LSL

# CALIFORNIA FRIENDS HOMES
# dba ROWNTREE GARDENS

DECEMBER 31, 2024 AND 2023

FINANCIAL STATEMENTS &
INDEPENDENT AUDITORS' REPORT

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CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS

FINANCIAL STATEMENTS &
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2024 AND 2023

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INDEPENDENT AUDITORS' REPORT

To Management and Members of the Board of Directors
California Friends Homes dba Rowntree Gardens
Stanton, California

**Opinion**

We have audited the accompanying financial statements of California Friends Homes dba Rowntree Gardens (a nonprofit organization), which comprise of the statement of financial position at December 31, 2024, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2024 financial statements referred to above present fairly, in all material respects, the financial position of California Friends Homes dba Rowntree Gardens at December 31, 2024, and the results of its operations 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 California Friends Homes dba Rowntree Gardens and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Prior Period Financial Statements**

The financial statements of California Friends Homes dba Rowntree Gardens at December 31, 2023 were audited by other auditors whose report dated June 14, 2024 expressed an unmodified opinion on those statements

**Emphasis of Matter**

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 14 to the financial statements, the Organization has experienced recurring annual losses from operations. Management's evaluation of these conditions and events and management's plans to mitigate these matters are also described in Note 14 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

To Management and Members of the Board of Directors
California Friends Homes dba Rowntree Gardens
Stanton, California

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 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 California Friends Homes dba Rowntree Gardens' ability to continue as a going concern within one year after the date that the financial statements are available to be 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 California Friends Homes dba Rowntree Gardens' 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 California Friends Homes dba Rowntree Gardens' 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.

LSL, LLP

Irvine, California
April 15, 2025

**CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS**

**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | $ 1,524,666 | $ 1,038,827 |
| Restricted reserve accounts | 3,562,889 | 300,000 |
| Cash held on behalf of residents | 36,947 | 31,075 |
| Accounts receivable, net of allowance for doubtful accounts of $120,459 and $149,218, respectively | 1,646,781 | 1,434,803 |
| Prepaids | 174,752 | 226,616 |
| Supplies inventory | 115,169 | 227,482 |
| Total Current Assets | 7,061,204 | 3,258,803 |
| Fixed Assets | | |
| Land | 1,039,386 | 1,039,386 |
| Land improvements | 1,313,857 | 1,313,857 |
| Buildings and improvements | 18,688,630 | 18,456,530 |
| Equipment | 3,096,150 | 3,020,732 |
| Furniture and fixtures | 937,393 | 918,352 |
| Vehicles | 447,440 | 318,381 |
| Office equipment | 1,189,075 | 1,158,275 |
| Total Fixed Assets | 26,711,931 | 26,225,513 |
| Less Accumulated Depreciation | (20,550,071) | (19,663,247) |
| Total Fixed Assets, Net | 6,161,860 | 6,562,266 |
| Long-Term Assets | | |
| Capital investments | 1,763,161 | 1,977,036 |
| Assets limited as to use - cash restricted under DSS escrow agreement | 820,782 | 226,299 |
| Operating lease right of use asset | 39,746 | 71,175 |
| Total Long-Term Assets | 2,623,689 | 2,274,510 |
| **Total Assets** | **$ 15,846,753** | **$ 12,095,579** |

**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| Current Liabilities | | |
| Accounts payable | $ 1,216,712 | $ 960,727 |
| Accrued expenses | 749,016 | 81,781 |
| Accrued payroll | 744,378 | 598,978 |
| Compensated absences | 1,039,452 | 966,980 |
| Cash held on behalf of residents | 36,947 | 31,075 |
| Deferred revenue | 350,997 | 519,671 |
| Line of credit | - | 300,000 |
| Current portion of operating lease liability | 31,757 | 31,429 |
| Current portion of notes payable, net of debt issuance costs | 18,800 | 1,240,412 |
| Total Current Liabilities | 4,188,059 | 4,731,053 |
| Long-Term Liabilities | | |
| Operating lease liability, net of current portion | 7,989 | 39,746 |
| Notes payable, net of current portion and debt issuance costs | 8,812,241 | 2,633,291 |
| Deferred revenue from entrance fees | 1,617,578 | 1,349,871 |
| Total Long-Term Liabilities | 10,437,808 | 4,022,908 |
| Total Liabilities | 14,625,867 | 8,753,961 |
| Net Assets | | |
| Without donor restrictions | 1,115,638 | 3,161,751 |
| With donor restrictions | 105,248 | 179,867 |
| Total Net Assets | 1,220,886 | 3,341,618 |
| **Total Liabilities and Net Assets** | **$ 15,846,753** | **$ 12,095,579** |

**CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
**FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| **Revenues** | | | | | | |
| Resident service fees | $ 13,036,328 | $ - | $ 13,036,328 | $ 12,109,917 | $ - | $ 12,109,917 |
| Health center revenue | 9,789,068 | - | 9,789,068 | 8,473,369 | - | 8,473,369 |
| Federal stimulus and relief grants | - | - | - | 348,885 | - | 348,885 |
| Entrance fees earned | 553,693 | - | 553,693 | 466,619 | - | 466,619 |
| Contributions | 1,214 | 91,179 | 92,393 | - | 154,403 | 154,403 |
| Other income | 401,258 | - | 401,258 | 451,867 | - | 451,867 |
| | 23,781,561 | 91,179 | 23,872,740 | 21,850,657 | 154,403 | 22,005,060 |
| Net assets released from restrictions | 165,798 | (165,798) | - | 73,038 | (73,038) | - |
| Total revenues | 23,947,359 | (74,619) | 23,872,740 | 21,923,695 | 81,365 | 22,005,060 |
| **Expenses** | | | | | | |
| Program services | | | | | | |
| Dietary services | 4,812,892 | - | 4,812,892 | 4,580,821 | - | 4,580,821 |
| Facility services and utilities | 3,740,676 | - | 3,740,676 | 3,619,687 | - | 3,619,687 |
| Health and social services | 12,393,783 | - | 12,393,783 | 12,158,643 | - | 12,158,643 |
| General and administrative | | | | | | |
| Administrative and marketing | 4,914,632 | - | 4,914,632 | 4,829,988 | - | 4,829,988 |
| Advisory fee ERC | - | - | - | 59,582 | - | 59,582 |
| Total expenses | 25,861,983 | - | 25,861,983 | 25,248,721 | - | 25,248,721 |
| Operating income (loss) | (1,914,624) | (74,619) | (1,989,243) | (3,325,026) | 81,365 | (3,243,661) |
| **Other Gains (Losses)** | | | | | | |
| Unrealized change in value of capital investments | - | - | - | 248,962 | - | 248,962 |
| Loss on extinguishment of debt | (131,489) | - | (131,489) | | | |
| Related party contribution | - | - | - | 7,690 | - | 7,690 |
| Total other gains (losses) | (131,489) | - | (131,489) | 256,652 | - | 256,652 |
| Increase (Decrease) in Net Assets | (2,046,113) | (74,619) | (2,120,732) | (3,068,374) | 81,365 | (2,987,009) |
| Net Assets, Beginning of January 1 | 3,161,751 | 179,867 | 3,341,618 | 6,230,125 | 98,502 | 6,328,627 |
| **Net Assets, End of December 31** | **$ 1,115,638** | **$ 105,248** | **$ 1,220,886** | **$ 3,161,751** | **$ 179,867** | **$ 3,341,618** |

**See Independent Auditors' Report and Notes to Financial Statements.**

CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Dietary Services | Facility Services and Utilities | Health and Social Services | Total Program Services | Administrative and Marketing | Total |
| Employee Expenses | $ 2,717,579 | $ 1,584,502 | $ 10,065,250 | $ 14,367,331 | $ 2,086,451 | $ 16,453,782 |
| Payroll Taxes | 172,171 | 110,837 | 667,242 | 950,250 | 133,983 | 1,084,233 |
| Legal Fees | - | - | - | - | 270,046 | 270,046 |
| Advertising and Promotion | - | - | - | - | 135,366 | 135,366 |
| Office Expense | 3,017 | 59 | 10,810 | 13,886 | 94,867 | 108,753 |
| Information Technology | - | - | - | - | 102,794 | 102,794 |
| Occupancy Expense | - | 1,298,769 | 71,390 | 1,370,159 | - | 1,370,159 |
| Travel Expense | 1,090 | - | 3,873 | 4,963 | 4,935 | 9,898 |
| Interest Expense | - | - | - | - | 565,024 | 565,024 |
| Depreciation | 191,603 | 148,918 | 493,402 | 833,923 | 154,137 | 988,060 |
| Insurance Expense | - | - | - | - | 227,453 | 227,453 |
| Activities Expense | - | - | 41,289 | 41,289 | - | 41,289 |
| Bad Debt Expense | - | - | 10,500 | 10,500 | 42,316 | 52,816 |
| Bank Service Charges | - | - | - | - | 121,307 | 121,307 |
| Contract Services | 384,514 | 376,625 | 370,154 | 1,131,293 | 896,263 | 2,027,556 |
| Education and Training | - | - | 5,831 | 5,831 | 6,761 | 12,592 |
| Licensing and Memberships | 225 | 2,095 | 92,968 | 95,288 | 61,991 | 157,279 |
| Repairs and Maintenance | 15,113 | 148,996 | - | 164,109 | 33 | 164,142 |
| Therapy Expense | - | - | 3,073 | 3,073 | - | 3,073 |
| Uniforms Expense | 3,587 | 480 | - | 4,067 | - | 4,067 |
| Dietary Expense and Supplies | 1,312,325 | - | - | 1,312,325 | - | 1,312,325 |
| Small Equipment and Tools | 11,668 | 46,421 | 19,634 | 77,723 | 10,905 | 88,628 |
| Medical Expense and Supplies | - | 22,974 | 538,367 | 561,341 | - | 561,341 |
| **Total Expenses by Function** | **$ 4,812,892** | **$ 3,740,676** | **$ 12,393,783** | **$ 20,947,351** | **$ 4,914,632** | **$ 25,861,983** |

