial interest in supporting organization and reserved in assets whose use is limited on the balance sheets.

TVAR has no financial assets or liabilities that are recorded at fair value on a nonrecurring basis.

There were no transfers between Level 1, Level 2 or Level 3 during the years ended December 31, 2025 or 2024.

The following methods have been used by TVAR in estimating the fair value on a recurring basis of its financial instruments. There have been no changes in the methodologies used as of December 31, 2025 or 2024:

**Cash Equivalents** - Fair values, which are the amounts reported on the balance sheets, are based on multiplying number of units held by \$1 per unit.

**Equity Securities, Mutual Funds and Exchange Traded Funds** - Valued at the closing price reported in the active market on which the individual securities are traded for equity securities and fixed income mutual funds and quoted market prices in active markets. Certain mutual funds that are not traded in active markets are valued using observable inputs, including quoted prices for similar securities, and are classified within level 2 of the fair value hierarchy.

**Fixed Income Securities and Other** - Fair values of these items, which are the amounts reported on the balance sheets, are estimated using quoted prices for similar securities.

**Beneficial Interest in Supporting Organization** - Based on the fair values of the investments held in the fund at TVAR's percentage of holdings, which include the following:

Investments within the beneficial interest in supporting organization are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, equity securities, mutual funds and exchange-traded and closed-end funds and based on quoted prices for the same or similar securities for fixed income securities.

**Funds Held in Trust by Others** - Valued based on the fair value of the trusts' underlying assets, which approximates the discounted present value of future cash flows.

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

The following is a reconciliation of activity for Level 3 assets at fair value based upon significant unobservable (nonmarket) information as of December 31:

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 1,624,981	\$ 2,305,729
Valuation gain (loss)	83,870	(29,775)
Distributions	-	(650,973)
Balance, end of year	<u>\$ 1,708,851</u>	<u>\$ 1,624,981</u>

The change in value in Level 3 assets is recorded on the statements changes in net assets as an increase or decrease in net assets with donor restrictions.

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

### 5. Assets Whose Use is Limited

The assets whose use is limited are presented on the balance sheets as follows as of December 31:

	<u>2025</u>	<u>2024</u>
Assets whose use is limited:		
Operating reserve	\$ 8,922,981	\$ 8,085,938
Assets held under trust indenture (2012 bonds):		
Debt service reserve	921,602	885,909
Interest	432,320	452,027
Principal	359	369,721
Replacement reserves	52,345	50,318
Assets held under trust indenture (2018 bonds):		
Entrance fee fund	2,575	519,030
Debt service reserve	3,212,067	3,087,665
Interest	717,311	743,321
Construction	607	583
	<u>14,262,167</u>	<u>14,194,512</u>
Less current portion	<u>(1,144,725)</u>	<u>(2,102,010)</u>
Assets whose use is limited, net	<u>\$ 13,117,442</u>	<u>\$ 12,092,502</u>

### 6. Maryland Department of Aging Reserve Requirements

In accordance with Maryland law governing continuing care retirement communities, TVAR is required to set aside operating reserves totaling 25% of the facility's net operating expenses (as defined) for the most recent audited fiscal year.

The calculation of the required minimum statutory operating reserve for the year ended December 31, 2025, is as follows:

Total operating expenses for fiscal year ended December 31, 2024	\$ 44,777,902
Less:	
Depreciation	(6,209,277)
Interest	<u>(2,876,702)</u>
Adjusted operating expenses	<u>\$ 35,691,923</u>
Funding requirement (25% of operating expenses)	<u>\$ 8,922,981</u>

TVAR has reserved this amount in assets whose use is limited to satisfy the minimum statutory operating reserve requirement.

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

### 7. Property and Equipment

A summary of property and equipment and the related accumulated depreciation is as follows as of December 31:

	<u>2025</u>	<u>2024</u>
Land	\$ 3,255,294	\$ 3,255,294
Land improvements	1,524,887	1,364,323
Buildings and building improvements	160,082,234	154,541,739
Furniture and equipment	20,835,566	19,948,982
Construction in progress	2,401,131	2,141,995
	188,099,112	181,252,333
Less accumulated depreciation	(84,449,181)	(77,948,059)
	<u>\$ 103,649,931</u>	<u>\$ 103,304,274</u>

### 8. Long-Term Debt

Long-term debt consists of the following as of December 31:

	<u>2025</u>	<u>2024</u>
Series 2018A Fixed Rate Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through November 2051. Interest is fixed at 6.07% through maturity.	\$ 17,095,000	\$ 17,385,000
Series 2018B Adjustable Rate Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through November 2051. Interest is fixed at 5.23% through January 31, 2027. The interest rate resets on February 1, 2028, and on each reset date thereafter, at the greater of 6.00% or MMD plus 300 basis points.	12,940,000	13,185,000
Series 2012A Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2045. Interest is payable at a fixed rate of 6.15% through maturity.	10,705,000	10,935,000
Series 2012B Economic Development Revenue Bonds, payable in monthly installments to satisfy annual debt service requirements through February 2045. Interest is payable at a fixed rate of 5.25% through January 31, 2032. The interest rate resets on February 1, 2032 at the 10 year MMD plus 500 basis points, subject to floor of 5.00% and ceiling of 6.25% through maturity.	7,140,000	7,310,000
	47,880,000	48,815,000
Less current portion	-	935,000
Less deferred financing costs	1,238,928	1,302,425
Total long-term debt	<u>\$ 46,641,072</u>	<u>\$ 46,577,575</u>

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

Effective July 1, 2025, certain amendments and revisions were effectuated which resulted in the extension of the final maturity of the Series 2018 Bonds, extension of the optional redemption dates, and deferment of the principal payments through February 2028. These changes also resulted in updated covenant ratios.

