Harrogate, Incorporated

Financial Statements

December 31, 2023 and 2022

Harrogate, Incorporated

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Independent Auditors' Report

To the Board of Trustees of
Harrogate, Incorporated

Opinion

We have audited the financial statements of Harrogate, Incorporated (the Corporation), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2023 and 2022, and the results of its operations, changes in its net deficit and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditors' Responsibilities for the Audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 1, 2024

Harrogate, Incorporated

Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Cash	$ 869,001	$ 2,676,107
Accounts receivable, net	1,646,516	1,696,379
Prepaid and other current assets	346,743	362,565
Investments	2,075,128	2,685,932
Assets limited as to use	1,686,076	513,777
Interest rate swaps	552,737	770,941
Property and equipment, net	24,045,138	23,593,726
Other assets	969,306	867,794
Total assets	$ 32,190,645	$ 33,167,221
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable and accrued expenses	$ 2,279,366	$ 1,418,743
Long-term debt, net of unamortized financing costs	10,095,689	9,404,688
Refundable entrance fees	28,958,843	29,203,959
Other liabilities	320,753	217,721
Deferred nonrefundable entrance fees, net	9,440,890	10,031,789
Total liabilities	51,095,541	50,276,900
Net Assets (Deficit)		
Without donor restrictions	(20,097,551)	(18,651,234)
With donor restrictions	1,192,655	1,541,555
Total net assets (deficit)	(18,904,896)	(17,109,679)
Total liabilities and net assets (deficit)	$ 32,190,645	$ 33,167,221

See notes to financial statements

Harrogate, Incorporated

Statements of Operations and Changes in Net Deficit
Years Ended December 31, 2023 and 2022

	2023	2022
Changes in Net Deficit Without Donor Restrictions		
Revenue and other support:		
Monthly service fees:		
Independent living	$ 11,597,943	$ 10,636,964
Health center	6,533,776	5,129,243
Deferred entrance fees recognized	2,045,129	2,229,723
Interest and dividends	80,217	79,434
Contributions	187,831	106,037
Other	5,021	2,572
Net assets released from restrictions for operations	113,603	67,890
Total revenue and other support	20,563,520	18,251,863
Expenses:		
Salaries	8,683,520	7,881,007
Employee benefits	1,070,028	1,012,154
Payroll taxes	1,017,766	800,317
General and administrative	3,153,513	3,040,987
Bad debt expense	200,139	212,370
Interest	660,038	525,551
Supplies and other	3,235,073	2,853,496
Food and food supplies	1,169,537	1,106,541
Depreciation and amortization	2,753,944	2,662,489
Total expenses	21,943,558	20,094,912
Operating loss	(1,380,038)	(1,843,049)
Investment gain (loss), net	96,724	(154,665)
Loss on disposal of property and equipment	(238,859)	(371,741)
Change in value of split-interest agreements	(1,552)	228,053
Revenues less than expenses before change in value of interest rate swaps and net assets released from restrictions for capital	(1,523,725)	(2,141,402)
Net assets released from restrictions for capital	295,612	44,700
Change in value of interest rate swaps	(218,204)	963,677
Change in net deficit without donor restrictions	(1,446,317)	(1,133,025)
Change in Net Assets With Donor Restrictions		
Interest and dividends	19,092	20,875
Contributions	11,074	697,945
Net assets released from restrictions	(409,215)	(112,590)
Investment return	30,149	(49,371)
Change in net assets with donor restrictions	(348,900)	556,859
Change in net deficit	(1,795,217)	(576,166)
Net Deficit, Beginning	(17,109,679)	(16,533,513)
Net Deficit, Ending	$ (18,904,896)	$ (17,109,679)