**See Independent Auditors' Report and Notes to Financial Statements.**

**CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS**

**STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2023**

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Dietary Services | Facility Services and Utilities | Health and Social Services | Total Program Services | Administrative and Marketing | Advisory Fee ERC | Total |
| Employee Expenses | $ 2,657,664 | $ 1,632,117 | $ 8,812,460 | $ 13,102,241 | $ 1,905,188 | $ - | $ 15,007,429 |
| Payroll Taxes | 167,859 | 107,103 | 573,718 | 848,680 | 126,280 | - | 974,960 |
| Legal Fees | - | - | - | - | 509,479 | - | 509,479 |
| Advertising and Promotion | - | - | - | - | 183,873 | - | 183,873 |
| Advisory fee ERC | - | - | - | - | - | 59,582 | 59,582 |
| Office Expense | 2,876 | 18,798 | 12,649 | 34,323 | 84,175 | - | 118,498 |
| Information Technology | - | - | - | - | 96,065 | - | 96,065 |
| Occupancy Expense | - | 1,167,949 | 58,060 | 1,226,009 | - | - | 1,226,009 |
| Travel Expense | 1,777 | - | 6,297 | 8,074 | 11,992 | - | 20,066 |
| Interest Expense | - | - | - | - | 327,008 | - | 327,008 |
| Depreciation | 141,422 | 111,719 | 373,069 | 626,210 | 115,745 | - | 741,955 |
| Insurance Expense | - | - | - | - | 176,752 | - | 176,752 |
| Activities Expense | - | - | 63,273 | 63,273 | 91,613 | - | 154,886 |
| Bad Debt Expense | - | - | 131,187 | 131,187 | 4,705 | - | 135,892 |
| Bank Service Charges | - | - | - | - | 141,722 | - | 141,722 |
| Contract Services | 248,770 | 395,431 | 793,354 | 1,437,555 | 963,086 | - | 2,400,641 |
| Education and Training | 4,518 | 3,427 | 8,160 | 16,105 | 18,364 | - | 34,469 |
| Licensing and Memberships | 1,884 | 3,852 | 96,738 | 102,474 | 68,736 | - | 171,210 |
| Repairs and Maintenance | 25,669 | 177,544 | - | 203,213 | - | - | 203,213 |
| Therapy Expense | - | - | 632,081 | 632,081 | - | - | 632,081 |
| Uniforms Expense | 3,835 | 1,747 | - | 5,582 | - | - | 5,582 |
| Dietary Expense and Supplies | 1,309,437 | - | - | 1,309,437 | - | - | 1,309,437 |
| Small Equipment and Tools | 15,110 | - | 29,599 | 44,709 | 5,205 | - | 49,914 |
| Medical Expense and Supplies | - | - | 567,998 | 567,998 | - | - | 567,998 |
| **Total Expenses by Function** | **$ 4,580,821** | **$ 3,619,687** | **$ 12,158,643** | **$ 20,359,151** | **$ 4,829,988** | **$ 59,582** | **$ 25,248,721** |

**See Independent Auditors' Report and Notes to Financial Statements.**

**CALIFORNIA FRIENDS HOMES DBA ROWNTREE GARDENS**

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from customers | $ 22,558,225 | $ 20,682,803 |
| Entrance fees received from new residents, net of refunds paid | 821,400 | 289,800 |
| Donations | 92,394 | - |
| Other operating cash grants | - | 3,774,118 |
| Other operating receipts | 51,402 | 451,867 |
| Contributions received (including related party) | - | 162,093 |
| Cash paid to employees and suppliers | (22,840,698) | (24,485,235) |
| Interest paid | (499,429) | (262,880) |
| Net cash provided by operating activities | 183,294 | 612,566 |
| **Cash Flows from Investing Activities:** | | |
| Return of investment - capital investment | 213,875 | 104,911 |
| Assets held on behalf of others | 5,872 | - |
| Purchase of fixed assets | (525,887) | (452,929) |
| Net Cash Used in Investing Activities | (306,140) | (348,018) |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from notes payable | 3,540,162 | 1,205,768 |
| Payments on notes payable | (65,933) | (64,574) |
| Net proceeds from line of credit | 1,300,000 | - |
| Net payments on line of credit | - | (762,169) |
| Debt issuance costs paid | (302,300) | (71,035) |
| Net Cash Provided By Financing Activities | 4,471,929 | 307,990 |
| Net Increase in Cash | 4,349,083 | 572,538 |
| **Cash and Cash Equivalents at Beginning of Year** | **1,596,201** | **1,023,663** |
| **Cash and Cash Equivalents at End of Year** | **$ 5,945,284** | **$ 1,596,201** |
| **Adjustments to Reconcile to Net Cash Provided by Operating Activities (Indirect Method):** | | |
| Increase (Decrease) in net assets | $ (2,120,732) | $ (2,987,009) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 988,060 | 741,955 |
| Amortization of debt issuance costs | 65,594 | 63,613 |
| Write-off of debt issuance costs due to refinance of debt | 42,506 | - |
| Loss on disposal of fixed assets | 15,543 | - |
| Entrance fees received from new residents | 1,111,200 | 289,800 |
| Entrance fees earned | (553,693) | (466,619) |
| Unrealized change in value of capital investment | - | (248,962) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (211,978) | (325,339) |
| Employee retention credit receivable | - | 3,425,233 |
| Prepaids | 51,864 | (19,174) |
| Supplies inventory | 112,313 | 7,222 |
| Accounts payable | 255,984 | 194,815 |
| Accrued expenses | 667,235 | 19,390 |
| Accrued advisory fee employee retention credit ("ERC") | - | (684,694) |
| Accrued payroll | 145,400 | (61,574) |
| Deferred revenue | (458,474) | 424,146 |
| Compensated absences | 72,472 | 239,053 |
| Refundable fees | - | 710 |
| Net Cash Provided By Operating Activities | 183,294 | 612,566 |

