



Front Porch Communities and Services

Independent Auditor's Report, Consolidated Financial Statements, and Supplementary Information

March 31, 2026 and 2025



Front Porch Communities and Services
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March 31, 2026 and 2025

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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 (Corporation), which comprise the consolidated balance sheets as of March 31, 2026 and 2025 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of March 31, 2026 and 2025, 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.

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 accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is 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 29, 2026**

Front Porch Communities and Services
Consolidated Balance Sheets
March 31, 2026 and 2025
(In Thousands)

	2026	2025
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 75,479	\$ 95,660
Short-term investments	2,137	6,611
Assets limited as to use – required for current liabilities	15,550	15,443
Resident and patient accounts receivable	12,168	12,471
Prepaid expenses and other	17,438	18,559
Total Current Assets	<u>122,772</u>	<u>148,744</u>
Investments		
Assets limited as to use, net of current portion	64,821	58,896
Long-term investments	416,180	397,408
Total Investments	<u>481,001</u>	<u>456,304</u>
Property and Equipment, Net	<u>1,294,088</u>	<u>1,262,260</u>
Other Assets		
Right-of-use assets – operating leases	8,694	14,630
Other receivables	1,024	1,189
Other assets	20,442	13,962
In-place leases	24,058	33,680
Net pension asset	6,310	5,760
Total Other Assets	<u>60,528</u>	<u>69,221</u>
Total Assets	<u><u>\$ 1,958,389</u></u>	<u><u>\$ 1,936,529</u></u>

Front Porch Communities and Services
Consolidated Balance Sheets
March 31, 2026 and 2025
(In Thousands)

(Continued)

	<u>2026</u>	<u>2025</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of long-term debt	\$ 9,585	\$ 9,348
Current portion of operating lease liabilities	1,602	2,095
Accounts payable	32,677	21,908
Accrued payroll and related expenses	23,009	19,554
Accrued interest	7,188	6,555
Other accrued expenses	<u>24,226</u>	<u>24,707</u>
Total Current Liabilities	98,287	84,167
Other Liabilities		
Asset retirement obligations	1,585	1,626
Accrued workers' compensation	6,821	5,559
Operating lease liabilities	8,065	13,808
Other accrued liabilities	16,816	14,922
Refundable entrance fees	123,888	124,789
Deferred revenue from entrance fees	242,326	244,969
Line of credit	20,000	-
Long-term debt	<u>424,632</u>	<u>435,509</u>
Total Liabilities	<u>942,420</u>	<u>925,349</u>
Net Assets		
Without donor restrictions	973,945	972,059
With donor restrictions	<u>42,024</u>	<u>39,121</u>
Total Net Assets	<u>1,015,969</u>	<u>1,011,180</u>
Total Liabilities and Net Assets	<u><u>\$ 1,958,389</u></u>	<u><u>\$ 1,936,529</u></u>

Front Porch Communities and Services
Consolidated Statements of Operations
Years Ended March 31, 2026 and 2025
(In Thousands)

	2026	2025
Revenues, Gains, and Other Support Without Donor Restrictions		
Resident and patient service revenue	\$ 368,516	\$ 338,751
Amortization of entrance fees	40,825	39,626
Affordable housing fees and rents	33,106	33,006
Other	1,808	2,060
Net assets released from restrictions used for operations	4,511	4,461
Total Revenues, Gains, and Other Support Without Donor Restrictions	448,766	417,904
Expenses		
Medical services	88,098	82,237
Facility operating costs	57,633	51,998
Dietary services	72,484	65,087
Residential services	42,454	38,072
Administrative services	100,720	90,475
Depreciation	100,747	87,545
Amortization of deferred costs	236	249
Interest expense and other financing costs	13,517	13,010
Program expenses	3,413	2,355
Other	8,716	10,685
Total Expenses	488,018	441,713
Operating Loss Before Other Operating Activities	(39,252)	(23,809)
Other Operating Activities		
Amortization of acquired intangible assets and other	(10,681)	(10,589)
Gain (loss) on sale of property	497	(1,878)
Total Other Operating Activities	(10,184)	(12,467)
Operating Loss	(49,436)	(36,276)
Other Income (Expense)		
Investment return, net	51,066	24,477
Other components of net periodic benefit cost	(446)	252
Other gain (loss)	(310)	125
Settlement losses	-	(3,060)
Total Other Income (Expense)	50,310	21,794
Excess (Deficiency) of Revenues Over Expenses	874	(14,482)
Net Assets Released From Restrictions Used for Purchase of Property and Equipment	16	22
Change in Pension Benefit Obligation	996	(1,304)
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 1,886	\$ (15,764)

Front Porch Communities and Services
Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2026 and 2025
(In Thousands)

	<u>2026</u>	<u>2025</u>
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 874	\$ (14,482)
Change in pension benefit obligation	996	(1,304)
Net assets released from restrictions used for purchase of property and equipment	<u>16</u>	<u>22</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>1,886</u>	<u>(15,764)</u>
Net Assets With Donor Restrictions		
Contributions received and investment return	7,183	5,366
Changes in split-interest gift agreements	129	214
Change in beneficial interest in perpetual trusts and annuities	118	1
Net assets released from restrictions used for operations	(4,511)	(4,461)
Net assets released from restrictions used for purchase of property and equipment	<u>(16)</u>	<u>(22)</u>
Increase in Net Assets With Donor Restrictions	<u>2,903</u>	<u>1,098</u>
Change in Net Assets	4,789	(14,666)
Net Assets, Beginning of Year	<u>1,011,180</u>	<u>1,025,846</u>
Net Assets, End of Year	<u><u>\$ 1,015,969</u></u>	<u><u>\$ 1,011,180</u></u>

