Front Porch Communities & Services

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2020 and 2019

BKD
CPAs & Advisors

Front Porch Communities & Services
March 31, 2020 and 2019

Contents

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Independent Auditor's Report

Board of Directors
Front Porch Communities & Services
Glendale, California

We have audited the accompanying consolidated financial statements of Front Porch Communities & Services, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 consolidated financial position of Front Porch Communities & Services as of March 31, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2020, Front Porch Communities & Services adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2020 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2020 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2020 consolidated financial statements or to the 2020 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2020 consolidated financial statements as a whole.

BKD, LLP

Tulsa, Oklahoma
July 21, 2020

Front Porch Communities & Services

Consolidated Balance Sheets

March 31, 2020 and 2019

(In Thousands)

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	$ 19,345	$ 10,864
Short-term investments	8,999	9,521
Assets limited as to use – required for current liabilities	9,513	11,031
Resident and patient accounts receivable	7,788	8,791
Prepaid expenses and other	3,017	2,721
Total current assets	48,662	42,928
Investments		
Assets limited as to use, net of current portion	3,731	3,760
Long-term investments	254,865	296,307
Derivative instruments	23	59
Total investments	258,619	300,126
Property and Equipment, Net	372,327	363,820
Other Assets		
Interest in net assets of Pacific Homes Foundation	10,780	12,649
Receivables from supporting organizations	12,403	12,576
ROU assets – operating leases	8,063	-
Other receivables	1,350	1,582
Other assets	414	739
Total other assets	33,010	27,546
Total assets	$ 712,618	$ 734,420

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2020	2019
Current Liabilities		
Current maturities of long-term debt	$ 5,301	$ 4,920
Current portion of operating lease liabilities	1,755	-
Accounts payable	6,629	8,107
Accrued payroll and related expenses	13,605	13,530
Accrued interest	2,572	2,563
Other accrued expenses	11,599	13,202
Total current liabilities	41,461	42,322
Asset retirement obligations	2,049	2,124
Accrued workers' compensation	6,991	8,393
Operating lease liabilities	7,561	-
Other accrued liabilities	32,833	23,351
Refundable entrance fees	64,451	71,870
Deferred revenue from entrance fees	42,942	39,638
Long-term debt	283,686	281,843
Total liabilities	481,974	469,541
Net Assets		
Without donor restrictions	208,172	240,223
With donor restrictions	22,472	24,656
Total net assets	230,644	264,879
Total liabilities and net assets	$ 712,618	$ 734,420

Front Porch Communities & Services

Consolidated Statements of Operations

Years Ended March 31, 2020 and 2019

(In Thousands)

	2020	2019
Revenues, Gains, and Other Support Without Donor Restrictions		
Resident and patient service revenue	$ 205,535	$ 197,218
Amortization of entrance fees	10,297	9,422
Other	1,592	1,291
Net assets released from restrictions used for operations	571	1,037
Total revenues, gains, and other support without donor restrictions	217,995	208,968
Expenses		
Medical services	52,643	51,107
Facility operating costs	21,274	20,971
Dietary services	34,288	32,873
Residential services	18,503	17,623
Administrative services	41,831	42,299
Depreciation	30,857	29,250
Amortization of deferred costs	497	1,154
Interest expense and other financing costs	9,315	9,441
Other	2,279	2,064
Total expenses	211,487	206,782
Operating Income Before Other Operating Charges	6,508	2,186
Other Operating Charges		
COVID-19 related expenses	(309)	-
Asset impairment	-	(53)
Total other operating charges	(309)	(53)
Operating Income	6,199	2,133
Investment Return, Net	(38,322)	12,159
Excess (Deficiency) of Revenues over Expenses	(32,123)	14,292
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	72	465
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (32,051)	$ 14,757

Front Porch Communities & Services

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2020 and 2019

(In Thousands)

	2020	2019
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	$ (32,123)	$ 14,292
Net assets released from restrictions used for purchase of property and equipment	72	465
Increase (decrease) in net assets without donor restrictions	(32,051)	14,757
Net Assets with Donor Restrictions		
Contributions received and investment return	47	2,044
Change in interest in net assets of Pacific Homes Foundation	(1,787)	447
Change in beneficial interest in perpetual trust	199	(56)
Net assets released from restrictions used for operations	(571)	(1,037)
Net assets released from restrictions used for purchase of property and equipment	(72)	(465)
Increase (decrease) in net assets with donor restrictions	(2,184)	933
Change in Net Assets	(34,235)	15,690
Net Assets, Beginning of Year	264,879	249,189
Net Assets, End of Year	$ 230,644	$ 264,879

Front Porch Communities & Services

Consolidated Statements of Cash Flows

Years Ended March 31, 2020 and 2019

(In Thousands)

	2020	2019
Operating Activities		
Cash received from contract residents	$ 44,922	$ 41,799
Proceeds from entrance fees received	26,798	26,315
Cash received from and on behalf of noncontract residents	158,722	152,604
Reimbursement for services to nonresidents	2,854	3,060
Other receipts from operations	1,592	1,291
Unrestricted investment income received	8,702	7,942
Processing fees	70	81
Cash paid to suppliers, employees, and others	(171,598)	(169,721)
Cash paid for interest on long-term debt, net of amounts capitalized	(9,685)	(10,317)
Net cash provided by operating activities	62,377	53,054
Investing Activities		
Capital expenditures	(44,227)	(45,758)
Proceeds from sale of trading investments	181,441	143,078
Purchase of trading investments	(184,632)	(152,224)
Purchase of assets limited as to use	(943)	(3,271)
Proceeds from sale of assets limited as to use	2,490	2,045
Repayment from (advances to) Brookmore Apartment Corporation	400	(325)
Net cash used in investing activities	(45,471)	(56,455)
Financing Activities		
Refunds of entrance fees	(10,582)	(8,454)
Principal payments on long-term debt	(5,965)	(4,195)
Proceeds from Series 2015 debt issuance	-	5,600
Proceeds from Series 2017B debt issuance	8,050	7,827
Proceeds from contributions for purchases of property and equipment	72	462
Net cash provided by (used in) financing activities	(8,425)	1,240
Increase (Decrease) in Cash and Cash Equivalents	8,481	(2,161)
Cash and Cash Equivalents, Beginning of Year	10,864	13,025
Cash and Cash Equivalents, End of Year	$ 19,345	$ 10,864

		2020		2019
Cash Flows from Operating Activities				
Change in net assets	$	(34,235)	$	15,690
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation		30,857		29,250
Amortization of deferred costs		497		1,154
Accretion of asset retirement obligations		(21)		60
Impairment related to construction projects		-		53
Amortization of bond premium included in interest expense		(358)		(361)
Entrance fees received		26,798		26,315
Amortization of entrance fees		(10,297)		(9,422)
Realized and unrealized (gain) loss on investments, net		45,080		(6,281)
Unrealized loss on derivative financial instruments, net		36		206
Change in interest in net assets of Pacific Homes Foundation		1,869		(317)
Change in receivables from supporting organizations		173		(763)
Proceeds from contributions for purchases of property and equipment		(72)		(462)
Changes in operating assets and operating liabilities				
Accounts receivable, net		1,034		323
Prepaid expenses and other		(64)		(123)
Accounts payable and accrued expenses		1,246		(2,431)
Operating leases		1,253		-
Other accrued liabilities		(1,419)		163
Net cash provided by operating activities	$	62,377	$	53,054
Supplemental Cash Flows Information				
Property and equipment purchases included in accounts payable and other accrued expenses	$	1,203	$	6,066
Entrance fees included in accounts receivable	$	1,579	$	1,487
Operating lease obligations incurred for equipment and rental space	$	9,593		-

Front Porch Communities & Services
Notes to Consolidated Financial Statements
March 31, 2020 and 2019
(In Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Front Porch Communities & Services (the Corporation) is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code). The Corporation is exempt from federal income taxes on related income pursuant to Section 501 of the Code and is also exempt from state franchise taxes under similar provisions for the state of California. The Corporation owns and operates continuing care retirement communities (CCRC), other multilevel retirement communities, and other operations providing services that enhance the quality of life for those served through independent retirement living, assisted living, memory care, skilled nursing, social services, affordable housing, and contract management of subsidized housing.

