Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Elder Care Alliance and Subordinate Corporations

June 30, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
Elder Care Alliance and Subordinate Corporations

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Elder Care Alliance and Subordinate Corporations, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Elder Care Alliance and Subordinate Corporations as of June 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Elder Care Alliance and Subordinate Corporations 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Elder Care Alliance and Subordinate Corporations' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Elder Care Alliance and Subordinate Corporations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Elder Care Alliance and Subordinate Corporations' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Elder Care Alliance and Subordinate Corporations consolidated financial statements. The consolidating statements of financial position and the consolidating statements of activities and statements of changes in net assets information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statements of financial position and the consolidating statements of activities and statements of changes in net assets information are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Moss Adams LLP

San Francisco, California
November 27, 2023

Consolidated Financial Statements

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Financial Position
June 30, 2023 and 2022
(in Thousands)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 14,792	$ 16,403
Patient and resident accounts receivable, net	3,569	2,219
Pledge and other receivables	2,403	1,852
Prepaid expenses and other assets	1,209	1,110
Total current assets	21,973	21,584
ASSETS LIMITED AS TO USE		
Held by mortgagee under loan agreement:		
Reserve for replacements	1,353	1,771
Escrow deposits	1,650	1,961
Restricted by donor (Note 8)	5,426	4,913
Total assets limited as to use	8,429	8,645
INTEREST RATE SWAPS (Note 7)	2,528	1,514
INVESTMENTS	12,121	11,883
PROPERTY AND EQUIPMENT, net	135,061	136,133
OPERATING LEASE RIGHT-OF-USE ASSETS	1,051	-
OTHER ASSETS	403	362
Total assets	$ 181,566	$ 180,121

See accompanying notes.

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Financial Position (Continued)
June 30, 2023 and 2022
(in Thousands)

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,486	$ 4,265
Accrued expenses and other current liabilities	11,145	4,327
Operating lease liabilities, current maturities	292	-
Long-term debt, current maturities	2,916	25,022
Total current liabilities	16,839	33,614
OPERATING LEASE LIABILITIES, net of current maturities	840	-
LONG-TERM DEBT, net of current maturities	114,583	93,733
OTHER NONCURRENT LIABILITIES	32	-
Total liabilities	132,294	127,347
NET ASSETS		
Without donor restrictions	42,069	45,573
With donor restrictions	7,203	7,201
Total net assets	49,272	52,774
Total liabilities and net assets	$ 181,566	$ 180,121

See accompanying notes.

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2023 and 2022
(in Thousands)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Year Ended June 30, 2023
REVENUES, GAINS, AND OTHER SUPPORTS			
Monthly rent	$ 35,222	$ -	$ 35,222
Net health services revenue	17,466	-	17,466
In-kind food contributions	4,561	-	4,561
Other resident services revenue	821	-	821
Other revenue, net	18	-	18
Net assets released from restrictions for operations	1,729	(1,729)	-
Total revenues, gains, and other support	59,817	(1,729)	58,088
EXPENSES AND LOSSES			
Salaries and benefits	29,999	-	29,999
Purchased services and other	21,069	-	21,069
Donated food	4,438	-	4,438
Supplies	3,680	-	3,680
Depreciation and amortization	5,439	-	5,439
Interest and fees	4,705	-	4,705
Total expenses and losses	69,330	-	69,330
Operating loss	(9,513)	(1,729)	(11,242)
OTHER INCOME			
Contribution revenue	1,011	2,720	3,731
Investment return, net of investment expenses	1,445	668	2,113
Loss on disposal of property and equipment	(39)	-	(39)
Gain from loan forgiveness	921	-	921
Unrealized gains on interest rate swaps	1,014	-	1,014
Total other income	4,352	3,388	7,740
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(5,161)	1,659	(3,502)
NET ASSETS RELEASED FROM RESTRICTION FOR BUILDING IMPROVEMENTS AND EQUIPMENT	1,657	(1,657)	-
CHANGE IN NET ASSETS	(3,504)	2	(3,502)
NET ASSETS, beginning of year	45,573	7,201	52,774
NET ASSETS, end of year	$ 42,069	$ 7,203	$ 49,272

See accompanying notes.

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Activities and Changes in Net Assets (Continued)
Years Ended June 30, 2023 and 2022
(in Thousands)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Year Ended June 30, 2022
REVENUES, GAINS, AND OTHER SUPPORTS			
Monthly rent	$ 30,353	$ -	$ 30,353
Net health services revenue	14,432	-	14,432
In-kind food contributions	3,687	-	3,687
Provider relief funds	777	-	777
Other resident services revenue	656	-	656
Other revenue, net	74	-	74
Net assets released from restrictions for operations	1,614	(1,614)	-
Total revenues, gains, and other support	51,593	(1,614)	49,979
EXPENSES AND LOSSES			
Salaries and benefits	27,958	-	27,958
Purchased services and other	11,993	-	11,993
Donated food	3,687	-	3,687
Supplies	3,424	-	3,424
Depreciation and amortization	5,018	-	5,018
Interest and fees	4,030	-	4,030
Total expenses and losses	56,110	-	56,110
Operating loss	(4,517)	(1,614)	(6,131)
OTHER INCOME			
Contribution revenue	420	1,600	2,020
Investment return, net of investment expenses	(2,375)	(1,056)	(3,431)
Loss on disposal of property and equipment	(300)	-	(300)
Gain from loan forgiveness	4,052	-	4,052
Unrealized gains on interest rate swaps	1,514	-	1,514
Total other income	3,311	544	3,855
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(1,206)	(1,070)	(2,276)
NET ASSETS RELEASED FROM RESTRICTIONS FOR BUILDING IMPROVEMENTS AND EQUIPMENT	3,438	(3,438)	-
CHANGE IN NET ASSETS	2,232	(4,508)	(2,276)
NET ASSETS, beginning of year	43,341	11,709	55,050
NET ASSETS, end of year	$ 45,573	$ 7,201	$ 52,774

See accompanying notes.

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (3,502)	$ (2,276)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Loss on disposal of property and equipment	39	300
Loss on loan issuance	211	-
Depreciation and amortization	5,439	5,018
Amortization of deferred debt issuance costs	79	79
Depletion of asset retirement obligations	-	(29)
Noncash lease expense	367	-
Interest capitalized	(64)	(345)
Gain from loan forgiveness	(921)	(4,052)
Contributions restricted for buildings and equipment	(928)	(20)
Unrealized gains on interest rate swaps	(1,014)	(1,514)
Unrealized (gain) losses on investments	(1,784)	3,984
In-kind food contributions	(4,561)	3,687
Distribution of food received in-kind	4,438	(3,687)
Changes in operating assets and liabilities:		
Patient and resident accounts receivable	(1,351)	(412)
Pledge and other receivables	47	128
Prepaid expenses and other assets	28	(45)
Other assets	(642)	(84)
Accounts payable	(1,775)	913
Accrued expenses and other current liabilities	6,817	(882)
Other noncurrent liabilities	31	-
Operating lease liabilities	(286)	-
Net cash provided by operating activities	668	763
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments and assets limited as to use	(1,961)	(1,330)
Proceeds from sale of investments and assets limited as to use	2,994	3,113
Purchases of property and equipment	(4,344)	(11,455)
Net cash used in investing activities	(3,311)	(9,672)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in buildings and equipment	928	20
Payment of debt issuance costs	(52)	(87)
Proceeds from construction note payable	2,181	7,978
Principal paid on mortgage payable	(2,754)	(2,302)
Net cash provided by financing activities	303	5,609
CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(2,340)	(3,300)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	20,135	23,435
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	$ 17,795	$ 20,135

See accompanying notes.

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022
(in Thousands)

	2023	2022
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash and cash equivalents	$ 14,792	$ 16,403
Restricted cash - reserve for replacements	1,353	1,771
Restricted cash - escrow deposits	1,650	1,961
Total cash, cash equivalents, and restricted cash, end of year	$ 17,795	$ 20,135
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for interest	$ 4,666	$ 4,395
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITY		
Operating lease right-of-use assets and operating lease liabilities as a result of adoption of ASC 842	$ 1,368	$ -
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	$ 13	$ -

See accompanying notes.

Note 1 – Description of Operations and Summary of Significant Accounting Policies

Nature of operations – Elder Care Alliance ("ECA-Corporate") is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Institute of the Sisters of Mercy of the Americas (the "Sisters of Mercy") together, the "ECA-Corporate Members".

As of May 2023, the two ECA-Corporate Members of ECA-Corporate were removed via an Articles of Incorporation and Bylaws amendment. This was approved by the ECA-Corporate Board as well as both ECA-Corporate Members. The revised ECA-Corporate Articles of Incorporation were filed with the California Secretary of State in July 2023.

