

# **Front Porch Communities & Services**

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2021 and 2020

# Front Porch Communities & Services

## March 31, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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 2021 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 2021 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2021 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 2021 consolidated financial statements or to the 2021 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 2021 consolidated financial statements as a whole.

***BKD, LLP***

Tulsa, Oklahoma  
July 20, 2021

**Front Porch Communities & Services**  
**Consolidated Balance Sheets**  
**March 31, 2021 and 2020**  
**(In Thousands)**

**Assets**

|   | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| <b>Current Assets</b>                                       |             |             |
| Cash and cash equivalents                                   | \$ 16,168   | \$ 19,345   |
| Short-term investments                                      | 2,392       | 8,999       |
| Assets limited as to use – required for current liabilities | 11,929      | 9,513       |
| Resident and patient accounts receivable                    | 5,836       | 7,788       |
| Prepaid expenses and other                                  | 3,151       | 3,017       |
| Total current assets  | 39,476      | 48,662      |
| <b>Investments</b>  |             |             |
| Assets limited as to use, net of current portion            | 4,029       | 3,731       |
| Long-term investments                                       | 367,027     | 254,865     |
| Derivative instruments                                      | 75          | 23          |
| Total investments   | 371,131     | 258,619     |
| <b>Property and Equipment, Net</b>                          | 374,092     | 372,327     |
| <b>Other Assets</b>   |             |             |
| Interest in net assets of Pacific Homes Foundation          | 14,880      | 10,780      |
| Receivables from supporting organizations                   | 15,199      | 12,403      |
| ROU assets – operating leases                               | 6,644       | 8,063       |
| Other receivables   | 952         | 1,350       |
| Other assets  | 614         | 414         |
| Total other assets  | 38,289      | 33,010      |
| Total assets  | \$ 822,988  | \$ 712,618  |

## Liabilities and Net Assets

|  | <u>2021</u>       | <u>2020</u>       |
|--|-------------------|-------------------|
| <b>Current Liabilities</b>                     |                   |                   |
| Current maturities of long-term debt           | \$ 6,585          | \$ 5,301          |
| Current portion of operating lease liabilities | 1,742             | 1,755             |
| Accounts payable                               | 6,813             | 6,629             |
| Accrued payroll and related expenses           | 13,718            | 13,605            |
| Accrued interest                               | 2,690             | 2,572             |
| Other accrued expenses                         | <u>12,955</u>     | <u>11,599</u>     |
| Total current liabilities                      | 44,503            | 41,461            |
| <b>Other Liabilities</b>                       |                   |                   |
| Asset retirement obligations                   | 2,067             | 2,049             |
| Accrued workers' compensation                  | 4,956             | 6,991             |
| Operating lease liabilities                    | 5,916             | 7,561             |
| Other accrued liabilities                      | 35,367            | 32,833            |
| Refundable entrance fees                       | 58,100            | 64,451            |
| Deferred revenue from entrance fees            | 41,102            | 42,942            |
| Long-term debt                                 | <u>281,489</u>    | <u>283,686</u>    |
| Total liabilities                              | <u>473,500</u>    | <u>481,974</u>    |
| <b>Net Assets</b>                              |                   |                   |
| Without donor restrictions                     | 319,712           | 208,172           |
| With donor restrictions                        | <u>29,776</u>     | <u>22,472</u>     |
| Total net assets                               | <u>349,488</u>    | <u>230,644</u>    |
| Total liabilities and net assets               | <u>\$ 822,988</u> | <u>\$ 712,618</u> |

**Front Porch Communities & Services**  
**Consolidated Statements of Operations**  
**Years Ended March 31, 2021 and 2020**  
(In Thousands)

|  | <b>2021</b>       | <b>2020</b>        |
|--|-------------------|--------------------|
| <b>Revenues, Gains, and Other Support Without Donor Restrictions</b>                     |                   |                    |
| Resident and patient service revenue   | \$ 188,963        | \$ 205,535         |
| Amortization of entrance fees  | 10,199            | 10,297             |
| Other  | 927               | 1,592              |
| Net assets released from restrictions used for operations                                | 466               | 571                |
| Total revenues, gains, and other support without donor restrictions                      | 200,555           | 217,995            |
| <b>Expenses</b>  |                   |                    |
| Medical services   | 46,248            | 52,643             |
| Facility operating costs   | 21,405            | 21,274             |
| Dietary services   | 32,501            | 34,289             |
| Residential services   | 17,180            | 18,502             |
| Administrative services  | 39,594            | 41,831             |
| Depreciation   | 33,126            | 30,857             |
| Amortization of deferred costs   | 497               | 497                |
| Interest expense and other financing costs   | 8,758             | 9,315              |
| Other  | 2,969             | 2,279              |
| Total expenses   | 202,278           | 211,487            |
| <b>Operating Income (Loss) Before Other Operating Activities</b>                         | <b>(1,723)</b>    | <b>6,508</b>       |
| <b>Other Operating Activities</b>  |                   |                    |
| COVID-19-related income  | 4,298             | -                  |
| COVID-19-related expenses  | (8,476)           | (309)              |
| Total other operating activities   | (4,178)           | (309)              |
| <b>Operating Income (Loss)</b>   | <b>(5,901)</b>    | <b>6,199</b>       |
| <b>Investment Return, Net</b>  | <b>117,385</b>    | <b>(38,322)</b>    |
| <b>Excess (Deficiency) of Revenues over Expenses</b>                                     | <b>111,484</b>    | <b>(32,123)</b>    |
| <b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b> | <b>56</b>         | <b>72</b>          |
| <b>Increase (Decrease) in Net Assets Without Donor Restrictions</b>                      | <b>\$ 111,540</b> | <b>\$ (32,051)</b> |

**Front Porch Communities & Services**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended March 31, 2021 and 2020**  
**(In Thousands)**

|   | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| <b>Net Assets Without Donor Restrictions</b>                                      |             |             |
| Excess (deficiency) of revenues over expenses                                     | \$ 111,484  | \$ (32,123) |
| Net assets released from restrictions used for purchase of property and equipment | 56          | 72          |
| Increase (decrease) in net assets without donor restrictions                      | 111,540     | (32,051)    |
| <b>Net Assets with Donor Restrictions</b>   |             |             |
| Contributions received and investment return                                      | 3,592       | 47          |
| Change in interest in net assets of Pacific Homes Foundation                      | 3,843       | (1,787)     |
| Change in beneficial interest in perpetual trust                                  | 391         | 199         |
| Net assets released from restrictions used for operations                         | (466)       | (571)       |
| Net assets released from restrictions used for purchase of property and equipment | (56)        | (72)        |
| Increase (decrease) in net assets with donor restrictions                         | 7,304       | (2,184)     |
| <b>Change in Net Assets</b>   | 118,844     | (34,235)    |
| <b>Net Assets, Beginning of Year</b>  | 230,644     | 264,879     |
| <b>Net Assets, End of Year</b>  | \$ 349,488  | \$ 230,644  |