See notes to financial statements

Harrogate, Incorporated

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net deficit	$ (1,795,217)	$ (576,166)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Loss on disposal of property and equipment	238,859	371,741
Proceeds from nonrefundable entrance fees	1,607,222	3,145,607
Refundable entrance fees applied to financial assistance	62,866	55,296
Unrealized (gain) loss on investments and assets limited as to use	(139,701)	190,852
Loss on sale of investments and assets limited as to use	12,828	13,184
Bad debts and financial assistance	497,960	539,493
Depreciation and amortization	2,753,944	2,662,489
Amortization of deferred financing costs	41,101	41,101
Change in value of split interest agreements	1,552	(228,053)
Fair value of donated securities	-	(666,686)
Change in value of interest rate swap contracts	218,204	(963,677)
Amortization of deferred application and entrance fees	(2,045,129)	(2,229,723)
Changes in operating assets and liabilities:		
Accounts receivable	(464,141)	(400,023)
Prepaid and other current assets	15,822	(23,782)
Accounts payable and accrued expenses	860,623	(338,543)
Other liabilities	25,110	-
Deferred gift plans support	(2,300)	(32,200)
Net cash provided by operating activities	1,889,603	1,560,910
Cash Flows From Investing Activities		
Purchases of property and equipment	(3,289,930)	(3,278,616)
Costs of acquiring contracts	(177,127)	(343,091)
Purchase of investments and assets limited as to use	(2,556,749)	(2,964,876)
Proceeds from sale of investments and assets limited as to use	3,297,091	2,999,536
Net cash used in investing activities	(2,726,715)	(3,587,047)
Cash Flows From Financing Activities		
Repayment of mortgage bonds payable	(160,100)	(139,700)
Proceeds from long-term debt	810,000	2,190,000
Proceeds from refundable entrance fees	3,212,792	3,522,610
Refunds of deposits and refundable advances	(3,657,722)	(4,202,535)
Net cash provided by financing activities	204,970	1,370,375
Net decrease in cash	(632,142)	(655,762)
Cash and Restricted Cash and Cash Equivalents, Beginning	3,092,584	3,748,346
Cash and Restricted Cash and Cash Equivalents, Ending	$ 2,460,442	$ 3,092,584
Supplemental Disclosure of Cash Flow Data		
Interest paid	$ 607,196	$ 421,241
Reconciliation of Cash and Restricted Cash and Cash Equivalents to the Balance Sheets		
Cash in current assets	$ 869,001	$ 2,676,107
Cash and cash equivalents in assets limited as to use	1,591,441	416,477
	$ 2,460,442	$ 3,092,584

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Harrogate, Incorporated (the Corporation) was formed as a nonprofit corporation in the State of New Jersey on September 14, 1982 and is located in Lakewood, New Jersey. The sole function of the Corporation is to provide resident housing, skilled nursing care, maintenance and medical assistance for qualified senior citizens. This community operates under the life care concept in which residents enter into an occupancy agreement which requires payment of a one-time entrance fee and a monthly fee. Generally, these payments entitle residents to the use and privileges of the community. The residents do not acquire an interest in real estate and property. The Corporation provides a life care retirement community for individuals 62 years of age or older and is composed of 253 apartments and a health center containing 68 skilled nursing care beds.

Use of Estimates

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

Cash and Cash Equivalents

The Corporation considers all highly liquid financial instruments with maturities of three months or less at date of purchase to be cash equivalents, except for those classified as assets limited as to use and investments. For purposes of the statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less.

Investments and Investment Risk

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenues and other support less than expenses unless the income or loss is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation 's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheets are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Assets Limited as to Use

The Corporation separately accounts for and reports various funds which are restricted by third parties for specific purposes. These assets are recorded at fair value which is determined by reference to quoted market prices at December 31, 2023 and 2022.

Accounts Receivable

The Corporation assesses collectability on all resident accounts prior to providing services. Accounts receivable are reported net of an allowance for credit losses to present the Corporation's estimate of expected losses as of the balance sheets date. The adequacy of the Corporation's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivables portfolios by payor source and aging of receivables, a review of specific accounts, as well as expected future economic conditions and market trends and adjustments are made to the allowance as necessary.

Concentrations of Credit Risk

The Corporation maintains cash accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not subject to any significant credit risk on its cash accounts.

The Corporation grants credit without collateral to its residents, primarily related to providing residential and healthcare related services. Credit risk related to accounts receivable, residents is limited due to the fact that open balances are deducted from any refundable portion of entrance fees payable to the departing resident or their estate upon re-occupancy. An allowance for credit losses is provided when there are no entrance fees payable to a resident or when an outstanding balance exceeds the entrance fee payable and management determines that the resident's account may not be collectible. If an existing resident is unable to pay the monthly service fee, the resident can apply for financial assistance. The Corporation charges the difference between what the resident can pay and the monthly service fee to financial assistance. For the years ended December 31, 2023 and 2022, financial assistance was $297,821 and $327,124, respectively.

The Corporation's health center includes patients who are residents of the community as well as individuals from outside of the community. Health care services are covered by private pay, Medicare and other supplemental insurance. In evaluating the collectability of health center receivables, the Corporation analyzes its past history and identifies trends for each of its major payor sources or revenue to estimate the appropriate allowance for credit losses. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of allowance for credit losses.

