Consolidated Financial Statements

CESC, Inc.

Years ended December 31, 2020 and 2019
with Report of Independent Auditors

Thomas Howell Ferguson P.A.

Certified Public Accountants

CESC, Inc.

Consolidated Financial Statements

Years ended December 31, 2020 and 2019

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Certified Public Accountants

Report of Independent Auditors

The Board of Directors
CESC, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CESC, Inc. (the Center) which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CESC, Inc. as of December 31, 2020 and 2019, and the changes in its net assets, its functional expenses, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the CESC, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 2020. In our opinion, the summarized comparative information presented in the statement of activities and changes in net assets for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
February 16, 2022

CESC, Inc.

Consolidated Statements of Financial Position

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 346,903**	$ 319,243
Accounts receivable	**1,410,671**	162,577
Prepaid expenses and other assets	**45,992**	82,449
Assets held-for-sale	**375,000**	-
Total current assets	**2,178,566**	564,269
Property and equipment, net	**402,240**	582,708
Other long term assets	**6,776**	6,427
Total assets	**$ 2,587,582**	$ 1,153,404
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 574,827**	$ 85,565
Accrued expenses	**5,406**	87,538
Total current liabilities	**580,233**	173,103
Line of credit	**1,682,000**	-
Refundable advance	**486,700**	-
Total liabilities	**2,748,933**	173,103
Net assets:		
Without donor restrictions		
Undesignated	**(318,127)**	678,718
With donor restrictions		
Restricted for purpose or time	**150,000**	295,156
Endowments	**6,776**	6,427
	156,776	301,583
Total net assets	**(161,351)**	980,301
Total liabilities and net assets	**$ 2,587,582**	$ 1,153,404

See accompanying notes.

CESC, Inc.

Consolidated Statements of Activities and Changes in Net Assets

	Years ended December 31, 2020			2019
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Total**
Changes in net assets:				
Revenue and other support:				
Contributions	**$ 2,361,923**	**$ 178,814**	**$ 2,540,737**	$ 1,865,485
Grant revenue	**2,469,406**	**-**	**2,469,406**	952,669
In-kind contributions	**2,507,325**	**-**	**2,507,325**	773,421
Fee income	**1,282,798**	**-**	**1,282,798**	1,235,162
Interest income	**1,815**	**-**	**1,815**	4,716
Other revenue	**(16,904)**	**-**	**(16,904)**	575,823
Lodge fees	**51,789**	**-**	**51,789**	34,893
Impairment loss of asset held for sale	**(151,004)**	**-**	**(151,004)**	-
Net assets released from restrictions	**323,621**	**(323,621)**	**-**	-
Total revenue and other support	**8,830,769**	**(144,807)**	**8,685,962**	5,442,169
Expenses:				
Program services	**9,114,793**	**-**	**9,114,793**	4,859,608
Fundraising	**292,816**	**-**	**292,816**	257,237
General and administrative	**340,238**	**-**	**340,238**	149,527
Lodge operations	**79,767**	**-**	**79,767**	178,598
Total expenses	**9,827,614**	**-**	**9,827,614**	5,444,970
Change in net assets	**(996,845)**	**(144,807)**	**(1,141,652)**	(2,801)
Net assets at beginning of year	**678,718**	**301,583**	**980,301**	983,102
Net assets at end of year	**$ (318,127)**	**$ 156,776**	**$ (161,351)**	$ 980,301

See accompanying notes.

CESC, Inc.