**Front Porch Communities & Services**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2021 and 2020**  
**(In Thousands)**

|  | <u>2021</u>      | <u>2020</u>      |
|--|------------------|------------------|
| <b>Operating Activities</b>  |                  |                  |
| Cash received from contract residents                                | \$ 43,785        | \$ 44,922        |
| Proceeds from entrance fees received                                 | 16,761           | 26,798           |
| Cash received from and on behalf of noncontract residents            | 144,370          | 158,722          |
| Reimbursement for services to nonresidents                           | 2,040            | 2,854            |
| Other receipts from operations                                       | 927              | 1,592            |
| Unrestricted investment income received                              | 6,879            | 8,702            |
| Processing fees  | 36               | 70               |
| Government grants  | 5,681            | -                |
| Cash paid to suppliers, employees, and others                        | (173,884)        | (171,598)        |
| Cash paid for interest on long-term debt, net of amounts capitalized | (8,926)          | (9,685)          |
|  | <u>37,669</u>    | <u>62,377</u>    |
| <b>Investing Activities</b>  |                  |                  |
| Capital expenditures   | (32,692)         | (44,227)         |
| Proceeds from sale of trading investments                            | 167,111          | 181,441          |
| Purchase of trading investments                                      | (160,224)        | (184,632)        |
| Purchase of assets limited as to use                                 | (3,191)          | (943)            |
| Proceeds from sale of assets limited as to use                       | 482              | 2,490            |
| Repayment from (advances to) Brookmore Apartment Corporation         | (200)            | 400              |
|  | <u>(28,714)</u>  | <u>(45,471)</u>  |
| <b>Financing Activities</b>  |                  |                  |
| Refunds of entrance fees   | (11,132)         | (10,582)         |
| Principal payments on long-term debt                                 | (5,300)          | (5,965)          |
| Proceeds from Series 2017B debt issuance                             | 4,244            | 8,050            |
| Proceeds from contributions for purchases of property and equipment  | 56               | 72               |
|  | <u>(12,132)</u>  | <u>(8,425)</u>   |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>              | (3,177)          | 8,481            |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                  | <u>19,345</u>    | <u>10,864</u>    |
| <b>Cash and Cash Equivalents, End of Year</b>                        | <u>\$ 16,168</u> | <u>\$ 19,345</u> |

See Notes to Consolidated Financial Statements

|  | <b>2021</b>      | <b>2020</b>      |
|--|------------------|------------------|
| <b>Cash Flows from Operating Activities</b>  |                  |                  |
| Change in net assets   | \$ 118,844       | \$ (34,235)      |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                  |                  |
| Depreciation   | 33,126           | 30,857           |
| Gain on disposal of assets   | (3)              | -                |
| Amortization of deferred costs   | 497              | 497              |
| Accretion of asset retirement obligations  | 68               | (21)             |
| Amortization of bond premium included in interest expense                                  | (354)            | (358)            |
| Entrance fees received   | 16,761           | 26,798           |
| Amortization of entrance fees  | (10,199)         | (10,297)         |
| Realized and unrealized (gain) loss on investments, net                                    | (112,447)        | 45,080           |
| Unrealized (gain) loss on derivative financial instruments, net                            | (52)             | 36               |
| Change in interest in net assets of Pacific Homes Foundation                               | (4,100)          | 1,869            |
| Change in receivables from supporting organizations  | (2,796)          | 173              |
| Proceeds from contributions for purchases of property and equipment                        | (56)             | (72)             |
| Changes in operating assets and liabilities  |                  |                  |
| Accounts receivable, net   | 1,269            | 1,034            |
| Prepaid expenses and other   | 264              | (64)             |
| Accounts payable and accrued expenses  | (1,779)          | 1,246            |
| Operating leases   | (239)            | 1,253            |
| Other accrued liabilities  | (1,135)          | (1,419)          |
| Net cash provided by operating activities  | <u>\$ 37,669</u> | <u>\$ 62,377</u> |

**Supplemental Cash Flows Information**

|  |          |          |
|--|----------|----------|
| Property and equipment purchases included in accounts payable and other accrued expenses | \$ 3,399 | \$ 1,203 |
| Entrance fees included in accounts receivable  | \$ 958   | \$ 1,579 |
| Operating lease obligations incurred for equipment and rental space                      | \$ 128   | \$ 9,593 |

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(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, 2021:

| <b>Operator</b>                                 | <b>Residential<br/>Living<br/>Units</b> | <b>Memory<br/>Care<br/>Units</b> | <b>Care<br/>Center<br/>Beds</b> | <b>Total<br/>Units/Beds</b> |
|---|---|----------------------------------|---------------------------------|-----------------------------|
| Obligated Group                                 | 1,333                                   | 100                              | 135                             | 1,568                       |
| Front Porch Communities Operating<br>Group, LLC | <u>868</u>                              | <u>37</u>                        | <u>284</u>                      | <u>1,189</u>                |
| Total Front Porch<br>Communities & Services     | <u><u>2,201</u></u>                     | <u><u>137</u></u>                | <u><u>419</u></u>               | <u><u>2,757</u></u>         |

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(In Thousands)**

**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, 2021:

| Community                          | City              | Type   | Residential<br>Living<br>Units | Memory<br>Care<br>Units | Care<br>Center<br>Beds | Total<br>Units/Beds |
|------------------------------------|-------------------|--------|--------------------------------|-------------------------|------------------------|---------------------|
| Owned Communities                  |                   |        |                                |                         |                        |                     |
| Carlsbad by the Sea                | Carlsbad, CA      | CCRC   | 159                            | -                       | 33                     | 192                 |
| Sunny View Retirement<br>Community | Cupertino, CA     | CCRC   | 94                             | 23                      | 48                     | 165                 |
| Villa Gardens                      | Pasadena, CA      | CCRC   | 190                            | 17                      | 54                     | 261                 |
| Vista del Monte                    | Santa Barbara, CA | CCRC   | 169                            | 24                      | -                      | 193                 |
| Walnut Village                     | Anaheim, CA       | CCRC   | 156                            | 14                      | -                      | 170                 |
| Wesley Palms                       | San Diego, CA     | Rental | 293                            | 22                      | -                      | 315                 |
| Leased Communities                 |                   |        |                                |                         |                        |                     |
| Cecil Pines                        | Jacksonville, FL  | Rental | 92                             | -                       | -                      | 92                  |
| England Oaks                       | Alexandria, LA    | Rental | 180                            | -                       | -                      | 180                 |
| Total Obligated Group              |                   |        | 1,333                          | 100                     | 135                    | 1,568               |

**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 consolidating schedules:

***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.

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(In Thousands)**

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<br>Living<br>Units | Memory<br>Care<br>Units | Care<br>Center<br>Beds | Total<br>Units/Beds |
|--|-----------------|--------|--------------------------------|-------------------------|------------------------|---------------------|
| Front Porch Communities and Services – Casa de Mañana, LLC   | La Jolla, CA    | Rental | 187                            | -                       | -                      | 187                 |
| Front Porch Communities and Services – Claremont Manor, LLC  | Claremont, CA   | Rental | 214                            | 15                      | 59                     | 288                 |
| Front Porch Communities and Services – Kingsley Manor, LLC   | Los Angeles, CA | Rental | 215                            | -                       | 51                     | 266                 |
| Front Porch Communities and Services – Fredericka Manor, LLC | Chula Vista, CA | Rental | 252                            | 22                      | 174                    | 448                 |
| Total OpCo   |                 |        | 868                            | 37                      | 284                    | 1,189               |

***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.

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(In Thousands)**

**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, 2021.

***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

# **Front Porch Communities & Services**

## **Notes to Consolidated Financial Statements**

### **March 31, 2021 and 2020**

#### **(In Thousands)**

CTIW began to be performed by the Corporation effective April 1, 2015. However, CTIW has not yet been legally dissolved as of March 31, 2021.