Front Porch Communities and Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2026 and 2025
(In Thousands)

	2026	2025
Operating Activities		
Cash received from residents	\$ 369,773	\$ 335,996
Proceeds from entrance fees received	56,915	61,612
Cash received from affordable housing services	32,589	33,735
Other receipts from operations	1,808	2,068
Unrestricted contributions received	5,734	4,353
Unrestricted investment income received	12,917	12,904
Cash paid to suppliers, employees, and others	(375,016)	(341,310)
Cash paid for interest on long-term debt, net of amounts capitalized	(14,051)	(14,485)
Net Cash Provided by Operating Activities	90,669	94,873
Investing Activities		
Capital expenditures	(120,467)	(124,111)
Proceeds from sale of capital assets	-	403
Proceeds from sale of trading investments	276,818	319,674
Purchase of trading investments	(252,720)	(259,848)
Purchase of assets limited as to use	(9,605)	(3,161)
Proceeds from sale of assets limited as to use	3,573	11,414
Payment for purchase of Arch, net of cash acquired	(1,894)	-
Net Cash Used in Investing Activities	(104,295)	(55,629)
Financing Activities		
Refunds of entrance fees	(18,531)	(16,095)
Principal payments on long-term debt	(9,473)	(9,029)
Borrowings on line of credit	20,000	-
Proceeds from contributions for purchases of property and equipment	1,449	1,013
Net Cash Used in Financing Activities	(6,555)	(24,111)
Increase (Decrease) in Cash and Cash Equivalents	(20,181)	15,133
Cash and Cash Equivalents, Beginning of Year	95,660	80,527
Cash and Cash Equivalents, End of Year	\$ 75,479	\$ 95,660

Front Porch Communities and Services
Consolidated Statements of Cash Flows
Years Ended March 31, 2026 and 2025
(In Thousands)

(Continued)

	<u>2026</u>	<u>2025</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 4,789	\$ (14,666)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	100,747	87,545
Noncash operating lease expense	6,172	1,598
(Gain) loss on disposal of assets	(497)	1,878
Amortization of deferred costs	236	249
Accretion of asset retirement obligations	(79)	(79)
Amortization of bond premium included in interest expense	(1,370)	(1,384)
Amortization of acquired intangible assets and other	10,590	10,589
Entrance fees received	56,915	61,612
Amortization of entrance fees	(40,825)	(39,626)
Change in pension asset	(550)	1,053
Realized and unrealized gain on investments, net	(38,396)	(11,788)
Change in receivable from supporting organization	-	7
Proceeds from contributions restricted by donor	(1,449)	(1,013)
Changes in operating assets and liabilities		
Accounts receivable, net	740	(2,026)
Prepaid expenses and other	(3,662)	436
Accounts payable and accrued expenses	619	3,367
Operating leases	(6,505)	(1,039)
Other accrued liabilities	3,194	(1,840)
Net Cash Provided by Operating Activities	<u>\$ 90,669</u>	<u>\$ 94,873</u>
Supplemental Cash Flows Information		
Property and equipment purchases included in accounts payable and other accrued expenses	\$ 19,187	\$ 7,576
New entrance fees included in accounts receivable	\$ 5,825	\$ 9,193
Operating lease obligations incurred for equipment and rental space	\$ 269	\$ 8,714
The Corporation acquired all of the assets of Arch through purchase of stock. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	\$ 727	
Fair value of liabilities assumed	183	
Cash paid for capital stock	<u>2,374</u>	
Goodwill	<u>\$ 1,830</u>	

Front Porch Communities and Services
Notes to Consolidated Financial Statements
March 31, 2026 and 2025
(In Thousands)

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

Nature of Operations

Front Porch Communities and Services (Corporation or Obligated Group) 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.

Below is a recap of the communities included within the Obligated Group as of March 31, 2026:

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	140	-	24	164
Carlsbad by the Sea	Carlsbad, CA	CCRC	160	-	33	193
Casa de Mañana	La Jolla, CA	Rental	188	-	-	188
Claremont Manor	Claremont, CA	Rental	227	17	59	303
Fredericka Manor	Chula Vista, CA	Rental	243	44	-	287
Friends House	Santa Rosa, CA	CCRC	85	-	-	85
Kingsley Manor	Los Angeles, CA	Rental	208	-	-	208
San Francisco Towers	San Francisco, CA	CCRC	252	12	27	291
Spring Lake Village	Santa Rosa, CA	CCRC	344	11	70	425
St. Paul's Towers	Oakland, CA	CCRC	210	7	43	260
Sunny View Retirement Community						
	Cupertino, CA	CCRC	90	23	48	161
Villa Gardens	Pasadena, CA	CCRC	195	19	54	268
Vista del Monte	Santa Barbara, CA	CCRC	169	24	-	193
Walnut Village	Anaheim, CA	CCRC	177	30	-	207
Webster House	Palo Alto, CA	CCRC	38	-	93	131
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
Total Obligated Group			3,133	209	451	3,793

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 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

Front Porch Communities and Services
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(In Thousands)

Corporation. The Corporation is the sole member of FPC Foundation. FPC Foundation is included as "Foundation" on the consolidating schedules.

CARING Housing Ministries, Inc.

CARING Housing Ministries, Inc. (CARING) manages 23 and owns nine HUD-subsidized and tax credit facilities, which provide housing to approximately 3,400 residents. CARING's owned facilities are located throughout California, and the 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 consolidating schedules. Effective July 1, 2023, CARING became the sole member of all entities noted below under Covia Affordable Communities (CAC).