At December 31, 2023 and 2022, the total allowance for credit losses was $206,214 and $135,773, respectively.

The mix of receivables from residents, patients and third-party payers at December 31, 2023 and 2022 was as follows:

	2023	2022
Medicare and supplemental insurance	50 %	59 %
Residents and other accounts receivable	50	41
Total	100 %	100 %

Performance Indicator

The statements of operations and changes in net deficit includes revenues less than expenses as the performance indicator. Changes in net deficit without donor restrictions, which are excluded from revenues less than expenses, consistent with industry practice, include the change in the value of the interest rate swaps and net assets released from donor restrictions for capital.

Interest Rate Swap Contracts

The Corporation uses interest rate swap contracts to manage risks related to interest rate movements. The Corporation recognizes its interest rate swap contracts as derivatives, which are recognized on the balance sheets at fair value at the end of each period. The interest rate swap contracts are designated as and meet all of the criteria for a cash flow hedge.

The Corporation documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Corporation's interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap contracts to convert the variable rate debt to a fixed rate and not for speculative purposes. The Corporation anticipates that the contracts will continue to be effective.

Costs of Acquiring Contracts

The Corporation capitalizes the costs directly associated with obtaining each residency agreement (see Note 3). Capitalized costs consist of commissions paid out to marketing staff and packing and moving expenses incurred on specific resident contracts. These costs are recorded as costs of acquiring contracts and are amortized over the expected life of the resident. The account is written down to zero when the residency agreement is terminated due to resident death or move out. As of December 31, 2023 and 2022, costs of acquiring contracts amounted to approximately $882,000 and $799,000, respectively, which is included in other assets on the balance sheets. Amortization expense related to these capitalized costs amounted to $154,285 and $144,585 for the years ended December 31, 2023 and 2022, respectively, and are included in depreciation and amortization expense.

Obligation to Provide Future Services

The Corporation periodically calculates the present value of the net cost of future service and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net obligation to provide future service and use of facilities (discounted at 6.0%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. Deferred revenue from entrance fees exceeded the calculation of the present value of the net cost of future services. Therefore, an additional liability for an obligation to provide future services and use of facilities is not required as of December 31, 2023 and 2022.

Endowment Funds

The Corporation has determined that the New Jersey Uniform Prudent Management of Institutional Funds Act (NJUPMIFA), an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), applies to the Corporation's endowment funds.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Depreciation and amortization are computed using the straight-line method principally over the following estimated useful lives:

	Years
Land and building improvements	20
Buildings	25-40
Furniture, fixtures and equipment	5-15
Vehicles	3-5

The Corporation reviews its long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable.

Charitable Gift Annuities

The Corporation provides programs to fund gift annuity contracts for individuals desiring to participate. The Corporation is required, by state mandate, to establish a reserve which amounted to approximately $119,000 and $120,000 at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the Corporation has approximately $135,000 and $120,000, respectively, in assets limited to use for the gift annuity contracts.

Advertising Costs

The Corporation expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations were approximately $470,000 and $545,000 in 2023 and 2022, respectively.

Deferred Financing Costs

Deferred financing costs consist of debt origination and related fees and are presented in the balance sheets as a direct deduction from the carrying amount of the debt balances to which such costs relate. Amortization of deferred financing costs is amortized using the straight-line method, which approximates the effective interest rate method, over the term of the debt. Amortization of these costs is included with interest expense in the statements of operations and changes in net deficit.

Functional Allocation of Expenses

The costs of providing the Corporation's programs and supporting services have been summarized on a functional basis in the statements of operations and changes in net deficit. Costs that can be identified with a specific program or support service are charged directly to that program or support service. Staff costs are allocated based on time and effort. Costs associated with occupancy are allocated based upon square footage. Management and general expenses include costs not identifiable with any specific program, but which provide for the overall support and direction of the Corporation.

Net Assets (Deficit)

The accompanying financial statements present information regarding the Corporation's financial position and operations according to two classes of net assets based on the existence or absence of donor-imposed restrictions. The two categories are differentiated as follows:

Without Donor Restrictions - Net assets (deficit) without donor restrictions represent funds available for support of the Corporation's functions and operations that are not externally restricted for identified purposes by donors. Net assets (deficit) without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Corporation and an outside party other than a donor.