#### ***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, 2021 and 2020, cash equivalents consisted primarily of money market mutual funds of \$5,496 and \$198, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2021, the Corporation's cash accounts exceeded federally insured limits by \$11,896.

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 Net Investment Return***

The Corporation measures securities at 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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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 with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(In Thousands)**

***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, 2021 and 2020.

***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                                 | 2–40 years |
| Buildings and building and leasehold improvements | 5–50 years |
| Equipment   | 3–25 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



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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 the years ended March 31, 2021 and 2020.

***Interest in Net Assets of and Receivables from Supporting Organizations***

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 as a component of the change in net assets with donor restrictions. 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

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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, 2021 and 2020, 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.

# Front Porch Communities & Services

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#### ***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 and investment income having donor stipulations that are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. Conditional contributions having donor stipulations that are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

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*.

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***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, 2021 and 2020, 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.

***Subsequent Events***

***Covia Affiliation***

Effective April 1, 2021, the Corporation affiliated with Covia Communities (Covia) pursuant to an affiliation agreement signed in June 2020. As a result of the affiliation, the Corporation became the sole corporate member of Covia. This affiliation was executed in order to improve service lines, expand the Corporation and Covia's respective missions, and enhance corporate support functions.

For the fiscal year ended March 31, 2021, Covia had total revenues and gains on a consolidated basis of \$156 million and total assets on a consolidated basis of \$646 million and owns and operates five CCRCs in California. None of Covia's revenue and earnings are included in the Corporation's consolidated statement of operations for the year ended March 31, 2021.

The initial accounting for this business combination was not complete at the time the accompanying consolidated financial statements were issued. Due to this matter, disclosures related to acquisition-related costs and supplemental pro forma information were not able to be made. The costs associated with the affiliation are not material to the financial statements and are included in operating expenses in the fiscal year when incurred.

***Supporting Organizations Merger***

Pacific Homes Foundation (PH Foundation), FACT Foundation (FACT), and Sunny View Lutheran Communities and Services (SVLCS) are supporting organizations established for the charitable purpose of promoting and supporting the work of the Corporation and the retirement communities. Effective April 1, 2021, these three supporting foundations merged, with PH Foundation as the surviving entity. In connection with the merger, PH Foundation changed its name to Front Porch Communities Foundation, and the Corporation became the sole corporate member of the foundation, effectively establishing control. This merger was executed to better align the organizations supporting the Corporation.

Through March 31, 2021, the Corporation recorded a beneficial interest in PH Foundation and receivables from supporting organizations related to FACT and SVLCS. See *Note 5* for more information.

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The initial accounting for this business combination was not complete at the time the accompanying consolidated financial statements were issued. Due to this matter, disclosures related to acquisition-related costs and supplemental pro forma information were not able to be made. This business combination is not expected to have a material impact on the Corporation's change in net assets.

**Planned Debt Issuance**

The Corporation is currently considering issuing both taxable and tax-exempt bonds in a par amount not to exceed \$310 million during the 3rd quarter of calendar year 2021. The proceeds of these bonds are anticipated to finance and refinance the acquisition, construction, equipping, improvement, renovation, rehabilitation, and remodeling of the senior living and related facilities of both the Corporation and Covia and pay certain costs incurred in connection with the issuance of the bonds. The decision as to whether to incur indebtedness will be made by the Corporation and is subject to its discretion, based on market conditions and other considerations.

Subsequent events have been evaluated through July 20, 2021, 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:

|   | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|
| Medicare  | 25%         | 26%         |
| Medi-Cal (including Medi-Cal managed care payors) | 40%         | 39%         |
| PPO/HMO (other contracted payors)                 | 27%         | 26%         |
| Patients and other                                | 8%          | 9%          |
|   | <u>100%</u> | <u>100%</u> |

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**Note 3: Investments and Investment Return**

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

|  | <u>2021</u>     | <u>2020</u>     |
|--|-----------------|-----------------|
| U.S. Treasury and U.S. agency securities | \$ 36           | \$ 261          |
| Corporate bonds                          | 1,456           | 8,738           |
| Money market mutual funds                | 900             | -               |
|  | <u>\$ 2,392</u> | <u>\$ 8,999</u> |

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

|   | <u>2021</u>     | <u>2020</u>     |
|---|-----------------|-----------------|
| Cash  | \$ 14,432       | \$ 11,434       |
| Certificates of deposit                           | 1,277           | 1,608           |
| Money market mutual funds                         | 249             | 202             |
|   | <u>15,958</u>   | <u>13,244</u>   |
| Less amounts required to meet current obligations | <u>11,929</u>   | <u>9,513</u>    |
|   | <u>\$ 4,029</u> | <u>\$ 3,731</u> |

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

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| Held by trustee under indenture agreements for bond fund and other reserves | \$ 4,218         | \$ 3,277         |
| HUD facility reserves   | 5,282            | 4,794            |
| Other held by trustee   | 330              | -                |
| Deposit subscriptions held in trust   | 2,075            | 1,471            |
| 90-day refundable accommodation fees  | 3,721            | 3,375            |
| Restricted by donors for capital expenditures                               | 306              | 301              |
| Resident deposits held in trust   | 26               | 26               |
|   | <u>\$ 15,958</u> | <u>\$ 13,244</u> |

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

|  | <b>2021</b>       | <b>2020</b>       |
|--|-------------------|-------------------|
| Commodity mutual funds                   | \$ 13,777         | \$ 13,614         |
| Real estate mutual funds                 | 18,662            | 13,833            |
| Other mutual funds                       | 274               | 783               |
| U.S. Treasury and U.S. agency securities | 9,627             | 10,957            |
| Equity securities – domestic             | 185,485           | 132,275           |
| Equity securities – international        | 73,177            | 45,446            |
| Corporate bonds                          | 66,025            | 37,957            |
|  | <u>\$ 367,027</u> | <u>\$ 254,865</u> |

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, 2021, 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:

|  | <b>2021</b>       | <b>2020</b>        |
|--|-------------------|--------------------|
| Interest and dividend income                                       | \$ 6,879          | \$ 8,701           |
| Realized gains (losses) on sales of securities, net                | 25,081            | (3,445)            |
| Unrealized gains (losses) on investments valued at fair value, net | 87,366            | (41,635)           |
| Unrealized gains (losses) on derivative financial instruments, net | 52                | (36)               |
| Investment fees  | (1,993)           | (1,907)            |
|  | <u>\$ 117,385</u> | <u>\$ (38,322)</u> |
| Investment return, net   |                   |                    |

The change in net assets with donor restrictions for the years ended March 31, 2021 and 2020, includes investment return of \$3,099 and \$(764), respectively.