Effective July 1, 2025, certain amendments and revisions were effectuated which resulted in the extension of the final maturity of the Series 2012 Bonds, extension of the optional redemption dates, and deferment of the principal payments through February 2028. These changes also resulted in updated covenant ratios.

As security for the payment of the bonds, TVAR has granted a lien and security interest in the mortgaged premises and assigned a security interest in the pledged assets to the master trustee. Pledged assets include present and future accounts receivable, contract rights, general intangibles and the proceeds of all the foregoing. Additionally, NLI and National Lutheran Home for the Aged, Inc. entered into support agreements guaranteeing the repayment of the bonds as additional security for up to \$10 million. The support agreements were amended and restated in their entirety effective July 1, 2025. The support agreements will terminate upon the achievement of certain financial performance targets as defined in the agreements.

TVAR is required to comply with certain debt covenants in connection with the aforementioned long-term debt. Management believes they are in compliance with all covenants as of December 31, 2025 and 2024.

Scheduled principal payments on long-term debt as of December 31, 2025, are as follows:

Years ending December 31:	
2026	\$ -
2027	-
2028	-
2029	1,175,000
2030	1,265,000
Thereafter	<u>45,440,000</u>
	<u>\$ 47,880,000</u>

Interest expense in connection with long-term debt totaled \$2,751,797 in 2025 and \$2,805,063 in 2024.

## The Village at Rockville, Inc.

Notes to Financial Statements  
December 31, 2025 and 2024

### 9. Net Assets

Net assets presentation on the balance sheets with expanded disclosure for the amount and purpose of designations is as follows as of December 31:

	<u>2025</u>	<u>2024</u>
Net assets:		
Without donor restrictions:		
Undesignated	\$ (8,695,577)	\$ (7,912,764)
Maryland Department of Aging reserve requirements	<u>8,922,981</u>	<u>8,085,938</u>
	<u>227,404</u>	<u>173,174</u>
With donor restrictions:		
Purpose restricted for:		
Operations	437,377	416,556
Charitable remainder trusts	16,197	14,582
Perpetual trusts	1,692,654	1,610,399
Restricted in perpetuity	<u>3,989,231</u>	<u>3,683,963</u>
	<u>6,135,459</u>	<u>5,725,500</u>
	<u>\$ 6,362,863</u>	<u>\$ 5,898,674</u>

For the years ended December 31, 2025 and 2024, net assets of \$232,683 and \$183,806 respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purposes.

Earnings from net assets restricted in perpetuity are available to support charitable and benevolent care provided by TVAR.

### 10. Related-Party Transactions

NLI is the sole member of TVAR and provides support in the form of management and support services in exchange for management fees and provides additional capital support when needed. TVAR incurred management fees to NLI totaling \$3,319,874 and \$2,841,790 for the years ended December 31, 2025 and 2024, respectively.

Various entities that are part of the NLCS system make working capital advances to each other as needed. Related party transactions bear no interest and have no stated repayment terms.



## **The Village at Rockville, Inc.**

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Notes to Financial Statements

December 31, 2025 and 2024

The financial statements report certain expense categories that are attributable to more than one health care or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to the functions based on square footage basis. Fundraising expenses are incurred through NLI.

### **12. Benevolent Care**

TVAR extends charity care and other support to residents, who meet certain criteria under its benevolent care policy and are unable to pay for services, at all levels of care as needed and when appropriate without charge or at amounts less than its established rates. Because TVAR does not pursue collection of amounts determined to be benevolent care, they are not reported as resident service revenue.

TVAR maintains records to identify and monitor the level of benevolent care it provides. The estimated cost of providing benevolent care is based upon the direct and indirect costs identified with the specific benevolent care provided. The cost of benevolent care provided to assisted living residents amounted to approximately \$251,000 and \$317,000 for the years ended December 31, 2025 and 2024, respectively. The amount by which costs exceeded revenues for the Medicaid program amounted to approximately \$1,907,000 and \$1,690,000 for the years ended December 31, 2025 and 2024, respectively. TVAR received contributions of approximately \$556,000 and \$693,000 for the years ended December 31, 2025 and 2024, respectively, to offset or subsidize benevolent care services provided.

### **13. Pension Plan**

TVAR participates in a 403(b) defined contribution plan. The Plan states TVAR shall make a Safe Harbor contribution in an amount equal to 100% of each employee's contribution, up to a maximum of 3% of such participant's compensation. In addition, TVAR will contribute 50% of each employee's contribution up to the next 2% of such participant's compensation for each payroll period. The Safe Harbor employer matching contribution is immediately vested. Discretionary employer contributions are vested at 20% per year to 100% after five years. All participating employees' contributions are 100% vested. Employer contributions totaled \$361,893 and \$330,561 for the years ended December 31, 2025 and 2024, respectively, and are recorded in employee benefits and payroll taxes on the statements of operations. There were no discretionary employer contributions in 2025 or 2024.

### **14. Medical Malpractice and General Liability Claims Coverage**

TVAR participates in a reciprocal risk retention group (RRG) through NLI. The coverage is provided on a claims-made basis. Medical malpractice and general liability coverages were provided for TVAR in the amount of \$1,000,000 per event and \$3,000,000 per annual aggregate. Each claim has a \$75,000 self-insured retention, prior to the primary insurance coverage. TVAR also has an excess umbrella policy for general liability coverage. The excess umbrella limit is \$15,000,000 in the aggregate. TVAR funds any potential accrued claims incurred but not reported liability through the premiums paid to the RRG. As of December 31, 2025, no such adjustments to premiums are deemed necessary.

**15. Commitments and Contingencies**

The health care industry is subject to numerous laws, regulations and administrative directives of federal, state and local government agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayment for patient services previously billed. TVAR is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on TVAR, if any, are not presently determinable.