ECA-Corporate was established with the support and leadership of CommonSpirit Health (formerly known as Dignity Health). The shared vision of CommonSpirit Health, ECA-Corporate, and its cosponsors, the Lutheran Synod and the Sisters of Mercy, was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of elderly people who seek support and assistance with activities of daily living in a non-institutional environment.

On May 15, 1997, Mercy Retirement & Care Center ("MRCC") entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of MRCC. ECA-Corporate provides management services for supportive housing, skilled nursing, rehabilitation, and social services principally to the aged through MRCC and other subordinate corporations. MRCC retained its individual identity, assets and liabilities, and relationships with its individual sponsors and operates under a common management team through ECA-Corporate.

MRCC is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs, and skilled nursing care for elderly persons. The facilities include 166 units licensed as residential care, including a 22-unit memory care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life.

Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

The following entities are California nonprofit public benefit corporations organized for the purpose of developing residential care facilities for the elderly ("RCFE") to provide residences and assistance with daily living needs for elderly persons and generate its revenues primarily from residential care fees.

They are subordinate corporations to ECA-Corporate and operate under a common management team through ECA-Corporate:

Elder Care Alliance of Camarillo (“AVC”) – doing business under the name of “AlmaVia of Camarillo”, operates an 82-unit RCFE with 22 units designated for dementia care in Camarillo, California.

Elder Care Alliance of San Francisco (“AVSF”) – doing business under the name of “AlmaVia of San Francisco”, operates a 139-unit RCFE with 55 units designated for dementia care in San Francisco, California.

Elder Care Alliance of San Rafael (“AVSR”) – doing business under the name “AlmaVia of San Rafael”, operates a 136-unit RCFE with 22 units designated for dementia care in San Rafael, California.

Elder Care Alliance of San Mateo (“VSM”) – doing business under the name “Villa at San Mateo”, operates a 135-unit age-restricted community in San Mateo, California.

Hereinafter, ECA-Corporate and its subordinate corporations are collectively referred to as “ECA.”

Basis of consolidation – The accompanying consolidated financial statements include the accounts of ECA-Corporate and its subordinate corporations: MRCC, AVC, AVSF, AVSR, and VSM. All significant transactions and accounts between the entities have been eliminated.

Basis of presentation – The consolidated financial statements have been prepared on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred and is consistent with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents includes cash on hand and cash held in demand deposit, sweep, and savings accounts; and certain assets in highly liquid instruments with original maturities of three months or less.

Economic concentration – The future operations of ECA could be affected by changes in the economic or other conditions in the geographic area of California, or by changes in RCFE regulations or the demand for such housing.

Patient and resident accounts receivable, net – As part of its mission to serve the community, ECA provides care to residents even though they may participate in programs that do not pay full charges, or they may lack adequate insurance or private means. ECA manages its resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts receivable are stated at net realizable value from third-party payors, residents, and others.

Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

For receivables associated with services provided to patients who have third-party coverage, ECA analyzes contractually due amounts and provides additional implicit price concession, if necessary, based upon historical collection history for deductibles and copayments on accounts for which the third-party payor had not yet paid or for remaining payor balances.

For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, ECA records a significant implicit price concession in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in accounts receivable.

Pledge and other receivables – Pledges and other receivables consist primarily of pledges received from donors. The ECA’s management evaluates the need for an allowance for uncollectible contributions receivable based on various factors including an assessment of the creditworthiness of its donors, aging of the amounts due, and historical experience. As of June 30, 2023 and 2022, there was no allowance for uncollectible contributions.

Investments and investment return – Investments in equity securities have a readily determinable fair value, and all debt securities, are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”), investment return is net of investment manager expenses.

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

Assets limited as to use – Assets limited as to use include assets held in escrow for payment of property taxes, property insurance and mortgage insurance, occupancy stabilization, collateral reserve, and reserves for replacements pursuant to the loan agreement and assets restricted by donors held as an allocation of ECA’s investments.

Property and equipment, net – Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. ECA capitalizes property and equipment with a cost of greater than $1,000. Costs of maintenance and repairs are charged to expense as incurred.

(in Thousands)

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Building and improvements	15 to 40 years
Furniture and equipment	3 to 10 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as contributions with donor restrictions. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service, and when expenditures for construction in progress or property and equipment are incurred, which satisfy donor restrictions.

Long-lived asset impairment – ECA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flow is expected to result from the use, and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2023 and 2022.

Asset retirement obligations – FASB Accounting Standards Codification (“ASC”) 410-20, *Asset Retirement and Environmental Obligations—Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. During 2020, ECA began abatement of asbestos at MRCC and has paid approximately $748,000 in asset retirement obligations since 2019. As of June 30, 2023 and 2022, MRCC recognized approximately $0 and $0, respectively, of conditional asset retirement obligations included in the consolidated statements of financial position. During the years ended June 30, 2023 and 2022, there were reductions of the asset retirement obligations, which resulted in a total accretion expense for the years then ended. Depletion expense of the asset retirement obligation totaled approximately $0 and $29,000 for the years ended June 30, 2023 and 2022, respectively.

Leases – For the year ended June 30, 2022, ECA followed FASB ASC 840, *Leases*. Under that guidance, ECA classified leases as either operating or capital. Capital leases resulted in the recognition of the assets and liabilities, whereas operating leases did not.

As of July 1, 2022, ECA adopted FASB ASC 842, *Leases*. ECA implemented this standard utilizing the modified retrospective transition approach and electing to not adjust comparative periods. As a result, the consolidated financial statements as of and for the year ended June 30, 2022, were not changed related to this implementation.

The following lease accounting policies were followed for the year ended June 30, 2023:

At lease inception, ECA determines whether an arrangement is, or contains, a lease. Operating leases and Finance leases are included in property and equipment, current portion of long-term lease obligation, and lease obligation, net of current under long-term liabilities in the consolidated statements of financial position. Operating lease right-of-use (“ROU”) assets represent ECA’s right to use leased assets over the term of the lease. Lease liabilities represent ECA’s contractual obligation to make lease payments arising from the lease.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. ECA uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, ECA uses its incremental borrowing rate to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs, plus any repayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of leasehold improvements, the value of renewal rates, and the presence of factors that would cause a significant economic penalty to ECA if the option were not exercised. Lease expenses are recognized on a straight-line basis over the lease term. ECA has elected not to recognize an ROU asset and obligation for leases with an initial term of 12 months or less. The expense associated with short-term leases is included in rent expense in the consolidated statements of activities and changes in net assets.

For finance leases, upon lease commencement, the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payment made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. ECA uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, ECA uses its incremental borrowing rate to determine the present value of the lease payments.

Professional liability insurance – ECA recognizes an accrual for professional claim liabilities based on estimated ultimate losses and costs associated with settling claims, and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 13.

Workers’ compensation insurance – ECA recognizes an accrual for workers’ compensation claim liabilities based on estimated ultimate losses and costs associated with settling claims, and a receivable to reflect the estimated insurance recoveries, if any. Workers’ compensation liability claims are described more fully in Note 13.

Health reimbursement arrangement – ECA recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims, and a receivable to reflect the estimated insurance recoveries, if any. Health reimbursement arrangement liability claims are described more fully in Note 13.

Interest rate swaps – MRCC has entered into three interest rate swaps to manage interest rate risks on its notes payable. Swaps are contracts to exchange, for a period of time, the investment performance of one underlying instrument for the investment performance of another instrument without exchanging the instruments themselves. MRCC records in its consolidated statements of financial position the estimated fair value of swaps as of the consolidated statement of financial position date. Changes in the fair value of the swaps are included in the unrealized gains on interest rate swaps in the consolidated statements of activities and changes in net assets.

Net assets – ECA classifies net assets as follows:

Net assets without donor restrictions – Represent resources available to support ECA's operations and donor-restricted resources that have become available for use by ECA in accordance with the intention of the donor. At June 30, 2023 and 2022, there are no board designated net assets without donor restrictions.

Net assets with donor restrictions – Represent contributions that are limited in use by ECA in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of ECA according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for building renovations, resident assistance, certain aspects of operations, and food distribution to low income seniors. Net assets with donor restrictions also represent net assets subject to donor-imposed stipulations that they be maintained by ECA in perpetuity. Generally, the donors of these assets permit ECA to use all or part of the income earned on related investments for general or specific purposes. See Note 8 for net assets with donor restrictions maintained by ECA in perpetuity.

Revenue recognition – ECA has assessed the predominant component of monthly lease payments for assisted living and memory care to be for the monthly rent of the apartment, as other services such as net health services revenue and other resident services revenue are reported separately. ECA therefore recognizes monthly rent as lease income under ASC 842, *Leases*. ECA further determined that the net health service and other resident services to be health care services and other services provided to residents that do not relate to the assisted living and memory care unit apartment rent, therefore is not part of the calculation of lease payment. Therefore, revenue under these service lines is recognized as revenue under ASC 606, Revenue from Contracts with Customers ("ASC 606"). Accounts receivable recognized in accordance with ASC 606 at July 1, 2021, June 30, 2022, and June 30, 2023, included in resident accounts receivable were \$2,141,000, \$2,052,000, and \$3,348,000, respectively.