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**Note 4: Property and Equipment**

A summary of property and equipment at March 31 follows:

|                               | <u>2021</u>       | <u>2020</u>       |
|-------------------------------|-------------------|-------------------|
| Land and land improvements    | \$ 75,967         | \$ 72,853         |
| Buildings                     | 339,171           | 338,885           |
| Building improvements         | 197,965           | 185,520           |
| Leasehold improvements        | 12,866            | 12,094            |
| Equipment                     | 225,450           | 206,401           |
| Construction in progress      | 6,901             | 7,765             |
|                               | <u>858,320</u>    | <u>823,518</u>    |
| Less accumulated depreciation | <u>484,228</u>    | <u>451,191</u>    |
|                               | <u>\$ 374,092</u> | <u>\$ 372,327</u> |

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

PH Foundation, FACT, California Lutheran Homes (CLH), and SVLCS are nonprofit 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, CLH, and SVLCS are not organized solely for the benefit of the Corporation and, upon dissolution, the net assets may be directed to other nonprofit 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.



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

|   | <u>2021</u>      | <u>2020</u>      |
|---|------------------|------------------|
| Interest in net assets of PH Foundation   | <u>\$ 14,880</u> | <u>\$ 10,780</u> |
| Receivables from supporting organizations |                  |                  |
| FACT                                      | \$ 11,839        | \$ 9,101         |
| CLH                                       | 1,213            | 1,308            |
| SVLCS                                     | <u>2,147</u>     | <u>1,994</u>     |
|   | <u>\$ 15,199</u> | <u>\$ 12,403</u> |

**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, 2021 and 2020. 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, 2021 and 2020, 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, 2021 and 2020.

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

|   | <u>2021</u>     | <u>2020</u>     |
|---|-----------------|-----------------|
| Estimated amounts expected to be paid                             |                 |                 |
| Within one year, included in accrued payroll and related expenses | \$ 1,485        | \$ 1,829        |
| In excess of one year, included in accrued workers' compensation  | <u>4,956</u>    | <u>6,991</u>    |
|   | <u>\$ 6,441</u> | <u>\$ 8,820</u> |

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 \$952 and \$1,350 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2021 and 2020, respectively.

**Note 8: Long-Term Debt**

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

|                                      | <u>2021</u>       | <u>2020</u>       |
|--------------------------------------|-------------------|-------------------|
| Series 2017A Revenue Bonds (A)       | \$ 98,450         | \$ 99,275         |
| Series 2017B Revenue Bonds (B)       | 20,174            | 16,231            |
| Series 2015 Revenue Bonds (C)        | 67,876            | 68,921            |
| Mortgage payable, bank (D)           | 9,737             | 10,135            |
| Mortgage payable, bank (E)           | 35,282            | 36,284            |
| Mortgage payable, bank (F)           | 25,245            | 25,943            |
| Mortgage payable, bank (G)           | <u>29,156</u>     | <u>30,186</u>     |
|                                      | 285,920           | 286,975           |
| Plus unamortized premium             | 6,769             | 7,124             |
| Less unamortized debt issuance costs | (4,615)           | (5,112)           |
| Less current maturities              | <u>(6,585)</u>    | <u>(5,301)</u>    |
|                                      | <u>\$ 281,489</u> | <u>\$ 283,686</u> |

(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 through 2047, paid annually. Unamortized debt issuance costs were \$1,450 and

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\$1,504 at March 31, 2021 and 2020, respectively. The effective interest rate was 4.54% for the years ended March 31, 2021 and 2020.

- (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, 1.02% and 1.97% at March 31, 2021 and 2020, respectively; principal due in varying installments through 2045, paid semiannually. Unamortized debt issuance costs were \$129 and \$162 at March 31, 2021 and 2020, respectively. The effective interest rate was 1.24% and 2.84% for the years ended March 31, 2021 and 2020, 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, 2021; variable interest at a specified percentage of LIBOR plus applicable spread paid monthly, 1.02% and 1.97% at March 31, 2021 and 2020, respectively; principal due in varying installments through 2040, paid semiannually. Unamortized debt issuance costs were \$801 and \$1,001 at March 31, 2021 and 2020, respectively. The effective interest rate was 1.40% and 2.90% for the years ended March 31, 2021 and 2020, 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 Front Porch Communities and Services – Kingsley Manor, LLC’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were \$289 and \$323 at March 31, 2021 and 2020, respectively. The effective interest rate was 3.12% and 3.13% for the years ended March 31, 2021 and 2020, 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 Front Porch Communities and Services – Claremont Manor, LLC’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were \$724 and \$783 at March 31, 2021 and 2020, respectively. The effective interest rate was 2.90% and 2.91% for the years ended March 31, 2021 and 2020, respectively.
- (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 Front Porch Communities and Services – Casa de Mañana, LLC’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were \$554 and \$602 at March 31, 2021 and 2020, respectively. The effective interest rate was 3.95% for the years ended March 31, 2021 and 2020.
- (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,

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collateralized by a deed of trust on substantially all of Front Porch Communities and Services – Fredericka Manor, LLC’s real and personal property insured by HUD under Section 232 of the *National Housing Act*. Unamortized debt issuance costs were \$668 and \$737 at March 31, 2021 and 2020, respectively. The effective interest rate was 3.58% and 3.59% for the years ended March 31, 2021 and 2020, respectively.

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, 2021, are as follows:

|            | <b>Year Ending March 31,</b> |            |
|------------|------------------------------|------------|
| 2022       |                              | \$ 6,585   |
| 2023       |                              | 6,839      |
| 2024       |                              | 7,098      |
| 2025       |                              | 7,366      |
| 2026       |                              | 6,682      |
| Thereafter |                              | 251,350    |
|            |                              | \$ 285,920 |

**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 include 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.

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#### ***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, 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

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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.