Through July 1, 2023, CAC was the sole member of the following California nonprofit public benefit corporations that own and operate affordable senior residential communities:

Community	City	Units
Lytton Gardens I – Community Housing, Inc. (CHI)	Palo Alto, CA	220
Lytton Gardens II – Community Housing, Inc. (CHI)	Palo Alto, CA	100
Lytton IV Housing Corporation (Lytton IV)	Palo Alto, CA	51
Oak Center Towers (OCT)	Oakland, CA	196
Presidio Gate Apartments (PGA)	San Francisco, CA	54
Jennings Senior Housing, Inc. (JSH)	Santa Rosa, CA	54
Bethany Center Senior Housing (BCSH)	San Francisco, CA	135
Shires Memorial Center (SMC)	San Jose, CA	99

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 OCT apartment complex (Project) from OCT in order to refinance, rehabilitate, own, and operate OCLP.

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 consolidating schedules.

Arch Consultants, Ltd

Arch Consultants Ltd (Arch) is a development company that offers planning, project management, and construction consulting services for senior living retirement communities. The Corporation is the sole corporate member of Arch. Effective October 1, 2025, Arch was acquired by the Corporation. Arch is included in the "Arch" column on the consolidating schedules.

Front Porch Communities and Services
Notes to Consolidated Financial Statements
March 31, 2026 and 2025
(In Thousands)

Related Parties

The following related parties are not consolidated into the Corporation:

Front Porch Enterprises, Inc.

Front Porch Enterprises, Inc. (FPE) was created as a California nonprofit corporation in July 2006. FPE was formed to provide support, financial and otherwise, to organizations engaged in housing, health and human services, education, and research and to sponsor affordable housing communities. The Corporation and FPE are not affiliated, though there is overlap in the membership of the two boards. FPE is not included in the 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 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. CTIW was legally dissolved in June 2025.

Principles of Consolidation

The consolidated financial statements include the accounts of the Obligated Group, CARING, FPC Foundation, Sunny View, and Arch. 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, 2026 and 2025, cash equivalents consisted primarily of money market mutual funds of \$20,304 and \$18,207, respectively. These funds are not insured by the Federal Deposit Insurance Corporation (FDIC).

At March 31, 2026, the Corporation's cash accounts exceeded federally insured limits by approximately \$72,925.

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.

Front Porch Communities and Services
Notes to Consolidated Financial Statements
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(In Thousands)

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 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) assets held in charitable remainder trusts and gift annuities; (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, including endowment funds; (e) HUD facility reserves and tenant deposits held in accordance with regulatory agreements governing the operations of certain entities included in 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 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, 2026 and 2025.

Property and Equipment

Property and equipment acquisitions exceeding \$5 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.

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Notes to Consolidated Financial Statements
March 31, 2026 and 2025
(In Thousands)

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, 2026 and 2025.

Goodwill

The Corporation elected the accounting alternative for intangible assets. Under this alternative, certain customer-related intangible assets and noncompetition agreements are subsumed into goodwill and are no longer required to be recognized separately in the accounting for an acquisition.

The Corporation also elected the accounting alternative for amortizing goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Corporation tests goodwill for impairment when there is a triggering event indicating that the fair value of the entity may be below its carrying amount. The Corporation also elected the accounting alternative for evaluating goodwill impairment triggering events and performs a goodwill impairment triggering event evaluation only as of the end of each reporting period.

In testing goodwill for impairment, the Corporation has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

The Corporation recognized goodwill of \$1,830 upon the acquisition of Arch in October 2025, which is included in other assets in the consolidated balance sheets.

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

Front Porch Communities and Services
Notes to Consolidated Financial Statements
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obligations for Type A and Type B contracts are discounted based on the Corporation's weighted-average borrowing rate. As of March 31, 2026 and 2025, 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 12.

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

Development Revenue

Development revenue is recognized as the Corporation satisfies performance obligations under its contracts. 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 services. The Corporation determines the transaction price based on the price set forth in its contracts. Development revenue consists primarily of services provided by Arch and recorded in the other revenue line in the consolidated statement of operations.

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

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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
<i>Conditional gifts, with or without restriction</i> 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>i.e.</i>, the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i> 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 6. Workers' compensation claims are described more fully in Note 7.

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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

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 years ended March 31, 2026 and 2025, 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 consolidated financial statements taken as a whole. The Corporation files tax returns in the U.S. federal jurisdiction.

Subsequent Events

Subsequent events have been evaluated through July 29, 2026, which is the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2025 consolidated financial statements to conform to the 2026 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Revisions

Certain immaterial revisions have been made to the 2025 consolidated financial statements for changes in endowment net assets in Note 14. These revisions did not have a significant impact on the financial statement line items impacted.

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.

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

	<u>2026</u>	<u>2025</u>
Medicare	23%	28%
Medi-Cal (including Medi-Cal managed care payors)	19%	38%
PPO/HMO (other contracted payors)	13%	18%
Patients and other	45%	16%
	<u>100%</u>	<u>100%</u>

Note 3. Investments and Investment Return

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

	<u>2026</u>	<u>2025</u>
Cash and cash equivalents	\$ 38,766	\$ 36,468
Certificates of deposit	2,888	1,890
Commodity mutual funds	21,375	18,919
Other mutual funds	61,216	43,669
U.S. Treasury and U.S. agency securities	29,515	37,470
Equity securities – domestic	164,046	177,435
Equity securities – international	100,698	77,150
Municipal securities	682	1,338
Corporate bonds and commercial paper	63,108	69,248
Alternative investments	15,182	13,677
Beneficial interest in perpetual trust	1,212	1,094
	<u>\$ 498,688</u>	<u>\$ 478,358</u>

The Corporation invests in certain mutual funds that have required holding periods and varying redemption penalties if sold prior to the end of the holding period. However, at March 31, 2026 and 2025, 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, 2026 and 2025 is \$1,212 and \$1,094, 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 consolidated balance sheets.