Net health services revenues are reported at the amount that reflects the consideration ECA expects to receive in exchange for the personal care services provided. Performance obligations are determined based on the nature of the services provided. Net health services revenues are recognized as performance obligations are satisfied.

Net health services revenues are primarily comprised of the following revenue streams:

Skilled nursing – Skilled nursing revenues are primarily derived from providing personal care services to residents at a stated daily fee with the same timing and pattern of transfer, and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis.

Assisted living – Assisted living revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer, and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized on a month-to-month basis.

Memory care – Memory care revenues are primarily derived from providing personal care services to residents at a stated monthly fee with the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, memory care revenues are recognized on a month-to-month basis.

Ancillary – Ancillary revenues are primarily derived from providing medication, physical and occupational therapy, and medical supplies to skilled nursing residents. Ancillary revenue for net health services is recognized as services are rendered.

Other resident services revenue includes revenues from housekeeping, laundry, transportation, medical supplies, personal supplies, and other revenues from residents. ECA has determined that other resident services revenue is considered individual performance obligations, which are satisfied over time as services are provided. Therefore, other resident services revenues are recognized as services are rendered.

(in Thousands)

ECA disaggregates lease income and revenue from contracts with customers by type of service, as this depicts the nature, amount, timing, and uncertainty of its revenue, and cash flows are affected by economic factors. Revenues, gains, and other support consisted of the following for the years ended June 30, 2023 and 2022:

	2023				
	Age-restricted	Assisted Living/ Memory Care	Skilled Nursing	Ancillary	Total
Monthly rent	$ 4,679	$ 30,543	$ -	$ -	$ 35,222
Net health services revenue	-	6,773	9,478	1,215	17,466
Other resident services revenue	-	-	-	821	821
	$ 4,679	$ 37,316	$ 9,478	$ 2,036	$ 53,509

	2022				
	Age-restricted	Assisted Living/ Memory Care	Skilled Nursing	Ancillary	Total
Monthly rent	$ 4,421	$ 25,932	$ -	$ -	$ 30,353
Net health services revenue	-	5,400	7,666	1,366	14,432
Other resident services revenue	-	-	-	656	656
	$ 4,421	$ 31,332	$ 7,666	$ 2,022	$ 45,441

Payment terms and conditions for ECA's resident contracts vary by contract type, although terms generally include payment to be made within 30 days. Monthly rental fees and net health services revenue for assisted living and memory care are billed to residents monthly in advance and are amortized ratably during the month. Net health services for skilled nursing and ancillary are billed in arrears. Other resident services revenue is generally billed monthly in arrears.

MRCC, AVC, AVSF, AVSR, and VSM have agreements with the residents at established monthly rates.

MRCC has agreements with third-party payors that provide payments for skilled nursing at amounts different from its established rates. Net health service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges, and per diem payments. Net revenues from Medicare and Medi-Cal programs were approximately $3,465,000 and $4,277,000, respectively, for the year ended June 30, 2023, and approximately $2,587,000 and $3,684,000, respectively, for the year ended June 30, 2022. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable care – ECA provides charitable care discounts to long-term residents who are no longer able to pay the published rate for services or monthly service fees. The amount of charitable care discounts is included in monthly rent and in net revenue, gains, and other support, within net assets released from restriction, and is not separately classified from the provision for uncollectible accounts. The total charitable care discounts included in releases from restriction for the years ended June 30, 2023 and 2022, were approximately $226,000 and $386,000, respectively.

Contributions – Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported with net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Conditional contributions are reported as liabilities until the condition is eliminated, or the contributed assets are returned to the donor.

Contributions in-kind – ECA recognizes in-kind contributions of food for its Brown Bag Program, that provides food distribution to low-income seniors. These food contributions are received from the Alameda County Community Food Bank, which includes support from the United States Department of Agriculture, as well as other food banks, in support of ECA's Brown Bag Program, which provides food distribution to low income seniors. Donated government food was valued at an average of $1.57 per pound for U.S. Department of Agriculture ("USDA") donated food and an average of $1.93 per pound for all other donated food for the year ended June 30, 2023. Donated government food was valued at an average of $1.53 per pound for USDA donated food and an average of $1.92 per pound for all other donated food for the year ended June 30, 2022. This valuation is based on a study conducted for Feeding America.

(Deficiency) excess of revenues over expenses – ECA considers the (deficiency) excess of revenues over expenses in net assets without donor restrictions as the operating measure for the organization. Changes in net assets without donor restriction, which are excluded from (deficiency) excess of revenues over expenses consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

Income taxes – ECA-Corporate and its subordinates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and have been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board. However, ECA-Corporate and its subordinates are subject to federal income tax on any unrelated business taxable income.

ECA-Corporate and its subordinates file tax returns in the U.S. federal and State of California jurisdictions.

Property taxes – AVC, AVSF, AVSR, VSM, and MRCC have filed and received an exemption from certain property taxes in accordance with Section 214 of the California Code.

Reclassifications – Certain prior year amounts were reclassified to conform to the current year presentation. There was no change in net assets or changes in net assets related to these reclassifications.

New accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which allows certain entities the option to delay adoption of ASU 2016-02 to fiscal years beginning after December 15, 2022, which is the fiscal year ending June 30, 2023, for ECA. ECA adopted ASU 2016-02 as of July 1, 2022, which has been applied using the modified retrospective approach. Operating lease right-of-use assets and operating lease liabilities as a result of adoption of ASC 842 were $1,368,000 at July 1, 2022. There were no changes to the beginning net assets at July 1, 2022.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform – Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (Topic 848) ("ASU No. 2020-04"), due to concerns about structural risks of interbank offered rates, such as the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates. This standard update provides optional expedients and exceptions to application of U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. An entity may make a one-time election to sell or transfer debt securities classified as held-to-maturity that reference a rate affected by reference rate reform. The adoption did not have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326), which requires the use of the current expected credit losses ("CECL") impairment model for a broad scope of financial instruments, including financial assets measured at amortized cost (which includes loans, held-to-maturity debt securities and trade receivables), net investments in leases, and certain off-balance sheet credit exposures. The CECL model requires the immediate recognition of estimated expected credit losses over the life of the financial instrument. ASU No. 2016-13 is effective for ECA for the year ending June 30, 2024. Management is currently evaluating the impact on the consolidated financial statements.

Note 2 – Novel Coronavirus ("COVID-19") Pandemic

ECA, along with most other healthcare providers across the United States, has experienced operational challenges related to the outbreak of the COVID-19 pandemic. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020, and on March 13, 2020, the president of the United States declared a national emergency as a result of the pandemic, which ended on May 13, 2023. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law, which aimed to direct economic assistance for American workers, families, and small business, and preserve jobs for American industries.

Provider Relief Funds ("PRF") – The COVID-19 pandemic impacted all healthcare providers throughout the health system. The CARES Act requires the amount of funding received to be validated, which requires management to quantify lost revenues and increased expenses associated with the pandemic for PRF. ECA has recognized revenue associated with the PRF funding according to the terms and conditions of the CARES Act, and as grant revenue under ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*. Grant revenue attributable to PRF funding totaled approximately $0 and $777,000 for the years ended June 30, 2023 and 2022, respectively, and is included on the consolidated statements of activities and changes in net assets. Refunding of amounts received may be required by the CARES Act if a receiving entity is unable to quantify the financial losses intended to be covered by funding. ECA continues to reconcile and analyze its lost revenue and increased expenses based on known reporting guidance.

Paycheck Protection Program ("PPP") – Section 1109 of the CARES Act temporarily adds the PPP to the Small Business Association's ("SBA") 7(a) Loan Program. Section 1106 of the CARES Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under PPP. On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act ("Economic Aid Act") was signed into law, which extended the ability of entities to apply for PPP loans and revised certain PPP requirements.

Under the requirements of the CARES Act, as amended, proceeds may only be used for ECA's eligible payroll costs (with salary capped at $100,000 on an annualized basis for each employee), or other eligible costs related to rent, mortgage interest utilities, covered operations expenditures, covered property damage, covered supplier costs, and covered worker protection expenditures, in each case paid during the eight-week period following disbursement. The PPP Loan may be fully forgiven if (i) proceeds are used to pay eligible payroll costs or other eligible costs and (ii) full-time employee headcount and salaries are either maintained during the eight-week period following disbursement. If not maintained or restored, any forgiveness of the PPP Loan would be reduced in accordance with the regulations that were issued by the SBA.