**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:

|                               | <b>Care<br/>Center</b> | <b>Residential</b> | <b>Memory<br/>Care</b> | <b>Total</b>      |
|-------------------------------|------------------------|--------------------|------------------------|-------------------|
| <b>2021</b>                   |                        |                    |                        |                   |
| Medicare                      | \$ 10,672              | \$ -               | \$ -                   | \$ 10,672         |
| Medi-Cal                      | 18,402                 | -                  | -                      | 18,402            |
| Other third-party payors      | 4,225                  | -                  | -                      | 4,225             |
| Private                       | 11,705                 | 130,674            | 13,226                 | 155,605           |
| Amortization of entrance fees | -                      | 10,199             | -                      | 10,199            |
|                               | <u>\$ 45,004</u>       | <u>\$ 140,873</u>  | <u>\$ 13,226</u>       | <u>\$ 199,103</u> |
| <b>2020</b>                   |                        |                    |                        |                   |
| 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            |
|                               | <u>\$ 59,192</u>       | <u>\$ 144,230</u>  | <u>\$ 12,410</u>       | <u>\$ 215,832</u> |

**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.

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**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.

**Note 10: Net Assets with Donor Restrictions**

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

|  | <b>2021</b>      | <b>2020</b>      |
|--|------------------|------------------|
| Resident assistance and special projects                       | \$ 9,440         | \$ 6,336         |
| Purchase of property and equipment                             | 190              | 144              |
| Scholarships   | 792              | 426              |
| Time-restricted  | 8,512            | 5,461            |
| Other  | 3,031            | 2,683            |
| Investments to be held in perpetuity, the income is expendable | <u>7,811</u>     | <u>7,422</u>     |
|  | <u>\$ 29,776</u> | <u>\$ 22,472</u> |

Net assets with donor restrictions are held by supporting organizations and releases are not subject solely to the Corporation meeting the restriction.

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:

|  | <b>2021</b>   | <b>2020</b>   |
|--|---------------|---------------|
| Available for resident assistance and operations | <u>\$ 466</u> | <u>\$ 571</u> |
| Capital expenditures                             | <u>\$ 56</u>  | <u>\$ 72</u>  |

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**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, 2021, the Board released \$5 of funds originally designated for the Innovation Fund to cover certain operating costs and released \$200 of funds from the Affordable Housing Fund as an advance to Brookmore Apartment Corporation (Brookmore). The \$200 advance to Brookmore is included in other assets on the accompanying consolidated balance sheets at March 31, 2021. 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, which was repaid during fiscal year 2020. The remaining unreleased amounts were \$1,909 and \$1,914 of the Innovation Fund and \$800 and \$1,000 of the Affordable Housing Fund as of March 31, 2021 and 2020, 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:

|  | <u>2021</u>       | <u>2020</u>       |
|--|-------------------|-------------------|
| Cash and cash equivalents  | \$ 16,168         | \$ 19,345         |
| Investments  | 369,419           | 263,864           |
| Resident and patient accounts receivable                                   | 5,836             | 7,788             |
| Other receivables  | <u>200</u>        | <u>-</u>          |
| Financial assets available to meet general expenditures<br>within one year | <u>\$ 391,623</u> | <u>\$ 290,997</u> |

The Corporation has certain board-designated assets that are available for general expenditures within one year in the normal course of operations (see *Note 11*). Accordingly, these assets have been included in the information above for financial assets available to meet general expenditures within one year.

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.



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**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 \$3,465 and \$4,620 for the years ended March 31, 2021 and 2020, 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.

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

|                                    | <b>Residential<br/>and Health<br/>Care Services</b> | <b>General and<br/>Administrative</b> | <b>Total</b>      |
|------------------------------------|---|---------------------------------------|-------------------|
| <b>2021</b>                        |   |                                       |                   |
| Salaries and wages                 | \$ 61,015   | \$ 20,727                             | \$ 81,742         |
| Employee benefits                  | 23,636  | 2,803                                 | 26,439            |
| Professional services              | 5,652   | 6,862                                 | 12,514            |
| Supplies and other                 | 31,497  | 16,180                                | 47,677            |
| Depreciation and amortization      | 30,472  | 3,151                                 | 33,623            |
| Interest and other financing costs | 8,715   | 43                                    | 8,758             |
|                                    | <u>\$ 160,987</u>                                   | <u>\$ 49,766</u>                      | <u>\$ 210,753</u> |
| <b>2020</b>                        |   |                                       |                   |
| 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             |
|                                    | <u>\$ 166,161</u>                                   | <u>\$ 45,635</u>                      | <u>\$ 211,796</u> |

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**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 \$2,470 and \$2,446 for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, \$968 and \$617, 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

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**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 | Fair Value Measurements Using   |   |  |
|---|------------|---|---|--|
|   |            | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>2021</b>                                       |            |   |   |  |
| Financial assets                                  |            |   |   |  |
| Equities – domestic                               | \$ 185,485 | \$ 185,485  | \$ -  | \$ -   |
| Equities – international                          | 73,177     | 73,177  | -   | -  |
| Money market mutual funds                         | 1,149      | 1,149   | -   | -  |
| Certificates of deposit                           | 1,277      | -   | 1,277   | -  |
| Commodity mutual funds                            | 13,777     | 13,777  | -   | -  |
| Real estate mutual funds                          | 18,662     | 18,662  | -   | -  |
| Other mutual funds                                | 274        | 274   | -   | -  |
| U.S. Treasury and U.S.<br>agency securities       | 9,663      | 5,045   | 4,618   | -  |
| Corporate bonds and<br>commercial paper           | 67,481     | 57,633  | 9,848   | -  |
|   | 370,945    | \$ 355,202  | \$ 15,743   | \$ -   |
| Cash and cash equivalents<br>(at cost)            | 14,432     |   |   |  |
| Total investments and<br>assets limited as to use | \$ 385,377 |   |   |  |
| Derivative instruments                            | \$ 75      | \$ -  | \$ 75   | \$ -   |
| Receivables from supporting<br>organizations      | \$ 15,199  | \$ -  | \$ -  | \$ 15,199  |

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|   | Fair Value | Fair Value Measurements Using   |   |  |
|---|------------|---|---|--|
|   |            | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>2020</b>                                       |            |   |   |  |
| 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  | -   | -  |
| Real estate mutual funds                          | 13,833     | 13,833  | -   | -  |
| Other mutual funds                                | 783        | 783   | -   | -  |
| U.S. Treasury and U.S.<br>agency securities       | 11,218     | 6,600   | 4,618   | -  |
| Corporate bonds and<br>commercial paper           | 46,695     | 36,582  | 10,113  | -  |
|   | 265,674    | \$ 249,335  | \$ 16,339   | \$ -   |
| Cash and cash equivalents<br>(at cost)            | 11,434     |   |   |  |
| Total investments and<br>assets limited as to use | \$ 277,108 |   |   |  |
| Derivative instruments                            | \$ 23      | \$ -  | \$ 23   | \$ -   |
| Receivables from supporting<br>organizations      | \$ 12,403  | \$ -  | \$ -  | \$ 12,403  |

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, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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***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:

|   | <b>Receivables<br/>from<br/>Supporting<br/>Organizations</b> |
|---|--|
| Balance, April 1, 2020  | \$ 12,403  |
| Total realized and unrealized gains included in change in net assets  | 2,796  |
| Balance, March 31, 2021   | <u>\$ 15,199</u>   |
| 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 | <u>\$ 2,796</u>  |

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|   | <b>Receivables<br/>from<br/>Supporting<br/>Organizations</b> |
|---|--|
| Balance, April 1, 2019  | \$ 12,576  |
| Total realized and unrealized gains included in change in net assets  | <u>(173)</u>   |
| Balance, March 31, 2020   | <u>\$ 12,403</u>   |
| 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 | <u>\$ (173)</u>  |

**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:

|  | <b>2021</b>     | <b>2020</b>     |
|--|-----------------|-----------------|
| Balance, beginning of year               | \$ 2,049        | \$ 2,124        |
| Change in estimate and accretion expense | <u>18</u>       | <u>(75)</u>     |
| Balance, end of year                     | <u>\$ 2,067</u> | <u>\$ 2,049</u> |

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**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.