The Corporation operates the various communities under two different operating organizations. The services provided by these two operating organizations are summarized below as of March 31, 2020:

Operator	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Obligated Group	1,330	102	234	1,666
Front Porch Communities Operating Group, LLC	890	32	284	1,206
Total Front Porch Communities & Services	2,220	134	518	2,872

Obligated Group

Certain operations of the Corporation, hereinafter referred to as the Obligated Group, are aggregated to facilitate long-term borrowings and include the following as of March 31, 2020:

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Owned Communities						
Carlsbad by the Sea	Carlsbad, CA	CCRC	157	-	33	190
Sunny View Retirement Community	Cupertino, CA	CCRC	93	23	48	164
Villa Gardens	Pasadena, CA	CCRC	194	19	54	267
Vista del Monte	Santa Barbara, CA	CCRC	168	24	-	192
Walnut Village	Anaheim, CA	CCRC	156	14	99	269
Wesley Palms	San Diego, CA	Rental	292	22	-	314
Leased Communities						
Cecil Pines	Jacksonville, FL	Rental	92	-	-	92
England Oaks	Alexandria, LA	Rental	178	-	-	178
Total Obligated Group			1,330	102	234	1,666

(In Thousands)

Nonobligated Group

The following wholly owned subsidiaries of the Corporation are not members of the Obligated Group and are under "Other Entities" in the accompanying consolidated financial statements:

Front Porch Communities Operating Group, LLC

Front Porch Communities Operating Group, LLC (OpCo) is a California nonprofit limited liability company as described in Section 501(c)(3) of the Code. OpCo is exempt from federal income taxes on related income pursuant to Section 501 of the Code and is also exempt from state franchise taxes under similar provisions for the state of California. OpCo was formed in connection with the refinancing of certain Obligated Group debt, as discussed in *Note 8*, and operates exclusively to further the charitable purpose of its sole member, the Corporation.

OpCo currently leases property from the following entities and operates them in accordance with the Corporation's management philosophies, policies, and procedures and with existing Corporation staff members.

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Front Porch Communities and Services – Casa de Mañana, LLC	La Jolla, CA	Rental	184	-	-	184
Front Porch Communities and Services – Claremont Manor, LLC	Claremont, CA	Rental	211	10	59	280
Front Porch Communities and Services – Kingsley Manor, LLC	Los Angeles, CA	Rental	218	-	51	269
Front Porch Communities and Services – Fredericka Manor, LLC	Chula Vista, CA	Rental	277	22	174	473
Total OpCo			890	32	284	1,206

Front Porch Communities and Services – Casa de Mañana, LLC; Front Porch Communities and Services – Claremont Manor, LLC; Front Porch Communities and Services – Kingsley Manor, LLC; and Front Porch Communities and Services – Fredericka Manor, LLC

These four entities (collectively, the Real Estate LLCs) were formed in connection with the refinancing of certain Obligated Group debt. These entities own the real estate associated with each of the specified campuses and each has a nonrecourse loan against its property, as discussed in *Note 8*. As noted above, these entities each lease their property to OpCo, which holds the license to operate and is responsible for all operations of these campuses post-refinancing.

CARING Housing Ministries, Inc.

CARING Housing Ministries, Inc. (CARING) manages 24 U.S. Department of Housing and Urban Development (HUD)-subsidized and tax credit facilities, which provide housing to approximately 2,300 residents. CARING's managed facilities are located throughout California and in Glendale, Arizona. CARING's management fees received from clients are based on a percentage of its clients' operating revenues or are earned on a per-unit-per-month basis. CARING is a California nonprofit corporation, and the Corporation is the sole corporate member of CARING.

Sunny View Lutheran Home

Sunny View Lutheran Home (Sunny View) (formerly, Sunny View West) is a California nonprofit corporation that owns a 100-unit, HUD-subsidized senior living facility located in Cupertino, California. Sunny View does not own or operate Sunny View Retirement Community, which is owned and operated by the Corporation. The Corporation is the sole corporate member of Sunny View.

Related Parties

The following related parties are not consolidated into the Corporation:

Front Porch Enterprises, Inc.

Front Porch Enterprises, Inc. (FPE) was created as a California nonprofit corporation in July 2006. FPE was formed to provide support, financial and otherwise, to organizations engaged in housing, health and human services, education, and research and to sponsor affordable housing communities. FPE serves as the sole corporate member of Front Porch Active Adult Communities, LLC and the sole shareholder of Front Porch Development Company, Inc., described below. The Corporation and FPE are not affiliated, though there is overlap in the membership of the two boards. FPE is not included in the accompanying consolidated financial statements because the Corporation does not control FPE through majority ownership or control of the majority voting interest of the board.

Front Porch Active Adult Communities, LLC

Front Porch Active Adult Communities, LLC (Active Adult Communities) was created in January 2006 as a Delaware for-profit limited liability company to own and operate active adult communities in Mexico and elsewhere. FPE is the sole member of Active Adult Communities.

Front Porch Development Company, Inc.

Front Porch Development Company, Inc. (Development Company) was created in February 2006 as a California for-profit corporation organized for the purpose of providing real estate development services to the Corporation, Active Adult Communities, and other unrelated entities. Development Company is a wholly owned subsidiary of FPE.

The boards of FPE, Active Adult Communities, and Development Company agreed to dissolve these entities on July 8, 2014. The dissolutions will be effective upon resolution of all outstanding liabilities and filing of the appropriate legal documents. Operations previously performed by these entities began to be performed by the Corporation effective July 1, 2014, and, therefore, are included with the Corporation effective July 1, 2014. Development Company was dissolved as of July 22, 2019. The other entities have not yet been legally dissolved as of March 31, 2020.

Center for Technology Innovation and Wellbeing

Center for Technology Innovation and Wellbeing (CTIW) was formed in June 2008 as a nonprofit entity for the purpose of exploring innovative uses of technology to empower individuals to live well, especially in their later years. CTIW's bylaws provide that directors, officers, and employees of the Corporation are precluded from constituting a majority of CTIW's directors. As a result, CTIW is not included in the accompanying consolidated financial statements because the Corporation does not control CTIW through majority ownership or control of the majority voting interest of the board.

The board of CTIW agreed to dissolve this entity on March 6, 2015. The dissolution will be effective upon filing of the appropriate legal documents. Operations previously performed by CTIW began to be performed by the Corporation effective April 1, 2015. However, CTIW has not yet been legally dissolved as of March 31, 2020.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Obligated Group, OpCo, the Real Estate LLCs, CARING, and Sunny View. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2020 and 2019, cash equivalents consisted primarily of money market mutual funds of $198 and $6,704, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2020, the Corporation's cash accounts exceeded federally insured limits by $18,791.