The PPP loans are accounted for as debt instruments in accordance with ASC 470, *Debt* (see Note 6(F)). All the proceeds of the PPP loan were used by ECA to pay eligible payroll costs, and ECA maintained its headcount and otherwise complied with the terms of the PPP Loan. In 2023, one of the five PPP Loans was forgiven. The full amount of the four forgiven loans and accrued interest, totaling $921,000 was recognized as gain from loan forgiveness and is included on the statement of activities and changes in net (deficit) assets for the year ended June 30, 2023. In 2022, four of the five PPP Loans were forgiven. The full amount of the four forgiven loans and accrued interest, totaling $4,052,000 was recognized as gain from loan forgiveness and is included on the statement of activities and changes in net (deficit) assets for the year ended June 30, 2022.

Payroll tax deferral program – Section 2302 of the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes. The payroll tax deferral period began on March 27, 2020, and ended December 31, 2020. Repayment of deferred payroll taxes was required as of December 31, 2021, with 50% of the deferred amount due and the remainder due on December 31, 2022. As of June 30, 2023, all deferred payroll taxes were paid.

(in Thousands)

The impact of COVID-19 has increased the uncertainty associated with management's assumptions and estimates made on these consolidated financial statements. The actual impact of COVID-19 on ECA's consolidated financial statements may differ significantly from the assumptions and estimates made for the year ended June 30, 2023.

Note 3 – Concentration of Credit Risk

ECA grants credit without collateral to its patients and residents. The mix of receivables from patients, residents, and third-party payors at June 30, was as follows:

	2023	2022
Medicare	17%	21%
Medi-Cal	45%	28%
Other third-party payors	22%	26%
Self-pay	16%	25%
	100%	100%

Financial instruments, which could potentially subject ECA to significant concentrations of credit risk, consist primarily of investments in marketable securities. ECA, primarily through external money managers, has significant investments in marketable securities, which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Financial instruments potentially subjecting ECA to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insurance thresholds. If any of the financial institutions with whom ECA does business were to be placed into receivership, ECA may be unable to access the cash on deposit with such institutions. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. At June 30, 2023 and 2022, ECA's cash accounts exceeded federally insured limits by approximately $10,722,000 and $12,968,000, respectively.

(in Thousands)

Note 4 – Investments, Assets Limited as to Use, and Investment Return

Composition of investments and assets limited as to use at June 30, are summarized in the following table:

	2023	2022
Equities	$ 11,822	$ 9,878
Fixed income securities:		
U.S. agencies and treasuries	987	697
Corporate debt securities	1,248	1,847
Mortgage-backed securities	1,413	1,335
Mutual funds	1,567	1,934
Cash and cash equivalents:		
Money market mutual funds	225	764
Cash and cash equivalent	17	-
Certificates of deposit	268	341
Replacement reserve and escrow deposits held by mortgagee under loan agreement	3,003	3,732
	$ 20,550	$ 20,528

Investments and assets limited as to use reflected in the consolidated statements of financial position were as follows:

	2023	2022
Investments	$ 12,121	$ 11,883
Assets limited as to use:		
Held by mortgagee under loan agreement:		
Reserve for replacements	1,353	1,771
Escrow deposits	1,650	1,961
Restricted by donor (Note 8)	5,426	4,913
	8,429	8,645
	$ 20,550	$ 20,528

(in Thousands)

Total investment return for the year ended June 30, was comprised of the following:

	2023	2022
Investment return, net:		
Interest and dividend income	$ 681	$ 673
Realized (losses) gains	(252)	184
Unrealized gains (losses)	1,784	(4,015)
Less: investment expenses	(100)	(100)
	$ 2,113	$ (3,258)

Total investment return is reflected in the consolidated statements of activities and changes in net assets as follows:

	2023	2022
Net assets without donor restrictions:		
Investment return, net of investment expenses	$ 1,445	$ (2,202)
Net assets with donor restrictions:		
Investment return, net of investment expenses	668	(1,056)
	$ 2,113	$ (3,258)

Note 5 – Property and Equipment, net

Property and equipment, net included on the consolidated statements of financial position was as follows:

	2023	2022
Land, land lease and land improvements	$ 44,472	$ 44,439
Buildings and leasehold improvements, building improvements, and building service equipment	124,828	123,128
Equipment	12,430	11,019
	181,730	178,586
Less: accumulated depreciation	(48,541)	(43,446)
Construction in progress	1,872	993
	$ 135,061	$ 136,133

Land lease includes a capitalized land lease of $8,097,501 required by the ground lease agreement with the Roman Catholic Archbishop of San Francisco. This consists of the original land lease of $4,092,477 and an extension of the land lease agreement of $4,005,024 executed on October 1, 2011. The lease expires March 2075, and has no options to extend the term of the lease. The amounts are being amortized over the remaining lease term from the date of execution. The land lease has accumulated amortization of $2,502,000 and $2,393,000 at June 30, 2023 and 2022, respectively, and a net land lease balance at June 30, 2023 and 2022, of $5,596,000 and $5,723,000, respectively.

(in Thousands)

Land lease includes property that was purchased by ECA from the Lutheran Synod for the purpose of constructing the AVSR facility. The Lutheran Synod has the right to repurchase the property for one dollar, ten years after full payment of the existing mortgage payable, not to exceed 60 years. The land lease is being amortized ratably over 45 years, resulting in accumulated amortization of $645,000 and $608,000 at June 30, 2023 and 2022, respectively, and a net land lease balance at June 30, 2023 and 2022, of $1,005,000 and $1,042,000, respectively.

At June 30, 2023, ECA's construction in progress balance of $1,872,000 is related to shingle and low slope roof replacement at AVSR and building renovations at MRCC. The projects currently in progress are expected to be completed in the next fiscal year with approximately $1,296,000 additional costs to complete.

As described in Note 6, portions of the above property and equipment were pledged as collateral on ECA's long-term debt. Interest capitalized during 2023 and 2022, was $64,000 and $373,000, respectively.

Note 6 – Line of Credit and Long-Term Debt, Net

Line of credit – ECA maintains a $1,200,000 revolving line of credit with a commercial bank, which is does not expire as long as ECA maintains collateral. Drawdowns from the credit facility bear interest at the bank's variable rate plus 2.750% per annum. At June 30, 2023 and 2022, the interest rate was 7.925% and 3.949%, respectively. There were no borrowings against the credit facility as of June 30, 2023 and 2022. The line of credit is secured by investments of ECA.

Long-term debt, net

Long-term debt, net included on the consolidated statements of financial position were as follows:

	2023	2022
AVC promissory note payable ("A")	$ 9,801	$ 10,077
AVSF promissory note payable ("B")	30,652	31,467
AVSR promissory note payable ("C")	26,017	26,788
VSM promissory note payable ("D")	28,182	28,715
MRCC construction note payable ("E")	141	22,819
MRCC term loan payable ("F")	24,500	-
PPP loans payable ("G")	-	957
	119,293	120,823
Less: unamortized debt issuance costs	(1,794)	(2,068)
Less: current maturities	(2,916)	(25,022)
Long-term debt, net of current maturities	$ 114,583	$ 93,733

(A) AVC – Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development ("HUD") under Section 232 of the National Housing Act, in the original amount of $12,416,000. The mortgage matures in June 2047, payable in monthly installments of approximately $48,000 including interest at 3.0%, secured by a first lien on the AVC property. Under the terms of the note, AVC is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. AVC is also subject to restrictions on acquisition, use, and disposition of the mortgaged property and revenues derived therefrom.

(B) AVSF – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act, in the original amount of $38,485,000. The mortgage matures in November 2046, payable in monthly installments of approximately $162,000 including interest at 3.65%, secured by a first lien on the AVSF property. Under the terms of the note, AVSF is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. AVSF is also subject to restrictions on acquisition, use, and disposition of the mortgaged property and revenues derived therefrom.

(C) AVSR – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act in the original amount of $32,878,000. The mortgage is payable in monthly installments of approximately $144,000, including interest at 3.6% through April 1, 2045, and is secured by a first lien on the AVSR property. Under the terms of the mortgage, AVSR is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. AVSR is also subject, under the terms of the mortgage, to restrictions on acquisition, use, and disposition of the mortgaged property, and revenues derived therefrom.

(D) VSM – Entered into a $30,358,000 mortgage with a commercial entity in December 2016. The note bears interest at a fixed rate of 4.69%. The note requires monthly interest-only payments from February 2017 through January 2019, and monthly principal and interest payments of approximately $157,000 starting in February 2019, until the mortgage is fully paid in January 2027. The note is guaranteed by ECA-Corporate and secured by the mortgaged property.

(E) MRCC – Entered into a $25,000,000 construction financing with BBVA Compass Bank on March 26, 2019. Such loan was used to finance construction payments through construction, with a planned conversion upon construction completion. The conversion would result in a 10-year financing, with principal payments based on a 30-year amortization and a 4.51% annual interest rate. BBVA Compass Bank was acquired by PNC Bank in 2021, however the terms of the loan remained the same. Amendments were executed to defer the planned conversion to a permanent loan through October 23, 2023, and therefore extend the loan maturity to October 23, 2023. Additionally, as a condition of the construction financing, interest rate swaps were executed to swap the floating rate interest (upon conversion) under the financing agreement to fixed rate interest. While the planned debt conversion was extended, the interest rate swaps took effect on March 25, 2022, as planned (See Note 7). MRCC's construction note payable – current maturities of $141,000 at June 30, 2023 is comprised of principal payments made from July 1, 2023 to October 26, 2023.