With Donor Restrictions - Net assets (deficit) with donor restrictions are those whose use by the Corporation has been limited by donors to a specific period or purpose. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions, or when the stipulated time has passed. Other donor-imposed restrictions on net assets are permanent in nature. These net assets have been restricted by donors to be maintained in perpetuity. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restrictions is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets (deficit) without donor restrictions.

Revenue Recognition

Monthly Service Fee Income

Monthly service fee income is reported at the amount that the Corporation expects to be entitled in exchange for providing residential services and amenities as well as health care services. Residential and medical services are provided to residents in accordance with signed residency agreements (see Note 3). Health care services are also provided to nonresidents with payment due from patients and third-party payors (including health insurers and government programs). Residents are billed a monthly fee for services and nonresidents or third-party payors are billed several days after services are performed. Revenue is recognized as performance obligations are satisfied.

The performance obligation for residents under a residential agreement is that the Corporation is standing ready each month to provide residential and medical services to the resident based on his or her needs. The performance obligation is satisfied over time and is recognized based on the monthly service fee amounts. The monthly service fees are specified in the resident agreement and are the transaction price as they are considered a monthly option to extend the contract.

The performance obligation for nonresidents is satisfied over time as patients in the health center receive inpatient acute care services. Revenue is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation measures the performance obligation from admission into the health center to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge.

The Corporation determines the transaction price for nonresidents in the health center based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements and historical experience.

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 - Certain health care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules.

Other - Payment agreements with certain commercial insurance carriers provide payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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

The composition of service fee income by primary payor for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Residents, independent living	$ 11,597,943	$ 10,636,964
Residents, health center	2,252,283	1,944,803
Private pay, health center	1,255,739	688,196
Medicare, health center	2,438,519	1,840,676
Other insurance, health center	587,235	655,568
Total	$ 18,131,719	$ 15,766,207

The composition of service fee income based on its line of business for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Independent living	$ 11,597,943	$ 10,636,964
Health center	6,533,776	5,129,243
Total	$ 18,131,719	$ 15,766,207

Contributions

Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Corporation has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Corporation fails to overcome the barrier. The Corporation recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contributions without donor restrictions.

Entrance Fees

Upon occupancy, the nonrefundable deferred portion of the entrance fees is amortized on the straight-line basis to income over the estimated remaining life of the residents. The refundable portion of the entrance fees, which are refunded upon reoccupancy, is included in refundable entrance fees until the refunds are paid.

Income Taxes

The Corporation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. The Corporation is also exempt from state and local income taxes.

The Corporation's federal and state income tax returns prior to calendar year 2020 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. There were no uncertain tax positions at December 31, 2023 and 2022.

The Corporation's policy is to recognize interest related to tax matters in interest expense and penalties in operating expenses.

Accounting Standard Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. On January 1, 2023, the Corporation adopted the ASU using the modified retrospective transition approach in the period of adoption. There was no adjustment to net assets upon adoption.

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

Subsequent Events

The Corporation has evaluated subsequent events through April 1, 2024, which is the date the financial statements were available to be issued.

2. Liquidity and Availability

Financial assets available for general expenditure within one year consist of the following:

	2023	2022
Financial assets at year-end:		
Cash	$ 869,001	$ 2,676,107
Accounts receivable, net	1,646,516	1,696,379
Investments	2,075,128	2,685,932
Assets limited as to use	1,686,076	513,777
Total financial assets	6,276,721	7,572,195
Less amounts not available to be used within one year:		
Board-designated endowment fund	64,396	200,340
Net assets with donor restrictions	1,192,655	1,541,555
Assets limited as to use	1,686,076	513,777
Financial assets not available to be used within one year	2,943,127	2,255,672
Financial assets available to meet general expenditures within one year	$ 3,333,594	$ 5,316,523

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources.

The Corporation has various sources of liquidity at its disposal including cash, investments and a steady revenue stream from its monthly resident service fees. Refunds due on return of capital residency agreements are not required to be repaid until the unit is reoccupied. The Corporation has invested a portion of its resources without restrictions in long-term investments, but these funds remain available and may be spent if needed. Although the Board of Trustees does not intend to spend the $64,396 Board-designated endowment fund, the funds could be made available if necessary.

