Front Porch Communities and Services

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2024 and 2023

Contents

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Independent Auditor's Report

Board of Directors
Front Porch Communities and Services
Glendale, California

Opinion

We have audited the consolidated financial statements of Front Porch Communities and Services (the Corporation), which comprise the consolidated balance sheets as of March 31, 2024 and 2023 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.

In our opinion, based on our audits and the report of the other auditors for 2023, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of March 31, 2024 and 2023 and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Covia Affordable Communities, a wholly owned subsidiary, for the year ended March 31, 2023, which statements reflect 17% of consolidated total assets at March 31, 2023 and total revenues constituting 7% of consolidated total revenues for the year ended March 31, 2023. Those statements were audited by other auditors, whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for Covia Affordable Communities, is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Forvis Mazars, LLP

Tulsa, Oklahoma
July 24, 2024

Front Porch Communities and Services
Consolidated Balance Sheets
March 31, 2024 and 2023
(In Thousands)

	2024	2023
ASSETS		
Current Assets		
Cash and cash equivalents	$ 80,527	$ 54,466
Short-term investments	2,146	7,701
Assets limited as to use – required for current liabilities	15,436	15,321
Resident and patient accounts receivable	10,445	14,782
Prepaid expenses and other	17,755	11,845
Total current assets	126,309	104,115
Investments		
Assets limited as to use, net of current portion	67,156	58,177
Long-term investments	449,911	464,576
Total investments	517,067	522,753
Property and Equipment, Net	1,244,987	1,193,981
Other Assets		
Receivable from supporting organization	810	850
ROU assets – operating leases	7,763	8,810
Other receivables	1,178	1,219
Other assets	14,035	16,159
In-place leases	43,303	52,376
Net pension asset	6,813	4,031
Total other assets	73,902	83,445
Total assets	$ 1,962,265	$ 1,904,294

Front Porch Communities and Services
Consolidated Balance Sheets (Continued)
March 31, 2024 and 2023
(In Thousands)

	2024	2023
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	$ 9,171	$ 8,966
Current portion of operating lease liabilities	1,567	1,964
Accounts payable	37,543	23,907
Accrued payroll and related expenses	17,176	16,406
Accrued interest	6,646	6,721
Other accrued expenses	25,186	25,076
Total current liabilities	97,289	83,040
Other Liabilities		
Asset retirement obligations	1,642	1,707
Accrued workers' compensation	5,321	6,114
Operating lease liabilities	6,661	7,828
Other accrued liabilities	17,063	19,894
Refundable entrance fees	120,353	120,687
Deferred revenue from entrance fees	241,991	239,011
Long-term debt	446,099	456,827
Total liabilities	936,419	935,108
Net Assets		
Without donor restrictions	987,823	934,041
With donor restrictions	38,023	35,145
Total net assets	1,025,846	969,186
Total liabilities and net assets	$ 1,962,265	$ 1,904,294

Front Porch Communities and Services
Consolidated Statements of Operations
Years Ended March 31, 2024 and 2023
(In Thousands)

	2024	2023
Revenues, Gains, and Other Support Without Donor Restrictions		
Resident and patient service revenue	$ 323,497	$ 312,595
Amortization of entrance fees	41,438	37,371
Affordable housing fees and rents	32,039	31,076
Other	1,144	2,209
Net assets released from restrictions used for operations	3,808	3,204
Total revenues, gains, and other support without donor restrictions	401,926	386,455
Expenses		
Medical services	81,004	85,204
Facility operating costs	48,002	47,962
Dietary services	60,093	57,110
Residential services	34,023	32,586
Administrative services	81,907	78,446
Depreciation	77,930	70,829
Amortization of deferred costs	351	740
Interest expense and other financing costs	13,042	13,573
Program expenses	2,261	3,422
Other	7,945	8,914
Total expenses	406,558	398,786
Operating Loss Before Other Operating Activities	(4,632)	(12,331)
Other Operating Activities		
COVID–19-related expenses	-	(1,548)
Amortization of acquired intangible assets and other	(10,964)	(10,401)
Total other operating activities	(10,964)	(11,949)
Operating Loss	(15,596)	(24,280)
Other Income (Expense)		
Investment return, net	71,237	(32,919)
Other components of net periodic benefit cost	998	1,910
Asbestos settlement loss	(1,250)	-
Loss on impairment of predevelopment costs	(3,550)	-
Total other income (expense)	67,435	(31,009)
Excess (Deficiency) of Revenues over Expenses	51,839	(55,289)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	160	-
Change in Pension Benefit Obligation	1,783	(1,380)
Increase (Decrease) in Net Assets Without Donor Restrictions	$ 53,782	$ (56,669)

Front Porch Communities and Services
Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2024 and 2023
(In Thousands)

	2024	2023
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	$ 51,839	$ (55,289)
Change in pension benefit obligation	1,783	(1,380)
Net assets released from restrictions used for purchase of property and equipment	160	-
Increase (decrease) in net assets without donor restrictions	53,782	(56,669)
Net Assets with Donor Restrictions		
Contributions received and investment return	6,797	3,501
Changes in split-interest gift agreements	413	(131)
Change in beneficial interest in perpetual trusts and annuities	(364)	(283)
Net assets released from restrictions used for operations	(3,808)	(3,204)
Net assets released from restrictions used for purchase of and equipment	(160)	-
Increase (decrease) in net assets with donor restrictions	2,878	(117)
Change in Net Assets	56,660	(56,786)
Net Assets, Beginning of Year	969,186	1,025,972
Net Assets, End of Year	$ 1,025,846	$ 969,186

Front Porch Communities and Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2024 and 2023
(In Thousands)

	2024	2023
Operating Activities		
Cash received from residents	$ 326,885	$ 308,016
Proceeds from entrance fees received	55,591	56,878
Cash received from affordable housing services	32,988	29,831
Other receipts from operations	967	1,663
Unrestricted contributions received	5,523	4,133
Unrestricted investment income received	9,965	11,187
Cash paid to suppliers, employees, and others	(319,359)	(317,652)
Cash paid for interest on long-term debt, net of amounts capitalized	(14,358)	(15,541)
Net cash provided by operating activities	98,202	78,515
Investing Activities		
Capital expenditures	(116,729)	(94,700)
Proceeds from sale of trading investments	363,656	547,038
Purchase of trading investments	(295,783)	(512,023)
Purchase of assets limited as to use	(4,732)	(3,626)
Proceeds from sale of assets limited as to use	9,306	8,048
Net cash used in investing activities	(44,282)	(55,263)
Financing Activities		
Refunds of entrance fees	(20,067)	(20,460)
Principal payments on long-term debt	(9,066)	(8,113)
Proceeds from contributions for purchases of property and equipment	1,274	1,248
Net cash used in financing activities	(27,859)	(27,325)
Increase (Decrease) in Cash and Cash Equivalents	26,061	(4,073)
Cash and Cash Equivalents, Beginning of Year	54,466	58,539
Cash and Cash Equivalents, End of Year	$ 80,527	$ 54,466