***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.

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***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, 2021 and 2020. 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.

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 \$24,292 and \$23,181 at March 31, 2021 and 2020, respectively, and is included in other accrued liabilities in the accompanying consolidated balance sheets. Amounts estimated to be repaid within one year totaled \$8,166 and \$7,073 at March 31, 2021 and 2020, respectively, and are recorded as other current accrued expenses in the accompanying consolidated balance sheets. These estimates are based on the Corporation's



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historical repayment experience and the Corporation's repayment policy. At March 31, 2021 and 2020, \$107,811 and \$113,243, 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 refundable entrance fees and deferred revenue from entrance fees in the accompanying consolidated balance sheets.

Entrance fees subject to refund or reoccupancy and actual refunds disbursed as of and for the year ended March 31 are as follows:

|      | <b>Entrance<br/>Fees Subject<br/>to Refund or<br/>Reoccupancy<br/>as of March 31</b> | <b>Actual Refunds<br/>Disbursed for<br/>the Year Ended<br/>March 31</b> |
|------|--|---|
| 2021 | \$ 135,962   | \$ 11,132   |
| 2020 | \$ 141,215   | \$ 10,582   |
| 2019 | \$ 135,095   | \$ 8,454  |
| 2018 | \$ 128,447   | \$ 8,533  |
| 2017 | \$ 123,677   | \$ 6,110  |

**Note 20: Leases**

***Nature of Leases***

The Corporation has entered into the following operating lease arrangements:

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 has leases for 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, 2021.

***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

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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 years ended March 31 are:

|                       | <u>2021</u>     | <u>2020</u>     |
|-----------------------|-----------------|-----------------|
| Operating lease cost  | \$ 1,881        | \$ 1,905        |
| Short-term lease cost | <u>327</u>      | <u>359</u>      |
| Total lease cost      | <u>\$ 2,208</u> | <u>\$ 2,264</u> |

**Other Required Information**

Cash paid for amounts included in the measurement of lease liabilities

|   |            |            |
|---|------------|------------|
| Operating cash flows from operating leases                          | \$ 2,091   | \$ 2,094   |
| ROU assets obtained in exchange for new operating lease liabilities | \$ 128     | \$ 9,593   |
| Weighted-average remaining lease term                               |            |            |
| Operating leases  | 7.16 years | 7.50 years |
| Weighted-average discount rate                                      |            |            |
| Operating leases  | 4.1%       | 3.8%       |

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Future minimum lease payments and reconciliation to the accompanying consolidated balance sheet at March 31, 2021, are as follows:

|                             | <b>Operating<br/>Leases</b> |
|-----------------------------|-----------------------------|
| 2022                        | \$ 2,034                    |
| 2023                        | 1,717                       |
| 2024                        | 1,462                       |
| 2025                        | 595                         |
| 2026                        | 449                         |
| Thereafter                  | 2,931                       |
|                             | 9,188                       |
| Less interest               | 1,530                       |
| Operating lease liabilities | \$ 7,658                    |

**Note 21: COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Occupancy levels and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

The Corporation's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Corporation has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives
- Implementation of additional cash flow management strategies

In addition, the Corporation received \$3,217 of accelerated Medicare payments and \$5,681 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act).

The extent of the COVID-19 pandemic's adverse effect on the Corporation's operating results and financial condition has been and will continue to be driven by many factors, most of which are

# Front Porch Communities & Services

## Notes to Consolidated Financial Statements

### March 31, 2021 and 2020

#### (In Thousands)

beyond the Corporation's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, continued declines in occupancy levels for an indeterminable length of time, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Corporation cannot estimate the length or severity of the effect of the pandemic on the Corporation's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of long-lived assets.

#### ***Provider Relief Fund***

During the year ended March 31, 2021, the Corporation received \$5,681 of distributions from the CARES Act Provider Relief Fund (Provider Relief Fund). These distributions from the Provider Relief Fund are not subject to repayment provided the Corporation is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the U.S. Department of Health and Human Services.

The Corporation accounts for such payments as conditional contributions in accordance with ASC 958-605, *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Corporation's revenues and expenses through March 31, 2021, the Corporation recognized \$4,298 related to the distributions from the Provider Relief Fund, and these payments are recorded as COVID-19-related income in the accompanying consolidated statements of operations. The unrecognized amount of distributions from the Provider Relief Fund is recorded as other accrued expenses in the accompanying consolidated balance sheets.

The Corporation will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Corporation's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Corporation is unable to attest to or comply with current or future terms and conditions, the Corporation's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the accompanying consolidated financial statements compared to the Corporation's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

#### ***Medicare Accelerated and Advance Payment Program***

During the year ended March 31, 2021, the Corporation requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts were expected to be

**Front Porch Communities & Services**  
**Notes to Consolidated Financial Statements**  
**March 31, 2021 and 2020**  
**(In Thousands)**

recaptured by the Centers for Medicare & Medicaid Services according to the payback provisions. During the year ended March 31, 2021, the Corporation received \$3,217 from these accelerated Medicare payment requests. In March 2021, the Corporation paid these amounts back to Medicare in full.