Uninvested cash and cash equivalents included in investment accounts, including assets limited as to use, are not considered to be cash and cash equivalents.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at the time of donation if acquired by contribution) or fair value. Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use represent: (a) funds held by a trustee that are legally restricted for bond reserve accounts; (b) deposit subscriptions held in trust; (c) entrance fees refundable within the first 90 days of residency in accordance with state law; (d) assets restricted by the donor for specific purposes; (e) HUD facility reserves and tenant deposits held in accordance with regulatory agreements governing the operation of Sunny View requiring HUD approval prior to any withdrawals; and (f) assets held in escrow for payment of property taxes and insurance, debt service, owner repairs, and reserves for replacements pursuant to the loan agreements insured by HUD for the Real Estate LLCs. Amounts required to meet certain current liabilities of the Corporation are classified as current assets.

Resident and Patient Accounts Receivable

Resident accounts receivable reflect the outstanding amount of consideration to which the Corporation expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others. As a service to the resident, the Corporation bills third-party payors directly and bills the resident when the resident’s responsibility for co-pays, co-insurance, and deductibles is determined. Resident accounts receivable are due in full when billed.

The Corporation performs individual credit risk assessments that evaluate the individual circumstances, abilities, and intentions of each resident prior to providing the patient care services. If, subsequent to providing the services, the Corporation becomes aware of patient-specific events, facts, or circumstances indicating patients no longer have the ability or intent to pay the amount of consideration to which the Corporation expects to be entitled for providing the patient care services, then the related patient receivable balances are written off as bad debt expense. There was no material bad debt expense recorded during the years ended March 31, 2020 and 2019.

Property and Equipment

Property and equipment acquisitions exceeding $1,000 with an estimated life of three or more years are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	2–25 years
Buildings and building and leasehold improvements	5–40 years
Equipment	3–20 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recorded during fiscal year 2020. As discussed in *Note 4*, the Corporation recorded asset impairments during fiscal year 2019.

Interest in Net Assets of and Receivables from Foundations

The Corporation recognizes its rights to assets held by a recipient organization in accordance with Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Such rights are recognized as an asset unless the donor has explicitly granted the recipient organization variance power, that is, the unilateral power to redirect the use of the assets. Those rights are either an interest in the net assets of the recipient organization, a beneficial interest in the recipient organization, or a receivable. The Corporation accounts for its interest in the net assets of the Pacific Homes Foundation (Interest) in a manner similar to the equity method (see *Note 5*). Changes in the Interest are included in the accompanying consolidated statements of changes in net assets. Transfers of assets between Pacific Homes Foundation and the Corporation are recognized as increases or decreases in the Interest.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Corporation records these costs as direct deductions from the related debt consistent with debt discounts or premiums. Such costs are being amortized over the term of the respective debt using the straight-line method.

Deferred Revenue from Entrance Fees

Fees paid by residents upon entering into a continuing care contract, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and are amortized into income using the straight-line method over the estimated remaining life expectancy of the resident.

Estimated Future Service Obligation

Annually, the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. As of February 2006, while honoring previously issued contract types, the Corporation discontinued the use of all other contract types with the exception of Type B contracts. Type A contracts previously stipulated that the amount charged to the resident would not change when the resident's level of care changes; Type B contracts stipulate that the amount charged to the resident will change if the resident's level of care changes. The obligations for Type A and Type B contracts are discounted based on the Corporation's weighted-average borrowing rate. As of March 31, 2020 and 2019, there was no estimated future service obligation related to Type A or Type B contracts.

Net Assets

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

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for certain specified purposes as detailed in *Note 11*.

Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Corporation in perpetuity. Such net assets are to be used for future capital expenditures and to support the activities of the Corporation's retirement communities as specified by the donor.

Excess (Deficiency) of Revenues over Expenses

The accompanying consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include net assets released from restrictions used for purchase of property and equipment.

Resident and Patient Service Revenue

Resident and patient service revenue includes monthly fees from residents and patient service revenue. Monthly resident fees are recognized as revenue in the related month of occupancy. Patient service revenue is recognized as the Corporation satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care to patients and others for services rendered. The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors.

Benefits to the Broader Community

The Corporation's retirement communities provide many benefits to the broader community. Most of these services are provided at no charge. Examples of these services include:

- Adult education classes
- Community centers used for other groups
- Retired Senior Volunteer Program
- Polling place for elections
- Adult literacy assistance services
- Meals on Wheels Program
- Training sites for various colleges, universities, and regional occupational programs
- Alzheimer's support groups

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-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 statement of operations as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment, and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Professional Liability and Workers' Compensation Claims

The Corporation recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*. Workers' compensation claims are described more fully in *Note 7*.

Income Taxes

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Code and has been recognized as exempt from federal income and state franchise taxes on related income pursuant to Section 509(a)(2) of the Code and similar provisions of the California Franchise Tax Code. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. For the fiscal years ended March 31, 2020 and 2019, no income tax provision has been recorded as the net income from any unrelated trade or business, in the opinion of management, is not material to the accompanying consolidated financial statements taken as a whole. The Corporation files tax returns in the U.S. federal jurisdiction.

Change in Accounting Principles

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Corporation adopted Topic 842 on April 1, 2019 (the effective date) using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Corporation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification, or initial direct costs for existing or expired leases prior to the effective date. The Corporation has lease agreements with nonlease components that relate to the lease components. The Corporation elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all classes of underlying assets. Also, the Corporation elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Corporation did not elect the hindsight practical expedient in determining the lease term for existing leases as of the effective date.

(In Thousands)

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $9,593 and $11,035, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the accompanying consolidated statements of operations, changes in net assets, or cash flows.

The cumulative effect of the changes made to the accompanying consolidated balance sheets for the adoption of this standard was as follows:

	March 31, 2019, As Reported	Topic 842 Adjustment April 1, 2019	April 1, 2019, As Adjusted
Assets			
ROU assets – operating leases (A)	$ -	$ 9,593	$ 9,593
Liabilities			
Current portion of operating lease liabilities (B)	$ -	$ 1,719	$ 1,719
Long-term operating lease liabilities (B)	$ -	$ 9,316	$ 9,316
Other accrued liabilities (C)	$ 23,351	$ (1,442)	$ 21,909

(A) This adjustment represents the capitalization of ROU assets – operating leases

(B) This adjustment represents the recognition of operating lease liabilities

(C) This adjustment represents the reclassification of straight-line rent accruals and tenant improvement allowances to ROU assets – operating leases

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*

In 2020, the Corporation changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the consolidated statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in no changes to the accompanying consolidated statements of cash flows.

(In Thousands)

Subsequent Events

COVID-19

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen that may negatively affect the consolidated financial position, results of operations, and cash flows of the Corporation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (the Act). In April and May 2020, the Corporation received approximately $4,300 from the Public Health and Social Security Emergency Fund established by the Act to be used for additional expenses or lost revenues attributable to COVID-19. The Corporation anticipates having sufficient additional expenses or lost revenues attributable to COVID-19 to cover these proceeds, but any excess funds would have to be repaid.