Front Porch Communities and Services
Consolidated Statements of Cash Flows (Continued)
Years Ended March 31, 2024 and 2023
(In Thousands)

	2024	2023
Cash Flows from Operating Activities		
Change in net assets	$ 56,660	$ (56,786)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	77,930	70,829
Noncash operating lease expense	852	1,131
Gain on disposal of assets	2	-
Amortization of deferred costs	351	272
Accretion of asset retirement obligations	(101)	(67)
Impairment of predevelopment costs	3,550	-
Amortization of bond premium included in interest expense	(1,397)	(1,410)
Amortization of acquired intangible assets and other	10,964	10,401
Entrance fees received	55,591	56,878
Amortization of entrance fees	(41,438)	(37,371)
Pension asset	(2,782)	(658)
Realized and unrealized (gain) loss on investments, net	(61,321)	43,345
Change in receivable from supporting organization	40	213
Proceeds from contributions restricted by donor	(1,274)	(1,248)
Changes in operating assets and liabilities		
Accounts receivable, net	4,337	(5,213)
Prepaid expenses and other	(12,183)	8
Accounts payable and accrued expenses	13,789	2,265
Operating leases	(1,564)	(1,398)
Other accrued liabilities	(3,804)	(2,676)
Net cash provided by operating activities	$ 98,202	$ 78,515
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable and other accrued expenses	$ 24,588	$ 12,379
Entrance fees included in accounts receivable	$ -	$ 985
Operating lease obligations incurred for equipment and rental space	$ 393	$ 898
Impairment of predevelopment costs	$ 3,550	$ -

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

Nature of Operations

Front Porch Communities and Services (Corporation) is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Internal Revenue Code (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.

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 entities along with the Corporation:

Covia Communities

Covia Communities (Communities) was a California nonprofit public benefit corporation that provides housing-related communities and services for elderly persons on a nonprofit, religious, and charitable basis. The Communities operated six active CCRCs. Effective April 1, 2022, the Communities was merged into the Corporation.

Covia Group

Covia Group (the Group) was a California nonprofit benefit corporation. The Corporation was the sole corporate member of the Group. Effective April 1, 2022, the Group was merged into the Corporation.

(In Thousands)

Below is a recap of the communities included within the Obligated Group as of March 31, 2024:

Community	City	Type	Residential Living Units	Memory Care Units	Care Center Beds	Total Units/Beds
Front Porch Communities and Services						
Owned Communities						
Canterbury Woods	Pacific Grove, CA	CCRC	145	-	24	169
Carlsbad by the Sea	Carlsbad, CA	CCRC	159	-	33	192
Casa de Mañana	La Jolla, CA	Rental	188	-	-	188
Claremont Manor	Claremont, CA	Rental	218	17	59	294
Fredericka Manor	Chula Vista, CA	Rental	250	22	174	446
Friends House	Santa Rosa, CA	CCRC	86	-	-	86
Kingsley Manor	Los Angeles, CA	Rental	216	-	51	267
San Francisco Towers	San Francisco, CA	CCRC	252	12	27	291
Spring Lake Village	Santa Rosa, CA	CCRC	348	11	70	429
St. Paul's Towers	Oakland, CA	CCRC	214	7	43	264
Sunny View Retirement Community	Cupertino, CA	CCRC	93	23	48	164
Villa Gardens	Pasadena, CA	CCRC	195	19	54	268
Vista del Monte	Santa Barbara, CA	CCRC	169	24	-	193
Walnut Village	Anaheim, CA	CCRC	156	14	-	170
Webster House	Palo Alto, CA	CCRC	38	-	145	183
Wesley Palms	San Diego, CA	Rental	293	22	-	315
Leased Communities						
Cecil Pines	Jacksonville, FL	Rental	92	-	-	92
El Sombroso Oaks	Los Gatos, CA	Rental	22	-	-	22
England Oaks	Alexandria, LA	Rental	182	-	-	182
Total Obligated Group			3,316	171	728	4,215

Nonobligated Group

The following wholly owned subsidiaries of the Corporation are not members of the Obligated Group and are included under various other columns in the accompanying consolidating schedules (as noted below):

Front Porch Communities Foundation

Front Porch Communities Foundation (FPC Foundation) is a California nonprofit benefit corporation whose primary purpose is to raise funds on behalf of the Corporation and to administer those funds for the needs of the Corporation. The Corporation is the sole member of FPC Foundation. FPC Foundation is included as "Foundation" on the accompanying consolidating schedules.

Covia Foundation

Covia Foundation was a California nonprofit benefit corporation whose primary purpose was to raise funds on behalf of the Communities and to administer those funds for the needs of the Communities. The Communities was the sole member of the Foundation. Effective April 1, 2022, Covia Foundation was merged into FPC Foundation.

Covia Affordable Communities

Through July 1, 2023, Covia Affordable Communities (CAC) was the sole member of Community Housing, Inc. (CHI), which owns and operates a 220-apartment affordable senior residential community (Lytton I) and a 100-unit apartment complex, consisting of 50 residential care apartments and 50 independent living apartments (Lytton II). CAC was also the sole corporate member of Lytton IV Housing Corporation (Lytton IV), which owns and operates a 51-unit apartment affordable senior residential community. CHI and Lytton IV are California nonprofit public benefit corporations located in Palo Alto. CAC was also the sole member of five other California nonprofit public benefit corporations that own and operate affordable senior housing communities, namely, Oak Center Towers (OCT), a 196-unit apartment complex for elderly or disabled persons in Oakland (the Project); Presidio Gate Apartments (PGA), a 54-unit apartment complex for elderly or disabled persons in San Francisco; Jennings Senior Housing, Inc. (JSH), a 54-unit apartment complex for elderly or disabled persons in Santa Rosa; Bethany Center Senior Housing (BCSH), which operates a 135-unit apartment complex for low-income seniors located in San Francisco; and Shires Memorial Center (SMC), a 99-unit apartment complex for low-income and senior-restricted community in San Jose. Lytton IV, OCT, PGA, JSH, and BCSH are operated under regulatory agreements with the U.S. Department of Housing and Urban Development (HUD). OCT, in turn, is the general partner of Oak Centers, L.P. (OCLP), a California limited partnership organized as a low-income housing tax credit vehicle that purchased the Project from OCT in order to refinance, rehabilitate, own, and operate OCLP.