## **Supplementary Information**

**Front Porch Communities & Services**  
**Consolidating Schedule – Balance Sheet Information**  
**March 31, 2021**  
**(In Thousands)**

**Assets**

|   | <b>Obligated<br/>Group</b> | <b>Other<br/>Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|----------------------------|---------------------------|---------------------|---------------------|
| <b>Current Assets</b>                                       |                            |                           |                     |                     |
| Cash and cash equivalents                                   | \$ 13,151                  | \$ 3,017                  | \$ -                | \$ 16,168           |
| Short-term investments                                      | 2,392                      | -                         | -                   | 2,392               |
| Assets limited as to use – required for current liabilities | 10,639                     | 1,290                     | -                   | 11,929              |
| Resident and patient accounts receivable                    | 2,559                      | 3,277                     | -                   | 5,836               |
| Prepaid expenses and other                                  | 2,574                      | 577                       | -                   | 3,151               |
| Intercompany receivables                                    | 9,135                      | 1,801                     | (10,936)            | -                   |
|   | <u>40,450</u>              | <u>9,962</u>              | <u>(10,936)</u>     | <u>39,476</u>       |
| Total current assets  |                            |                           |                     |                     |
| <b>Investments</b>  |                            |                           |                     |                     |
| Assets limited as to use, net of current portion            | 1                          | 4,028                     | -                   | 4,029               |
| Long-term investments                                       | 367,027                    | -                         | -                   | 367,027             |
| Derivative instruments                                      | 75                         | -                         | -                   | 75                  |
|   | <u>367,103</u>             | <u>4,028</u>              | <u>-</u>            | <u>371,131</u>      |
| Total investments   |                            |                           |                     |                     |
| <b>Property and Equipment, Net</b>                          |                            |                           |                     |                     |
|   | <u>290,120</u>             | <u>83,997</u>             | <u>(25)</u>         | <u>374,092</u>      |
| <b>Other Assets</b>   |                            |                           |                     |                     |
| Interest in net assets of Pacific Homes Foundation          | 14,880                     | -                         | -                   | 14,880              |
| Receivables from supporting organizations                   | 15,199                     | -                         | -                   | 15,199              |
| ROU assets – operating leases                               | 6,078                      | 566                       | -                   | 6,644               |
| Other receivables   | 952                        | -                         | -                   | 952                 |
| Other assets  | 200                        | 414                       | -                   | 614                 |
|   | <u>37,309</u>              | <u>980</u>                | <u>-</u>            | <u>38,289</u>       |
| Total other assets  |                            |                           |                     |                     |
| Total assets  | <u>\$ 734,982</u>          | <u>\$ 98,967</u>          | <u>\$ (10,961)</u>  | <u>\$ 822,988</u>   |

## Liabilities and Net Assets

|  | <b>Obligated<br/>Group</b> | <b>Other<br/>Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|----------------------------|---------------------------|---------------------|---------------------|
| <b>Current Liabilities</b>                     |                            |                           |                     |                     |
| Current maturities of long-term debt           | \$ 3,353                   | \$ 3,232                  | \$ -                | \$ 6,585            |
| Current portion of operating lease liabilities | 1,345                      | 397                       | -                   | 1,742               |
| Accounts payable                               | 4,761                      | 2,260                     | (208)               | 6,813               |
| Accrued payroll and related expenses           | 9,361                      | 4,357                     | -                   | 13,718              |
| Intercompany payables                          | 2,941                      | 7,787                     | (10,728)            | -                   |
| Accrued interest                               | 2,427                      | 263                       | -                   | 2,690               |
| Other accrued expenses                         | 11,674                     | 1,281                     | -                   | 12,955              |
|  | <u>35,862</u>              | <u>19,577</u>             | <u>(10,936)</u>     | <u>44,503</u>       |
| <b>Other Liabilities</b>                       |                            |                           |                     |                     |
| Asset retirement obligations                   | 237                        | 1,830                     | -                   | 2,067               |
| Accrued workers' compensation                  | 3,910                      | 1,046                     | -                   | 4,956               |
| Operating lease liabilities                    | 5,748                      | 168                       | -                   | 5,916               |
| Other accrued liabilities                      | 32,036                     | 3,331                     | -                   | 35,367              |
| Refundable entrance fees                       | 57,872                     | 228                       | -                   | 58,100              |
| Deferred revenue from entrance fees            | 41,090                     | 12                        | -                   | 41,102              |
| Long-term debt                                 | 187,538                    | 93,951                    | -                   | 281,489             |
|  | <u>364,293</u>             | <u>120,143</u>            | <u>(10,936)</u>     | <u>473,500</u>      |
| <b>Net Assets</b>                              |                            |                           |                     |                     |
| Without donor restrictions                     | 340,913                    | (21,176)                  | (25)                | 319,712             |
| With donor restrictions                        | 29,776                     | -                         | -                   | 29,776              |
|  | <u>370,689</u>             | <u>(21,176)</u>           | <u>(25)</u>         | <u>349,488</u>      |
| Total liabilities and net assets               | <u>\$ 734,982</u>          | <u>\$ 98,967</u>          | <u>\$ (10,961)</u>  | <u>\$ 822,988</u>   |



**Front Porch Communities & Services**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended March 31, 2021**  
**(In Thousands)**

|  | <b>Obligated<br/>Group</b> | <b>Other<br/>Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|----------------------------|---------------------------|---------------------|---------------------|
| <b>Revenues, Gains, and Other Support Without Donor Restrictions</b>                     |                            |                           |                     |                     |
| Resident and patient service revenue   | \$ 104,076                 | \$ 85,140                 | \$ (253)            | \$ 188,963          |
| Amortization of entrance fees  | 10,196                     | 3                         | -                   | 10,199              |
| Other  | 5,115                      | 694                       | (4,882)             | 927                 |
| Net assets released from restrictions used for operations                                | 457                        | 9                         | -                   | 466                 |
|  | <u>119,844</u>             | <u>85,846</u>             | <u>(5,135)</u>      | <u>200,555</u>      |
| Total revenues, gains, and other support without donor restrictions                      |                            |                           |                     |                     |
| <b>Expenses</b>  |                            |                           |                     |                     |
| Medical services   | 23,520                     | 22,728                    | -                   | 46,248              |
| Facility operating costs   | 12,721                     | 8,684                     | -                   | 21,405              |
| Dietary services   | 18,892                     | 13,862                    | (253)               | 32,501              |
| Residential services   | 9,840                      | 7,340                     | -                   | 17,180              |
| Administrative services  | 29,332                     | 15,144                    | (4,882)             | 39,594              |
| Depreciation   | 23,376                     | 9,750                     | -                   | 33,126              |
| Amortization of deferred costs   | 287                        | 210                       | -                   | 497                 |
| Interest expense and other financing costs   | 5,013                      | 3,745                     | -                   | 8,758               |
| Other  | 2,011                      | 958                       | -                   | 2,969               |
|  | <u>124,992</u>             | <u>82,421</u>             | <u>(5,135)</u>      | <u>202,278</u>      |
| Total expenses   |                            |                           |                     |                     |
| <b>Operating Income (Loss) Before Other Operating Activities</b>                         | <u>(5,148)</u>             | <u>3,425</u>              | <u>-</u>            | <u>(1,723)</u>      |
| <b>Other Operating Activities</b>  |                            |                           |                     |                     |
| COVID-19-related income  | 2,131                      | 2,167                     | -                   | 4,298               |
| COVID-19-related expenses  | (4,812)                    | (3,664)                   | -                   | (8,476)             |
|  | <u>(2,681)</u>             | <u>(1,497)</u>            | <u>-</u>            | <u>(4,178)</u>      |
| Total other operating activities   |                            |                           |                     |                     |
| <b>Operating Income (Loss)</b>   | <u>(7,829)</u>             | <u>1,928</u>              | <u>-</u>            | <u>(5,901)</u>      |
| <b>Investment Return, Net</b>  | <u>117,357</u>             | <u>28</u>                 | <u>-</u>            | <u>117,385</u>      |
| <b>Excess of Revenues over Expenses</b>  | <u>109,528</u>             | <u>1,956</u>              | <u>-</u>            | <u>111,484</u>      |
| <b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b> | <u>49</u>                  | <u>7</u>                  | <u>-</u>            | <u>56</u>           |
| <b>Increase in Net Assets Without Donor Restrictions</b>                                 | <u>\$ 109,577</u>          | <u>\$ 1,963</u>           | <u>\$ -</u>         | <u>\$ 111,540</u>   |