(in Thousands)

(F) MRCC – On October 27, 2023, MRCC entered into a $24,500,000 commercial term loan agreement ("Term Loan") secured by real estate and an interest rate swap agreement (“Swap”) with California Bank & Trust (“CalBT”), for the purpose of extinguishing the existing construction note payable in accordance with ASC 470-50-40-10, which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for $3,452,000. MRCC used the proceeds of these two transaction plus $1,129,000 of cash to pay off the existing construction note payable balance of $24,470,000 plus associated interest expense of $120,000, fund a debt service reserve account totaling $3,943,000, and pay $549,000 of debt issuance costs (See Note 18).

(G) ECA – Entered into five PPP loans totaling $4,966,000 with a financial institution on dates from February 22, 2021 through March 24, 2021. The loans accrue interest at a rate of 1%, starting 10 months and 24 weeks after the loan is distributed. The loans have an original maturity date of five years from the original date. Equal monthly principal and interest payments are required in an amount that would fully amortize the loan by the maturity date beginning March 22, 2022 through April 26, 2022, unless forgiven. In 2023, one of the five PPP Loans were forgiven. The full amount of the four forgiven loans and accrued interest, totaling $921,000, was recognized as gain from loan forgiveness and is included on the consolidated statement of activities and changes in net assets for the year ended June 30, 2023. In 2022, four of the five PPP Loans were forgiven. The full amount of the four forgiven loans and accrued interest, totaling $4,052,000, was recognized as gain from loan forgiveness and is included on the consolidated statement of activities and changes in net assets for the year ended June 30, 2022.

Unamortized debt issuance costs of $1,794,000 and $2,068,000 at June 30, 2023 and 2022, respectively, are related to the outstanding long-term debt of ECA. The costs are amortized to interest expense over the term of the related debt.

Aggregate annual maturities of long-term debt at June 30, 2023 are as follows:

Years Ending June 30,		
2024	$	2,916
2025		3,035
2026		3,161
2027		26,059
2028		2,893
Thereafter		81,229
	$	119,293

Note 7 – Interest Rate Swaps

ECA entered into three interest rate swap agreements with a commercial bank, its construction lender, to manage interest rate exposure from its floating rate on the construction note payable. The differential to be paid or received under these agreements is accrued consistent with the terms of the agreement and is recognized in interest expense over the term of the related debt using a method that approximates the effective interest method.

The estimated fair values of interest rate swaps have been determined using Level 2 inputs including available marketing information and valuation methodologies. The fair values of interest rate swaps include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. ECA also incorporates, within its fair value measurements of over-the-counter derivatives, the net credit differential between the counterparty credit risk and ECA's own credit risk. An estimate of severity of loss is also used in the determination of fair value, primarily based on historical experience, adjusted for recent specific expectations.

All interest rate swaps were entered into with BBVA Compass Bank, and assumed with the same terms upon its acquisition by PNC Bank in 2021. PNC is the floating rate player subject to a floating rate, whereas MRCC is the fixed rate player subject to a fixed rate. While the original swaps referenced the floating rate of USD-LIBOR-BBA, upon the construction loan extension, the rate was amended to reference USD-BSBY (Bloomberg Short-Term Bank Yield Index rate) as LIBOR is being phased out. All swaps were executed with effective dates coinciding with the planned construction note payable conversion of March 24, 2022.

On October 27, 2023, MRCC terminated the interest rate swaps associated with the construction note payable for $3,5452,000 (See Note 18).

(in Thousands)

The following chart outlines the terms and valuations of the swap arrangements:

	Notional Value	Interest Rate	Date Executed	Maturity Date	Fair Value, June 30,2023	Unrealized Gain for the Year Ended June 30,2023
2019 Swap	$ 10,000,000	2.86%	3/26/2019	3/24/2032	$ 566	$ 579
2020 Swap	$ 10,000,000	1.09%	5/1/2020	3/24/2032	1,759	383
2020 Swap #2	$ 2,000,000	1.20%	5/4/2020	3/24/2027	198	47
2020 Swap #2	$ (500,000)	1.20%	5/4/2020	3/24/2027	2	2
2020 Swap #2	$ (500,000)	1.20%	5/4/2020	3/24/2027	1	1
2020 Swap #2	$ (500,000)	1.20%	5/4/2020	3/24/2027	1	1
2020 Swap #2	$ (355,000)	1.20%	5/4/2020	3/24/2027	1	1
					$ 2,528	$ 1,014

	Notional Value	Interest Rate	Date Executed	Maturity Date	Fair Value, June 30,2022	Unrealized (Loss) Gain for the Year June 30,2022
2019 Swap	$ 10,000,000	2.86%	3/26/2019	3/24/2032	$ (13)	$ (13)
2020 Swap	$ 10,000,000	1.09%	5/1/2020	3/24/2032	1,376	1,376
2020 Swap #2	$ 2,000,000	1.20%	5/4/2020	3/24/2027	151	151
					$ 1,514	$ 1,514

Note that the 2020 Swap #2 includes options to terminate early, in $500,000 increments annually from March 24, 2023 through 2025, and $355,000 in 2026. The value of the exit options is incorporated into the swap valuation and the associated unrealized gain (loss).

At June 30, 2023, the fair value of the interest rate swaps was included in the consolidated statement of financial position. The unrealized gain (loss) for the year ended June 30, 2023 and 2022, were included in the accompanying consolidated statement of activities and changes in net assets.

Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of donor restricted contributions and grants at June 30, for the following purposes:

	2023	2022
Building renovations and equipment	$ 585	$ 1,315
Charitable care and other	1,902	1,365
Food distribution to low income seniors	1,076	881
Endowment corpus	3,640	3,640
	$ 7,203	$ 7,201

During the years ended June 30, 2023 and 2022, approximately $3,386,000 and $5,052,000 of net assets were released from donor restrictions, respectively, by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

(in Thousands)

Endowment corpus that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people, are included in charity and other.

Note 9 – Endowments

ECA's endowment consists of approximately eight individual funds established to support ECA's nonprofit mission. The endowment consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECA's governing body has interpreted the State of California Prudent Management of Institutional Funds Act ("SPMIFA") as requiring 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, ECA classifies as permanently restricted net assets (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. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ECA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of net assets for the endowment fund at June 30, 2023 and 2022 were as follows:

	2023		
	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 1,779	$ 3,647	$ 5,426

	2022		
	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 1,266	$ 3,640	$ 4,906

(in Thousands)

Changes in endowment net assets for the years ended June 30, 2023 and 2022 were as follows:

	2023		
	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 1,266	$ 3,647	$ 4,913
Investment return, net:			
Investment gain	714	-	714
Net appreciation	35	-	35
Less: investment manager expense	(45)	-	(45)
Total investment return	704	-	704
Appropriation of endowment assets for expenditure	(191)	-	(191)
Endowment net assets, end of year	$ 1,779	$ 3,647	$ 5,426

	2022		
	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 2,497	$ 3,647	$ 6,144
Investment return, net:			
Investment loss	(1,001)	-	(1,001)
Net appreciation	91	-	91
Less: investment manager expense	(55)	-	(55)
Total investment return	(965)	-	(965)
Appropriation of endowment assets for expenditure	(266)	-	(266)
Endowment net assets, end of year	$ 1,266	$ 3,647	$ 4,913

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2023 and 2022.

ECA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds ECA must hold in perpetuity or for donor-specified periods. ECA expects its endowment funds to provide an average annual rate of return exceeding consumer price index (“CPI”) by 3.5% over time. Actual returns in any given year may vary from this amount.

(in Thousands)

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

ECA has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of resident assistance estimated to be provided as approved in the annual budget. In establishing this policy, ECA considered the long-term expected return on its endowment. This is consistent with ECA's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Note 10 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, comprised the following:

	2023	2022
Cash and cash equivalents	$ 14,792	$ 16,403
Patient and resident accounts receivable, net	3,569	2,219
Investments	12,121	11,883
	$ 30,482	$ 30,505

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date. ECA has a goal to maintain a current ratio greater than 1:1 in order to meet general expenditures, liabilities, and other obligations as they come due.