Covia Affiliation

In June 2020, the Corporation executed an affiliation agreement with Covia Communities (Covia). The affiliation is subject to customary closing conditions, as well as regulatory approvals, and is expected to close in early 2021. There is no assurance that the closing conditions will be satisfied or such approvals will be received. Effective upon the affiliation, the Corporation will be the sole corporate member of Covia. For the fiscal year ended March 31, 2019, Covia had total revenues and gains on a consolidated basis of approximately $146 million and total assets on a consolidated basis of approximately $508 million and owns and operates five continuing care retirement communities in California.

Subsequent events have been evaluated through July 21, 2020, which is the date the consolidated financial statements were issued.

Note 2: Concentration of Credit Risk

The Corporation grants credit without collateral to its skilled nursing patients, most of whom are area residents and are insured under third-party payor agreements.

The mix of net receivables related to skilled nursing services from patients and third-party payors at March 31 was:

	2020	2019
Medicare	26%	27%
Medi-Cal (including Medi-Cal managed care payors)	39%	39%
PPO/HMO (other contracted payors)	26%	25%
Patients and other	9%	9%
	100%	100%

(In Thousands)

Note 3: Investments and Investment Return

Short-term investments at fair value consisted of the following at March 31:

	2020	2019
U.S. Treasury and U.S. agency securities	$ 261	$ 4,066
Corporate bonds	8,738	5,455
	$ 8,999	$ 9,521

Assets limited as to use at fair value consisted of the following at March 31:

	2020	2019
Cash	$ 11,434	$ 13,410
Certificates of deposit	1,608	1,123
Money market mutual funds	202	258
	13,244	14,791
Less amounts required to meet current obligations	9,513	11,031
	$ 3,731	$ 3,760

Assets limited as to use consist of amounts with restrictions for the following purposes as of March 31:

	2020	2019
Held by trustee under indenture agreements for bond fund and other reserves	$ 3,277	$ 3,050
HUD facility reserves	4,794	4,721
HUD property tax and insurance	-	37
Deposit subscriptions held in trust	1,471	1,639
90-day refundable accommodation fees	3,375	5,093
Restricted by donors for capital expenditures	301	225
Resident deposits held in trust	26	26
	$ 13,244	$ 14,791

(In Thousands)

Long-term investments at fair value consisted of the following at March 31:

	2020	2019
Commodity mutual funds	$ 13,614	$ 17,379
Other mutual funds	14,616	17,412
U.S. Treasury and U.S. agency securities	10,957	7,846
Equity securities – domestic	132,275	167,521
Equity securities – international	45,446	59,430
Corporate bonds	37,957	26,719
	$ 254,865	$ 296,307

The Corporation invests in certain mutual funds that have required holding periods and varying redemption penalties if sold prior to the end of the holding period. However, at March 31, 2020, none of the mutual funds held by the Corporation were subject to any redemption provisions.

The Corporation entered into certain derivative instruments. The derivative instruments related to interest rate cap purchased in 2015 are included in the accompanying consolidated balance sheets as derivative instruments under investments.

Total investment return is comprised of the following for the years ended March 31 and is included in net assets without donor restrictions:

	2020	2019
Interest and dividend income	$ 8,701	$ 7,942
Realized gains (losses) on sales of securities, net	(3,445)	5,976
Unrealized gains (losses) on investments valued at fair value, net	(41,635)	306
Unrealized losses on derivative financial instruments, net	(36)	(206)
Investment fees	(1,907)	(1,859)
Investment return	$ (38,322)	$ 12,159

The change in net assets with donor restrictions for the years ended March 31, 2020 and 2019, includes investment return of $(764) and $499, respectively.

(In Thousands)

Note 4: Property and Equipment

A summary of property and equipment at March 31 follows:

	2020	2019
Land and land improvements	$ 72,853	$ 60,100
Buildings	338,885	333,999
Building improvements	185,520	166,954
Leasehold improvements	12,094	11,406
Equipment	206,401	186,539
Construction in progress	7,765	25,244
	823,518	784,242
Less accumulated depreciation	451,191	420,422
	$ 372,327	$ 363,820

The Corporation recorded asset impairments of $53 in 2019 to recognize the write-off of certain assets in Phase 9 of the Wesley Palms renovation project for assets not yet fully depreciated that will be replaced as part of the campus renovation. No additional future impairment is expected.

Note 5: Interest in Net Assets of and Receivables from Supporting Organizations

Pacific Homes Foundation (PH Foundation), FACT Foundation, California Lutheran Homes (CLH), and Sunny View Lutheran Communities and Services (SVLCS) are not-for-profit corporations established for the charitable purpose of promoting and supporting the work of the Corporation and the retirement communities. The four organizations have separate boards of directors over which the Corporation does not exercise control.

Because PH Foundation was established to operate exclusively for the benefit of the Corporation and, upon dissolution, the net assets of PH Foundation would be transferred to the Corporation to be used to benefit the residents of the former Pacific Homes communities, and since variance power from the donors does not exist, the Corporation records its interest in the net assets of PH Foundation. However, FACT Foundation, CLH, and SVLCS are not organized solely for the benefit of the Corporation and, upon dissolution, the net assets may be directed to other not-for-profit organizations. Consequently, the Corporation records a receivable from these three supporting organizations related only to those net assets restricted by the donor for the benefit of the Corporation.

(In Thousands)

As of March 31, the interest in the net assets of PH Foundation and receivables from supporting organizations are as follows:

	2020	2019
Interest in net assets of PH Foundation	$ 10,780	$ 12,649
Receivables from supporting organizations		
FACT Foundation	$ 9,101	$ 9,837
CLH	1,308	828
SVLCS	1,994	1,911
	$ 12,403	$ 12,576

Note 6: Professional Liability Claims

The Corporation purchases professional and general liability insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Corporation also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Corporation's claims experience, no accrual had been made for the Corporation's portion of malpractice costs as of March 31, 2020 and 2019. It is reasonably possible this estimate could change materially in the near term.

Note 7: Workers' Compensation

Effective March 31, 2003, the Corporation became qualified to self-insure its workers' compensation claims in California. In addition, for the years ended March 31, 2020 and 2019, the Corporation had an excess workers' compensation policy in place for individual claims exceeding $750. This policy had a maximum coverage limit of $25,000 for the years ended March 31, 2020 and 2019.

Amounts accrued to cover potential workers' compensation claims, based on actuarial valuation, as of March 31 are as follows:

	2020	2019
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	$ 1,829	$ 2,248
In excess of one year, included in accrued workers' compensation	6,991	8,393
	$ 8,820	$ 10,641

(In Thousands)

While the ultimate amount of claims to be incurred is dependent on future developments, the Corporation's management believes the aggregate accrual is adequate to cover such amounts. However, by their nature, the amounts recorded are estimates and actual results could differ from the amounts recorded.

The liability for expected workers' compensation claims is presented excluding expected insurance recoveries. Estimated insurance recovery receivables of $1,350 and $1,582 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2020 and 2019, respectively.

Note 8: Long-Term Debt

The following is a summary of long-term debt at March 31:

	2020	2019
2017A Revenue bonds (A)	$ 99,275	$ 100,040
2017B Revenue bonds (B)	16,231	8,181
2015 Revenue bonds (C)	68,921	70,983
Mortgage payable, bank (D)	10,135	10,522
Mortgage payable, bank (E)	36,284	37,261
Mortgage payable, bank (F)	25,943	26,617
Mortgage payable, bank (G)	30,186	31,183
Note payable, other (H)	-	103
	286,975	284,890
Plus unamortized premium	7,124	7,482
Less unamortized debt issuance costs	(5,112)	(5,609)
Less current maturities	(5,301)	(4,920)
	$ 283,686	$ 281,843

(A) Series 2017A Revenue Bonds issued by California Statewide Communities Development Authority (CSCDA); interest at 3.50% to 5.00% paid semiannually; principal due in varying installments between 2019 and 2047, paid annually. Unamortized debt issuance costs were $1,504 and $1,559 at March 31, 2020 and 2019, respectively. The effective interest rate was 4.54% and 4.87% for the years ended March 31, 2020 and 2019, respectively.