**Front Porch Communities & Services**  
**Consolidating Schedule – Statement of Cash Flows Information**  
**Year Ended March 31, 2021**  
**(In Thousands)**

|  | <b>Obligated<br/>Group</b> | <b>Other<br/>Entities</b> | <b>Eliminations</b> | <b>Consolidated</b>     |
|--|----------------------------|---------------------------|---------------------|-------------------------|
| <b>Operating Activities</b>  |                            |                           |                     |                         |
| Cash received from contract residents                                | \$ 43,405                  | \$ 380                    | \$ -                | \$ 43,785               |
| Proceeds from entrance fees received                                 | 16,761                     | -                         | -                   | 16,761                  |
| Cash received from and on behalf of noncontract residents            | 61,086                     | 83,284                    | -                   | 144,370                 |
| Reimbursement for services to nonresidents                           | 579                        | 1,461                     | -                   | 2,040                   |
| Other receipts from operations                                       | 5,115                      | 694                       | (4,882)             | 927                     |
| Unrestricted investment income received                              | 6,851                      | 28                        | -                   | 6,879                   |
| Processing fees  | 36                         | -                         | -                   | 36                      |
| Government grants  | 5,681                      | -                         | -                   | 5,681                   |
| Cash paid to suppliers, employees, and others                        | (110,650)                  | (68,116)                  | 4,882               | (173,884)               |
| Cash paid for interest on long-term debt, net of amounts capitalized | (5,232)                    | (3,694)                   | -                   | (8,926)                 |
| Net cash provided by operating activities                            | <u>23,632</u>              | <u>14,037</u>             | <u>-</u>            | <u>37,669</u>           |
| <b>Investing Activities</b>  |                            |                           |                     |                         |
| Capital expenditures   | (19,730)                   | (12,962)                  | -                   | (32,692)                |
| Proceeds from sale of trading investments                            | 167,111                    | -                         | -                   | 167,111                 |
| Purchase of trading investments                                      | (160,224)                  | -                         | -                   | (160,224)               |
| Purchase of assets limited as to use                                 | (2,382)                    | (809)                     | -                   | (3,191)                 |
| Proceeds from sale of assets limited as to use                       | 161                        | 321                       | -                   | 482                     |
| Advances to Brookmore Apartment Corporation                          | (200)                      | -                         | -                   | (200)                   |
| Net cash used in investing activities                                | <u>(15,264)</u>            | <u>(13,450)</u>           | <u>-</u>            | <u>(28,714)</u>         |
| <b>Financing Activities</b>  |                            |                           |                     |                         |
| Refunds of entrance fees   | (11,132)                   | -                         | -                   | (11,132)                |
| Principal payments on long-term debt                                 | (2,170)                    | (3,130)                   | -                   | (5,300)                 |
| Proceeds from Series 2017B debt issuance                             | 4,244                      | -                         | -                   | 4,244                   |
| Proceeds from contributions for purchases of property and equipment  | 49                         | 7                         | -                   | 56                      |
| Net cash used in financing activities                                | <u>(9,009)</u>             | <u>(3,123)</u>            | <u>-</u>            | <u>(12,132)</u>         |
| <b>Decrease in Cash and Cash Equivalents</b>                         | <b>(641)</b>               | <b>(2,536)</b>            | <b>-</b>            | <b>(3,177)</b>          |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                  | <b>13,792</b>              | <b>5,553</b>              | <b>-</b>            | <b>19,345</b>           |
| <b>Cash and Cash Equivalents, End of Year</b>                        | <b><u>\$ 13,151</u></b>    | <b><u>\$ 3,017</u></b>    | <b><u>\$ -</u></b>  | <b><u>\$ 16,168</u></b> |

|  | <b>Obligated<br/>Group</b> | <b>Other<br/>Entities</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|----------------------------|---------------------------|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>  |                            |                           |                     |                     |
| Change in net assets   | \$ 116,881                 | \$ 1,963                  | \$ -                | \$ 118,844          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                            |                           |                     |                     |
| Depreciation   | 23,376                     | 9,750                     | -                   | 33,126              |
| Gain on disposal of assets   | (3)                        | -                         | -                   | (3)                 |
| Amortization of deferred costs   | 287                        | 210                       | -                   | 497                 |
| Accretion of asset retirement obligations  | 9                          | 59                        | -                   | 68                  |
| Amortization of bond premium included in interest expense                                  | (354)                      | -                         | -                   | (354)               |
| Entrance fees received   | 16,761                     | -                         | -                   | 16,761              |
| Amortization of entrance fees  | (10,196)                   | (3)                       | -                   | (10,199)            |
| Realized and unrealized gain on investments, net   | (112,447)                  | -                         | -                   | (112,447)           |
| Unrealized gain on derivative financial instruments, net                                   | (52)                       | -                         | -                   | (52)                |
| Change in interest in net assets of Pacific Homes Foundation                               | (4,100)                    | -                         | -                   | (4,100)             |
| Change in receivables from supporting organizations  | (2,796)                    | -                         | -                   | (2,796)             |
| Proceeds from contributions for purchases of property and equipment                        | (49)                       | (7)                       | -                   | (56)                |
| Changes in operating assets and liabilities  |                            |                           |                     |                     |
| Accounts receivable, net   | 1,030                      | 239                       | -                   | 1,269               |
| Prepaid expenses and other   | 242                        | 230                       | -                   | 264                 |
| Due to/from related parties  | (1,586)                    | 1,378                     | -                   | -                   |
| Accounts payable and accrued expenses  | (2,426)                    | 647                       | -                   | (1,779)             |
| Operating leases   | (238)                      | (1)                       | -                   | (239)               |
| Other accrued liabilities  | (707)                      | (428)                     | -                   | (1,135)             |
|  | <u>\$ 23,632</u>           | <u>\$ 14,037</u>          | <u>\$ -</u>         | <u>\$ 37,669</u>    |
| <b>Supplemental Cash Flows Information</b>   |                            |                           |                     |                     |
| Property and equipment purchases included in accounts payable and other accrued expenses   | \$ 2,606                   | \$ 793                    | \$ -                | \$ 3,399            |
| Entrance fees included in accounts receivable  | \$ 958                     | \$ -                      | \$ -                | \$ 958              |
| Operating lease obligations incurred for equipment and rental space                        | \$ 128                     | \$ -                      | \$ -                | \$ 128              |