(in Thousands)

Note 11 – Functional Expenses

The expenses for providing residential and assisted living services activities of ECA that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among program services and supporting services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or, in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases. Expenses related to providing these services for the years ended June 30, 2023 and 2022 were as follows:

	2023						
	Residential Services	Assisted Living/Memory Care	Skilled Nursing	Brown Bag Program	Fundraising	General and Administrative	Total
Salaries and benefits	$ 11,928	$ 10,214	$ 4,060	$ 600	$ 45	$ 3,152	$ 29,999
Purchased services and other	720	7,325	2,929	120	99	9,764	21,069
Donated food	-	-	-	4,438	-	-	4,438
Supplies	-	2,475	871	299	47	115	3,680
Depreciation and amortization	5,156	-	-	-	-	283	5,439
Interest and fees	-	-	-	-	-	4,706	4,705
	$ 17,804	$ 20,014	$ 7,860	$ 5,457	$ 191	$ 18,020	$ 69,330

	2022						
	Residential Services	Assisted Living/Memory Care	Skilled Nursing	Brown Bag Program	Fundraising	General and Administrative	Total
Salaries and benefits	$ 10,923	$ 9,177	$ 3,732	$ 525	$ 225	$ 3,376	$ 27,958
Purchased services and other	671	6,541	2,171	80	49	2,481	11,993
Donated food	-	-	-	3,687	-	-	3,687
Supplies	6	2,164	813	406	6	29	3,424
Depreciation and amortization	4,940	-	-	-	-	78	5,018
Interest and fees	-	-	-	-	-	4,030	4,030
	$ 16,540	$ 17,882	$ 6,716	$ 4,698	$ 280	$ 9,994	$ 56,110

Note 12 – Leases

Leases (ASC 840 only)

ECA has a contract for a lease for office space under a noncancelable long-term operating lease agreement. Total lease expense for the year ended June 30, 2022, was $309,000.

(in Thousands)

Under ASC 840, future minimum non-cancelable lease payments under ECA's operating lease as of June 30, 2022, was as follows:

Years Ending June 30,		
2023	$	152
2024		258
2025		265
2026		274
2027		283
	$	1,232

Leases (ASC 842 only)

ECA leased certain office space and equipment under noncancelable long-term operating lease agreements.

ECA recognized the following noncash expense associated with leases for the year ended June 30, 2023:

		2023
Operating leases		
Amortization of ROU assets	$	367
Short-term lease expense	$	11

During the year ended June 30, 2023, ECA had the following cash, noncash activities, and other information associated with leases:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	286
Supplemental disclosures on cash flow information		
ROU assets and operating lease liabilities as a result of adoption of ASC 842	$	1,368
ROU assets obtained in exchange for new operating lease liabilities	$	13
Weighted-average remaining lease term (years)		
Operating leases		4.06
Weighted-average discount rate		
Operating leases		2.88%

(in Thousands)

The undiscounted future payments due under operating leases as of June 30, 2023, are as follows:

Years Ending June 30,		
2024	$	341
2025		287
2026		288
2027		284
Total lease payments		1,200
Less present value discount		(68)
Long-term lease obligation	$	1,132

Note 13 – Professional, Workers' Compensation, and Health Reimbursement Arrangement Liability Claims

Professional liability claims – ECA purchases professional liability insurance under a claims-made policy on a fixed premium basis. U.S. GAAP requires a health care provider to accrue professional liability costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Professional claims liabilities, included in accrued expenses and other current liabilities in the accompanying consolidated statement of financial position, were $6,619,000 and $0 as of June 30, 2023 and 2022, respectively. Insurance recovery receivables, included in other receivables in the accompanying consolidated statement of financial position were $715,000 and $0 as of June 30, 2023 and 2022, respectively. It is reasonably possible that this estimate could change materially in the near term.

Workers' compensation claims – ECA purchases workers' compensation insurance coverage with a zero deductible per occurrence. The provision for estimated workers' compensation claims includes estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported, in accordance with projections based on past experience. Workers' compensation claims liabilities, included in accrued expenses and other current liabilities in the consolidated statements of financial position, were $856,000 and $828,000 at June 30, 2023 and 2022, respectively. Insurance recovery receivables, included in other receivables in the consolidated statements of financial position were $642,000 and $614,000 at June 30, 2023 and 2022, respectively.

Health reimbursement arrangement – ECA purchases a high deductible health and dental insurance plan for ECA employees on a calendar year basis. ECA has a commitment to fund $3,500 which was increased to $5,500 per employee on July 1, 2021, and decreased to $4,500 on January 1, 2023, per employee to a health savings account. ECA estimates the remaining utilization of the health reimbursement arrangement based on historical experience of claims paid from the ECA employee's health savings account. The remaining estimated health reimbursement accrued expense is included in accrued expenses and other current liabilities in the accompanying consolidated statements of financial position was approximately $103,000 and $209,000 at June 30, 2023 and 2022, respectively.

Note 14 – Retirement Plans

ECA-Corporate sponsors a defined contribution plan, in which ECA-Corporate and subordinate company employees can participate. Additionally, ECA-Corporate and subordinate companies have adopted an incentive plan that covers all employees, respectively. Employees are eligible for participation in the defined contribution plan at the date of hire and ECA matches the employee contribution, after the completion of one year of service, up to a maximum of 5.0% of the employee's salary, with vesting over four years. In addition, ECA-corporate and subordinate company employees are eligible for the incentive plan after the completion of one year of service, each respective company contributes a discretionary amount of their employees' salary. For the years ended June 30, 2023 and 2022, ECA-Corporate and subordinate companies collectively contributed a total of $39,000 and $321,000, respectively, to the incentive plan on behalf of their respective employee participants. During the years ended June 30, 2023 and 2022, ECA-Corporate and subordinate companies collectively contributed a total of $344,000 and $321,000, respectively, to the defined contribution plan on behalf of their respective employee participants.

Note 15 – Continuing Care Reserve Requirement

The State of California Health and Safety Code (the "Code") requires continuing care retirement communities to report on the adequacy of certain reserve requirements. ECA met both the statutory and liquid reserve requirements at June 30, 2023 and 2022, and was exempt from the refund reserve requirement at June 30, 2023 and 2022.

In accordance with Section 1790(a)(3) of the Code as of June 30, 2023, the amounts accumulated for projects designated to meet the needs of the ECA residents are accumulated in construction progress (see Note 5), and there are no amounts maintained for contingencies.

Note 16 – Disclosures about Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

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

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(in Thousands)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2023 and 2022.

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases, where Levels 1 or 2 inputs are not available, securities are classified within Level 3 of the hierarchy. ECA does not hold securities classified as Level 3.

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 within Level 2 of the valuation hierarchy.

The following tables present the fair value measurements of certain assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis, and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

	2023			
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 11,822	$ 11,822	$ -	$ -
Fixed income securities:				
U.S. agencies and treasuries	987	987	-	-
Corporate debt securities	1,248	-	1,248	-
Mortgage-backed securities	1,413	1,413	-	-
Mutual funds	1,567	1,567	-	-
Money market mutual funds	225	225	-	-
Certificates of deposit	268	-	268	-
Cash and cash equivalents	17	17	-	-
	$ 17,547	$ 16,031	$ 1,516	$ -
Investments	$ 12,121			
Assets limited as to use:				
Restricted by donor (Note 8)	5,426			
	$ 17,547			
Interest rate swaps	$ 2,528,000	$ -	$ 2,528,000	$ -

(in Thousands)

	2022			
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 9,878	$ 9,878	$ -	$ -
Fixed income securities:				
U.S. agencies and treasuries	697	697	-	-
Corporate debt securities	1,847	-	1,847	-
Mortgage-backed securities	1,335	1,335	-	-
Mutual funds	1,934	1,934	-	-
Money market mutual funds	764	764	-	-
Certificates of deposit	341	-	341	-
Cash and cash equivalents	-	-	-	-
	$ 16,796	$ 14,608	$ 2,188	$ -
Investments	$ 11,883			
Restricted by donor (Note 8)	4,913			
	$ 16,796			
Interest rate swaps	$ 1,514,000	$ -	$ 1,514,000	$ -

Note 17 – Significant Estimates, Concentrations, and Contingencies

U.S. GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations and contingencies. Those matters include the following:

Compliance – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements; reimbursement for patient services; and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that ECA is in compliance with fraud, abuse, and other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

Litigation – In the normal course of business, ECA is, from time to time, subject to allegations that may or may not result in litigation. ECA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Implicit and explicit price concessions for net health services revenue – Implicit and explicit price concessions included in net health services revenue are described in Note 1.

Current economic conditions – Due to the current regulatory environment and economic uncertainties, it is possible the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments.

Investments – ECA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Interest rate swaps – ECA invests in various interest rate swaps. Interest rate swaps are exposed to various risks such as interest rate and market risks. Due to the level of risk associated with interest rate swaps, it is at least reasonably possible that changes in the values of interest rate swaps will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Allowance for net health services revenue adjustments – Estimates of allowances for adjustments included in net health services revenue are described in Note 1.