3. Entrance Fee Deposits, Residency Agreements and Monthly Service Fees

When a residency agreement (the Agreement) is signed, a deposit of at least 10% of the entrance fee is collected. The balance of the fee is payable prior to occupancy, but no later than 90 days from the date of the Agreement. Generally, depositors may cancel their Agreement at any time prior to admission and receive a full refund of the entrance deposit with interest.

After occupancy, residents may terminate the Agreement at any time by giving 60 days' written notice. In the event of such termination, entrance amounts will be refunded as follows:

1. On a declining balance basis reduced by 1% per month of residency or 2% - 4% per month of residency in the event the termination of the Agreement is due to the death of the resident (Traditional Residency Agreement), upon reoccupancy; or

2. On a fixed percentage (90%, 75% or 50%) basis should the resident elect to leave the community or upon the death of the resident (90%, 75% or 50% Return of Capital Residency Agreement), upon reoccupancy.

At December 31, 2023 and 2022, deposits of $126,083 and $123,376, respectively, have been received from future residents who have signed Agreements. Funds on deposit are generally classified as assets limited as to use until the final balance is collected from the resident.

As of December 31, 2023 and 2022, approximately $40,189,000 and $40,272,000, respectively, of Agreements were in place. The Agreements obligate the Corporation to provide residents the use of an apartment and the right to care in the health center until termination of the Agreement.

As part of the Agreement, residents are charged monthly service fees based upon rates established by the Corporation on an annual basis.

4. Property and Equipment

Property and equipment are stated at cost and consist of the following:

	2023	2022
Land	$ 2,074,852	$ 2,074,852
Land and building improvements	27,269,450	25,571,466
Buildings	30,711,501	30,695,753
Furniture, fixtures and equipment	8,456,361	8,348,057
Vehicles	250,206	217,176
Subtotal	68,762,370	66,907,304
Less accumulated depreciation	(45,921,916)	(43,797,069)
Construction in progress	1,204,684	483,491
Total	$ 24,045,138	$ 23,593,726

Substantially all property and equipment have been collateralized under debt agreements. Depreciation expense was $2,599,659 and $2,517,904 in 2023 and 2022, respectively. Construction in progress relates to costs incurred for future projects of the Corporation. Assets classified as construction in progress and development fees are not currently being used by the Corporation. The Corporation will start depreciation once the assets are placed in service.

Losses on disposal of property and equipment were $238,859 and $371,741 for the years ended 2023 and 2022, respectively.

5. Assets Limited as to Use

The composition of assets limited as to use is set forth in the following table:

	2023	2022
Restricted by agreement with third-party:		
Savings entrance fees	$ 128,591	$ 124,254
Charitable gift annuities	135,203	119,549
Total	263,794	243,803
Restricted by debt agreements:		
Debt service, term loan	1,422,282	269,974
Total assets limited as to use	$ 1,686,076	$ 513,777

6. Fair Value of Financial Instruments

The Corporation measures its investments, assets limited as to use and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

Financial assets and liabilities carried at fair value at December 31, 2023 and 2022 are classified in the tables below in one of the three categories described above:

	2023			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash management funds	$ 437,110	$ -	$ -	$ 437,110
Certificates of deposit	-	80,407	-	80,407
Equity securities	766,994	-	-	766,994
U.S. treasuries	-	694,236	-	694,236
Corporate bonds	-	96,381	-	96,381
Total investments at fair value	$ 1,204,104	$ 871,024	$ -	$ 2,075,128
Assets limited as to use:				
Cash management funds	$ 169,159	$ -	$ -	$ 169,159
Equity securities	34,412	-	-	34,412
Corporate bonds	-	60,223	-	60,223
Cash and cash equivalents	1,422,282	-	-	1,422,282
Total assets limited as to use	$ 1,625,853	$ 60,223	$ -	$ 1,686,076
Interest rate swap assets	$ -	$ 552,737	$ -	$ 552,737
Charitable gift annuities	$ -	$ -	$ (18,801)	$ (18,801)

	2022			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Cash management funds	$ 657,229	$ -	$ -	$ 657,229
Certificates of deposit	-	104,489	-	104,489
Equity securities	816,135	-	-	816,135
U.S. treasuries	-	785,380	-	785,380
Corporate bonds	-	322,699	-	322,699
Total investments at fair value	$ 1,473,364	$ 1,212,568	$ -	$ 2,685,932
Assets limited as to use:				
Cash management funds	$ 146,502	$ -	$ -	$ 146,502
Equity securities	39,547	-	-	39,547
Corporate bonds	-	57,753	-	57,753
Cash and cash equivalents	269,975	-	-	269,975
Total assets limited as to use	$ 456,024	$ 57,753	$ -	$ 513,777
Interest rate swap asset	$ -	$ 770,941	$ -	$ 770,941
Charitable gift annuities	$ -	$ -	$ (19,549)	$ (19,549)

Cash management funds and equity securities are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Certificates of deposit are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer (Level 2).