BCSH was the sole member of Bethany Center Foundation of San Francisco (BCF), a nonprofit public benefit corporation organized to provide financial, administrative, programmatic, and other forms of support to BCSH. Effective April 1, 2022, BCF was merged into FPC Foundation.

The Corporation was the sole corporate member of CAC. CAC is included in the “Affordable Housing” column on the accompanying consolidating schedules. Effective July 1, 2023, CAC was merged into CARING Housing Ministries, Inc. (CARING).

CARING Housing Ministries, Inc.

CARING manages 24 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. CARING is included in the “Affordable Housing” column on the accompanying consolidating schedules. Effective July 1, 2023, CARING became the sole member of all entities noted above under CAC.

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. Sunny View is included in the “Affordable Housing” column on the accompanying consolidating schedules.

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. 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.

Center for Technology Innovation and Wellbeing

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

The board of CTIW agreed to dissolve this entity on March 6, 2015. The dissolution will be effective upon filing of the appropriate legal documents. Operations previously performed by CTIW began to be performed by the Corporation effective April 1, 2015. However, CTIW has not yet been legally dissolved as of March 31, 2024.

Common Control Transfers

On April 1, 2022, the Group, the Communities, Covia Foundation, and BCF legally dissolved. The Group and the Communities were subsumed into the Corporation; Covia Foundation and BCF were subsumed into FPC Foundation. On July 1, 2023, CAC was legally dissolved and was subsumed into CARING.

These events are considered to be under common control as the Corporation already had full control of all entities.

All transferred assets, liabilities, and net assets were recorded at historical carrying value. There is no impact on the consolidated financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Obligated Group, CARING, FPC Foundation, 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 Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts, including assets limited as to use, are not considered to be cash and cash equivalents. At March 31, 2024 and 2023, cash equivalents consisted primarily of money market mutual funds of $18,979 and $12,102, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

At March 31, 2024, the Corporation's cash accounts exceeded federally insured limits by approximately $72,399.

Investments and Net Investment Return

The Corporation measures debt and equity securities at fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use represent: (a) funds held by a trustee that are legally restricted for bond reserve accounts; (b) deposit subscriptions held in trust; (c) entrance fees refundable within the first 90 days of residency in accordance with state law; (d) assets restricted by the donor for specific purposes; (e) HUD facility reserves and tenant deposits held in accordance with regulatory agreements governing the operations of certain entities included in CAC, CARING, and 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 certain entities included in CAC and CARING. 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 credit loss expense. There was no material credit loss expense recorded during the years ended March 31, 2024 and 2023.

Property and Equipment

Property and equipment acquisitions exceeding $1 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 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 are 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, 2024 and 2023.

Receivable from Supporting Organization

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 the rights related to California Lutheran Homes and Community Services as a receivable based on this guidance.

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, which is not materially different from using the effective interest method.

Deferred Revenue from Entrance Fees

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

Estimated Future Service Obligation

Annually, the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents by contract type and compares those amounts with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (estimated future service obligation) with a corresponding charge to income. Type A contracts, offered on a limited basis, stipulate that the base monthly 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, 2024 and 2023, 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 13.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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 capital contributions to affiliates and the change in pension benefit obligation.

Resident and Patient Service Revenue

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

Benefits to the Broader Community

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

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

Contributions

Contributions are provided to the Corporation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions.

The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Corporation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.*, the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

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.

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 7. Workers' compensation claims are described more fully in Note 8.

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, 2024 and

(In Thousands)

2023, 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.

Revisions

Certain immaterial revisions have been made to the 2023 consolidated financial statements for:

- A correction to the classification of assets limited as to use in Note 3 to reduce HUD facility reserves and charitable remainder trusts and gift annuities by $4,431 and $1,488, respectively, and present $5,836 of community funds. This revision did not have an impact on the 2023 consolidated balance sheet or the consolidated statements of operations and changes in net assets.
- To reduce entrance fees subject to refund or reoccupancy as of March 31, 2023 by $63,503 in Note 22. This revision did not have an impact on the 2023 consolidated balance sheet or the consolidated statements of operations and changes in net assets.
- Certain accounts were moved on the consolidated balance sheet as of March 31, 2023 and consolidated statements of operations, changes in net assets and cash flows to align more accurately with their classification or purpose. None of these revisions had a significant impact on the financial statement line items impacted. Additionally, certain of these changes also impacted the related footnotes including Notes 3, 11, 12, 15, 17, and 19.
- A correction to the classification of board designated net assets for the Innovation Fund and Affordable Housing funds due to a transposition of these amounts for 2023. This revision did not have an impact on the 2023 consolidated balance sheet or the consolidated statements of operations and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through July 24, 2024, 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:

	2024	2023
Medicare	35%	26%
Medi-Cal (including Medi-Cal managed care payors)	33%	45%
PPO/HMO (other contracted payors)	17%	15%
Patients and other	15%	14%
	100%	100%

(In Thousands)

Note 3. Investments and Investment Return

Investments and assets limited as to use at fair value consisted of the following at March 31:

	2024	2023
Cash and cash equivalents	$ 37,419	$ 41,511
Money market mutual funds	-	5,025
Certificates of deposit	1,882	1,957
Commodity mutual funds	14,341	14,176
Other mutual funds	51,223	64,849
U.S. Treasury and U.S. agency securities	30,349	28,111
Equity securities – domestic	195,714	190,136
Equity securities – international	116,825	122,473
Municipal securities	1,303	1,298
Corporate bonds and commercial paper	50,595	59,031
Alternative investments	33,905	16,240
Beneficial interest in perpetual trust	1,093	968
	$ 534,649	$ 545,775

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, 2024 and 2023, none of the mutual funds held by the Corporation were subject to any redemption provisions.

FPC Foundation is the beneficiary under a perpetual trust administered by an outside party. Under the terms of the trust, FPC Foundation has the irrevocable right to receive income earned on the trust assets in perpetuity but never receives the assets held in trust. The estimated value of the expected future cash flows at March 31, 2024 and 2023 is $1,093 and $968, respectively, which represents the fair value of FPC Foundation’s portion of the trust assets and is included in assets limited as to use on the accompanying consolidated balance sheets.

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

	2024	2023
Held by trustee under indenture agreements for bond fund and other reserves	$ 15,288	$ 15,269
HUD facility reserves	19,915	18,318
Held by trustee under indenture agreements for construction	4,318	9,350
Charitable remainder trusts and gift annuities	8,737	8,773
Endowment funds	17,693	14,984
Beneficial interest in perpetual trust	1,093	968
Community funds	15,548	5,836
	$ 82,592	$ 73,498

(In Thousands)

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

	2024	2023
Interest and dividend income	$ 11,767	$ 12,154
Realized gains on sales of securities, net	15,823	15,520
Unrealized gains (losses) on investments valued at fair value, net	45,498	(58,807)
Investment fees	(1,851)	(1,786)
Investment return, net	$ 71,237	$ (32,919)

The change in net assets with donor restrictions for the years ended March 31, 2024 and 2023 includes investment return of $2,737 and $(979), respectively.