Note 18 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date, but before consolidated financial statements are available to be issued. ECA recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of consolidated financial position, including the estimates inherent in the process of preparing the consolidated financial statements. ECA's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the consolidated statement of financial position date and before consolidated financial statements were available to be issued.

On August 7, 2023, ECA-Corporate announced that they are affiliating with Transforming Age and that ECA-Corporate and their communities will be joining the Transforming Age network. By combining their expertise, together the two organizations aim to strengthen and grow their mission impact and better address the evolving needs of older adults, across the economic spectrum. The legal structure of AVC, AVSF, AVSR, MRCC, and VSM are not changing, ECA-Corporate remains the sole corporate member of AVC, AVSF, AVSR, MRCC, and VSM. The affiliation is pending California Attorney General approval.

Transforming Age is one of the nation's largest nonprofit senior living providers, serving more than 100,000 older adults by integrating housing, community services, technology, philanthropy and partnerships. Transforming Age is recognized for its robust nonprofit mission, commitment to creating a culture of excellence, and diverse network of affiliates that serve older adults across the economic spectrum.

Under this new affiliation, both organizations will leverage their combined strengths to broaden their service offerings, providing older adults with an expanded array of programs, innovative care options, and sustainable housing solutions.

On October 27, 2023, MRCC entered into a $24,500,000 Term Loan agreement secured by real estate with CalBT for the purpose of refinancing the existing construction note payable which had expired on October 23, 2023. In addition, MRCC terminated the interest rate swaps associated with the construction note payable for $3,452,000 (See Note 6 and Note 7). MRCC also transferred $1,129,000 to CalBT prior to finalizing the commercial term loan agreement.

Total proceeds of $28,082,000 from the three transactions above were used as follows:

- $24,470,000 to pay off the existing construction note payable,
- $3,943,000 to be held in a pledged bank account with CalBT, and
- $549,000 of debt issuance costs.

The CalBT loan agreement requires principal plus interest payments based on a 25-year amortization and a floating interest rate equal to 79.00% of the all-in rate which is equal to 30-day term Secured Overnight Financing Rate plus a spread of 2.92%. The floating interest rate has been hedged via the Swap to provide a fixed rate of 6.20% to MRCC. The underlying notional amount of the Swap is $24,500,000 as of the October 27, 2023 effective date. The Term Loan provides a 42-month commitment with a 24-month extension option based on certain metrics being met.

Management fees and the note payable to ECA-Corporate are subordinate to the CalBT loan.

The $549,000 debt issuance costs will be amortized to interest expense over the 42-month commitment period.

MRCC made principal payments on the construction note payable of $141,000 from July 1, 2023 to October 6, 2023. The $396,000 of unamortized debt issuance costs as of June 30, 2023, associated with the construction note payable will be written off as of October 27, 2023.

ECA has evaluated subsequent events through November 27, 2023, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Financial Position
June 30, 2023
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 4,351	$ 1,549	$ 1,397	$ 1,242	$ 4,780	$ 1,473	$ -	$ 14,792
Patient and resident accounts receivable, net	20	3,275	10	130	104	30	-	3,569
Due from related parties	1,524	-	-	-	-	-	(1,524)	-
Pledge and other receivables	55	1,076	758	76	370	68	-	2,403
Prepaid expenses and other assets	551	196	35	120	121	186	-	1,209
Total current assets	6,501	6,096	2,200	1,568	5,375	1,757	(1,524)	21,973
ASSETS LIMITED AS TO USE								
Held by mortgagee under loan agreement:								
Reserve for replacements	-	-	517	644	192	-	-	1,353
Escrow deposits	-	-	114	1,150	268	118	-	1,650
Restricted by donor (Note 8)	1,450	3,666	-	-	310	-	-	5,426
Total assets limited as to use	1,450	3,666	631	1,794	770	118	-	8,429
INTEREST RATE SWAPS (Note 7)	-	2,528	-	-	-	-	-	2,528
INVESTMENTS	4,121	6,610	-	-	1,390	-	-	12,121
PROPERTY AND EQUIPMENT, net	826	40,136	8,854	20,889	17,441	46,915	-	135,061
OPERATING LEASE RIGHT-OF-USE ASSETS	1,051	-	-	-	-	-	-	1,051
OTHER ASSETS								
Related party note receivable	7,331	-	-	-	-	-	(7,331)	-
Other assets	17,091	5	17	19	54	-	(16,783)	403
Total other assets	24,422	5	17	19	54	-	(24,114)	403
Total assets	$ 38,371	$ 59,041	$ 11,702	$ 24,270	$ 25,030	$ 48,790	$ (25,638)	$ 181,566

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Financial Position (Continued)
June 30, 2023
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable	$ 276	$ 871	$ 70	$ 295	$ 719	$ 254	$ 1	$ 2,486
Accrued expenses and other current liabilities	6,743	1,240	1,095	693	970	404	-	11,145
Operating lease liabilities, current maturities	292	-	-	-	-	-	-	292
Long-term debt, current maturities	-	431	283	844	799	559	-	2,916
Due to related parties	-	272	173	156	276	9	(886)	-
Total current liabilities	7,311	2,814	1,621	1,988	2,764	1,226	(885)	16,839
DUE TO RELATED PARTIES	-	-	-	1,269	-	-	(1,269)	-
OPERATING LEASE LIABILITIES, net of current maturities	840	-	-	-	-	-	-	840
RELATED PARTY NOTE PAYABLE	-	1,500	1,319	3,882	-	-	(6,701)	-
LONG-TERM DEBT, net of current maturities	-	23,814	9,193	28,932	25,111	27,533	-	114,583
OTHER NONCURRENT LIABILITIES	-	-	6	15	11	-	-	32
Total liabilities	8,151	28,128	12,139	36,086	27,886	28,759	(8,855)	132,294
NET ASSETS								
Without donor restrictions	28,760	25,557	(447)	(11,890)	(3,159)	20,031	(16,783)	42,069
With donor restrictions	1,460	5,356	10	74	303	-	-	7,203
Total net assets	30,220	30,913	(437)	(11,816)	(2,856)	20,031	(16,783)	49,272
Total liabilities and net assets	$ 38,371	$ 59,041	$ 11,702	$ 24,270	$ 25,030	$ 48,790	$ (25,638)	$ 181,566

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Financial Position (Continued)
Year Ended June 30, 2022
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	$ 3,654	$ 5,427	$ 1,690	$ 1,181	$ 3,170	$ 1,281	$ -	$ 16,403
Patient and resident accounts receivable, net	-	1,983	37	84	82	33	-	2,219
Due from related parties	1,696	-	-	-	-	-	(1,696)	-
Pledge and other receivables	64	559	156	731	229	113	-	1,852
Prepaid expenses and other assets	507	218	27	104	126	128	-	1,110
Total current assets	5,921	8,187	1,910	2,100	3,607	1,555	(1,696)	21,584
ASSETS LIMITED AS TO USE								
Held by mortgagee under loan agreement:								
Reserve for replacements	-	-	637	592	542	-	-	1,771
Escrow deposits	-	-	126	1,086	605	144	-	1,961
Restricted by donor (Note 8)	1,265	3,253	-	-	395	-	-	4,913
Total assets limited as to use	1,265	3,253	763	1,678	1,542	144	-	8,645
INTEREST RATE SWAPS (Note 7)	-	1,514	-	-	-	-	-	1,514
INVESTMENTS	3,756	7,017	-	-	1,110	-	-	11,883
PROPERTY AND EQUIPMENT, net	750	40,203	8,833	21,588	17,647	47,112	-	136,133
OTHER ASSETS								
Related party note receivable	7,922	-	-	-	-	-	(7,922)	-
Other assets	17,095	-	10	-	40	-	(16,783)	362
Total other assets	30,788	51,987	9,606	23,266	20,339	47,256	(24,705)	158,537
Total assets	$ 36,709	$ 60,174	$ 11,516	$ 25,366	$ 23,946	$ 48,811	$ (26,401)	$ 180,121

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Financial Position (Continued)
Year Ended June 30, 2022
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts payable	$ 368	$ 2,429	$ 82	$ 1,045	$ 190	$ 152	$ (1)	$ 4,265
Accrued expenses and other current liabilities	797	1,082	484	711	757	496	-	4,327
Long-term debt, current maturities	-	22,939	275	814	961	533	(500)	25,022
Due to related parties	-	333	247	204	314	26	(1,124)	-
Total current liabilities	1,165	26,783	1,088	2,774	2,222	1,207	(1,625)	33,614
DUE TO RELATED PARTIES	-	-	-	1,092	-	-	(1,092)	-
RELATED PARTY NOTE PAYABLE	-	1,500	1,519	3,882	-	-	(6,901)	-
LONG-TERM DEBT, net of current maturities	-	-	9,463	29,634	26,567	28,069	-	93,733
Total liabilities	1,165	28,283	12,070	37,382	28,789	29,276	(9,618)	127,347
NET ASSETS								
Without donor restrictions	34,268	26,417	(566)	(12,064)	(5,234)	19,535	(16,783)	45,573
With donor restrictions	1,276	5,474	12	48	391	-	-	7,201
Total net assets	35,544	31,891	(554)	(12,016)	(4,843)	19,535	(16,783)	52,774
Total liabilities and net assets	$ 36,709	$ 60,174	$ 11,516	$ 25,366	$ 23,946	$ 48,811	$ (26,401)	$ 180,121