Consolidated Statement of Functional Expenses

Year ended December 31, 2020

	Program	Fundraising	General and Administrative	Lodge Operations	Total Expenses
Functional Expenses					
Salaries and related benefits	$ 2,513,662	$ 202,838	$ 146,015	$ 23,255	$ 2,885,770
Payroll taxes	201,769	17,358	16,758	2,341	238,226
Client services	3,927,200	36	1,083	-	3,928,319
Insurance	204,993	5,069	3,826	2,353	216,241
Utilities	426,375	3,572	5,191	15,702	450,840
Security patrol	816,443	3,775	3,786	-	824,004
Building rent	453,340	475	7,122	-	460,937
Advertising	10,041	21,447	281	450	32,219
Dues	10,853	725	1,474	628	13,680
Professional fees	123,943	2,017	120,363	4,506	250,829
Facility expenses	131,502	531	17,124	89	149,246
Information technology services	31,638	3,022	819	2,569	38,048
Software	38,217	5,634	2,317	354	46,522
Donor development	405	14,518	179	-	15,102
Miscellaneous	27,547	7,568	7,087	7,226	49,428
Office supplies and related expenses	6,309	2,837	5,798	9,275	24,219
Building and equipment maintenance	152,149	1,394	1,015	685	155,243
Depreciation	30,137	-	-	10,334	40,471
Interest expense	8,270	-	-	-	8,270
Total functional expenses	$ 9,114,793	$ 292,816	$ 340,238	$ 79,767	$ 9,827,614

See accompanying notes.

CESC, Inc.

Consolidated Statement of Functional Expenses

Year ended December 31, 2019

	Program	Fundraising	General and Administrative	Lodge Operations	Total Expenses
Functional Expenses					
Salaries and related benefits	$ 2,107,625	$ 115,505	$ 84,828	$ 22,167	$ 2,330,125
Payroll taxes	156,284	6,884	19,415	1,609	184,192
Client services	906,503	-	90	571	907,164
Fundraising costs	10,787	125,922	27	2,387	139,123
Insurance	68,296	971	2,913	25,454	97,634
Utilities	138,722	-	(3,837)	15,414	150,299
Security patrol	39,051	-	-	-	39,051
Building rent	471,060	-	-	-	471,060
Professional fees	169,188	2,725	8,238	4,893	185,044
Facility expenses	556,179	631	26,917	-	583,727
Information technology services	16,426	207	1,762	10,385	28,780
Software	10,583	592	140	674	11,989
Dues	1,597	75	1,390	-	3,062
Miscellaneous	19,487	3,634	4,020	8,005	35,146
Office supplies and related expenses	1,333	91	3,542	8,646	13,612
Building and equipment maintenance	145,717	-	64	32,142	177,923
Depreciation	32,129	-	-	-	32,129
Building improvements	8,641	-	18	46,251	54,910
Total functional expenses	$ 4,859,608	$ 257,237	$ 149,527	$ 178,598	$ 5,444,970

See accompanying notes.

CESC, Inc.

Consolidated Statements of Cash Flows

	Years ended December 31, 2020	2019
Operating activities		
Decrease in net assets	**$ (1,141,652)**	$ (2,801)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	**40,471**	32,129
Impairment of asset held for sale	**151,004**	-
Changes in operating assets and liabilities:		
Accounts receivable	**(1,248,094)**	(45,368)
Prepaid expenses and other assets	**36,457**	(25,790)
Other long term assets	**(349)**	(799)
Accounts payable	**489,262**	(4,104)
Accrued expenses	**(82,132)**	3,783
Net cash used in operating activities	**(1,755,033)**	(42,950)
Investing activities		
Purchases of property and equipment	**(386,007)**	(114,082)
Net cash used in investing activities	**(386,007)**	(114,082)
Financing activities		
Proceeds from debt	**1,682,000**	-
Proceeds from PPP refundable advance	**486,700**	-
Net cash provided by financing activities	**2,168,700**	-
Net increase (decrease) in cash and cash equivalents	**27,660**	(157,032)
Cash and cash equivalents at beginning of year	**319,243**	476,275
Cash and cash equivalents at end of year	**$ 346,903**	$ 319,243

See accompanying notes.

1. Summary of Significant Accounting Policies

Nature of Business

The CESC, Inc. (the Center), a nonprofit corporation, is a 24-hour comprehensive emergency service center that serves as a point of entry into assistance by coordinating services and responds to immediate needs of individuals and families experiencing homelessness until appropriate permanent housing can be arranged. The mission is to reduce homelessness by providing a safe environment that promotes dignity and respect for individuals in our community who are experiencing homelessness or are at risk of becoming homeless.

CESC, Inc. is the parent 501(c) (3) organization which operates three programs. These programs include Westgate, the Kearney Center, and the Dwellings. The Kearney Center provides emergency shelter to people in the Tallahassee community. Westgate and the Dwellings provide long-term low-barrier housing options in the community. CESC, Inc. employees work for these three programs in an effort to meet the overall mission of CESC, Inc., which is to ensure homelessness is rare, brief, and nonrecurring in the Tallahassee community.