Note 4. Property and Equipment

A summary of property and equipment at March 31 follows:

	2024	2023
Land and land improvements	$ 385,296	$ 376,781
Buildings and building improvements	1,084,416	1,012,172
Leasehold improvements	12,099	11,388
Equipment	248,567	236,368
Construction in progress	82,878	47,598
	1,813,256	1,684,307
Less accumulated depreciation	568,269	490,326
	$ 1,244,987	$ 1,193,981

Construction in progress includes various projects, many of which will be completed in the next fiscal year. At March 31, 2024, there was one project with a significant construction commitment with an estimated remaining cost of $9,992.

Note 5. Receivable from Supporting Organization

California Lutheran Homes (CLH) is a nonprofit corporation established for the charitable purpose of promoting and supporting the work of the Corporation and the retirement communities. CLH has a separate board of directors over which the Corporation does not exercise control.

(In Thousands)

CLH is 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 CLH related only to those net assets restricted by the donor for the benefit of the Corporation.

As of March 31, 2024 and 2023, the receivable from supporting organization related to CLH is $810 and $850, respectively.

Note 6. Acquired Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets (in-place leases) at March 31 was:

	2024	2023
Carrying basis	$ 76,985	$ 76,985
Accumulated amortization	(33,682)	(24,609)
	$ 43,303	$ 52,376

Amortization expense for the years ended March 31, 2024 and 2023 was $9,073 and $9,523, respectively. Estimated amortization expense for each of the following four years is $9,073, and $7,011 of amortization expense is estimated for year five.

Note 7. Professional Liability Claims

The Corporation purchases professional and general liability insurance under claims-made policies. 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, $1,250 and $0 have been accrued for the Corporation's portion of malpractice costs as of March 31, 2024 and 2023, respectively, and are included in accounts payable on the accompanying consolidated balance sheets. It is reasonably possible this estimate could change materially in the near term.

Note 8. Workers' Compensation

The Corporation self-insures its workers' compensation claims in California. In addition, for the years ended March 31, 2024 and 2023, the Corporation had an excess workers' compensation policy in place for individual claims exceeding $1,000. This policy had a maximum coverage limit of $25,000.

(In Thousands)

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

	2024	2023
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	$ 2,413	$ 2,746
In excess of one year, included in accrued workers' compensation	5,321	6,114
	$ 7,734	$ 8,860

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 $430 and $471 are included as other receivables in the accompanying consolidated balance sheets at March 31, 2024 and 2023, respectively.

Note 9. Trusts and Annuities Payable

FPC Foundation and CARING have been the recipient of several charitable remainder trusts and gift annuities that require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value and included in assets limited as to use on the accompanying consolidated balance sheets. FPC Foundation and CARING have recorded a liability at March 31, 2024 and 2023 of $4,946 and $5,517, respectively, which represents the present value of the remaining payment obligations. This liability is included in other accrued liabilities on the accompanying consolidated balance sheets. The liability has been determined using a discount rate of 3.65% to 6.00% in 2024 and 2023.

(In Thousands)

Note 10. Long-Term Debt

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

	2024	2023
Series 2021A Revenue Bonds (A)	$ 197,145	$ 198,270
Series 2021B Revenue Bonds (B)	93,965	100,375
Series 2017A Revenue Bonds (C)	95,585	96,610
HUD Section 202 Capital Advance – Lytton IV (D)	5,739	5,739
City of Palo Alto note – Lytton IV (E)	460	460
Mortgage payable – PGA (F)	4,564	4,685
HUD Section 202 Capital Advance – JSH (G)	6,871	6,871
Housing Authority of the City of Santa Rosa note – JSH (H)	4,985	4,985
Affordable Housing Program subsidy – JSH (I)	-	216
Multifamily Housing Revenue Bonds 2005 Series L – OCT (J)	2,620	2,720
HUD Section 221(d)(4) mortgage – BCSH (K)	22,123	22,409
	434,057	443,340
Plus unamortized premium	25,786	27,183
Less unamortized debt issuance costs	(4,573)	(4,730)
Less current maturities	(9,171)	(8,966)
	$ 446,099	$ 456,827

(A) Series 2021A Revenue Bonds issued by California Statewide Communities Development Authority (CSCDA); interest at 2.50% to 5.00%, paid semiannually; principal due in varying installments through 2051, paid annually. Unamortized debt issuance costs were $1,854 and $1,928 at March 31, 2024 and 2023, respectively. The effective interest rate was 3.54% and 3.55% for the years ended March 31, 2024 and 2023, respectively.

(B) Series 2021B Revenue Bonds (Federally Taxable) issued by CSCDA; interest at 0.52% to 2.64%, paid semiannually; principal in varying installments through 2036, paid annually. Unamortized debt issuance costs were $819 and $889 at March 31, 2024 and 2023, respectively. The effective interest rate was 2.09% and 2.00% for the years ended March 31, 2024 and 2023, respectively.

The bonds issued in (A) and (B) above were issued to refinance certain previously outstanding debt of the Corporation. The bonds were used to refinance $336,034 of previously outstanding debt, provide $10,000 in project funds, and pay costs of issuance.

(C) Series 2017A Revenue Bonds issued by CSCDA; interest at 3.50% to 5.00%, paid semiannually; principal due in varying installments through 2047, paid annually. Unamortized debt issuance costs were $1,280 and $1,334 at March 31, 2024 and 2023, respectively. The effective interest rate was 4.52% for the years ended March 31, 2024 and 2023.

(D) HUD Section 202 Capital Advance; dated November 26, 1993; secured by first deed of trust on real property; bearing no interest. The advance is essentially a forgivable loan and shall only be repayable if the Lytton IV project fails to remain available to very low-income households as approved by HUD through June 1, 2035.

(E) City of Palo Alto note dated November 30, 1993, bearing 5% simple interest per annum beginning December 1, 1995. Payments may only be made from residual receipts with the approval of HUD. The balance of principal and accrued interest is due at maturity on June 1, 2035. The term is designed to coincide with the closing of the HUD Capital Advance period. At this time, the City of Palo Alto has an option to acquire the Lytton IV project in exchange for cancellation of the principal and accrued interest outstanding at that date.

(F) Mortgage loan payable; insured by the Federal Housing Administration under the provisions of Section 207, pursuant to Section 223(f) of the *National Housing Act*; dated June 1, 2013 with an initial term of 35 years; secured by first deed of trust on real property; bearing interest at 3.22% per annum. Principal and interest are payable in monthly installments of $23; due in full June 1, 2048.