Corporate bonds and U.S. treasuries are valued using quoted market prices for similar investments (Level 2).

Interest rate swap agreements - The fair value is estimated by a third-party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified as Level 2.

The fair value of the gift annuity liability is calculated using actuarial assumptions and other present value techniques.

Investment return for cash equivalents, assets limited as to use and investments are comprised of the following:

	2023	2022
Total investment return:		
Interest and dividends	$ 122,383	$ 121,309
Net realized losses on sale of investments	(12,828)	(13,184)
Change in unrealized gains (losses) on investments	139,701	(190,852)
Investment fees	(23,074)	(21,000)
Total	$ 226,182	$ (103,727)

7. Endowment

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

The Board of Trustees of the Corporation has interpreted NJUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by NJUPMIFA. In accordance with NJUPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the Corporation and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation (depreciation) of investments, (6) other resources of the Corporation and (7) the Corporation's investment policies.

The Corporation has adopted investment return objectives, risk parameters and strategies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes cash, money market funds, equity securities and fixed income funds, that is intended to result in a consistent inflation protected rate of return that has sufficient liquidity to growing the funds, if possible. Therefore, the Corporation expects its endowment assets, over time, to produce an average rate of return that is consistent or exceeds the market annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Corporation has an annual endowment spending policy that is specifically designed to assist in funding annual programming objectives and to preserve the value of the investment portfolio over time. In establishing this policy, the Corporation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Corporation expects the current spending policy to allow its endowment funds to grow at a nominal average rate based on the market annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

From time-to-time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Trustees of the Corporation has interpreted NJUPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of December 31, 2023 and 2022, the Corporation did not have any underwater endowment funds.

Endowment net asset composition by type of fund at December 31, 2023 and 2022 is as follows:

	2023		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 64,396	$ -	$ 64,396
Original donor-restricted gift amount required to be maintained in perpetuity	-	619,952	619,952
Accumulated investment gains	-	114,344	114,344
	$ 64,396	$ 734,296	$ 798,692

	2022		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 200,340	$ -	$ 200,340
Original donor-restricted gift amount required to be maintained in perpetuity	-	619,952	619,952
Accumulated investment gains	-	135,116	135,116
	$ 200,340	$ 755,068	$ 955,408

Changes in endowment net assets for the year ended December 31, 2023 and 2022 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	$ 200,340	$ 755,068	$ 955,408
Gain	735	546	1281
Investment income, net	32,592	18,457	51,049
Net appreciation	45,552	30,166	75,718
Management fees	(858)	(563)	(1421)
Amounts appropriated for expenditure	(213,965)	(69,378)	(283,343)
Endowment net assets, ending	$ 64,396	$ 734,296	$ 798,692

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning	$ 259,662	$ 798,099	$ 1,057,761
Gain	206	712	918
Investment income, net	37,765	20,632	58,397
Net depreciation	(85,117)	(49,456)	(134,573)
Management fees	(1,090)	(628)	(1,718)
Amounts appropriated for expenditure	(11,086)	(14,291)	(25,377)
Endowment net assets, ending	$ 200,340	$ 755,068	$ 955,408

8. Long-Term Debt

Long-term debt and financing leases consists of the following at December 31:

	2023	2022
Term loan bearing interest at the Prime Rate, with a floor of 3.25%, plus 0.25% (8.75% at December 31, 2023). The term loan requires payments of principal and interest to be made on a monthly basis with a balloon payment of approximately $6,368,000 due at maturity in December 2028.	$ 7,300,200	$ 7,460,300
Delayed Draw Term Loan, bearing interest at the Prime Rate, with a floor of 3.25%, plus 0.50% (9.00% at December 31, 2023). The term loan requires payments of principal and interest to be made on a monthly basis with a balloon payment of approximately $1,500,000 due at maturity in December 2028	3,000,000	2,190,000
Total	10,300,200	9,650,300
Less deferred finance cost, net	204,511	245,612
Long-term debt	$ 10,095,689	$ 9,404,688

In December 2021, the Corporation entered into a credit agreement with a third-party financial institution. The credit agreement consists of a term loan facility and a delayed draw term loan facility with maximum principal amounts of $7,600,000 and $3,000,000, respectively. Approximately $4,335,000 of proceeds from the term loan were used to refund a prior outstanding mortgage bond payable.

