

Lutheran Social Ministries at Crane's Mill, Inc.

Financial Statements

December 31, 2024 and 2023

Lutheran Social Ministries at Crane's Mill, Inc.

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Independent Auditors' Report

To the Board of Trustees of
Lutheran Social Ministries at Crane's Mill, Inc.

Opinion

We have audited the financial statements of Lutheran Social Ministries at Crane's Mill, Inc. (the Corporation), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2024 and 2023, and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 30, 2025

Lutheran Social Ministries at Crane's Mill, Inc.

Balance Sheets

December 31, 2024 and 2023

| | <u>2024</u> | <u>2023</u> | | <u>2024</u> | <u>2023</u> |
|--|-----------------------|-----------------------|---|-----------------------|-----------------------|
| Assets | | | Liabilities and Net Assets | | |
| Current Assets | | | Current Liabilities | | |
| Cash and cash equivalents | \$ 3,459,356 | \$ 2,331,626 | Current maturities of long-term debt | \$ 745,000 | \$ 710,000 |
| Assets restricted under loan and trust agreements | 1,727,387 | 1,710,402 | Accounts payable: | | |
| Accounts receivable: | | | Trade | 402,741 | 773,055 |
| Residents, net | 1,092,635 | 1,044,025 | Accrued expenses | 1,347,271 | 1,330,461 |
| Entrance fee receivable | 1,170,940 | 3,210,276 | Refundable entrance fees | <u>4,051,122</u> | <u>2,596,571</u> |
| Due from affiliate | 1,808,820 | 271,930 | | | |
| Prepaid expenses and other current assets | <u>886,145</u> | <u>876,608</u> | Total current liabilities | 6,546,134 | 5,410,087 |
| | | | | | |
| Total current assets | 10,145,283 | 9,444,867 | Long-Term Debt | 38,466,506 | 39,290,079 |
| | | | | | |
| Investments | 24,810,701 | 26,671,424 | Refundable Entrance Fees and Deposits | 47,965,515 | 42,367,808 |
| | | | | | |
| Assets Restricted Under Loan and Trust Agreements | 2,969,225 | 2,821,935 | Deferred Revenue From Entrance Fees | 13,694,510 | 25,322,928 |
| | | | | | |
| Property and Equipment, Net | 66,842,785 | 69,538,613 | Resident Security Deposits | <u>200,070</u> | <u>382,087</u> |
| | | | | | |
| Resident Security Deposits | 200,070 | 382,087 | Total liabilities | 106,872,735 | 112,772,989 |
| | | | | | |
| Other Assets | <u>400,995</u> | <u>400,995</u> | Net Deficit Without Donor Restrictions | <u>(1,503,676)</u> | <u>(3,513,068)</u> |
| | | | | | |
| Total assets | <u>\$ 105,369,059</u> | <u>\$ 109,259,921</u> | Total liabilities and net deficit | <u>\$ 105,369,059</u> | <u>\$ 109,259,921</u> |

See notes to financial statements

Lutheran Social Ministries at Crane's Mill, Inc.

Statements of Operations and Changes in Net Deficit
Years Ended December 31, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|-----------------------|-----------------------|
| Changes in Net Deficit Without Donor Restrictions | | |
| Revenues: | | |
| Net resident service revenues | \$ 29,344,638 | \$ 26,494,604 |
| Other revenues | 137,637 | 332,030 |
| | <u>29,482,275</u> | <u>26,826,634</u> |
| Total revenues | | |
| Expenses: | | |
| General and administrative | 6,408,642 | 6,035,210 |
| Plant operations | 7,011,596 | 6,568,584 |
| Health care | 4,279,684 | 4,437,229 |
| Dietary | 3,705,981 | 3,907,153 |
| Rehabilitation | 843,542 | 826,329 |
| Housekeeping and laundry | 915,151 | 910,882 |
| Social services and activities | 710,850 | 704,600 |
| Depreciation | 4,720,498 | 4,624,311 |
| Interest | 1,826,787 | 1,850,093 |
| | <u>30,422,731</u> | <u>29,864,391</u> |
| Total expenses | | |
| Operating loss before other income | (940,456) | (3,037,757) |
| Other income: | | |
| Investment return | 2,935,635 | 3,649,354 |
| Unrestricted contributions | 14,213 | 15,094 |
| | <u>2,009,392</u> | <u>626,691</u> |
| Revenues in excess of expenses and change in net deficit without donor restrictions | | |
| | 2,009,392 | 626,691 |
| Net Deficit, Beginning | <u>(3,513,068)</u> | <u>(4,139,759)</u> |
| Net Deficit, Ending | <u>\$ (1,503,676)</u> | <u>\$ (3,513,068)</u> |