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

	2026	2025
Held by trustee under indenture agreements for bond fund and other reserves	\$ 15,496	\$ 15,379
HUD facility reserves	24,988	21,901
Charitable remainder trusts and gift annuities	8,565	8,267
Endowment funds	20,851	18,480
Beneficial interest in perpetual trust	1,212	1,094
Community funds	9,259	9,218
	<u>\$ 80,371</u>	<u>\$ 74,339</u>

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

	2026	2025
Interest and dividend income	\$ 15,185	\$ 15,426
Realized gains on sales of securities, net	22,707	46,436
Unrealized gains (losses) on investments valued at fair value, net	15,689	(34,648)
Investment fees	(2,515)	(2,737)
	<u>\$ 51,066</u>	<u>\$ 24,477</u>

The change in net assets with donor restrictions for the years ended March 31, 2026 and 2025 includes investment return of \$2,356 and \$811, respectively.

Note 4. Property and Equipment

A summary of property and equipment is as follows at March 31:

	2026	2025
Land and land improvements	\$ 391,460	\$ 388,047
Buildings and building improvements	1,237,080	1,186,092
Leasehold improvements	7,417	7,343
Equipment	305,350	272,419
Construction in progress	97,507	57,970
	<u>2,038,814</u>	<u>1,911,871</u>
Less accumulated depreciation	<u>744,726</u>	<u>649,611</u>
	<u>\$ 1,294,088</u>	<u>\$ 1,262,260</u>

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Construction in progress includes various projects, many of which will be completed in the next fiscal year. At March 31, 2026, there was one project with a significant construction commitment with an estimated remaining cost of \$33,000.

Note 5. Acquired Intangible Assets

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

	<u>2026</u>	<u>2025</u>
Carrying basis	\$ 78,314	\$ 78,314
Accumulated amortization	<u>(54,256)</u>	<u>(44,634)</u>
	<u>\$ 24,058</u>	<u>\$ 33,680</u>

The calculated life used for the amortization of intangible assets is based on the average remaining life of all leases in place at the time of acquisition. Amortization expense for the years ended March 31, 2026 and 2025 was \$9,622 and \$9,623, respectively. Estimated amortization expense for each of the following two years is \$9,622, and \$4,814 of amortization expense is estimated for year three.

Note 6. Professional and General 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.

The Corporation has accrued \$0 and \$3,060 for the portion of settlement costs as of March 31, 2026 and 2025, respectively, which is included in accounts payable on the consolidated balance sheets. It is reasonably possible this estimate could change materially in the near term.

Note 7. Workers' Compensation

The Corporation self-insures its workers' compensation claims in California. In addition, for the years ended March 31, 2026 and 2025, the Corporation had an excess workers' compensation policy in place for individual claims exceeding \$1,500. This policy had a maximum coverage limit of \$25,000.

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

	<u>2026</u>	<u>2025</u>
Estimated amounts expected to be paid		
Within one year, included in accrued payroll and related expenses	\$ 4,066	\$ 2,787
In excess of one year, included in accrued workers' compensation	<u>6,821</u>	<u>5,559</u>
	<u>\$ 10,887</u>	<u>\$ 8,346</u>

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

The liability for expected workers' compensation claims is presented excluding expected insurance recoveries. Estimated insurance recovery receivables of \$221 and \$386 are included as other receivables in the consolidated balance sheets at March 31, 2026 and 2025, respectively.

Note 8. 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 consolidated balance sheets. FPC Foundation and CARING have recorded a liability at March 31, 2026 and 2025 of \$4,727 and \$4,650, respectively, which represents the present value of the remaining payment obligations. This liability is included in other accrued liabilities on the consolidated balance sheets. The liability has been determined using a discount rate ranging from 0.6% to 7.2%.

Note 9. Line of Credit

In December 2025, the Corporation obtained a \$50,000 revolving line of credit with an accordion of \$50,000, at the Corporation's option, for up to \$100,000 in the aggregate, expiring in 2028. At March 31, 2026, there was \$20,000 borrowed against this line. The revolving line of credit has a variable interest rate plus an applicable margin determined by the lender. The interest rate at March 31, 2026 was 4.71%. Interest is due monthly with the principal due at maturity of December 29, 2028. The line of credit agreement contains various restrictive covenants, which, among other things, require the maintenance of certain financial ratios, including a debt service coverage ratio of 1.20, inclusive of any outstanding balance on the line of credit, in alignment with the Corporation's bonds (see Note 10). The line of credit is collateralized by the gross revenues of the Obligated Group.