**See Independent Auditors' Report and Notes to Financial Statements.**

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **Supplemental Disclosure of Cash and Cash Equivalents Reported on the Statement of Financial Position:** | | |
| Unrestricted cash | $ 1,524,666 | $ 1,038,827 |
| Cash restricted under DSS escrow agreement | 820,782 | 226,299 |
| Cash held on behalf of residents (restricted) | 36,947 | 31,075 |
| Restricted collateral reserve account | 3,562,889 | 300,000 |
| Total cash and cash equivalents | $ 5,945,284 | $ 1,596,201 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid during the year for: | | |
| Interest | $ 409,430 | $ 327,008 |
| Operating cash flows from operating leases. | $ 31,992 | $ 68,885 |
| Non-Cash Financing Activities | | |
| Purchase of fixed asset financed with a note payable | $ 77,309 | $ - |
| Refinance of notes payable and lines of credit into a new term loan | $ 5,459,838 | $ - |

**See Independent Auditors' Report and Notes to Financial Statements.**

## Note 1: Nature of the Organization

California Friends Homes, dba Rowntree Gardens (the “Organization”) was founded in 1962 as a California non-profit public benefit Organization for charitable purposes. The Organization was established to provide residential facilities, health and welfare programs, and various services and sponsor programs for the elderly and operates a continuing care retirement community in Stanton, California. The community consists of 65 (70 beds) independent units and 96 (105 beds) assisted living units, 58 skilled nursing facility units and 25 (50 beds) memory care units.

## Note 2: Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management who is responsible for their integrity and objectivity.

### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

### Revenue Recognition

*Service Fees Revenue*

Service fees revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for the services provided. Under the Organization’s continuing care agreements, the Organization provides senior living services to residents for a stated monthly fee. The Organization recognizes revenue for senior living services under the continuing care agreement for independent living, assisted living, and memory care services in accordance with the provisions of ASC 606.

*Health Center Revenue*

Health center revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled to in exchange for providing care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills patients and third-party payors at the beginning of each month for the prior month and sends the final bill or reconciliation at the time of discharge. Revenue is recognized in the month in which performance obligations are satisfied.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition (Continued)**

*Health Center Revenue (continued)*

The Organization determines the transaction price based on standard charges for goods and services provided, adjusted by contractual agreements with third parties. These agreements with third-party payors may provide for payments at amounts less than established charges. A summary of the payment arrangements with third-party payors follows:

> Medicare: Skilled services are paid at prospectively determined rates per day based on Medicare-defined diagnostic assessments. Non-skilled services are paid based on cost reimbursement methodologies or established fee schedules.
>
> Secondary Insurance: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per day, primary coverage rates, and co-pays and deductibles covered under primary insurance.

Settlements with third-party payors for retroactive revenue adjustments due to audits, review, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2024 and 2023.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for residents with deductibles and coinsurance and from those who do not have insurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments were not considered material for the years ended December 31, 2024 and 2023. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

## Note 2: Summary of Significant Accounting Policies (Continued)

### Revenue Recognition (Continued)

*Health Center Revenue (continued)*

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors (Medicare, commercial insurance, etc.).

The composition of health center revenue by primary payors for the year ended December 31, 2024 and 2023 is as follows:

| | 2024 | 2023 |
|---|---|---|
| Third party payors, net | | |
| Medicare | $ 4,676,222 | $ 3,050,413 |
| Commercial | 1,730,189 | 3,304,614 |
| Total third party payors, net | 6,406,411 | 6,355,027 |
| Self pay, net | 3,382,657 | 2,118,342 |
| Health center revenue, net | $ 9,789,068 | $ 8,473,369 |

*Contributions*

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a 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 statements of activities and changes in net assets as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

### Cash and Cash Equivalents

The Organization considers all highly liquid short-term investments with maturities of three months or less, when purchased, to be cash equivalents.

### Cash Held on Behalf of Residents

Cash held on behalf of residents include cash deposits held in the Organization’s name. These monies are distributed to residents when necessary or in the case of death or discharge.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Capital Investments**

The Organization has made two investments in which they are participants: Active Captive Insurance Company (workers compensation) and a Risk Retention Group. Unrealized gains and losses and investment income is included in the statements of activities and changes in net assets.

**Accounts Receivable**

Accounts receivable primarily represent amounts due from residents for living accommodations, services, and amounts due from third parties. Receivables for which a third-party payor is responsible for paying are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual fee adjustments or discounts provided to third-party payors.