See notes to financial statements

Lutheran Social Ministries at Crane's Mill, Inc.

Statements of Cash Flows

Years Ended December 31, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net deficit without donor restrictions | \$ 2,009,392 | \$ 626,691 |
| Adjustments to reconcile change in net deficit without donor restrictions to net cash provided by operating activities: | | |
| Depreciation | 4,720,498 | 4,624,311 |
| Amortization of debt issuance costs | 40,813 | 41,262 |
| Accretion of bond premium | (119,386) | (121,608) |
| Net realized and unrealized gain on investments | (1,987,867) | (2,744,972) |
| Proceeds from nonrefundable entrance fees and deposits, existing units | 4,415,346 | 4,575,528 |
| Amortization of entrance fees | (5,488,789) | (3,333,283) |
| Changes in assets and liabilities: | | |
| Accounts receivable, residents | (48,610) | (3,330) |
| Prepaid expenses and other current assets | (9,537) | (18,553) |
| Other assets | - | - |
| Due to affiliate | (1,536,890) | (1,788,107) |
| Resident security deposits liability | (182,017) | 15,647 |
| Accounts payable, trade | (370,314) | (195,104) |
| Accrued expenses | 16,810 | (82,885) |
| Net cash provided by operating activities | <u>1,459,449</u> | <u>1,595,597</u> |
| Cash Flows From Investing Activities | | |
| Net sales of investments and assets restricted under loan and trust agreements | 3,848,590 | 1,370,078 |
| Purchases of property and equipment | <u>(2,024,670)</u> | <u>(3,551,653)</u> |
| Net cash provided by (used) in investing activities | <u>1,823,920</u> | <u>(2,181,575)</u> |
| Cash Flows From Financing Activities | | |
| Payment of long-term debt | (710,000) | (505,000) |
| Proceeds from refundable entrance fees, existing units | 5,188,374 | 6,646,304 |
| Refunds of entrance fees | <u>(6,651,755)</u> | <u>(5,753,124)</u> |
| Net cash (used in) provided by financing activities | <u>(2,173,381)</u> | <u>388,180</u> |
| Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents | 1,109,988 | (197,798) |
| Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning | <u>7,246,050</u> | <u>7,443,848</u> |
| Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending | <u>\$ 8,356,038</u> | <u>\$ 7,246,050</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest paid, net of capitalized interest | <u>\$ 1,928,249</u> | <u>\$ 1,797,657</u> |
| Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents | | |
| Cash and cash equivalents | \$ 3,459,356 | \$ 2,331,626 |
| Assets restricted under loan and trust agreements | 4,696,612 | 4,532,337 |
| Resident security deposits | <u>200,070</u> | <u>382,087</u> |
| | <u>\$ 8,356,038</u> | <u>\$ 7,246,050</u> |

See notes to financial statements

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lutheran Social Ministries at Crane's Mill, Inc. (the Corporation) operates a continuing care retirement community providing housing, health care and other related services to residents on a campus containing 276 independent living units, 48 assisted living units, 22 assisted living dementia units and a 56-bed skilled nursing facility. The Corporation's operations are located in West Caldwell, New Jersey.