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Note 10. Long-Term Debt

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

	<u>2026</u>	<u>2025</u>
Series 2021A Revenue Bonds (A)	\$ 194,790	\$ 195,980
Series 2021B Revenue Bonds (B)	80,960	87,500
Series 2017A Revenue Bonds (C)	93,305	94,485
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)	4,308	4,438
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
Multifamily Housing Revenue Bonds 2005 Series L – OCT (I)	2,320	2,491
HUD Section 221(d)(4) mortgage – BCSH (J)	21,522	21,830
	<u>415,260</u>	<u>424,779</u>
Plus unamortized premium	23,032	24,402
Less unamortized debt issuance costs	(4,075)	(4,324)
Less current maturities	<u>(9,585)</u>	<u>(9,348)</u>
	<u><u>\$ 424,632</u></u>	<u><u>\$ 435,509</u></u>

(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 \$1,719 and \$1,786 at March 31, 2026 and 2025, respectively. The effective interest rate was 3.52% and 3.53% for the years ended March 31, 2026 and 2025, respectively.

(B) Series 2021B Revenue Bonds (Federally Taxable) issued by CSCDA; interest at 0.52% to 2.64%, paid semiannually; principal due in varying installments through 2036, paid annually. Unamortized debt issuance costs were \$679 and \$749 at March 31, 2026 and 2025, respectively. The effective interest rate was 2.23% and 2.16% for the years ended March 31, 2026 and 2025, respectively.

The bonds issued in (A) and (B) were issued 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 \$1,170 and \$1,225 at March 31, 2026 and 2025, respectively. The effective interest rate was 4.50% and 4.51% for the years ended March 31, 2026 and 2025, respectively.

(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

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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) 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, 2025 and 2024 was 5.92%.
- (J) 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) 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 consolidated balance sheets. These entities are also subject to restrictions on acquisition, use, and disposition of the mortgaged property and revenues derived therefrom.

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Scheduled annual principal payments on long-term debt are as follows at March 31, 2026:

2027	\$	9,585
2028		9,838
2029		10,117
2030		10,417
2031		10,735
Thereafter		<u>364,568</u>
	\$	<u><u>415,260</u></u>

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.

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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 are presented below for the years ended March 31:

	<u>Care Center</u>	<u>Residential</u>	<u>Memory Care</u>	<u>Total</u>
2026				
Medicare	\$ 34,665	\$ -	\$ -	\$ 34,665
Medi-Cal	13,422	-	-	13,422
Other third-party payors	4,910	-	-	4,910
Private	15,624	276,478	23,417	315,519
Amortization of entrance fees	-	40,825	-	40,825
	<u>\$ 68,621</u>	<u>\$ 317,303</u>	<u>\$ 23,417</u>	<u>\$ 409,341</u>
2025				
Medicare	\$ 26,818	\$ -	\$ -	\$ 26,818
Medi-Cal	13,600	-	-	13,600
Other third-party payors	4,876	-	-	4,876
Private	15,395	256,533	21,529	293,457
Amortization of entrance fees	-	39,626	-	39,626
	<u>\$ 60,689</u>	<u>\$ 296,159</u>	<u>\$ 21,529</u>	<u>\$ 378,377</u>

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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, 2026 and 2025, 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:

<u>April 1, 2025</u>	<u>Additions</u>	<u>Refunds</u>	<u>Amortization</u>	<u>March 31, 2026</u>
\$ 244,969	\$ 41,993	\$ (3,811)	\$ (40,825)	\$ 242,326
<u>April 1, 2024</u>	<u>Additions</u>	<u>Refunds</u>	<u>Amortization</u>	<u>March 31, 2025</u>
\$ 241,991	\$ 47,507	\$ (4,903)	\$ (39,626)	\$ 244,969

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

	<u>2026</u>	<u>2025</u>
Resident and patient accounts receivable, beginning of year	\$ 12,471	\$ 10,445
Resident and patient accounts receivable, end of year	\$ 12,168	\$ 12,471

Financing Component

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

Contract Costs

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

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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:

	<u>2026</u>	<u>2025</u>
Resident assistance and special projects	\$ 6,758	\$ 8,446
Scholarships	3,035	2,226
Trusts and annuities	4,467	4,255
Other	12,136	10,008
Investments to be held in perpetuity, the income is expendable	<u>15,628</u>	<u>14,186</u>
	<u>\$ 42,024</u>	<u>\$ 39,121</u>

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

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

	<u>2026</u>	<u>2025</u>
Resident assistance and operations	\$ 1,750	\$ 1,196
Scholarships	189	214
Community fund and other	<u>2,588</u>	<u>3,073</u>
	<u>\$ 4,527</u>	<u>\$ 4,483</u>

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Note 13. Net Assets Without Donor Restrictions

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

	2026	2025
Innovation Fund	\$ 1,906	\$ 1,906
Affordable Housing Fund	800	800
Dr. Darby Betts Fund	1,428	1,428
Resident assistance and special projects	12,740	12,907
Restricted deposits and funded reserves	14,777	14,524
Other funds	45	45
	<u>\$ 31,696</u>	<u>\$ 31,610</u>

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:

- Duration and preservation of the fund
- Purposes of the Corporation and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from investment income and appreciation or depreciation of investments
- Other resources of the Corporation
- Investment policies of the Corporation

The endowment funds at March 31, 2026 and 2025 were entirely donor-restricted endowment funds and are reflected in the consolidated balance sheets as net assets with donor restrictions of \$21,498 and \$18,884, respectively.

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Changes in endowment net assets were as follows for the years ended March 31:

Endowment net assets, April 1, 2024	\$	18,398
Investment return		295
Contributions		569
Appropriation of endowment assets for expenditure		<u>(378)</u>
Endowment net assets, March 31, 2025		18,884
Investment return		2,145
Contributions		991
Appropriation of endowment assets for expenditure		<u>(522)</u>
Endowment net assets, March 31, 2026	\$	<u><u>21,498</u></u>

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.