Receivables due directly from the residents are carried at the original charge for the service provided, less amounts covered by third-party payors and less an estimated allowance for uncollectible receivables. Management determines the allowance for contractual adjustments, discounts, and uncollectible accounts by identifying troubled accounts and by historical experience applied to an aging of accounts, adjusted for current conditions and reasonable forecasts taking into account geographical and industry specific economic factors. Resident receivables are written off as adjustments to the allowance when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of service revenue adjustment account when received. The Organization determines when an account is past due based on payor classification. The Organization does not charge interest on past due accounts

**Supplies Inventory**

The accounting method used to record inventory is the FIFO (First In First Out) method. Inventory is valued at the lower of cost or net realizable value at December 31, 2024 and 2023.

**Fixed Assets**

Purchased fixed assets are recorded at cost. Donated fixed assets are recorded at fair value as of the date of contribution. Maintenance, repairs, and minor replacements are charged to expense when incurred. Replacements and betterments with a cost of $1,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the Statements of Activities and Changes in Net Assets for the period.

Depreciation expense was $988,060 and $741,955 for the years ended December 31, 2024 and 2023, respectively.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Fixed Assets (Continued)**

The Organization, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. No impairment losses were present for the years ended December 31, 2024 and 2023.

**Refundable Fees**

The Organization requires each applicant for independent living, assisted living, memory care, and skilled nursing to pay an application fee ranging from $1,200 to $5,000. This fee will be refunded if no move-in occurs. Should the resident move out within the first three months, the fee is subject to a pro-rated refund.

**Deferred Revenue from Entrance Fees**

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over the estimated remaining actuarial life expectancy of the resident. The Organization has two different non-refundable continuing care contracts, a Lifecare (Type A) contract and a Modified (Type B) contract. California law requires a 90 day cancellation period during which the resident is entitled to a refund of the amounts subject to a fee to process the cancelation. As part of a conditioned authority, on March 24, 2020, the cancellation period was extended to one year as required by the California Department of Social Services. After the cancellation period, residents are entitled to refunds of their entrance fee reduced by 1.67% for each month of residency should they withdraw within the first 60 months. On November 9, 2022, the Organization received a complaint from the California Department of Social Services which formally suspended the ability of the Organization to enter into continuing care contracts. On July 14, 2023, the California Department of Social Services granted the Organization the ability to enter Type B continuing care contracts, with the restriction that the Organization cannot enter more than 15 Type B contracts per year and that 80% of the entrance fees will be escrowed and drawn down after the first 90 days at the rate of 36-month amortization. There were no refunds pending at December 31, 2024 and 2023. There is no refund of the entrance fee in the event of death.

**General Liability Policy**

The Organization has secured claims-made policies for general liability insurance with self-insured retentions of $1,000,000 per claim and $3,000,000 aggregate per policy period. The Organization has also secured excess general and professional liability insurance with limits of $5,000,000 aggregate per policy period. The Organization has not accrued a liability associated with, or claims incurred but not yet reported as amounts could not be estimated and are considered by management to be immaterial.

**Long Term Debt and Debt Issuance Costs**

Debt issuance costs are deferred and amortized as interest expense over the life of the loan. Loans payable are reported net of the applicable costs.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**Net Assets**

In accordance with FASB ASC No. 2016-14, the Organization reports information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

*Net Assets With Donor Restrictions* – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

**Advertising Costs**

Advertising is used to attract residents to its community. The Organization's policy is to expense advertising costs as incurred. Advertising costs for the years ended December 31, 2024 and 2023 were $135,366 and $183,873, respectively.

**Charity Care**

As part of its charitable mission, the Organization provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Total charges for charity care services amounted to $61,296 and $58,060 for the years ended December 31, 2024 and 2023, respectively.

**Income Taxes**

The Organization has been recognized by the Internal Revenue Service as a not-for-profit Organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying statements of activities and changes in net assets.

The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2024, there were no such uncertain tax positions.

**Functional Allocation of Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among different services and supporting services benefited. Such allocations are determined by management on an equitable basis.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**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. Accordingly, actual results could differ from those estimates.

**Assets Limited as to Use**

On March 24, 2020, the Organization received a Condition on its Certificate of Authority from the California Department of Social Services ("DSS"). As a result of the Condition, among other provisions, the Organization was required (effective March 24, 2020) to escrow 100% of Type A contract entrance fees and 50% of Type B contract entrance fees, pursuant to HSC section 1793.17. Effective May 18, 2021, the Organization was required to escrow 100% of both Type A and Type B contract entrance fees. On August 11, 2021, the Organization voluntarily agreed to cease offering Type A and Type B contracts. Total escrowed entrance fees limited to use at December 31, 2024 and 2023 were $820,782 and $226,299, respectively. Effective July 14, 2023, the Organization was once again allowed to enter into Type B contracts. See Deferred Revenue from Entrance Fees section for additional information.

**Restricted Reserve Accounts**

On October 23, 2024, the Organization entered into a Term Loan Agreement ("TLA") with Wilshire Finance Partners, Inc. As part of the TLA, the Organization was required to fund $3,562,889 to various restricted collateral reserve accounts for debt service, capital expenditures, and operating reserves. The $3,562,889 is restricted and requires lender approval before disbursements can be made. The balance of $300,000 in reserve accounts at December 31, 2023 was part a previous loan agreement that was refinanced by the TLA.