(B) Series 2017B Revenue Bonds issued as drawdown bonds with principal amount up to $21,500 by CSCDA; variable interest at a specified percentage of the London InterBank Offered Rate (LIBOR) plus applicable spread paid monthly, 1.97% and 2.57% at March 31, 2020 and 2019, respectively; principal due in varying installments between 2020 and 2045, paid semiannually. Unamortized debt issuance costs were $162 and $194 at March 31, 2020 and 2019, respectively. The effective interest rate was 2.84% and 2.63% for the years ended March 31, 2020 and 2019, respectively. Bonds were placed directly with one investor.

(C) Series 2015 Revenue Bonds issued as drawdown bonds with principal amount up to $72,000 by CSCDA; full principal amount drawn as of March 31, 2020; variable interest at a specified percentage of LIBOR plus applicable spread paid monthly, 1.97% and 2.57% at March 31, 2020 and 2019, respectively; principal due in varying installments between 2019 and 2040, paid semiannually. Unamortized debt issuance costs were $1,001 and $1,201 at March 31, 2020 and 2019, respectively. The effective interest rate was 2.90% and 2.61% for the years ended March 31, 2020 and 2019, respectively. Bonds were placed directly with one investor with an initial 10-year hold period. In 2025, the borrower and current investor can agree on new terms, the debt can be sold to a new investor, or it must be redeemed and refinanced.

(D) Mortgage payable to bank in monthly principal and interest installments of $56, including interest at 2.80%, through 2040; plus monthly deposits of $12 for replacement reserves, collateralized by a deed of trust on substantially all of Kingsley Manor’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were $323 and $358 at March 31, 2020 and 2019, respectively. The effective interest rate was 3.13% and 3.14% for the years ended March 31, 2020 and 2019, respectively.

(E) Mortgage payable to bank in monthly principal and interest installments of $165, including interest at 2.73%, through 2046; plus monthly deposits of $23 for replacement reserves, collateralized by a deed of trust on substantially all of Claremont Manor’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were $783 and $844 at March 31, 2020 and 2019, respectively. The effective interest rate was 2.91% for the years ended March 31, 2020 and 2019.

(F) Mortgage payable to bank in monthly principal and interest installments of $138, including interest at 3.74%, through 2044; plus monthly deposits of $14 for replacement reserves, collateralized by a deed of trust on substantially all of Casa de Mañana’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were $602 and $650 at March 31, 2020 and 2019, respectively. The effective interest rate was 3.95% and 3.96% for the years ended March 31, 2020 and 2019, respectively.

(G) Mortgage payable to bank in monthly principal and interest installments of $169, including interest at 3.35%, through 2040; plus monthly deposits of $24 for replacement reserves, collateralized by a deed of trust on substantially all of Fredericka Manor’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were $737 and $809 at March 31, 2020 and 2019, respectively. The effective interest rate was 3.59% and 3.61% for the years ended March 31, 2020 and 2019, respectively.

(H) Note payable to HUD in monthly principal and interest installments of $21, including interest at 6.875%, through 2020; plus monthly deposits of $11 for replacement reserves, collateralized by the revenues of Sunny View and a deed of trust on substantially all of Sunny View’s real and personal property. This note was paid in full during 2020.

(In Thousands)

The Master Indenture contains various restrictive covenants, which, among other things, require the maintenance of certain financial ratios, including a debt service coverage ratio of 1.20. All outstanding bonds are collateralized by the gross revenues of the Obligated Group.

Under the terms of the four HUD-insured mortgages, the Real Estate LLCs are required to maintain reserve accounts for replacements that are included in assets limited as to use on the accompanying consolidated balance sheets. The Real Estate LLCs are also subject to restrictions on acquisition, use, and disposition of the mortgaged property and revenues derived therefrom.

Scheduled annual principal payments on long-term debt at March 31, 2020, are as follows:

Year Ending March 31,	
2021	$ 5,301
2022	6,585
2023	6,839
2024	7,098
2025	7,366
Thereafter	253,786
	$ 286,975

Note 9: Resident and Patient Service Revenue

Resident service revenue is the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for standing ready to provide services to the residents under a continuing care contract. The nonrefundable portion of the entrance fee payment is recognized on a straight-line basis over the expected life of the resident(s), which is when the performance obligations are satisfied. The monthly service fees are billed monthly and are recognized as performance obligations are satisfied.

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors monthly after the services are performed or the patient is discharged from the care center, and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Corporation measures performance obligations for resident service revenue from admission to the care center to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge. The Corporation measures performance obligations for resident service revenue and resident fee revenue as a series of distinct services that are considered one performance obligation that is satisfied over time.

Transaction Price

The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions, which consist of contractual adjustments provided to third-party payors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience with this class of residents.

Third-Party Payors

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

Medicare – Services rendered to Medicare program beneficiaries for skilled nursing are reimbursed under a prospective methodology, and no additional settlement will be made on the difference between the per diem rates paid and actual cost.

Medi-Cal – Reimbursements for Medi-Cal services are generally paid at prospectively determined rates per day.

Other – Payment agreements with certain commercial insurance carriers provide for payment using prospectively determined rates per day.

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

(In Thousands)

Revenue Composition

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

Details of these factors for the years ended March 31 are presented below:

	Care Center	Residential	Memory Care	Total
2020				
Medicare	$ 17,350	$ -	$ -	$ 17,350
Medi-Cal	21,940	-	-	21,940
Other third-party payors	7,448	-	-	7,448
Private	12,454	133,933	12,410	158,797
Amortization of entrance fees	-	10,297	-	10,297
	$ 59,192	$ 144,230	$ 12,410	$ 215,832
2019				
Medicare	$ 20,101	$ -	$ -	$ 20,101
Medi-Cal	20,987	-	-	20,987
Other third-party payors	7,565	-	-	7,565
Private	12,352	126,141	10,072	148,565
Amortization of entrance fees	-	9,422	-	9,422
	$ 61,005	$ 135,563	$ 10,072	$ 206,640

Financing Component

The Corporation has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contract Costs

The Corporation has applied the practical expedient provided by ASC 340-40-25-4, and all incremental resident contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration. However, incremental costs incurred to obtain resident contracts for which the amortization period of the asset that the Corporation otherwise would have recognized is longer than one year are capitalized and amortized over the life of the contract based on the pattern of revenue recognition from these contracts. The Corporation regularly evaluates its resident contract costs and considers whether they should be capitalized over the life of the contract. These amounts are not considered to be significant to the overall financial statements and are expensed as incurred since they have a minimal effect on operations.