Note 15. Liquidity and Availability

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

	<u>2026</u>	<u>2025</u>
Cash and cash equivalents	\$ 75,479	\$ 95,660
Investments	418,317	404,019
Resident and patient accounts receivable	12,168	12,471
Other receivables	<u>1,024</u>	<u>1,189</u>
Financial assets available to meet general expenditures within one year	<u>\$ 506,988</u>	<u>\$ 513,339</u>

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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.

In addition to financial assets available to meet general expenditures within one year, the Corporation maintains a revolving line of credit with a financial institution to manage short-term liquidity needs. This line has a current borrowing capacity of \$50,000 with an option by the Corporation for an accordion up to \$100,000, bears interest at a variable rate equal to SOFR plus 1.03%, and matures on December 29, 2028 (see Note 9).

As of March 31, 2026, \$20,000 was borrowed under the line of credit and the remaining \$30,000 is available to the Corporation, with an additional \$50,000 available upon request by the Corporation as noted above.

The Corporation's management has a liquidity management plan that includes maintaining adequate cash reserves and available borrowing capacity under the line of credit to meet anticipated operating expenses and obligations as they come due.

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 \$5,084 and \$4,229 for the years ended March 31, 2026 and 2025, 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.

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

	Residential and Healthcare Services	Program Services	General and Administrative	Total
2026				
Salaries and wages	\$ 115,723	\$ -	\$ 43,510	\$ 159,233
Employee benefits	46,416	-	20,055	66,471
Professional services	22,636	-	18,382	41,018
Supplies and other	84,610	3,413	19,219	107,242
Depreciation and amortization	101,410	-	10,254	111,664
Interest and other financing costs	7,856	-	5,661	13,517
Total expenses	<u>\$ 378,651</u>	<u>\$ 3,413</u>	<u>\$ 117,081</u>	<u>\$ 499,145</u>
2025				
Salaries and wages	\$ 108,036	\$ -	\$ 40,252	\$ 148,288
Employee benefits	41,901	-	14,964	56,865
Professional services	19,339	-	14,120	33,459
Supplies and other	78,803	2,355	20,887	102,045
Depreciation and amortization	93,505	-	4,878	98,383
Interest and other financing costs	7,909	-	5,101	13,010
Total expenses	<u>\$ 349,493</u>	<u>\$ 2,355</u>	<u>\$ 100,202</u>	<u>\$ 452,050</u>

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 Covia Communities (a California nonprofit public benefit corporation that merged into the Corporation effective April 1, 2022) 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 Covia 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 \$5,064 and \$4,803 for the years ended March 31, 2026 and 2025, respectively.

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

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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.

The Corporation also maintains, for certain key legacy Covia Communities employees, 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, 2026 and 2025, \$43 and \$291, respectively, of deferred compensation is accrued and included in other accrued liabilities in the consolidated balance sheets.

Defined Benefit Plan

The Corporation has a noncontributory defined benefit pension plan that provides benefits under retirement annuity contracts for legacy Covia 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:

	2026	2025
Change in benefit obligation		
Beginning of year	\$ 48,515	\$ 47,701
Interest cost	2,471	2,347
Actuarial (gain) loss	(699)	1,307
Benefits paid	(2,796)	(2,840)
End of year	47,491	48,515
Change in fair value of plan assets		
Beginning of year	54,275	54,514
Actual return on plan assets	2,322	2,601
Benefits paid	(2,796)	(2,840)
End of year	53,801	54,275
Funded status at measurement date	\$ 6,310	\$ 5,760

The net pension asset is recognized in the 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 \$5,598 and \$6,594 during 2026 and 2025, respectively. The accumulated benefit obligation for the plan was \$47,491 and \$48,515 at March 31, 2026 and 2025, respectively.

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Components of net periodic benefit cost are:

	<u>2026</u>	<u>2025</u>
Interest cost	\$ 2,471	\$ 2,347
Expected return on plan assets	(2,198)	(2,599)
Amortization of net loss	<u>173</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 446</u>	<u>\$ (252)</u>

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

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

	<u>2026</u>	<u>2025</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions		
Net actuarial (gain) loss	\$ (823)	\$ 1,304
Amortization of net gain	<u>(173)</u>	<u>-</u>
Amount recognized in net assets without donor restrictions at measurement date	<u>\$ (996)</u>	<u>\$ 1,304</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions at measurement date	<u>\$ (550)</u>	<u>\$ 1,052</u>

The estimated net gain or loss that will be amortized into net periodic benefit cost over the next fiscal year is a net loss of \$173. Significant assumptions include:

	<u>2026</u>	<u>2025</u>
Actuarial present value of the benefit obligation		
Weighted-average discount rate	5.46%	5.28%
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	5.28%	5.10%
Rate of increase in future compensation levels	N/A	N/A
Long-term rate of return on plan assets	5.00%	5.00%

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.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of March 31, 2026:

2027	\$	3,240
2028	\$	3,510
2029	\$	3,460
2030	\$	3,370
2031	\$	3,580
2032–2036	\$	16,910

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:

	2026	2025
Equity securities	10%	10%
Fixed income securities	90%	90%
Total	100%	100%

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. Plan assets by class are as follows at March 31:

	2026	2025
Equity securities	10%	10%
Fixed income securities	90%	90%
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 consolidated balance sheets as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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