**Leases**

The Organization recognizes lease assets and corresponding lease liabilities for operating leases on their statements of financial position, excluding short term leases (leases with terms of 12 months or less) as described under ASU No 2016-02, Leases (Topic 842). Lease payments are discounted using the risk-free rate on information available at lease commencement. For additional information about the leases, see Note 8.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Date of Management's Review**

Events occurring after December 31, 2024 have been evaluated for possible adjustment to the financial statements or disclosures at April 15, 2025, which is the date the financial statements were available to be issued.

## Note 3: Concentrations of Credit Risk

The Organization may be subject to credit risk on its cash and cash equivalent investments. The Organization maintains its cash balances at several institutions. Accounts at this institution are insured by the FDIC. The FDIC covers up to $250,000 for substantially all depository accounts. At various times throughout the year, the balances in these accounts may be in excess of federally insured limits. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

Concentration of credit risk results from the Organization granting credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables at December 31, 2024 and 2023 is as follows:

| | 2024 | 2023 |
|---|---|---|
| Self Pay | 14% | 25% |
| Medicare | 34% | 36% |
| HMO | 52% | 39% |

## Note 4: Liquidity and Availability

At December 31, 2024, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, comprise the following:

| | |
|---|---|
| Cash and cash equivalents | $ 1,524,666 |
| Accounts receivable, net | 1,646,781 |
| Less: net assets with donor restrictions | (106,462) |
| | $ 3,064,985 |

The Organization's goal is generally to maintain cash and cash equivalents available to meet 60 days of general operating expenses (excludes depreciation). Utilizing the 2024 statement of activities, 60 days of general operating expenses approximates $4,088,000. As part of its liquidity plan, the Organization is currently working toward rebalancing operations to flex with occupancy. Rebalancing operations is intended to reduce general operating expenses and increase financial assets available to meet general expenditures. At December 31, 2024, the Organization had 43 days of cash and cash equivalents and accounts receivable to meet general operating expenses.

## Note 5: Current Expected Credit Losses

Changes in the allowance for doubtful accounts during the year were as follows:

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ 149,218 | $ 100,000 |
| Net expense | - | 49,218 |
| Net recoveries | (28,759) | - |
| Balance, end of year | $ 120,459 | $ 149,218 |

## Note 6: Capital Investments

The Organization has made two investments in which they are participants: Active Captive Insurance Company (workers compensation) and a Risk Retention Group.

*Active Captive Insurance Company (Workers Compensation):*

On November 16, 2015, the Organization entered into a Subscriber Agreement with Peach Church Workers Safety Program IC (the Protected Cell), a reciprocal insurer established as an incorporated protected cell of Green Mountain Sponsored Captive Insurance Company (GMSC). As part of the Subscriber Agreement, the Organization agreed to pay certain surplus, collateral, premiums, and administrative program management fees. In exchange for such payments, the Organizations liability is limited to such payments (which can be variable in nature). Payment obligations are determined by the Subscribers' Advisory Committee (the Organization is a voting member on this committee). On November 20, 2015, the Organization entered into a Participation Agreement with GMSC and the Protected Cell. The Participation Agreement further clarifies capital, collateral, reserves, and distributions. As of December 31, after the first full year of operation, and annually thereafter, a calculation will be made to determine excess surplus in the Protected Cell. The amount of excess surplus, if any, will be based on the capital requirements and actuarily determined loss and loss adjustment expense reserves. As a result of this calculation, the Protected Cell may make a distribution in an amount not to exceed the excess surplus. The Organization accounts for this investment utilizing the equity method of accounting as management has determined the Organization has significant influence over operating and financial policies of the investee.

The Organization's estimated capital investment at December 31, 2024 and 2023 was $1,326,602 and $1,540,477, respectively, which consists of a paid in surplus of $699,466 (paid in surplus made prior to January 1, 2019) and an undistributed subscriber savings account of $627,136 and $841,011 at December 31, 2024 and 2023, respectively. The Organization recognized $0 and $248,962 in unrealized change in value of the capital investment (increase to the undistributed subscriber savings account) for the years ending December 31, 2024 and 2023, respectively. Additionally, the Organization received $213,875 and $104,911 as a return of investment during the years ending December 31, 2024 and 2023, respectively.

*Risk Retention Group:*

The Organization invested in a traditional risk retention group which converted to a reciprocal mutual insurance exchange. It was formed under the Federal Liability Risk Retention Act to insure various affiliated members (subscribers) of a group of faith-based retirement Organizations. The Organization accounts for this investment utilizing the cost method as it does not have significant influence over operating and financial policies of the investee. The Organizations capital cost associated with this investment was $436,559 at December 31, 2024 and 2023. In addition to the Organization's cost, the investee held $905,383 in undistributed earnings (subscriber savings account attributed to the Organization) at December 31, 2024. The Organization will recognize these undistributed earnings upon receiving distributions from the investee, consistent with the cost method of accounting for investments. The Organization documents authorize the return of the charter capital account of a discontinued or withdrawing subscriber within seven years without interest as long as it doesn't cause substantial harm to the group's asset position.