(G) HUD Section 202 Capital Advance dated February 1, 2007; secured by first deed of trust on the property; bearing no interest. The advance is essentially a forgivable loan and shall only be repayable if the JSH project fails to remain available to very low-income households as approved by HUD for a 40-year period from March 2008 through February 2048.

(H) Housing Authority of the City of Santa Rosa note dated February 10, 2006; secured by second deed of trust on the property; bearing 3% simple interest per annum from the date of each advance beginning February 2004. Payment of principal and interest is to be made from 75% of annual “Surplus Cash,” if any (as defined by the loan agreement), paid only from residual receipts and only with the approval of HUD. The balance of principal and accrued interest is due at maturity in February 2048. The 42-year term is designed to coincide with the closing of the HUD Capital Advance period. At this time, the City of Santa Rosa has an option to acquire the JSH project in exchange for cancellation of the principal and accrued interest outstanding at that date.

(I) Affordable Housing Program (AHP) direct subsidy repayment to Sonoma National Bank dated November 1, 2006; secured by third deed of trust on the property; bearing no interest. The subsidy was forgiven in full on June 1, 2023.

(J) CSCDA Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series L dated June 1, 2005 in the original amount of $11,450, which was reduced to $3,820 on November 15, 2007. The bonds bear variable rates of interest determined weekly by the remarketing agent; payable monthly and mature on December 15, 2037; secured by the borrower’s leasehold interest in land and ownership of improvements. The interest rate at December 31, 2023 and 2022 was 5.92% and 3.37%, respectively.

(K) HUD Section 221(d)(4) mortgage loan agreement for borrowings up to $23,533 for the construction and rehabilitation of BCSH. Note dated January 1, 2017 with an initial term of 41 years; bearing interest of 4.11% per annum. Principal and accrued interest are due in full on October 1, 2058.

The Master Indenture for (A), (B), and (C) above 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 HUD-insured mortgages, certain entities included in CARING are required to maintain reserve accounts for replacements that are included in assets limited as to use on the accompanying consolidated balance sheets. These entities are also subject to restrictions on acquisition, use, and disposition of the mortgaged property and revenues derived therefrom.

(In Thousands)

Scheduled annual principal payments on long-term debt at March 31, 2024 are as follows:

Year Ending March 31,	
2025	$ 9,171
2026	9,349
2027	9,586
2028	9,838
2029	10,117
Thereafter	385,996
	$ 434,057

Note 11. Revenue Recognition

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.

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.

(In Thousands)

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 healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Revenue Composition

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

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

	Care Center	Residential	Memory Care	Total
2024				
Medicare	$ 24,701	$ -	$ -	$ 24,701
Medi-Cal	16,989	-	-	16,989
Other third-party payors	5,619	-	-	5,619
Private	15,343	240,844	20,001	276,188
Amortization of entrance fees	-	41,438	-	41,438
	$ 62,652	$ 282,282	$ 20,001	$ 364,935

(In Thousands)

	Care Center	Residential	Memory Care	Total
2023				
Medicare	$ 23,957	$ -	$ -	$ 23,957
Medi-Cal	25,075	-	-	25,075
Other third-party payors	7,248	-	-	7,248
Private	16,922	222,138	17,255	256,315
Amortization of entrance fees	-	37,371	-	37,371
	$ 73,202	$ 259,509	$ 17,255	$ 349,966

Contract Balances

Amounts related to healthcare services provided to patients that have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. As of March 31, 2024 and 2023, there are no contract assets.

Amounts received related to services that have not yet been provided to residents or patients are contract liabilities. Contract liabilities consist of deferred revenues from entrance fees received from residents.

Significant changes in contract liabilities (deferred revenues from entrance fees) during each period are as follows:

April 1, 2023	Additions	Refunds	Amortization	March 31, 2024
$ 239,011	$ 50,662	$ (6,244)	$ (41,438)	$ 241,991

April 1, 2022	Additions	Refunds	Amortization	March 31, 2023
$ 225,133	$ 54,292	$ (3,043)	$ (37,371)	$ 239,011

The following table provides information about the Corporation's receivables from contracts with customers:

	2024	2023
Resident and patient accounts receivable, beginning of year	$ 14,782	$ 9,377
Resident and patient accounts receivable, end of year	$ 10,445	$ 14,782

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.

(In Thousands)

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 consolidated financial statements and are expensed as incurred since they have a minimal effect on operations.

Affordable Housing Fees and Rents

Affordable housing fees and rents consist of rental income and contract services revenue. Rental income is shown at its maximum gross potential. Rental income is derived from rental rates subject to HUD approval. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income and as an expense of operations. Other income includes fees for late payments, cleaning, damages, laundry facilities, and other charges and is recorded when earned. Contract services revenue is received when customers simultaneously receive and consume the benefits provided by CARING's performance required under various agreements that entail providing Resource Service Coordinators to support residents at the customer locations. The revenue is recorded as earned when services are provided. CARING recognizes revenue for services under the resident agreements in accordance with the provisions of ASC Topic 842, *Leases*, which is recognized as services are performed.

Note 12. Net Assets with Donor Restrictions

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

	2024	2023
Resident assistance and special projects	$ 14,041	$ 12,722
Scholarships	941	769
Trusts and annuities	4,570	4,240
Other	9,396	8,514
Investments to be held in perpetuity, the income is expendable	9,075	8,900
	$ 38,023	$ 35,145

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

(In Thousands)

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:

	2024	2023
Resident assistance and operations	$ 3,574	$ 2,501
Scholarships	106	106
Community fund and other	288	597
	$ 3,968	$ 3,204

Note 13. Net Assets Without Donor Restrictions

A portion of net assets without donor restrictions at March 31 is designated by the board for the following purposes:

	2024	2023
Innovation Fund	$ 1,906	$ 1,906
Affordable Housing Fund	800	800
Dr. Darby Betts Fund	1,428	1,428
Resident assistance and special projects	13,023	5,394
Restricted deposits and funded reserves	12,171	12,995
Other funds	45	45
	$ 29,373	$ 22,568

Note 14. Endowment

The Corporation's endowment consists of numerous individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation's board of directors has interpreted the *State of California's Prudent Management of Institutional Funds Act* (SPMIFA) as requiring preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Corporation classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time-restricted until the governing body appropriates such amounts for expenditures. Most of these net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions. In accordance with SPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund

(In Thousands)

2. Purposes of the Corporation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Corporation
7. Investment policies of the Corporation

The endowment funds at March 31, 2024 and 2023 were entirely donor-restricted endowment funds and are reflected in the accompanying consolidated balance sheets as net assets with donor restrictions of $14,292 and $12,031, respectively.