Lutheran Social Ministries of New Jersey, Inc. (LSMNJ) is the sole member of the Corporation and has the right, among others, to appoint trustees, approve major expenditures and approve long-term borrowings.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

For the purpose of the balance sheets and statements of cash flows, cash and cash equivalents and restricted cash and cash equivalents consist of cash balances and investments in highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts Receivable, Residents, Net

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for credit losses is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance for credit losses is estimated by management based on factors such as aging of the accounts receivable, and anticipated collection of the consideration. The allowance for credit losses was approximately \$565,000 and \$380,000 at December 31, 2024 and 2023, respectively. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and accounts are deemed impaired.

Investments, Assets Restricted Under Loan and Trust Agreements and Investment Risk

Investments include assets set aside for the general use and purposes of the Corporation. Investments that are reasonably expected to be realized in cash in the Corporation's next operating cycle have been classified as current assets in the balance sheets.

Assets restricted under loan and trust agreements are held by a trustee in connection with the issuance of long-term debt (Note 5). Amounts available to meet current liabilities have been classified as current assets in the balance sheets.

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

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

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method, and are recorded net with long-term debt. These costs totaled \$1,016,649 at December 31, 2024 and 2023. Accumulated amortization was \$250,819 and \$210,006 at December 31, 2024 and 2023, respectively.

Entrance Fees

Under entrance fee plans for independent living units, the Corporation receives payments in advance. Residents currently have three entrance plan options to choose from, two "refundable" options and a "nonrefundable" option. The refundable plans have a guaranteed refund component, which is either 90% or 50% of the entrance fee paid. Under the 90% plan, refunds are generally equal to 90% of the entrance fee paid. Under the 50% plan, refunds are generally equal to the entrance fee paid minus 2% of the entrance fee paid for each full or partial month of occupancy to a minimum of 50%. The nonrefundable plan has no guaranteed refund component and is refundable on a decreasing basis for 48 months, after which no refund is payable.

Refunds to residents are paid after their former independent living unit has been reoccupied. However, if a resident is permanently transferred to assisted living or skilled nursing care, no refund of any portion of the entrance fee is made until the resident permanently leaves the community. The gross amount of contractual refund obligations approximated \$53,300,000 and \$56,600,000 at December 31, 2024 and 2023, respectively.

Management estimates the amount of refundable entrance fees to be paid the following year from sources other than proceeds from entrance fees to residents who terminate. These amounts were \$4,051,122 and \$2,596,571 at December 31, 2024 and 2023, respectively, and are classified as current liabilities in the balance sheets.

The guaranteed refundable component of advance fees received under the refundable plans is not amortized to income. These fees are classified as refundable entrance fees and deposits in the balance sheets.

The nonrefundable balance of entrance fees is amortized to income using the straight-line method over the annually adjusted estimated remaining life expectancies of the residents. The unamortized entrance fees are classified as deferred revenue from entrance fees in the balance sheets. Net resident service revenues include amortization of entrance fees of \$5,488,789 in 2024 and \$3,333,283 in 2023.

Pursuant to new regulations under the State of New Jersey Department of Community Affairs Continuing Care Retirement Community Regulation and Financial Disclosure Act (the Act), effective for Residency Agreements entered into on or after November 15, 2018, once the independent living unit has been vacated and the resident(s) has permanently left campus, the Corporation will assign a sequential refund number to the unit and will, within 60 days, provide a detailed accounting of any outstanding fees due to the Corporation and an estimate of the anticipated refund amount due to the resident(s). Any refund will be paid in order according to the resident(s) assigned refund number.

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

Obligation to Provide Future Services

The Corporation calculates the present value of the net cost of future service and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net obligation to provide future service and use of facilities (discounted at 5%) exceeds the deferred revenue from entrance fees, a liability is recorded with the corresponding charge to income. Because no excess was calculated, no liability was recorded at December 31, 2024 and 2023.

Revenues in Excess of Expenses

The statements of operations and changes in net deficit includes the determination of revenues in excess of expenses.

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration the Corporation expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of the following revenue streams:

Skilled Nursing - Skilled nursing revenues are primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. The Corporation has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis as services are rendered.

Assisted Living and Memory Care - Assisted living and memory care revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Corporation has determined that the services included in the monthly fee have 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 and memory care revenues are recognized on a month-to-month basis.