## Note 7: Notes Payable

*Bank of Southern California, N.A*

On June 8, 2022, the Organization entered into a Business Loan Agreement ("BLA"), Deed of Trust, Assignment of All Rents, Commercial Security Agreement, Assignment of Deposit Account, and Promissory Notes with the Bank of Southern California, N.A. (BofSC). A brief summary of each credit facility is described as follows:

Promissory Note 1 – A $2,800,000 loan with a fixed 5.00% interest rate was used for debt payoff, liquidity, and a $300,000 collateral reserve. It required monthly payments and a final $2.5M balloon payment by June 2027.

Promissory Note 2 – A $500,000 operating line of credit, maturing in June 2027. The interest rate was variable (Wall Street Journal Prime Rate +1.00%, minimum of 4.25%).

Promissory Note 3 – A $1,000,000 standby line of credit with no initial advance, subject to variable interest (Wall Street Journal Prime Rate +1.00%, minimum of 4.25%).

The loan was secured by real property (12151 Dale Ave., Stanton, CA), a $300,000 reserve account, and other assets. The agreement included financial covenants and a subjective acceleration clause.

During October 2024, the BLA was refinanced with another lender and all obligations of the BofSC BLA were paid off.

*BridgeCore Lending Inc.*

On March 28, 2023, the Organization entered into a $1,200,000 Loan and Security Agreement, Secured Note, Deed of Trust, and Limited Guaranty with BridgeCore Lending Inc. In conjunction with the Loan and Security Agreement, BridgeCore Lending Inc. agreed to make one advance of $1,200,000. During October 2024, the loan was refinanced with another lender and all obligations of this loan were paid off.

*Wilshire Finance Partners, Inc.*

On October 23, 2024, the Organization entered into a Term Loan Agreement ("TLA") in the amount of $9,000,000. The TLA calls for the funding of interest reserve, capital expenditure reserve, and operating reserve accounts totaling $3,562,889. The $3,562,889 is restricted and requires lender approval before disbursements can be made. The TLA calls for a variable interest rate of the Wall Street Journal Prime Rate plus 3.50% with a floor of 12.00%. The interest rate in effect at December 31 2024 was 12.00%. Interest only payments are due on the first of each month commencing on December 1, 2024 until maturity. The outstanding principal balance is due and payable in full on the maturity date of October 22, 2026. Throughout the term of the TLA, the Organization is required to keep minimum liquidity of $1,640,000, which represents $540,000 of interest reserves plus a $1,1000,000 regulatory reserve. At December 31, 2024, the outstanding balance on this loan was $8,747,183, which is shown net of debt issuance costs of $252,817. The TLA is guaranteed by California Friends, Inc.

**Note 7: Notes Payable (Continued)**

As part of the TLA, the operating reserve of $500,000 may be used as a revolving line of credit. The line of credit bears interest at a fixed rate of 6.00% and all outstanding principal and accrued interest is due on the maturity date of November 1, 2026. At December 31, 2024, there was no balance outstanding on the revolving line of credit.

*Other Notes Payable*

The Organization has three other vehicle and equipment loans with various interest rates ranging from 3.00% to 10.51%. Monthly payments on these loans range from $277 to $1,662. The loans mature at various dates from March 2025 through May 2029. At December 31, 2024 and 2023, the balances on these loans were $83,858 and $21,497, respectively.

Future principal payments due on all notes payable for years subsequent to December 31, 2024 are as follows:

| Year Ending December 31, | |
|---|---|
| 2025 | $ 18,800 |
| 2026 | 9,019,509 |
| 2027 | 19,404 |
| 2028 | 18,049 |
| 2029 | 8,096 |
| Principal Payments | 9,083,858 |
| Less: Debt Issuance Costs | (252,817) |
| | $ 8,831,041 |

**Note 8: Leases**

**Copier Lease Terms**

The Organization's only operating lease that extends past the statement of financial position date is for a copier. The lease was entered into during 2022 and matures on March 31, 2026. Minimum monthly lease payments are $2,666.

**Discount Rate**

As the rate implicit in the Organization's leases is not readily determinable, the Organization's has made an accounting policy to apply a risk-free rate as the discount rate used to measure lease liabilities and right-of-use assets at commencement of a lease.

**Note 8: Leases (Continued)**

**Financial Presentation of Leases**

The following summarizes the line items in the statements of financial position which include amounts for operating leases at December 31, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| **Operating Leases** | | |
| Operating lease right-of-use assets | $ 39,746 | $ 71,175 |
| Current portion of operating lease liability | $ 31,757 | $ 31,429 |
| Operating lease liability, net of current portion | 7,989 | 39,746 |
| Total operating lease liabilities | $ 39,746 | $ 71,175 |

**Weighted Average Remaining Lease Term and Discount Rate**

The Organization's operating leases have weighted average remaining lease term of 1.25 years and weighted average discount rate of 1.04% at December 31, 2024.