		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)
	Fair Value			
2026				
Mutual funds				
Money market	\$ 206	\$ 206	\$ -	\$ -
International equity	317	317	-	-
Collective investment trusts	53,278	-	53,278	-
Total assets at measurement date	<u>\$ 53,801</u>	<u>\$ 523</u>	<u>\$ 53,278</u>	<u>\$ -</u>
2025				
Mutual funds				
Money market	\$ 526	\$ 526	\$ -	\$ -
International equity	327	327	-	-
Collective investment trusts	53,422	-	53,422	-
Total assets at measurement date	<u>\$ 54,275</u>	<u>\$ 853</u>	<u>\$ 53,422</u>	<u>\$ -</u>

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Note 19. Disclosures About Fair Value of Assets

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the 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		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
2026				
Financial assets				
Equities – domestic	\$ 164,046	\$ 164,046	\$ -	\$ -
Equities – international	100,698	100,698	-	-
Certificates of deposit	2,888	-	2,888	-
Commodity mutual funds	21,375	21,375	-	-
Other mutual funds	61,216	61,216	-	-
U.S. Treasury and U.S. agency securities	29,515	13,854	15,661	-
Corporate bonds and commercial paper	63,108	42,200	20,908	-
Municipal securities	682	-	682	-
Beneficial interest in perpetual trust	1,212	-	-	1,212
	444,740	<u>\$ 403,389</u>	<u>\$ 40,139</u>	<u>\$ 1,212</u>
Investments valued at NAV (A)				
Limited partnership	15,182			
Cash and cash equivalents (at cost)	<u>38,766</u>			
Total investments and assets limited as to use	<u>\$ 498,688</u>			
Receivable from supporting organization	<u>\$ 803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 803</u>

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		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)
	Fair Value			
2025				
Financial assets				
Equities – domestic	\$ 177,435	\$ 177,435	\$ -	\$ -
Equities – international	77,150	77,150	-	-
Certificates of deposit	1,890	-	1,890	-
Commodity mutual funds	18,919	18,919	-	-
Other mutual funds	43,669	43,669	-	-
U.S. Treasury and U.S. agency securities	37,470	19,406	18,064	-
Corporate bonds and commercial paper	69,248	48,965	20,283	-
Municipal securities	1,338	-	1,338	-
Beneficial interest in perpetual trust	1,094	-	-	1,094
	428,213	<u>\$ 385,544</u>	<u>\$ 41,575</u>	<u>\$ 1,094</u>
Investments valued at NAV (A) Limited partnership	13,677			
Cash and cash equivalents (at cost)	<u>36,468</u>			
Total investments and assets limited as to use	<u>\$ 478,358</u>			
Receivable from supporting organization	<u>\$ 803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 803</u>

(A) 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 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 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, 2026. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. 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. 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:

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
2026				
Limited partnerships	\$ 15,182	\$ -	Quarterly	10 days
2025				
Limited partnership	\$ 13,677	\$ -	Quarterly	10 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 the NAV per share of investments at the percentage of the Corporation's ownership shares. At March 31, 2026 and 2025, the timing of liquidation of these assets and the date when restrictions from redemption might lapse was 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.

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 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.

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

	<u>2026</u>	<u>2025</u>
Balance, beginning of year	\$ 1,626	\$ 1,642
Change in estimate and accretion expense	<u>(41)</u>	<u>(16)</u>
Balance, end of year	<u>\$ 1,585</u>	<u>\$ 1,626</u>

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 consolidated balance sheets.

Self-Insurance Claims

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

Litigation

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

Regulatory Matters

The 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.

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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, 2026 and 2025. 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 \$18,233 and \$18,711 at March 31, 2026 and 2025, respectively, and is recorded as current other accrued expenses in the 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, 2026 are \$142,121 and \$18,531, respectively. Entrance fees subject to refund or reoccupancy and actual refunds disbursed as of and for the year ended March 31, 2025 are \$143,500 and \$16,095, 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 consolidated financial statements. See Note 1 for further description of these leases.

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The Corporation has leases for office space at various locations that expire in various years through 2036. 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, 2026 and 2025.

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 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 balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Quantitative Disclosures

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

	2026	2025
Operating lease cost	\$ 2,159	\$ 2,411
Short-term lease cost	1,250	725
Total lease cost	<u>\$ 3,409</u>	<u>\$ 3,136</u>
Other required information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,912	\$ 1,717
ROU assets obtained in exchange for new operating lease liabilities	\$ 269	\$ 8,714
Weighted-average remaining lease term		
Operating leases	7.49 years	7.80 years
Weighted-average discount rate		
Operating leases	4.6%	4.5%

Front Porch Communities and Services
Notes to Consolidated Financial Statements
March 31, 2026 and 2025
(In Thousands)

Future minimum lease payments and reconciliation to the consolidated balance sheet are as follows at March 31, 2026:

	Operating Leases
2027	\$ 1,602
2028	1,561
2029	1,483
2030	1,397
2031	1,267
Thereafter	4,159
	<u>11,469</u>
Less interest	<u>1,802</u>
Operating lease liabilities	<u><u>\$ 9,667</u></u>

Supplementary Information

Front Porch Communities and Services
Consolidating Schedule – Balance Sheet Information
March 31, 2026
(In Thousands)