Independent Living - Independent living revenues are primarily derived from providing housing and services to residents. The Corporation has determined that the services included in the monthly fee have 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, independent living monthly fees are recognized on a month-to-month basis.

The Corporation receives revenue for services under third-party payor programs, including Medicare and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. The Corporation estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

Contract Balances

Contract assets represent the Corporation's right to consideration in exchange for goods or services that the Corporation has transferred to a resident when that right is conditioned on something other than the passage of time (for example, the Corporation's future performance). Contract liabilities represent the Organization's obligation to transfer goods or services to a resident for which the Corporation has received consideration (or the amount is due) from the resident.

The Corporation's beginning and ending contract assets and liabilities are separately presented on the balance sheets as of December 31, 2024 and 2023. Contracts assets and liabilities as of January 1, 2023 are as follows:

| | | |
|--------------------------------------|----|--------------|
| Resident accounts receivable, net | \$ | 1,040,695 |
| Entrance fee receivable | | 90,600 |
| Deferred revenues from entrance fees | | (19,631,535) |

Net (Deficit) Assets

Net (deficit) assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net (deficit) assets and changes therein are classified and reported as follows:

Net (Deficit) Assets Without Donor Restrictions - net (deficit) assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net (deficit) assets without donor restrictions.

Net Assets With Donor Restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in 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 to net assets without donor restrictions.

The Corporation does not have any net assets with donor restrictions as of December 31, 2024 and 2023.

Donor-Restricted Gifts

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 as net deficit without donor restriction and reported in the statements of operations and changes in net deficit as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the statements of operations and changes in net deficit.

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
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Income Taxes

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

Operating Loss Before Other Income

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of senior living services are reported as revenue and expenses within operating loss before other income. Other transactions, including investment return and unrestricted contributions are reported as nonoperating other income.

Use of Estimates

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

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through April 30, 2025, the date the financial statements were issued.

2. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following at December 31, 2024 and 2023:

| | <u>2024</u> | <u>2023</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,459,356 | \$ 2,331,626 |
| Investments | 24,810,701 | 26,671,424 |
| Accounts receivable, residents, net | 1,092,635 | 1,044,025 |
| Accounts receivable, entrance fee receivable | 1,170,940 | 3,210,276 |
| Accounts receivable, other | 473 | 473 |
| Total | <u>\$ 30,534,105</u> | <u>\$ 33,257,824</u> |

The Corporation designated a portion of its investments "reserved" to comply with state liquid reserve requirements. Although the Corporation does not intend to utilize the required liquid reserves for general expenditures as part of its annual budget and approval process, amounts designated for state required liquid reserves could be made available as necessary.

The Corporation has other assets whose use is limited for debt service and under loan and trust indenture that have restricted purposes. These assets are not available for general expenditure within the next year and are not reflected in the amounts above.

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Corporation invests excess cash in short-term and long-term investments.

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

3. Net Resident Service Revenues

The Corporation disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenues consist of the following for the years ended December 31, 2024 and 2023:

| | 2024 | | | |
|-------------------------------|----------------------------|--|-------------------------------|----------------------|
| | Skilled Nursing | Assisted Living and Memory Care | Independent Living | Total |
| Private pay | \$ 3,614,105 | \$ 4,144,284 | \$ 10,595,730 | \$ 18,354,119 |
| Lifecare | 1,960,084 | 953,399 | - | 2,913,483 |
| Medicare and other | 2,588,247 | - | - | 2,588,247 |
| Amortization of entrance fees | - | - | 5,488,789 | 5,488,789 |
| Total | \$ 8,162,436 | \$ 5,097,683 | \$ 16,084,519 | \$ 29,344,638 |
| | 2023 | | | |
| | Skilled Nursing | Assisted Living and Memory Care | Independent Living | Total |
| Private pay | \$ 2,417,413 | \$ 4,199,883 | \$ 9,698,186 | \$ 16,315,482 |
| Lifecare | 1,620,758 | 1,177,696 | - | 2,798,454 |
| Medicare and other | 4,047,385 | - | - | 4,047,385 |
| Amortization of entrance fees | - | - | 3,333,283 | 3,333,283 |
| Total | \$ 8,085,556 | \$ 5,377,579 | \$ 13,031,469 | \$ 26,494,604 |

The Corporation has an agreement with the Medicare program that provides for payments at amounts different from its established rates. Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments. The Corporation is reimbursed for therapy services provided to Medicare Part B beneficiaries at the lesser of a published fee schedule or actual charges.