Changes in endowment net assets for the years ended March 31, 2024 and 2023 were:

Endowment net assets, April 1, 2022	$ 12,929
Investment return	(898)
Endowment net assets, March 31, 2023	12,031
Investment return	2,482
Contributions	164
Appropriation of endowment assets for expenditure	(385)
Endowment net assets, March 31, 2024	$ 14,292

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchase power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Corporation must hold in perpetuity or for donor-specified periods as well as those of board-designated endowment funds, if any. Under the Corporation’s policies, endowment assets are invested in a manner that is intended to produce results over time that provide sufficient growth of principal to endow the long-term operations of the Corporation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both current yield (investment income, such as dividends and interest) and capital appreciation (both realized and unrealized). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(In Thousands)

Note 15. Liquidity and Availability

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

	2024	2023
Cash and cash equivalents	$ 80,527	$ 54,383
Investments	452,057	472,277
Resident and patient accounts receivable	10,445	14,782
Other receivables	1,178	1,219
Financial assets available to meet general expenditures within one year	$ 544,207	$ 542,661

The Corporation has certain board-designated assets that are available for general expenditures within one year in the normal course of operations (see Note 13). 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.

Note 16. 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 healthcare 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 $6,946 and $5,998 for the years ended March 31, 2024 and 2023, respectively.

Note 17. Functional Expenses

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

(In Thousands)

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

	Residential and Healthcare Services	Program Services	General and Administrative
2024			
Salaries and wages	$ 100,356	$ -	$ 35,411
Employee benefits	38,127	-	13,105
Professional services	19,245	-	12,557
Supplies and other	73,339	2,261	19,836
Depreciation and amortization	83,467	-	5,778
Interest and other financing costs	7,859	-	5,183
Total expenses	$ 322,393	$ 2,261	$ 91,870
2023			
Salaries and wages	$ 102,472	$ -	$ 36,238
Employee benefits	31,715	-	9,471
Professional services	23,919	-	13,365
Supplies and other	74,048	3,422	19,372
Depreciation and amortization	75,854	-	5,376
Interest and other financing costs	9,167	-	4,406
Total expenses	$ 317,175	$ 3,422	$ 88,228

Note 18. Pension and Other Employee Benefit Plans

403(b) Defined Contribution Plan and Supplemental Retirement Plan

The Corporation sponsors a 403(b) defined contribution plan (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.

For legacy Communities and CAC employees under the Plan, all employees with more than 1,000 hours of service within the first year of employment are eligible to participate. The Corporation contributes an amount equal to 5% of each participant’s compensation for all legacy Communities employees hired prior to January 1, 2021 and all legacy CAC employees hired before January 1, 2022. The Corporation contributes 3% of each participant’s compensation for employees hired after these dates.

Expense for this retirement plan, equal to the contribution, totaled $4,490 and $4,497 for the years ended March 31, 2024 and 2023, respectively.

(In Thousands)

Deferred Compensation Plans

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, 2024 and 2023, $429 and $636, respectively, of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

The Corporation also maintains, for certain key employees of legacy Communities, a nonqualified supplementary deferred compensation plan that provides a defined contribution benefit pursuant to Sections 409A and 457(f) of the Code. All participants are awarded an annual retention benefit annually. Each award vests on the earlier of the participant's death or disability, reaching the age of 65, or five years after the award is made. As of March 31, 2024 and 2023, $1,044 of deferred compensation is accrued and included in other accrued liabilities in the accompanying consolidated balance sheets.

Defined Benefit Plan

The Corporation has a noncontributory defined benefit pension plan that provides benefits under retirement annuity contracts for legacy Communities employees. Salaried and hourly employees who have attained the age of 21 and have performed 1,000 hours of service in the plan year are eligible to participate in the plan upon completion of one year of continuous employment. The Corporation's funding policy is to make the actuarially determined annual contribution. The defined benefit pension plan was frozen effective December 31, 2020. The Corporation uses a March 31 measurement date for the plan.

Information about the plan's funded status follows:

	2024	2023
Change in benefit obligation		
Beginning of year	$ 48,427	$ 55,742
Interest cost	2,275	1,982
Actuarial gains	(235)	(6,595)
Benefits paid	(2,766)	(2,702)
End of year	47,701	48,427
Change in fair value of plan assets		
Beginning of year	52,458	59,115
Actual return on plan assets	4,822	(3,955)
Benefits paid	(2,766)	(2,702)
End of year	54,514	52,458
Funded status at measurement date	$ 6,813	$ 4,031

(In Thousands)

The net pension asset is recognized in the accompanying consolidated balance sheets as a noncurrent asset.

Amounts recognized in the change in net assets not yet recognized as components of net periodic benefit cost consist of unrecognized net loss of $5,290 and $7,073 during 2024 and 2023, respectively. The accumulated benefit obligation for the plan was $47,701 and $48,427 at March 31, 2024 and 2023, respectively.

Components of net periodic benefit cost are:

	2024	2023
Interest cost	$ 2,275	$ 1,982
Expected return on plan assets	(3,530)	(3,892)
Amortization of net loss	257	-
Net periodic benefit cost	$ (998)	$ (1,910)

The components of net periodic benefit cost other than the service cost component are included in other income (expense) in the accompanying consolidated statements of operations.

Other changes in plan assets and benefit obligations recognized in change in net assets:

	2024	2023
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions		
Net actuarial gain (loss)	$ (1,524)	$ 1,380
Amortization of net loss	(257)	-
Amount recognized in net assets without donor restrictions at measurement date	(1,781)	1,380
Total recognized in net periodic benefit cost and net assets without donor restrictions at measurement date	$ (2,779)	$ (530)

(In Thousands)

The estimated net gain or loss that will be amortized into net periodic benefit cost over the next fiscal year is $0. Significant assumptions include:

	2024	2023
Actuarial present value of the benefit obligation		
Weighted-average discount rate	5.10%	4.85%
Rate of increase in future compensation levels	N/A	N/A
Long-term rate of return on plan assets	N/A	N/A
Net periodic benefit cost		
Weighted-average discount rate	4.85%	3.65%
Rate of increase in future compensation levels	N/A	N/A
Long-term rate of return on plan assets	7.00%	6.75%

The Corporation has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of March 31, 2024:

2025	$	3,350
2026	$	3,190
2027	$	3,380
2028	$	3,400
2029	$	3,380
2030–2034	$	16,430

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan's investment policy statement. The plan's investment policy statement permits investment in common stocks, corporate bonds and debentures, U.S. government securities, certain insurance contracts, real estate, and other specified investments based on certain target allocation percentages. The investment policy statement also contains provisions requiring diversification of investments.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages are as follows:

	2024	2023
Equity securities	65%	65%
Fixed income securities	30%	30%
Real estate	5%	5%
	100%	100%

(In Thousands)

Equity securities primarily include investments in mutual funds invested in small and midcap companies located in the United States and internationally and pooled separate accounts invested in similar securities. Fixed income securities include mutual funds invested in corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasury securities. Real estate securities include pooled separate accounts invested in real assets.