Carabelle Lodge, LLC (the Lodge) is a wholly-owned subsidiary of the Center. The Lodge owns and operates a motel.

Principles of Consolidation

The consolidated financial statements include the accounts of the Center and the Lodge (collectively, the Center). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The Center uses the accrual basis of accounting. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies are described below.

Cash and Cash Equivalents

Cash consists of demand deposits with financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. Bank deposits at times may exceed federally insured limits. The Center has not experienced any losses in such accounts.

For purposes of the statement of cash flows, cash and interest bearing deposits with an original maturity of three months or less are considered cash equivalents.

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consists primarily of Westgate program fees, grants from the City of Tallahassee or Leon County and other contributions or grants receivable. The Center provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account. All receivables were considered by management to be fully collectible. Accordingly, no allowance for doubtful accounts has been recorded.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from five to fifteen years. Donated furniture and equipment is recorded at its fair value at the date of the gift. Such donations are recorded as unrestricted support at the date of the gift unless the donor has restricted the donated asset to a specific purpose. If the donor has restricted the asset, the restrictions are released once the asset is placed in service.

Revenue Recognition

The Center has adopted Accounting Standards update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Center's financial reporting.

Analysis of the various provisions of this standard resulted in no significant changes in the way the Center recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures have been enhanced in accordance with the standard.

Revenues primarily consist of grants, contracts, fees for service, and contributions. Contributions of cash and other assets are reported as with donor restrictions, restricted for time or purpose, if they are received with donor stipulations that limit the use and duration of the donated assets. 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 and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received.

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

The Center has been awarded grants from the City of Tallahassee, Leon County Cares Act grant and Department of Childern and Familites to provide assistance for housing during the COVID pandemic. Additionally, United Way and TMH Foundation have provided several grants during the current year to support program activities. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when the performance obligation of services has been provided and expenses are recognized as incurred, unless otherwise stipulated by the grant agreement.

In-kind contributions consist of food, furniture, and services. In-kind contributions are recorded at fair value at the time of the donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center..

Refundable Advance

Refundable advance consists of remaining loan proceeds received under the Paycheck Protection Program (PPP), established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The refundable advance is recorded in accordance with *ASC 958-605 Not-for-Profit Entities: Revenue Recognition*. Forgivable qualifying expenses under the terms of the PPP are recognized as incurred and reduce the refundable advance balance.

Advertising

Advertising costs are charged to operations when incurred and are allocated to functions. Advertising expenses were $32,219 and $45,938 for the years ended December 31, 2020 and 2019, respectively.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Center. Those expenses include salaries, insurance, and the information technology department. Cost that are not directly attributable to a specific program or function are allocated to each program function based on full time equivalent or square footage or time and effort. Certain expenses are allocated directly to the program.

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expense by function.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

Pursuant to a determination letter received from the Internal Revenue Service, the Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and as such, is liable for tax only on business income unrelated to the purpose for which it is exempt. The Lodge is a for-profit entity and accordingly, is subject to federal and state income taxes on its earnings. With few exceptions, the Center is no longer subject to examinations by major tax jurisdictions for years end December 31, 2016 and prior.

Subsequent Events

The Center has evaluated subsequent events through February 16, 2022, the date the financial statements were available to be issued. During the period from December 31, 2020 to February 16, 2022, the Center did not have any material recognizable subsequent events other than the matters disclosed in Note 13.

Use of Estimates

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

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Available Resources and Liquidity

The Center receives contributions, grants, and interest income and considers these revenue streams to be without donor restrictions (if unspecified) and available to meet cash needs for general expenditures. The Center manages its liquidity to meet 90 days of operating expenses.

2. Available Resources and Liquidity (continued)

The table below presents financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year at December 31:

	2020	2019
Financial assets at year end:		
Cash and cash equivalents	**$ 346,903**	$ 319,243
Short-term accounts and contributions receivable	**1,410,671**	162,577
Prepaid expenses and other assets	**45,992**	31,596
Total financial assets	**1,803,566**	513,416
Less:		
Donor restricted assets	**150,000**	301,583
Financial assets available to meet cash needs for general expenditures	**$ 1,653,566**	$ 211,833

The Center's investments consist primarily of endowments that are either time or purpose restricted or restricted in perpetuity. Accordingly, only the earnings without donor restrictions are considered available to meet the cash needs of the Center.