As described above, the Medicare Part A rates are based, in part, on clinical, diagnostic and other factors. The Corporation is required to clinically assess Medicare Part A beneficiaries at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medicare program.

The Corporation also has entered into payment agreements with certain commercial insurance carriers and others. The basis for payment to the Corporation under these agreements includes prospectively determined rates per day or discounts from established charges.

Lutheran Social Ministries at Crane's Mill, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

Payment terms and conditions for the Corporation's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenues collected from residents in advance are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying balance sheets. The amortization income recorded in 2024 and 2023 is primarily comprised of the amortization of deferred revenue balances outstanding as of December 31, 2023 and 2022, respectively. The Corporation applies the practical expedient in ASC 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

4. Property and Equipment, Net

Property and equipment, net at December 31, 2024 and 2023 was comprised of the following:

| | <u>2024</u> | <u>2023</u> |
|-------------------------------------|----------------------|----------------------|
| Land | \$ 8,643,130 | \$ 8,643,130 |
| Land improvements | 5,276,095 | 5,275,041 |
| Buildings and building improvements | 111,885,569 | 109,438,309 |
| Furniture and equipment | 10,941,337 | 10,863,223 |
| | <u>136,746,131</u> | <u>134,219,703</u> |
| Less accumulated depreciation | <u>(70,019,630)</u> | <u>(65,545,796)</u> |
| | 66,726,501 | 68,673,907 |
| Construction-in-progress | <u>116,284</u> | <u>864,706</u> |
| Property and equipment, net | <u>\$ 66,842,785</u> | <u>\$ 69,538,613</u> |

At December 31, 2024, the Corporation did not have any commitments outstanding related to open construction projects.

5. Long-Term Debt

2018 Bonds

On December 21, 2018, the New Jersey Economic Development Authority (the Authority) issued, on behalf of the Corporation, its \$41,255,000 Revenue Refunding Bonds, Series 2018 (Crane's Mill Project) (the 2018 Bonds). Total proceeds of the 2018 Bonds (including an original issue premium of \$2,553,058) were \$43,808,058. The proceeds of the 2018 Bonds were used to (i) refinance all of the outstanding 2015 Bonds, 2008A Bonds and 2005 Bonds, (ii) finance the cost of various capital improvements to the Corporation's campus, (iii) fund a debt service reserve fund and (iv) pay a portion of the costs of issuance of the 2018 Bonds.

The 2018 Bonds consist of \$2,375,000 of serial bonds that matured in 2023, and term bonds ranging from \$4,820,000 to \$22,110,000 that mature between 2029 and 2049. Annual principal payments range from \$710,000 to \$5,055,000, due on January 1 of each year with interest rates ranging from 3.0% to 5.0% due January 1 and July 1 of each year.

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The 2018 Bonds were issued under a Loan Agreement, dated December 1, 2018, between the Authority and the Corporation. The Loan Agreement requires the Corporation to comply with financial covenants, including the requirement that the Corporation generate funds available for debt service (as defined) equivalent to at least 120% of maximum annual debt service, and days cash on hand (as defined) of at least 125 days.

Security

The 2018 Bonds are secured by a first mortgage lien on and security interest in the Corporation's property and equipment and a security interest in the Corporation's gross revenues, as defined in the Loan Agreement.