(In Thousands)

Note 10: Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at March 31:

	2020	2019
Resident assistance and special projects	$ 6,337	$ 7,504
Purchase of property and equipment	144	138
Scholarships	426	500
Time-restricted	5,461	6,922
Other	2,683	2,669
Investments to be held in perpetuity, the income is expendable	7,422	6,923
	$ 22,473	$ 24,656

Net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified as follows:

	2020	2019
Available for resident assistance and operations	$ 571	$ 1,037
Capital expenditures	$ 72	$ 465

Note 11: Net Assets Without Donor Restrictions

The Board designated $2,000 of net assets without donor restrictions to establish The Front Porch Center for Innovation and Wellbeing/Innovation Initiative Fund (the Innovation Fund) and $1,000 of net assets without donor restrictions to establish The Alhambra Affordable Housing Preservation and Development Fund (the Affordable Housing Fund) during the year ended March 31, 2014. Designated net assets remain under the control of the Board, which may, at its discretion, later use these designated funds for other purposes. Designated funds are included with investments on the accompanying consolidated balance sheets. During the year ended March 31, 2020, the Board released $1 of funds originally designated for the Innovation Fund to cover certain operating costs and released $75 of funds from the Affordable Housing Fund as an advance to Brookmore Apartment Corporation (Brookmore). The $75 advance to Brookmore was repaid along with the

(In Thousands)

$325 advance from fiscal year 2019 and no amounts were outstanding at March 31, 2020. During the year ended March 31, 2019, the Board released $10 of funds originally designated for the Innovation Fund to cover certain operating costs and released $325 of funds from the Affordable Housing Fund as an advance to Brookmore. The $325 advance to Brookmore is included in other assets on the accompanying consolidated balance sheets at March 31, 2019. $1,914 and $1,915 of the Innovation Fund and $1,000 and $675 of the Affordable Housing Fund remained unreleased as of March 31, 2020 and 2019, respectively.

Note 12: Liquidity and Availability

The Corporation's financial assets available to meet general expenditures within one year of the balance sheet date are:

	2020	2019
Cash and cash equivalents	$ 19,345	$ 10,864
Investments	263,864	305,887
Resident and patient accounts receivable	7,788	8,791
Other receivables	-	325
Financial assets available to meet general expenditures within one year	$ 290,997	$ 325,867

The Corporation has assets limited as to use for debt service, deposit subscriptions held in trust, refundable entrance fees, donor restriction, and various required reserves. These assets limited as to use, which are more fully described in *Notes 1* and *3*, are not available for general expenditure within the next year. The Corporation does not have a specific liquidity policy.

Note 13: Uncompensated Community Benefits

Each year, the Corporation provides services to residents with limited means and benefits to the broader community. The cost of such services is reported on the Corporation's IRS Form 990. Additionally, the Corporation accepts Medi-Cal patients for which it is reimbursed at amounts that do not cover the cost of health care services provided. The estimated cost, based on historical cost-to-revenue ratios by community, of providing such under-reimbursed care in excess of reimbursements received was $4,620 and $3,294 for the years ended March 31, 2020 and 2019, respectively.

Note 14: Functional Expenses

The Corporation provides residential and health care services to residents. Certain costs attributable to more than one function have been allocated among the residential and health care services and general and administrative functional expense classifications based on direct assignment, expenses, and other methods.

(In Thousands)

The following schedule presents the natural classification of expenses by function as follows for the years ended March 31:

	Residential and Health Care Services	General and Administrative	Total
2020			
Salaries and wages	$ 62,196	$ 19,369	$ 81,565
Employee benefits	23,658	4,975	28,633
Professional services	7,107	6,137	13,244
Supplies and other	35,842	11,843	47,685
Depreciation and amortization	28,111	3,243	31,354
Interest and other financing costs	9,247	68	9,315
Total expenses	$ 166,161	$ 45,635	$ 211,796
2019			
Salaries and wages	$ 59,589	$ 18,853	$ 78,442
Employee benefits	22,543	6,439	28,982
Professional services	6,516	5,469	11,985
Supplies and other	35,966	11,615	47,581
Depreciation and amortization	27,112	3,292	30,404
Interest and other financing costs	9,375	66	9,441
Total expenses	$ 161,101	$ 45,734	$ 206,835

Note 15: Employee Benefit Plans

403(b) Defined Contribution Plan and Supplemental Retirement Plan

The Corporation sponsors a 403(b) defined contribution plan for its employees. Under the current plan, all employees with at least one year of service are eligible to participate, and the Corporation contributes an amount equal to 3% of each participant's compensation. Additionally, the Corporation provides an executive supplemental retirement plan and contributes 4.5% of each participant's compensation. Expense for all retirement plans, equal to the contributions, totaled $2,446 and $2,387 for the years ended March 31, 2020 and 2019, respectively.

Deferred Compensation Plan

The Corporation offers a nonqualified deferred compensation plan to a select group of management that provides the opportunity to defer a specified percentage of their cash compensation. Participants may elect to defer up to 30% of their annual base salary. In addition, the Corporation offers an at-risk compensation plan that requires a mandatory 30% of any at-risk pay awarded to be held as deferred compensation. Participants may elect to defer the remaining 70% of their award. The Corporation's obligations under this plan are unfunded for tax purposes and for purposes of Title 1 of the *Employee Retirement Income Security Act of 1974* and are unsecured general obligations of the Corporation to pay in the future the value of the deferred compensation adjusted to reflect the performance, whether positive or negative, of selected investment measurement options chosen by each participant during the deferral period. As of March 31, 2020 and 2019, $617 and $720, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

Note 16: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

(In Thousands)

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Financial assets				
Equities – domestic	$ 132,275	$ 132,275	$ -	$ -
Equities – international	45,446	45,446	-	-
Money market mutual funds	202	202	-	-
Certificates of deposit	1,608	-	1,608	-
Commodity mutual funds	13,614	13,614	-	-
Other mutual funds	14,616	14,616	-	-
U.S. Treasury and U.S. agency securities	11,218	6,600	4,618	-
Corporate bonds and commercial paper	46,695	36,582	10,113	-
Total investments and assets limited as to use	265,674	$ 249,335	$ 16,339	$ -
Cash and cash equivalents (at cost)	11,434			
Total investments and assets limited as to use	$ 277,108			
Derivative instruments	$ 23	$ -	$ 23	$ -
Receivables from supporting organizations	$ 12,403	$ -	$ -	$ 12,403

(In Thousands)

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Financial assets				
Equities – domestic	$ 167,521	$ 167,521	$ -	$ -
Equities – international	59,430	59,430	-	-
Money market mutual funds	258	258	-	-
Certificates of deposit	1,123	-	1,123	-
Commodity mutual funds	17,379	17,379	-	-
Other mutual funds	17,412	17,412	-	-
U.S. Treasury and U.S. agency securities	11,912	6,926	4,986	-
Corporate bonds and commercial paper	32,174	24,403	7,771	-
Total investments and assets limited as to use	307,209	$ 293,329	$ 13,880	$ -
Cash and cash equivalents (at cost)	13,410			
Total investments and assets limited as to use	$ 320,619			
Derivative instruments	$ 59	$ -	$ 59	$ -
Receivables from supporting organizations	$ 12,576	$ -	$ -	$ 12,576

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended March 31, 2020. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include various mutual funds, certain corporate bonds and commercial paper, U.S. Treasury and U.S. agency securities, and exchange-traded equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics, or discounted cash flows. Level 2 investments include certain corporate bonds and commercial paper, U.S. Treasury and U.S. agency securities, derivative instruments, and certificates of deposit. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Derivative Instruments

Fair value is estimated using forward looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Receivables from Supporting Organizations