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Activities Information
Year Ended June 30, 2023
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
REVENUES, GAINS, AND OTHER SUPPORT								
Monthly rent	$ -	$ 4,837	$ 5,085	$ 10,295	$ 10,326	$ 4,679	$ -	$ 35,222
Net health services revenue	401	11,465	1,107	2,461	2,032	-	-	17,466
In-kind food contributions	-	4,561	-	-	-	-	-	4,561
Other resident services revenue	-	155	65	331	270	-	-	821
Other revenue, net	3,649	-	31	1	28	1	(3,692)	18
Net assets released from restrictions for operations	-	1,467	21	80	161	-	-	1,729
Total revenues, gains, and other support	4,050	22,485	6,309	13,168	12,817	4,680	(3,692)	59,817
EXPENSES AND LOSSES								
Salaries and benefits	4,826	10,336	3,172	6,262	4,922	481	-	29,999
Purchased services and other	5,105	6,946	1,438	3,032	3,278	1,371	(101)	21,069
Donated food	-	4,438	-	-	-	-	-	4,438
Supplies	30	1,835	426	684	699	6	-	3,680
Depreciation and amortization	283	1,992	393	893	1,042	836	-	5,439
Interest and fees	-	933	351	1,274	952	1,374	(179)	4,705
Management fees	-	1,331	409	851	883	117	(3,591)	-
Total expenses and losses	10,244	27,811	6,189	12,996	11,776	4,185	(3,871)	69,330
Operating (loss) income	(6,194)	(5,326)	120	172	1,041	495	179	(9,513)
OTHER INCOME								
Contribution revenue	12	986	-	11	1	1	-	1,011
Investment return, net of investment expenses	674	809	-	-	141	-	(179)	1,445
Loss on disposal of property and equipment	-	-	(1)	(9)	(29)	-	-	(39)
Gain from loan forgiveness	-	-	-	-	921	-	-	921
Unrealized gains on interest rate swaps	-	1,014	-	-	-	-	-	1,014
Total other income	686	2,809	(1)	2	1,034	1	(179)	4,352
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	$ (5,508)	$ (2,517)	$ 119	$ 174	$ 2,075	$ 496	$ -	$ (5,161)

Elder Care Alliance and Subordinate Corporations
Consolidating Statements of Activities Information (Continued)
Year Ended June 30, 2022
(in Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	Villa at San Mateo	Eliminations	Total Consolidated
REVENUES, GAINS, AND OTHER SUPPORT								
Monthly rent	$ -	$ 4,329	$ 4,681	$ 8,528	$ 8,394	$ 4,421	$ -	$ 30,353
Net health services revenue	397	9,676	1,027	1,757	1,575	-	-	14,432
In-kind food contributions	-	3,687	-	-	-	-	-	3,687
Provider relief funds	-	151	235	211	180	-	-	777
Other resident services revenue	-	39	74	299	243	1	-	656
Other revenue, net	3,254	-	24	36	5	5	(3,250)	74
Net assets released from restriction	25	1,153	16	224	196	-	-	1,614
Total revenues, gains, and other support	3,676	19,035	6,057	11,055	10,593	4,427	(3,250)	51,593
EXPENSES AND LOSSES								
Salaries and benefits	4,133	9,925	3,012	5,798	4,564	526	-	27,958
Purchased services and other	259	4,491	1,280	2,298	2,418	1,280	(33)	11,993
Donated food	-	3,687	-	-	-	-	-	3,687
Supplies	16	1,868	368	587	580	5	-	3,424
Depreciation and amortization	78	1,734	417	939	1,041	809	-	5,018
Interest and fees	3	113	366	1,329	993	1,399	(173)	4,030
Management fee	-	1,222	430	777	677	111	(3,217)	-
Total expenses and losses	4,489	23,040	5,873	11,728	10,273	4,130	(3,423)	56,110
Operating (loss) income	(813)	(4,005)	184	(673)	320	297	173	(4,517)
OTHER INCOME								
Contribution revenue	(37)	264	61	75	57	-	-	420
Investment return, net of investment expenses	(542)	(1,464)	2	-	(198)	-	(173)	(2,375)
Loss on disposal of property and equipment	-	(203)	(4)	(5)	(53)	(35)	-	(300)
Gain from loan forgiveness	492	1,855	578	1,127	-	-	-	4,052
Unrealized gains on interest rate swaps	-	1,514	-	-	-	-	-	1,514
Total income	(87)	1,966	637	1,197	(194)	(35)	(173)	3,311
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	$ (900)	$ (2,039)	$ 821	$ 524	$ 126	$ 262	$ -	$ (1,206)

Elder Care Alliance and Subordinate Corporations
Consolidating Statement of Changes in Net Assets
Year Ended June 30, 2023
(in Thousands)

	ECA - Corporate		Mercy Retirement and Care Center		AlmaVia of Camarillo		AlmaVia of San Francisco	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions
BALANCE, July 1, 2022	$ 34,268	$ 1,276	$ 26,417	$ 5,474	$ (566)	$ 12	$ (12,064)	$ 48
Excess (deficiency) of revenues over expenses	(5,508)	-	(2,517)	-	119	-	174	-
Net assets released from restriction for building improvements and equipment	-	-	1,657	(1,657)	-	-	-	-
Donor-restricted contribution revenue	-	-	-	2,575	-	19	-	106
Investment return, net of investment expenses	-	184	-	431	-	-	-	-
Net assets released from restriction for operations	-	-	-	(1,467)	-	(21)	-	(80)
BALANCE, June 30, 2023	$ 28,760	$ 1,460	$ 25,557	$ 5,356	$ (447)	$ 10	$ (11,890)	$ 74

	AlmaVia of San Rafael		Villa at San Mateo		Elimination		Total Consolidated	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions
BALANCE, July 1, 2022	$ (5,234)	$ 391	$ 19,535	$ -	$ (16,783)	$ -	$ 45,573	$ 7,201
Excess (deficiency) of revenues over expenses	2,075	-	496	-	-	-	(5,161)	-
Net assets released from restriction for building improvements and equipment	-	-	-	-	-	-	1,657	(1,657)
Donor-restricted contribution revenue	-	20	-	-	-	-	-	2,720
Investment return, net of investment expenses	-	53	-	-	-	-	-	668
Net assets released from restriction for operations	-	(161)	-	-	-	-	-	(1,729)
BALANCE, June 30, 2023	$ (3,159)	$ 303	$ 20,031	$ -	$ (16,783)	$ -	$ 42,069	$ 7,203

Elder Care Alliance and Subordinate Corporations
Consolidating Statement of Changes in Net Assets (Continued)
Year Ended June 30, 2023
(in Thousands)

	ECA - Corporate		Mercy Retirement and Care Center		AlmaVia of Camarillo		AlmaVia of San Francisco	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions
BALANCE, July 1, 2021	$ 35,168	$ 1,591	$ 25,018	$ 9,298	$ (1,387)	$ 11	$ (12,588)	$ 116
Excess (deficiency) of revenues over expenses	(900)	-	(2,039)	-	821	-	524	-
Net assets released from restriction for building improvements and equipment	-	-	3,438	(3,438)	-	-	-	-
Donor-restricted contribution revenue	-	5	-	1,406	-	17	-	156
Investment return, net of investment expenses	-	(295)	-	(639)	-	-	-	-
Net assets released from restriction for operations	-	(25)	-	(1,153)	-	(16)	-	(224)
BALANCE, June 30, 2022	$ 34,268	$ 1,276	$ 26,417	$ 5,474	$ (566)	$ 12	$ (12,064)	$ 48

	AlmaVia of San Rafael		Villa at San Mateo		Elimination		Total Consolidated	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions
BALANCE, July 1, 2021	$ (5,360)	$ 693	$ 19,273	$ -	$ (16,783)	$ -	$ 43,341	$ 11,709
Excess (deficiency) of revenues over expenses	126	-	262	-	-	-	(1,206)	-
Net assets released from restriction for building improvements and equipment	-	-	-	-	-	-	3,438	(3,438)
Donor-restricted contribution revenue	-	16	-	-	-	-	-	1,600
Investment return, net of investment expenses	-	(122)	-	-	-	-	-	(1,056)
Net assets released from restriction for operations	-	(196)	-	-	-	-	-	(1,614)
BALANCE, June 30, 2022	$ (5,234)	$ 391	$ 19,535	$ -	$ (16,783)	$ -	$ 45,573	$ 7,201

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