3. Property and Equipment

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

	December 31, 2020	2019
Lease improvements	**$ 35,019**	$ 35,019
Machinery and equipment	**86,524**	57,856
Vehicle	**53,838**	53,838
Construction in progress	**-**	526,003
Building and improvements	**357,337**	-
	532,718	672,716
Less accumulated depreciation	**130,478**	90,008
	$ 402,240	$ 582,708

Depreciation expense totaled $40,471 and $32,129 for the years ended December 31, 2020 and 2019, respectively.

4. Assets Held-For-Sale

During 2020, the Center decided to sell The Lodge, which is the property owned by Carabelle Lodge, LLC. The net book value of the property was used to value the assets held-for-sale which approximates fair value. The property is under contract as of January 20, 2022 for $375,000 and an impairment loss to the property was recognized for $151,003 to bring the asset value to current contract value.

	December 31, 2020
Land and Building	$ 526,003
Impairment loss of asset held-for-sale	(151,003)
	$ 375,000

5. In-Kind Contributions

The Center received donated property, rent, services, food and supplies of $2,507,325 and $773,421 for 2020 and 2019, respectively, which met the criteria for recognition in accordance with accounting principles generally accepted in the United States of America, and are therefore reflected in the accompanying statements of activities and changes in net assets as in-kind contribution revenue.

6. Available Line of Credit

The Center established a line of credit of $2,200,000 on April 15th, 2020 with Beatitude Foundation, Inc., a related party. The balance outstanding on the line of credit was $1,682,000 for the year ended December 31, 2020. There is no interest rate associated with the line of credit and repayment of the balance is contingent upon the receipt of anticipated Covid-19 related Federal funding.

7. Employees Pension Plan

The Center sponsors a simple retirement plan (the Plan). Employees are eligible once they have earned wages of $5,000. Employees are able to make pre-tax contributions via payroll deductions up to the maximum IRS-limit each calendar year. The Center matches employee salary deferrals into the Plan on a dollar-for-dollar basis up to a maximum of 3% of the employee's salary. Employer matching contributions are 100% immediately vested. The Center contributed approximately $29,984 and $31,386 to the Plan for the years ended December 31, 2020 and 2019, respectively.

8. Operating Leases

The Center has entered into various operating lease agreements for equipment and building space under both month-to-month and noncancellable agreements. Following is a schedule, by year, of future minimum lease commitments as of December 31, 2020:

Year ended December 31,	
2021	$ 334,369

9. Related Parties

In the normal course of business, contributions of cash and other assets are donated directly to the Center by board members. The Center also receives contributions and leases building space from outside organizations associated with existing board members.

The Center has a line of credit with Beatitude Foundation. Beatitude Foundation has several Board Members that are also Board Members on CESC.

10. Net Assets with Donor Restrictions

Contributions and grants of cash and other assets are reported as donor restricted support if they are received with donor stipulations that limit the use and duration of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor contributions and grants received with restrictions that expire during the fiscal year are recorded as contributions without donor restrictions on the statements of activities and changes in net assets.

The Center established an endowment fund for the purpose of sustaining current programs and developing new ones as needed.

All endowment funds are classified as with donor restrictions in net assets in accordance with donor stipulations. The Center does not have a formally adopted endowment spending policy.

No contributions to the endowment fund have been received during the fiscal year ending December 31, 2020.

	With Donor Restrictions
Endowment net assets, beginning of year	$ 6,427
Net investment earnings	349
Endowment net assets, end of year	$ 6,776

10. Net Assets with Donor Restrictions (continued)

Net assets with donor restrictions consist of the following at December 31:

	2020	2019
Donations received for future years	**$ 150,000**	$ 295,156
Endowment funds	**6,776**	6,427
	$ 156,776	$ 301,583

11. Concentrations

During 2020 and 2019, the Center received donations from one donor for approximately $1,825,000 and $1,300,000, respectively. These donations comprised approximately 21% and 24% of total revenues for the years ended December 31, 2020 and 2019, respectively.