**Detail of Lease Expense**

Operating lease expense is included in contract services on the statements of functional expenses. Total lease expense for the years ended December 31 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Lease cost: | | |
| Operating lease cost | 31,992 | 68,885 |
| Total lease cost | $ 31,992 | $ 68,885 |

The maturities of lease liabilities at December 31, 2024 were as follows:

| Year Ended December 31, | Operating |
|---|---|
| 2025 | $ 31,757 |
| 2026 | 7,989 |
| Present value of lease liabilities | $ 39,746 |

## Note 9: Retirement Plan

On June 1, 2011 the Organization adopted a 403(b) matching retirement plan that covers employees who have reached the age of 21 and have completed 12 months of eligibility service. Employees who normally work fewer than 30 hours per week are not covered under the plan for purposes of receiving employer contributions. Contributions to the plan are based on a match of the employee's own contribution, which is discretionary, up to a maximum of 2.5% of employee's eligible compensation.

Total contributions charged to expense for the plan were $157,368 and $118,138 for the years ended December 31, 2024 and 2023, respectively, and are included in employee expenses on the statements of functional expenses.

## Note 10: Related Party Transactions

The Organization elected to retain the services of a certain Board Member for a fee. For the year ended December 31, 2024, the Organization paid $104,436 to this Board Member.

## Note 11: Third-Party Rate Adjustments and Revenue

Approximately 65% and 75% of health center revenue for the year ended December 31, 2024 and 2023, respectively, was derived under federal third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, the changes in net assets, or cash flows of the Organization.

## Note 12: Commitments and Contingencies

### Litigation

The Organization is party to various claims and legal actions in the normal course of business. In the opinion of management, the Organization has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Organization.

### Asbestos Abatement

The Organization is aware of the existence of asbestos in certain areas of its buildings. The Organization has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, the Organization will record an estimate of the costs of the required asbestos abatement.

### Lifecare Agreement

The Organization has agreed to enter into a Lifecare Agreement with a former member of executive management and his spouse. As part of this agreement, the entrance fee and all monthly fees (at all levels of care) will be waived. On January 16, 2012, the Lifecare Agreement was executed. The former executive has yet to move into the facility. The Organization has not recorded a liability associated with this agreement as it is uncertain if the former member of management will occupy the facility.

**Note 13: Employee Retention Credit**

The Employee Retention Credit ("ERC"), created by the Coronavirus Aid, Relief, and Economic Security Act in 2020, helped businesses keep employees during the pandemic through a refundable payroll tax credit. Eligibility was based on government shutdowns or revenue declines.

The only activity in the 2024 and 2023 financial statements related to ERC is interest income of $348,885 received in 2023 which is recorded in the federal stimulus and relief grants line on the Statement of Activities and Changes in Net Assets. At December 31, 2024, all ERC related funds have been collected.

**Note 14: Going Concern**

*Principal Conditions that raise doubt about the Organization's ability to continue as a Going Concern:*

1. The Organization has had recurring annual cash operating losses (excluding federal relief grants). These losses had an impact on the Organization's operating liquidity. The operating liquidity issues were caused by a combination of marketing shortfalls, and overemployment.
2. DSS requested the Organization to cease offering Type A and Type B entrance fee contracts, since Spring of 2021. Additionally, DSS had requested the Organization to escrow certain Entrance Fee sales for a year prior to the cessation request. These restrictions further impacted cash and earning negatively.
3. On November 9, 2022, DSS's request to cease offering Entrance Fee contracts became an order, as the Organization's Certificate of Authority to enter into new Continuing Care contracts was suspended.
4. On July 14, 2023, DSS reinstated the Organizations ability to enter into Type B contracts under the terms that there will be no more than 15 Type B contracts per calendar year and 80% of entrance fees must be escrowed and drawn down after the first 90 days at the rate of 36-month amortization.

Management actions and plans that were intended to mitigate the conditions or events that raise substantial doubt about the Organization's ability to continue as a Going Concern:

1. In the 2018 – 2021 timeframe, Management acted to address the issues which were causing operating liquidity stress. Marketing shortfalls were addressed with a complete restructuring of the department in early 2019. From June of 2019 to March of 2020, the marketing restructuring provided significant momentum on the sales side leading toward a more neutral operational liquidity performance. The Organization was then impacted negatively from the COVID-19 shutdowns (as with all providers). After COVID shutdowns finally ended, the new marketing team delivered strong results building census levels from pandemic lows. Overemployment was also addressed in 2019/2020. This was accomplished with a combination of layoffs and natural attrition.
2. Management successfully negotiated with DSS (legal process) to release restrictions on providing Entrance Fee contracts, which represent over 50% of the senior market contracts in the U.S. These negotiations, which have regained the ability to provide Type B contracts, will support cash flow into future periods.
3. Additionally, Management possesses more assets at its disposal to address operating liquidity. While Management is normally reticent to increase debt levels, the Organization has the ability to restructure existing debt and draw on existing lines of credit to provide immediate liquidity. The Organization's real estate holdings include the main campus and certain ancillary properties. The valuation of such properties when compared with the debt load provides ample capital restructuring opportunities.

**Note 14: Going Concern (Continued)**

Between the significant leverage opportunities, and the value of the Organization's real estate, management believes it has more than enough liquidity to reposition operations and to continue as a going concern for the next year.