Fair value is estimated at the present value of the future distributions from the supporting organizations. Due to the nature of the valuation inputs, the receivables from supporting organizations are classified within Level 3 of the hierarchy.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Receivables from Supporting Organizations
Balance, April 1, 2019	$ 12,576
Total realized and unrealized gains included in change in net assets	(173)
Balance, March 31, 2020	$ 12,403
Total gains for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ (173)

(In Thousands)

	Receivables from Supporting Organizations
Balance, April 1, 2018	$ 11,813
Total realized and unrealized gains included in change in net assets	763
Balance, March 31, 2019	$ 12,576
Total gains for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$ 763

Note 17: Asset Retirement Obligations

ASC 410, *Asset Retirement and Environmental Obligations*, requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

The Corporation has AROs arising from regulatory requirements to perform asbestos abatement at the time certain property is disposed of. The liability, included in asset retirement obligations in the accompanying consolidated balance sheets, was initially measured at fair value based upon historical removal costs per square foot applied to assets identified as requiring asbestos abatement and is subsequently adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The following table presents the activity for the AROs for the years ended March 31:

	2020	2019
Balance, beginning of year	$ 2,124	$ 2,147
Change in estimate and accretion expense	(75)	(23)
Balance, end of year	$ 2,049	$ 2,124

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Variable Consideration

Estimates of variable consideration in determining the transaction price for resident and patient service revenue are described in *Notes 1* and *9*.

Investments

The Corporation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

There has been significant volatility in the investment markets both nationally and globally since March 31, 2020, resulting in material fluctuations in certain market segments that have resulted in substantial volatility in the Corporation's investment portfolio.

Self-Insurance Claims

Estimates related to the accrual for self-insured workers' compensation claims are described in *Notes 1* and *7*.

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, and an independent actuary with respect to workers' compensation claims, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Regulatory Matters

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. In addition, changes to the regulatory environment could negatively impact the Corporation's consolidated financial position.

Asset Retirement Obligations

As discussed in *Note 17*, the Corporation has recorded a liability for its conditional AROs related to asbestos abatement.

Note 19: Refundable and Amortized Entrance Fees and Deferred Revenue

Entrance fee arrangements apply to five of the Corporation's facilities as of March 31, 2020 and 2019. For the right to occupy a unit for life and to receive certain services at these facilities, residents are required to pay an upfront entrance fee. The entrance fee is based upon the type of unit rented and the monthly payment plan selected by the resident. In addition, residents are charged monthly service fees. Service fees are established at the inception of residency and may be increased by the Corporation, provided a 60-day advance notice is given to the resident.

The resident may voluntarily withdraw from the facility upon rendering proper notification. Upon voluntary withdrawal, a repayment of part or all of the entrance fees and monthly care fees may occur.

The following is a summary of the withdrawal clauses:

- If the resident voluntarily withdraws within the first seven days, all amounts will be repaid.
- If voluntary withdrawal or death occurs within 90 days of the contract date, an amount equal to the entrance fee and the monthly care fee, less any amounts used to care for the resident during the time of the residency, will be repaid to the resident, estate, trust, heirs, or representatives.
- For amortized contracts, if voluntary withdrawal occurs subsequent to the 90-day period, the amount repaid shall be equal to the entrance fee, less an amount amortized on a basis ranging from 60 to 67 months from the date of the agreement. If voluntary withdrawal occurs after the "amortization period," as defined in the resident contract, no repayment shall be awarded. If death occurs more than 90 days after the contract date, entrance fees are either retained by the Corporation or partially refunded based upon the individual facility's contracts.
- For repayable contracts, upon withdrawal of a resident for any reason subsequent to the 90-day period, the repayable percentage of the entrance fee will be repaid to the resident, estate, trust, heirs, or representatives within 14 calendar days of the Corporation's receipt of a new entrance fee or, in certain circumstances, monthly fee contract for the unit.

(In Thousands)

The estimated amount of entrance fees expected to be repaid to current residents, net of amounts estimated to be repaid within one year, amounted to $23,181 and $12,378 at March 31, 2020 and 2019, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled $7,073 and $6,086 at March 31, 2020 and 2019, respectively, and are recorded as other current accrued expenses in the accompanying consolidated balance sheets. These estimates are based on the Corporation's historical repayment experience and the Corporation's repayment policy. At March 31, 2020 and 2019, $113,243 and $110,301, respectively, are contractually repayable under these agreements, which represent the amount due to residents if all residents were to cancel their contracts at that date based on the repayment policies above. The contractually repayable amount, net of estimated repayable entrance fees described above, is included in deferred revenue from entrance fees in the accompanying consolidated balance sheets.

Entrance fees subject to refund and actual refunds disbursed as of March 31 are as follows:

	Entrance Fees Subject to Refund as of March 31	Actual Refunds Disbursed for the Year Ended March 31
2020	$ 141,215	$ 10,582
2019	$ 135,095	$ 8,454
2018	$ 128,447	$ 8,533
2017	$ 123,677	$ 6,110
2016	$ 116,349	$ 7,643

Note 20: Leases

Nature of Leases

The Corporation has entered into the following operating lease arrangements:

Operating Leases

The Corporation has certain leases with related parties, which are eliminated in the accompanying consolidated financial statements. See *Note 1* for further description of these leases.

The Corporation leases office space at various locations that expire in various years through 2034. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Corporation to pay all executory costs (property taxes, maintenance, and insurance). Lease payments are based on a fair value cost per square foot. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

The Corporation has certain other operating leases, including leases with expected lease terms of less than 12 months, for various equipment, vehicles, and space that are not material at March 31, 2020.

(In Thousands)

Accounting Policies

The Corporation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the accompanying consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Corporation determines lease classification as operating or finance at the lease commencement date.

The Corporation combines lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings and equipment.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Corporation has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or terminate the lease that the Corporation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Corporation has elected not to record leases with an initial term of 12 months or less on the accompanying consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Quantitative Disclosures

The lease cost and other required information for the year ended March 31, 2020, are:

Lease Cost		
Operating lease cost	$	1,905
Short-term lease cost		359
Total lease cost	$	2,264
Other Information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	2,094
ROU assets obtained in exchange for new operating lease liabilities	$	9,593
Weighted-average remaining lease term		
Operating leases		7.50 years
Weighted-average discount rate		
Operating leases		3.8%

(In Thousands)

Future minimum lease payments and reconciliation to the accompanying consolidated balance sheet at March 31, 2020, are as follows:

	Operating Leases
2021	$ 2,089
2022	1,992
2023	1,675
2024	1,440
2025	594
Thereafter	3,383
	11,173
Less interest	1,857
Operating lease liabilities	$ 9,316

Supplementary Information

Front Porch Communities & Services

Consolidating Schedule – Balance Sheet Information

March 31, 2020

(In Thousands)

Assets

	Obligated Group	Other Entities	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	$ 13,792	$ 5,553	$ -	$ 19,345
Short-term investments	8,999	-	-	8,999
Assets limited as to use – required for current liabilities	8,413	1,100	-	9,513
Resident and patient accounts receivable	4,272	3,516	-	7,788
Prepaid expenses and other	2,418	599	-	3,017
Intercompany receivables	4,608	430	(5,038)	-
Total current assets	42,502	11,198	(5,038)	48,662
Investments				
Assets limited as to use, net of current portion	1	3,730	-	3,731
Long-term investments	254,865	-	-	254,865
Derivative instruments	23	-	-	23
Total investments	254,889	3,730	-	258,619
Property and Equipment, Net	292,284	80,068	(25)	372,327
Other Assets				
Interest in net assets of Pacific Homes Foundation	10,780	-	-	10,780
Receivables from supporting organizations	12,403	-	-	12,403
ROU assets – operating leases	7,106	957	-	8,063
Other receivables	1,350	-	-	1,350
Other assets	-	414	-	414
Total other assets	31,639	1,371	-	33,010
Total assets	$ 621,314	$ 96,367	$ (5,063)	$ 712,618