The delayed draw term loan allows for the Corporation to draw up to $3,000,000 of funds during the delayed draw availability period which commenced on December 22, 2021 and ended on December 22, 2023. As of December 31, 2023, all funds had been drawn down. The proceeds from the delayed draw term loan were used only to renovate and refurbish resident units and to fund resident refund fee obligations net of any upfront fees received with respect to the re-occupancy of such unit. The credit agreement contains restrictions on the dollar amount of draw activity that can be made against the delayed draw term loan for renovations and refurbishments of model units.

In connection with the term loan and delayed draw loan facilities, the Corporation entered into interest rate swap contracts to reduce the impact of fluctuations in interest rates.

The term loan interest rate swap contract took effect on December 22, 2021 and converts the variable rates defined under the term loan to a fixed rate of 5.117%. The initial notional principal amount is $7,600,000 which decreases each month in line with principal payments made against the loan. The interest rate swap contract expires on December 22, 2028. At December 31, 2023 and 2022, the fair value of the interest rate swap contract was an asset of $573,720 and $770,941, respectively.

The delayed draw loan interest rate swap contract took effect on April 1, 2023 and converts the variable rates defined under the term loan to a fixed rate of 6.93%. The initial notional principal amount is $3,000,000 which decreases each month in line with principal payments made against the loan. The interest rate swap contract expires on December 1, 2028. At December 31, 2023, the fair value of the interest rate swap contract was a liability of $20,983. The value of the interest rate swap contracts are shown net on the balance sheets.

Principal repayments on the term loan in each of the five years subsequent to December 31, 2023 and thereafter are as follows:

Years ending December 31:	
2024	$ 467,400
2025	476,800
2026	486,400
2027	496,000
2028	8,373,600
Total	$ 10,300,200

The loans originated under the credit agreement are collateralized by substantially all assets of the Corporation and all accounts and revenues arising from the operations of the property. The credit agreement contains certain annual and interim affirmative and negative covenants, including maintenance of certain financial ratios, as defined in the agreement. Outstanding principal amounts may be prepaid, however, are subject to prepayment premiums as defined in the credit agreement.

9. Consulting Services

Life Care Services (LCS), an unrelated consulting company, provides consulting services to the community in accordance with the terms of a five-year contract effective January 1, 2017. The monthly consulting fee is calculated based upon specific terms per the agreement. There is also an annual bonus incentive calculated based upon any excess of actual annual operating revenue over budgeted operating revenue. The agreement is cancelable by either party upon six months' written notice (60 days' notice with cause). The Corporation at times may utilize LCS for services outside the scope of the agreement and is billed extra for these services. In 2023 and 2022, LCS charged the Corporation approximately $549,000 and $466,000, respectively, for consulting fees. In December 2021, the Corporation renewed this agreement for another five-year period effective January 1, 2022.

10. Charitable Gift Annuities

The Corporation has established a program to receive contributions under charitable gift annuities. Under this program, donors can contribute assets to the Corporation and in return receive a guaranteed fixed income for life. The Corporation recognizes contribution revenue for the difference between the fair value of the assets received and the annuity liability.

Annuity liabilities are recorded for the required life annuity payments at the present value of expected cash payments discounted using current interest rates and actuarial assumptions. At December 31, 2023 and 2022, deferred gift plans support liabilities of $18,801 and $19,549, respectively, are reflected in the balance sheets.

11. Employee Benefit Plans

The Corporation maintains a defined contribution annuity plan (the Plan) (Internal Revenue Code Section 403(b)) covering substantially all employees. Eligible employees are permitted to contribute up to 100% of pretax annual compensation up to Internal Revenue Service limitations. The Corporation matches 50% of employee contributions up to 3% of their compensation, which is discretionary. The Corporation also has the ability to make an additional annual discretionary contribution. All employee contributions to the Plan are fully vested, while contributions made by the Corporation vest over a three-year period. Corporate contributions to the Plan were approximately $61,000 and $59,000 in December 31, 2023 and 2022, respectively.