Plan assets are rebalanced quarterly. At March 31, plan assets by class are as follows:

	2024	2023
Equity securities	10%	70%
Fixed income securities	90%	25%
Real estate securities	0.0%	5%
Total	100%	100%

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include small and midcap domestic equity mutual funds, international equity mutual funds, and fixed income mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics, or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. There were no Level 2 or Level 3 plan assets at March 31, 2024 and 2023.

(In Thousands)

The fair values of the Corporation's pension plan assets at March 31 by asset class are as follows:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2024				
Mutual funds				
Money market	$ 537	$ 537	$ -	$ -
International equity	330	330	-	-
Collective investment trusts	53,647	-	53,647	-
Total assets at measurement date	$ 54,514	$ 867	$ 53,647	$ -
2023				
Mutual funds				
Small/midcap domestic equity	$ 2,804	$ 2,804	$ -	$ -
International equity	18,218	18,218	-	-
Fixed income	13,249	13,249	-	-
	34,271	$ 34,271	$ -	$ -
Investments valued at NAV				
Pooled separate accounts	18,187			
Total assets at measurement date	$ 52,458			

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

Pooled separate accounts (PSA) include investments in large and small cap funds that invest mainly in domestic equity and a real estate fund. The PSAs can be redeemed at NAV as of the measurement date, redeemed on a daily basis, and unfunded commitments are not applicable to PSAs. The Corporation has determined that the PSAs do not have a readily determinable fair value. At March 31, 2024 and 2023, the timing of liquidation of these assets and the date when restrictions on redemption might lapse are unknown.

Note 19. Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

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

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

(In Thousands)

Recurring Measurements

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

		Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2024				
Financial assets				
Equities – domestic	$ 195,714	$ 195,714	$ -	$ -
Equities – international	116,825	116,825	-	-
Certificates of deposit	1,882	-	1,882	-
Commodity mutual funds	14,341	14,341	-	-
Other mutual funds	51,223	51,223	-	-
U.S. Treasury and U.S. agency securities	30,349	18,069	12,280	-
Corporate bonds and commercial paper	50,595	35,457	15,138	-
Municipal securities	1,303	-	1,303	-
Beneficial interest in perpetual trust	1,093	-	-	1,093
	463,325	$ 431,629	$ 30,603	$ 1,093
Investments valued at NAV (A)				
Limited partnership	33,905			
Cash and cash equivalents (at cost)	37,419			
Total investments and assets limited as to use	$ 534,649			
Receivable from supporting organization	$ 810	$ -	$ -	$ 810

(In Thousands)

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023				
Financial assets				
Equities – domestic	$ 190,136	$ 190,136	$ -	$ -
Equities – international	122,473	122,473	-	-
Money market mutual funds	5,025	5,025	-	-
Certificates of deposit	1,957	-	1,957	-
Commodity mutual funds	14,176	14,176	-	-
Real estate mutual funds	-	-	-	-
Other mutual funds	64,849	64,849	-	-
U.S. Treasury and U.S. agency securities	28,111	17,002	11,109	-
Corporate bonds and commercial paper	59,031	42,331	16,700	-
Municipal securities	1,298	-	1,298	
Beneficial interest in perpetual trust	968	-	-	968
	488,024	$ 455,992	$ 31,064	$ 968
Investments valued at NAV (A)				
Limited partnership	16,240			
Cash and cash equivalents (at cost)	41,511			
Total investments and assets limited as to use	$ 545,775			
Receivable from supporting organization	$ 850	$ -	$ -	$ 850

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying consolidated balance sheets.

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, 2024. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

(In Thousands)

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, 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.

Alternative Investments

Investments in certain entities measured at fair value using the NAV per share as a practical expedient consisted of the following at March 31:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
2024				
Limited partnership	$ 33,905	$ -	Quarterly	10 days
2023				
Limited partnership	$ 16,240	$ -	Quarterly	60 days

Limited partnerships invest in multi-asset classes – common stocks that are traded on a national securities exchange; fixed income securities, including bank loans, high-yield corporate bonds, and restricted high-yield corporate bonds; and forward foreign currency contracts entered for hedging against fluctuations in foreign exchange rates. The fair values of investments in this category have been estimated using NAV per share of investments at the percentage of the Corporation's ownership shares, which was 2.52% and 1.42% at March 31, 2024 and 2023, respectively. At March 31, 2024 and 2023, the timing of liquidation of these assets and the date when restrictions from redemption might lapse are unknown.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the Corporation's percentage of the fair value of the underlying assets held in trust. Due to the perpetual existence of the trust, the beneficial interest is classified within Level 3 of the hierarchy.

Receivable from Supporting Organization

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

(In Thousands)

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:

	Receivable from Supporting Organization	Beneficial Interest in Perpetual Trust
Balance, April 1, 2022	$ 1,063	$ 1,122
Total realized and unrealized loss included in change in net assets	(213)	(12)
Balance, March 31, 2023	850	968
Total realized and unrealized gain (loss) included in change in net assets	(40)	125
Balance, March 31, 2024	$ 810	$ 1,093
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		
Year ended March 31, 2023	$ (213)	$ (12)
Year ended March 31, 2024	$ (40)	$ 125

Note 20. 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.

(In Thousands)

The following table presents the activity for the AROs for the years ended March 31:

	2024	2023
Balance, beginning of year	$ 1,707	$ 1,948
Change in estimate and accretion expense	(65)	(241)
Balance, end of year	$ 1,642	$ 1,707

Note 21. 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 11.

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 8.

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 healthcare 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 healthcare 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. In addition, changes to the regulatory environment could negatively impact the Corporation's consolidated financial position.

Asset Retirement Obligations

As discussed in Note 20, the Corporation has recorded a liability for its conditional AROs related to asbestos abatement.

Note 22. Refundable and Amortized Entrance Fees and Deferred Revenue

Entrance fee arrangements apply to 12 of the Corporation's facilities as of March 31, 2024 and 2023. 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 within one year totaled $20,881 and $21,674 at March 31, 2024 and 2023, respectively, and is recorded as current other accrued expenses in the accompanying consolidated balance sheets. These estimates are based on the Corporation's historical repayment experience and the Corporation's repayment policy.