12. Financial Condition

Management and the Board of Directors are working with vendors and debtors to negotiate payment terms based upon the timing of anticipated Federal funding. The anticipated funding is to recover funds expended for Covid-19 related expenses during 2020. This will directly go to repayment of debtors. Additionally, the funds from the sale of the Carabelle Lodge property will also provide cash flow for repayment to debtors. Although the Center continues to show decreases in net assets with a lack of liquidity as evidenced by current liabilities in excess of current assets, Management believes that the anticipated funding and other operational changes that have been made such as hiring a new Chief Executive Officer and discontinuing operations of Westgate and the Dwellings will allow the Center to improve cash flows and further improve its liquidity.

13. Subsequent Events

Carabelle Lodge Property Sale

On September 30, 2020, the Center sold the motel property it previously operated as The Lodge to an unrelated party. On October 5, 2021, the sale of The Lodge was cancelled due to non-payment of the promissory note and the rights of the property were reverted back to the Center. The financial statements reflect this transaction reversal as of December 31, 2020.

13. Subsequent Events (continued)

Paycheck Protection Program

Under the terms of the PPP, certain amounts of the PPP loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The PPP loan proceeds received during 2020 was recorded as a refundable advance in the statement of financial position as of December 31, 2020, and was fully forgiven on October 4, 2021.

Westgate and Dwellings Operations

During 2021, the Center discontinued being the operator for the Westgate and Dwellings programs. This will result in a decrease of program fees and expenses for 2021 and subsequent years.

Line of Credit Modification

On May 17, 2021, the line of credit with the Beatitude Foundation was amended to be a note payable. The note has an interest rate of 2.5% annually with a maturity date of January 1, 2027. Interest only payments were due and were paid from May 1, 2021 through December 1, 2021. Beginning on January 1, 2022, principal and interest payments are due until the final maturity date.

Beatitude Partners Purchase

On December 8, 2021, ownership in Beatitude Partners, which was a wholly-owned subsidiary of the Beatitude Foundation, was sold to the Center for $5,900,000. The purchase price was primarily financed with promissory notes described in subsequent paragraphs below. The ownership transfer of Beatitude Partners included the building the Center occupies (the Center was paying rent to Beatitude Partners under a month-to-month operating lease prior to this transfer), the ground lease for the land with the City of the Tallahassee, and the associated mortgage on the building held with Hancock Whitney Bank. The building was appraised by an independent appraiser on November 10, 2021 and was appraised with a fair market value of $7,000,000 prior to the sale.

As of December 8, 2021, the mortgage with Hancock Whitney Bank was modified to include the Center as the owner of Beatitude Partners with a balance of $3,535,756. The loan has an annual interest rate of 3.97% with interest payments due monthly beginning on January 15, 2022. Principal payments are due in 2 annual payments of $200,000 each beginning on November 1, 2022 with a final maturity date and all outstanding principal and interest due in a balloon payment on November 15, 2023.

13. Subsequent Events (continued)

Additionally, on December 8, 2021, Beatitude Partners entered into a promissory note for the purchase of the interest in Beatitude Partners with the Beatitude Foundation for $2,464,244. The promissory note is secured by the building and all assets associated with the building secondary to the first mortgage held by Hancock Whitney Bank. The promissory note has an annual interest rate of 1.9%. Interest payments are due annually with the first payment due on December 8, 2022. There are no scheduled principal payments associated with the promissory note, but a balloon payment of all outstanding principal is due upon the sale of the building. Principal may be paid down at any time.

As a result of the ownership interest purchase of Beatitude Partners, the Center recorded an investment in a subsidiary of approximately $7,000,000 including an in-kind contribution of approximately $1,100,000, which is the difference between the fair market value of the building and the purchase price of the ownership interest.

14. Contingencies

As of the audit report date, the Center has outstanding litigation where residents and former residents have pending lawsuits against the Center for various incidents. The Center's insurance carrier has hired defense attorneys for the lawsuits and management believes that any potential losses would be fully covered by the Center's insurance coverage that was in force at the time of the various incidents.