The Corporation maintains a 457(b) deferred compensation plan (457(b) Plan) for key employees. The total value of the 457(b) Plan's assets has been reported as other assets on balance sheets and totaled approximately $277,000 and $198,000 at December 31, 2023 and 2022, respectively. The 457(b) Plan liability has been reported as other liabilities on the balance sheets and totaled approximately $277,000 and $198,000 at December 31, 2023 and 2022, respectively.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2023	2022
Subject to expenditure for a specific purpose:		
Professional development	$ 102,852	$ 134,327
Health Center improvement	326,373	621,986
Scholarships	29,134	30,174
	458,359	786,487
Endowments:		
Subject to appropriation and expenditure when a specific event occurs:		
Scholarships	106,334	96,362
Resident financial assistance	8,010	38,754
	114,344	135,116
Subject to endowment spending policy and appropriation:		
Scholarships	164,115	164,115
Resident financial assistance	100,860	100,860
General	354,977	354,977
	619,952	619,952
Total endowments	734,296	755,068
Total	$ 1,192,655	$ 1,541,555

Net assets released from donor restriction by incurring expenses satisfying the restricted purpose specified by the donors are as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Scholarships	$ 34,700	$ 44,875
Professional development	31,475	20,484
Resident financial assistance	47,428	2,531
Total net assets released for operations	$ 113,603	$ 67,890
Health Center improvements	$ 295,612	$ 44,700
Total net assets released for capital purposes	$ 295,612	$ 44,700

13. Commitments and Contingencies

Regulatory Requirements

The Corporation is regulated by the New Jersey Department of Community Affairs pursuant to the Continuing Care Retirement Community Regulation and Financial Disclosures Act (the Act). The Act requires, among other things, that the Corporation establish and maintain liquid reserves which generally are equal to 15% of the projected operating expenses (excluding depreciation) related to contract residents. The Corporation has complied with that requirement at December 31, 2023 and 2022.

Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity has continued to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident Services previously billed. Management is not aware of any material incidents of noncompliance.

Litigation

The Corporation is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of the Corporation's management, any liability resulting from such litigation would be covered by insurance and would not be material in relation to the Corporation's financial statements.

14. Functional Expenses

The Corporation provides housing, healthcare and other related services to residents within its geographic location. The financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest and other occupancy costs, are allocated to a function based on a square footage basis. Expenses related to providing these services, including depreciation and amortization are as follows for the years ended December 31:

	2023		
	Program Services	Management and General	Total
Salaries	$ 7,175,187	$ 1,508,333	$ 8,683,520
Employee benefits	889,505	180,523	1,070,028
Payroll taxes	849,362	168,404	1,017,766
Insurance	374,560	19,714	394,274
Equipment rental and maintenance	93,573	40,387	133,960
Bad debt expense	-	200,139	200,139
Repairs and maintenance	376,496	12,869	389,365
Interest	627,036	33,002	660,038
Advertising and promotion	-	470,498	470,498
Real estate taxes	821,578	43,241	864,819
Supplies	361,185	46,462	407,647
Professional and consulting fees	148,517	437,751	586,268
Management fees	154,421	549,273	703,694
Program activities, services and supplies	1,194,305	-	1,194,305
Other expenses	239,893	340,982	580,875
Food and food supplies	1,169,537	-	1,169,537
Utilities	629,737	33,144	662,881
Depreciation and amortization	2,616,247	137,697	2,753,944
Total	$ 17,721,139	$ 4,222,419	$ 21,943,558

	2022		
	Program Services	Management and General	Total
Salaries	$ 6,470,061	$ 1,410,946	$ 7,881,007
Employee benefits	833,947	178,207	1,012,154
Payroll taxes	687,192	113,125	800,317
Insurance	288,444	15,181	303,625
Equipment rental and maintenance	93,440	23,082	116,522
Bad debt expense	-	212,370	212,370
Repairs and maintenance	353,237	9,195	362,432
Interest	499,273	26,278	525,551
Advertising and promotion	-	544,557	544,557
Real estate taxes	788,054	41,476	829,530
Supplies	319,378	44,032	363,410
Professional and consulting fees	134,541	507,741	642,282
Management fees	159,013	466,457	625,470
Program activities, services and supplies	955,619	-	955,619
Other expenses	174,261	358,802	533,063
COVID -19 expenses	997	-	997
Food and food supplies	1,106,541	-	1,106,541
Utilities	606,077	31,899	637,976
Depreciation and amortization	2,529,365	133,124	2,662,489
Total	$ 15,999,440	$ 4,116,472	$ 20,115,912