Entrance fees subject to refund or reoccupancy and actual refunds disbursed as of and for the year ended March 31, 2024 are $141,234 and $20,067, respectively. Entrance fees subject to refund or reoccupancy and actual refunds disbursed as of and for the year ended March 31, 2023 are $142,361 and $19,809, respectively.

Note 23. 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 2038. 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, 2024 and 2023.

Accounting Policies

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

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

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

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

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

(In Thousands)

Quantitative Disclosures

The lease cost and other required information for the years ended March 31 are:

	2024	2023
Operating lease cost	$ 2,084	$ 2,101
Short-term lease cost	1,802	1,510
Total lease cost	$ 3,886	$ 3,611
Other required information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 2,406	$ 2,528
ROU assets obtained in exchange for new operating lease liabilities	$ 393	$ 898
Weighted-average remaining lease term		
Operating leases	6.88 years	6.72 years
Weighted-average discount rate		
Operating leases	4.4%	4.2%

Future minimum lease payments and reconciliation to the accompanying consolidated balance sheet at March 31, 2024 are as follows:

	Operating Leases
2025	$ 1,567
2026	1,402
2027	1,365
2028	1,318
2029	1,251
Thereafter	2,744
	9,647
Less interest	1,419
Operating lease liabilities	$ 8,228

Supplementary Information

Front Porch Communities and Services
Consolidating Schedule – Balance Sheet Information
March 31, 2024
(In Thousands)

	Obligated Group	Foundation	Affordable Housing	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 28,832	$ 2,418	$ 49,277	$ -	$ 80,527
Short-term investments	1,814	332	-	-	2,146
Assets limited as to use – required for current liabilities	15,399	-	37	-	15,436
Resident and patient accounts receivable	8,933	-	1,512	-	10,445
Prepaid expenses and other	15,879	594	1,396	(114)	17,755
Intercompany receivables	6,105	-	-	(6,105)	-
Total current assets	76,962	3,344	52,222	(6,219)	126,309
Investments					
Assets limited as to use, net of current portion	4,318	43,071	19,767	-	67,156
Long-term investments	437,115	13,941	522	(1,667)	449,911
Total investments	441,433	57,012	20,289	(1,667)	517,067
Property and Equipment, Net	977,211	12	267,789	(25)	1,244,987
Other Assets					
Receivable from supporting organization	810	-	-	-	810
ROU assets – operating leases	7,649	-	2,147	(2,033)	7,763
Other receivables	430	748	-	-	1,178
Other assets	13,548	-	487	-	14,035
In-place leases	43,303	-	-	-	43,303
Net pension asset	6,813	-	-	-	6,813
Total other assets	72,553	748	2,634	(2,033)	73,902
Total assets	$ 1,568,159	$ 61,116	$ 342,934	$ (9,944)	$ 1,962,265
LIABILITIES AND NET ASSETS					
Current Liabilities					
Current maturities of long-term debt	$ 8,730	$ -	$ 441	$ -	$ 9,171
Current portion of operating lease liabilities	1,567	-	114	(114)	1,567
Accounts payable	35,925	-	1,653	(35)	37,543
Accrued payroll and related expenses	16,628	-	548	-	17,176
Intercompany payables	-	1,410	4,681	(6,091)	-
Accrued interest	6,558	-	88	-	6,646
Other accrued expenses	24,146	-	1,040	-	25,186
Total current liabilities	93,554	1,410	8,565	(6,240)	97,289
Other Liabilities					
Asset retirement obligations	1,642	-	-	-	1,642
Accrued workers' compensation	5,145	-	176	-	5,321
Operating lease liabilities	6,661	-	2,033	(2,033)	6,661
Other accrued liabilities	9,406	4,411	4,441	(1,195)	17,063
Refundable entrance fees	120,353	-	-	-	120,353
Deferred revenue from entrance fees	241,991	-	-	-	241,991
Long-term debt	399,798	-	46,301	-	446,099
Total liabilities	878,550	5,821	61,516	(9,468)	936,419
Net Assets					
Without donor restrictions	688,443	18,577	281,279	(476)	987,823
With donor restrictions	1,166	36,718	139	-	38,023
Total net assets	689,609	55,295	281,418	(476)	1,025,846
Total liabilities and net assets	$ 1,568,159	$ 61,116	$ 342,934	$ (9,944)	$ 1,962,265

Front Porch Communities and Services
Consolidating Schedule – Statement of Operations Information
Year Ended March 31, 2024
(In Thousands)

	Obligated Group	Foundation	Affordable Housing	Eliminations	Consolidated
Revenues, Gains, and Other Support Without Donor Restrictions					
Resident and patient service revenue	$ 323,696	$ -	$ 1	$ (200)	$ 323,497
Amortization of entrance fees	41,438	-	-	-	41,438
Affordable housing fees and rents	-	-	32,039	-	32,039
Other	3,399	(128)	607	(2,734)	1,144
Net assets released from restrictions used for operations	-	3,808	-	-	3,808
Total revenues, gains, and other support without donor restrictions	368,533	3,680	32,647	(2,934)	401,926
Expenses					
Medical services	80,293	-	711	-	81,004
Facility operating costs	40,876	-	7,126	-	48,002
Dietary services	59,925	-	368	(200)	60,093
Residential services	30,675	-	3,348	-	34,023
Administrative services	76,312	14	5,581	-	81,907
Depreciation	72,094	-	5,836	-	77,930
Amortization of deferred costs	312	-	39	-	351
Interest expense and other financing costs	11,668	-	1,374	-	13,042
Program expenses	-	4,929	-	(2,668)	2,261
Other	7,366	2	803	(226)	7,945
Total expenses	379,521	4,945	25,186	(3,094)	406,558
Operating Income (Loss) Before Other Operating Activities	(10,988)	(1,265)	7,461	160	(4,632)
Other Operating Activities					
Amortization of acquired intangible assets and other	(10,964)	-	-	-	(10,964)
Total other operating activities	(10,964)	-	-	-	(10,964)
Operating Income (Loss)	(21,952)	(1,265)	7,461	160	(15,596)
Other Income (Expense)					
Investment return, net	65,167	5,236	834	-	71,237
Other components of net periodic benefit cost	998	-	-	-	998
Asbestos settlement loss	(1,250)	-	-	-	(1,250)
Loss on impairment of predevelopment costs	-	-	(3,550)	-	(3,550)
Total other income (expense)	64,915	5,236	(2,716)	-	67,435
Excess of Revenues over Expenses	42,963	3,971	4,745	160	51,839
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	-	160	-	-	160
Contributions from Affiliates	160	-	-	(160)	-
Change in Pension Benefit Obligation	1,783	-	-	-	1,783
Increase in Net Assets Without Donor Restrictions	$ 44,906	$ 4,131	$ 4,745	$ -	$ 53,782