Liabilities and Net Assets

		Obligated Group		Other Entities		Eliminations		Consolidated
Current Liabilities								
Current maturities of long-term debt	$	2,170	$	3,131	$	-	$	5,301
Current portion of operating lease liabilities		1,364		391		-		1,755
Accounts payable		5,351		1,466		(188)		6,629
Accrued payroll and related expenses		9,719		3,886		-		13,605
Intercompany payables		-		4,850		(4,850)		-
Accrued interest		2,301		271		-		2,572
Other accrued expenses		10,445		1,154		-		11,599
Total current liabilities		31,350		15,149		(5,038)		41,461
Asset retirement obligations		228		1,821		-		2,049
Accrued workers' compensation		5,747		1,244		-		6,991
Operating lease liabilities		6,995		566		-		7,561
Other accrued liabilities		29,322		3,511		-		32,833
Refundable entrance fees		64,223		228		-		64,451
Deferred revenue from entrance fees		42,927		15		-		42,942
Long-term debt		186,714		96,972		-		283,686
Total liabilities		367,506		119,506		(5,038)		481,974
Net Assets								
Without donor restrictions		231,336		(23,139)		(25)		208,172
With donor restrictions		22,472		-		-		22,472
Total net assets		253,808		(23,139)		(25)		230,644
Total liabilities and net assets	$	621,314	$	96,367	$	(5,063)	$	712,618

Front Porch Communities & Services

Consolidating Schedule – Statement of Operations Information

Year Ended March 31, 2020

(In Thousands)

	Obligated Group	Other Entities	Eliminations	Consolidated
Revenues, Gains, and Other Support Without Donor Restrictions				
Resident and patient service revenue	$ 116,358	$ 89,436	$ (259)	$ 205,535
Amortization of entrance fees	10,293	4	-	10,297
Other	5,618	1,114	(5,140)	1,592
Net assets released from restrictions used for operations	553	18	-	571
Total revenues, gains, and other support without donor restrictions	132,822	90,572	(5,399)	217,995
Expenses				
Medical services	28,676	23,967	-	52,643
Facility operating costs	12,644	8,630	-	21,274
Dietary services	20,099	14,448	(259)	34,288
Residential services	10,925	7,578	-	18,503
Administrative services	32,777	14,194	(5,140)	41,831
Depreciation	21,584	9,273	-	30,857
Amortization of deferred costs	287	210	-	497
Interest expense and other financing costs	5,481	3,834	-	9,315
Other	1,518	761	-	2,279
Total expenses	133,991	82,895	(5,399)	211,487
Operating Income (Loss) Before Other Operating Charges	(1,169)	7,677	-	6,508
Other Operating Charges				
COVID-19 related expenses	(249)	(60)	-	(309)
Operating Income (Loss)	(1,418)	7,617	-	6,199
Investment Return, Net	(38,359)	37	-	(38,322)
Excess (Deficiency) of Revenues over Expenses	(39,777)	7,654	-	(32,123)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	46	26	-	72
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (39,731)	$ 7,680	$ -	$ (32,051)

Front Porch Communities & Services

Consolidating Schedule – Statement of Cash Flows Information

Year Ended March 31, 2020

(In Thousands)

	Obligated Group	Other Entities	Eliminations	Consolidated
Operating Activities				
Cash received from contract residents	$ 44,668	$ 254	$ -	$ 44,922
Proceeds from entrance fees received	26,798	-	-	26,798
Cash received from and on behalf of noncontract residents	71,708	87,014	-	158,722
Reimbursement for services to nonresidents	693	2,161	-	2,854
Other receipts from operations	5,618	1,114	(5,140)	1,592
Unrestricted investment income received	8,665	37	-	8,702
Processing fees	70	-	-	70
Cash paid to suppliers, employees, and others	(110,837)	(65,901)	5,140	(171,598)
Cash paid for interest on long-term debt, net of amounts capitalized	(5,811)	(3,874)	-	(9,685)
Net cash provided by operating activities	41,572	20,805	-	62,377
Investing Activities				
Capital expenditures	(31,383)	(12,844)	-	(44,227)
Proceeds from sale of trading investments	181,441	-	-	181,441
Purchase of trading investments	(184,632)	-	-	(184,632)
Purchase of assets limited as to use	(328)	(615)	-	(943)
Proceeds from sale of assets limited as to use	1,910	580	-	2,490
Repayment from Brookmore Apartment Corporation	400	-	-	400
Net cash used in investing activities	(32,592)	(12,879)	-	(45,471)
Financing Activities				
Refunds of entrance fees	(10,582)	-	-	(10,582)
Principal payments on long-term debt	(2,826)	(3,139)	-	(5,965)
Proceeds from Series 2017B debt issuance	8,050	-	-	8,050
Proceeds from contributions for purchases of property and equipment	46	26	-	72
Net cash used in financing activities	(5,312)	(3,113)	-	(8,425)
Increase in Cash and Cash Equivalents	3,668	4,813	-	8,481
Cash and Cash Equivalents, Beginning of Year	10,124	740	-	10,864
Cash and Cash Equivalents, End of Year	$ 13,792	$ 5,553	$ -	$ 19,345

	Obligated Group	Other Entities	Eliminations	Consolidated
Cash Flows from Operating Activities				
Change in net assets	$ (41,915)	$ 7,680	$ -	$ (34,235)
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	21,584	9,273	-	30,857
Amortization of deferred costs	287	210	-	497
Accretion of asset retirement obligations	10	(31)	-	(21)
Amortization of bond premium included in interest expense	(358)	-	-	(358)
Entrance fees received	26,798	-	-	26,798
Amortization of entrance fees	(10,293)	(4)	-	(10,297)
Realized and unrealized gain on investments, net	45,080	-	-	45,080
Unrealized loss on derivative financial instruments, net	36	-	-	36
Change in interest in net assets of Pacific Homes Foundation	1,869	-	-	1,869
Change in receivables from supporting organizations	173	-	-	173
Proceeds from contributions for purchases of property and equipment	(46)	(26)	-	(72)
Changes in operating assets and operating liabilities				
Accounts receivable, net	782	252	-	1,034
Prepaid expenses and other	(12)	(52)	-	(64)
Due to/from related parties	(4,188)	4,188	-	-
Accounts payable and accrued expenses	554	692	-	1,246
Operating leases	1,253	-	-	1,253
Other accrued liabilities	(42)	(1,377)	-	(1,419)
Net cash provided by operating activities	$ 41,572	$ 20,805	$ -	$ 62,377
Supplemental Cash Flows Information				
Property and equipment purchases included in accounts payable and other accrued expenses	$ 1,127	$ 76	$ -	$ 1,203
Entrance fees included in accounts receivable	$ 1,579	$ -	$ -	$ 1,579
Operating lease obligations incurred for equipment and rental space	$ 8,250	$ 1,343	$ -	$ 9,593