	Obligated Group	Foundation	Affordable Housing	Arch	Eliminations	Consolidated
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 26,722	\$ 1,930	\$ 44,247	\$ 2,580	\$ -	\$ 75,479
Short-term investments	1,438	699	-	-	-	2,137
Assets limited as to use – required for current liabilities	15,511	-	39	-	-	15,550
Resident and patient accounts receivable	10,868	-	1,300	-	-	12,168
Prepaid expenses and other	14,098	306	2,475	559	-	17,438
Intercompany receivables	2,925	-	-	-	(2,925)	-
Total Current Assets	71,562	2,935	48,061	3,139	(2,925)	122,772
Investments						
Assets limited as to use, net of current portion	994	39,888	23,939	-	-	64,821
Long-term investments	373,953	25,404	19,789	-	(2,966)	416,180
Total Investments	374,947	65,292	43,728	-	(2,966)	481,001
Property and Equipment, Net	1,033,979	12	261,980	14	(1,897)	1,294,088
Other Assets						
Right-of-use assets – operating leases	8,694	-	2,147	-	(2,147)	8,694
Other receivables	1,024	-	-	-	-	1,024
Other assets	18,526	-	177	1,739	-	20,442
In-place leases	24,058	-	-	-	-	24,058
Net pension asset	6,310	-	-	-	-	6,310
Total Other Assets	58,612	-	2,324	1,739	(2,147)	60,528
Total Assets	\$ 1,539,100	\$ 68,239	\$ 356,093	\$ 4,892	\$ (9,935)	\$ 1,958,389
LIABILITIES AND NET ASSETS						
Current Liabilities						
Current maturities of long-term debt	\$ 9,130	\$ -	\$ 455	\$ -	\$ -	\$ 9,585
Current portion of operating lease liabilities	1,602	-	114	-	(114)	1,602
Accounts payable	31,310	13	1,360	27	(33)	32,677
Accrued payroll and related expenses	22,299	-	591	119	-	23,009
Intercompany payables	-	727	871	1,315	(2,913)	-
Accrued interest	6,383	-	805	-	-	7,188
Other accrued expenses	23,095	-	1,131	-	-	24,226
Total Current Liabilities	93,819	740	5,327	1,461	(3,060)	98,287
Other Liabilities						
Asset retirement obligations	1,585	-	-	-	-	1,585
Accrued workers' compensation	6,654	-	167	-	-	6,821
Operating lease liabilities	8,065	-	2,033	-	(2,033)	8,065
Other accrued liabilities	8,650	4,204	4,082	-	(120)	16,816
Refundable entrance fees	123,888	-	-	-	-	123,888
Deferred revenue from entrance fees	242,326	-	-	-	-	242,326
Line of credit	20,000	-	-	-	-	20,000
Long-term debt	379,345	-	45,287	-	-	424,632
Total Liabilities	884,332	4,944	56,896	1,461	(5,213)	942,420
Net Assets						
Without donor restrictions	653,514	22,664	299,058	3,431	(4,722)	973,945
With donor restrictions	1,254	40,631	139	-	-	42,024
Total Net Assets	654,768	63,295	299,197	3,431	(4,722)	1,015,969
Total Liabilities and Net Assets	\$ 1,539,100	\$ 68,239	\$ 356,093	\$ 4,892	\$ (9,935)	\$ 1,958,389

Front Porch Communities and Services
Consolidating Schedule – Statement of Operations Information
Year Ended March 31, 2026
(In Thousands)

	Obligated Group	Foundation	Affordable Housing	Arch	Eliminations	Consolidated
Revenues, Gains, and Other Support Without Donor Restrictions						
Resident and patient service revenue	\$ 368,683	\$ -	\$ -	\$ -	\$ (167)	\$ 368,516
Amortization of entrance fees	40,825	-	-	-	-	40,825
Affordable housing fees and rents	-	-	33,106	-	-	33,106
Other	1,953	1,761	1,011	2,933	(5,850)	1,808
Net assets released from restrictions used for operations	-	4,511	-	-	-	4,511
Total Revenues, Gains, and Other Support Without Donor Restrictions	411,461	6,272	34,117	2,933	(6,017)	448,766
Expenses						
Medical services	87,290	-	808	-	-	88,098
Facility operating costs	50,429	-	7,204	-	-	57,633
Dietary services	71,858	-	793	-	(167)	72,484
Residential services	38,619	-	3,835	-	-	42,454
Administrative services	93,548	564	5,963	1,608	(963)	100,720
Depreciation	94,960	-	5,786	1	-	100,747
Amortization of deferred costs	193	-	43	-	-	236
Interest expense and other financing costs	11,463	-	2,054	-	-	13,517
Program expenses	-	6,050	-	-	(2,637)	3,413
Other	7,792	-	1,143	175	(394)	8,716
Total Expenses	456,152	6,614	27,629	1,784	(4,161)	488,018
Operating Income (Loss) Before Other Operating Activities	(44,691)	(342)	6,488	1,149	(1,856)	(39,252)
Other Operating Activities						
Amortization of acquired intangible assets and other	(10,589)	-	-	(92)	-	(10,681)
Gain on sale of property	500	(3)	-	-	-	497
Total Other Operating Activities	(10,089)	(3)	-	(92)	-	(10,184)
Operating Income (Loss)	(54,780)	(345)	6,488	1,057	(1,856)	(49,436)
Other Income (Expense)						
Investment return, net	45,227	4,285	1,554	-	-	51,066
Other components of net periodic benefit cost	(446)	-	-	-	-	(446)
Loss on uncollectible contribution	-	-	(310)	-	-	(310)
Total Other Income (Expense)	44,781	4,285	1,244	-	-	50,310
Excess (Deficiency) of Revenues Over Expenses	(9,999)	3,940	7,732	1,057	(1,856)	874
Net Assets Released From Restrictions Used for Purchase of Property and Equipment	-	16	-	-	-	16
Contributions From Affiliates	16	-	-	2,374	(2,390)	-
Change in Pension Benefit Obligation	996	-	-	-	-	996
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ (8,987)	\$ 3,956	\$ 7,732	\$ 3,431	\$ (4,246)	\$ 1,886