Long-Term Debt Summary

| | <u>2024</u> | <u>2023</u> |
|-------------------------------|----------------------|----------------------|
| 2018 Bonds | \$ 38,170,000 | \$ 38,880,000 |
| Plus original issue premium | 1,807,336 | 1,926,722 |
| Less debt issuance costs, net | (765,830) | (806,643) |
| Less current maturities | <u>(745,000)</u> | <u>(710,000)</u> |
| Long-term debt | <u>\$ 38,466,506</u> | <u>\$ 39,290,079</u> |

Scheduled principal payments, net of original issue premium of \$2,424,022, on long-term debt are as follows:

| | |
|---------------------------|----------------------|
| Years ending December 31: | |
| 2025 | \$ 745,000 |
| 2026 | 780,000 |
| 2027 | 820,000 |
| 2028 | 860,000 |
| 2029 | 905,000 |
| Thereafter | <u>34,060,000</u> |
| Total | <u>\$ 38,170,000</u> |

6. Accrued Expenses

Accrued expenses at December 31, 2024 and 2023 were as follows:

| | <u>2024</u> | <u>2023</u> |
|------------------------------|---------------------|---------------------|
| Interest | \$ 931,550 | \$ 954,438 |
| Payroll and related expenses | 162,702 | 154,564 |
| Future employee leave costs | 112,561 | 101,003 |
| Other accrued expenses | <u>140,458</u> | <u>120,456</u> |
| Total | <u>\$ 1,347,271</u> | <u>\$ 1,330,461</u> |

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7. Retirement Plan

The Corporation sponsors a defined contribution retirement plan. The Corporation's contributions to the plan were \$147,367 in 2024 and \$128,164 in 2023.

8. Related-Party Transactions

LSMNJ provides management, administrative and other services to the Corporation. The fee charged by LSMNJ to the Corporation for these services was \$3,227,696 in 2024 and \$2,470,121 in 2023. LSMNJ also charges the Corporation for administrative and other expenses directly related to the Corporation's operations; these charges were \$306,220 in 2024 and \$330,965 in 2023. Total fees charged are included in general and administrative expenses in the statements of operations and changes in net deficit.

At December 31, 2024 and 2023, amounts due from (to) LSMNJ were \$1,808,820 and \$271,930, respectively. These balances are settled currently in the normal course of business.

9. Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the financial statements.

10. Concentrations of Credit Risk

The Corporation grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies.

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

11. Contingency

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

Lutheran Social Ministries at Crane's Mill, Inc.

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12. Functional Expenses

The Corporation provides general health care and related services to individuals within its geographic region. Expenses related to providing these services in 2024 and 2023 are as follows:

| | 2024 | | |
|---|----------------------|----------------------------|----------------------|
| | Program Services | General and Administrative | Total |
| Salaries and wages | \$ 5,587,694 | \$ - | \$ 5,587,694 |
| Employee benefits and payroll taxes | 1,402,753 | - | 1,402,753 |
| Professional fees and contracted services | 5,390,795 | 3,533,916 | 8,924,711 |
| Supplies and other | 3,802,653 | - | 3,802,653 |
| Real estate taxes | 2,213,410 | - | 2,213,410 |
| Utilities | 1,944,225 | - | 1,944,225 |
| Depreciation | 4,720,498 | - | 4,720,498 |
| Interest | 1,826,787 | - | 1,826,787 |
| Total | <u>\$ 26,888,815</u> | <u>\$ 3,533,916</u> | <u>\$ 30,422,731</u> |

| | 2023 | | |
|---|----------------------|----------------------------|----------------------|
| | Program Services | General and Administrative | Total |
| Salaries and wages | \$ 5,673,927 | \$ - | \$ 5,673,927 |
| Employee benefits and payroll taxes | 941,184 | - | 941,184 |
| Professional fees and contracted services | 5,677,881 | 2,801,086 | 8,478,967 |
| Supplies and other | 4,580,093 | - | 4,580,093 |
| Real estate taxes | 2,185,060 | - | 2,185,060 |
| Utilities | 1,530,756 | - | 1,530,756 |
| Depreciation | 4,624,311 | - | 4,624,311 |
| Interest | 1,850,093 | - | 1,850,093 |
| Total | <u>\$ 27,063,305</u> | <u>\$ 2,801,086</u> | <u>\$ 29,864,391</u> |

Professional fees and contracted services are attributable to more than one program service or support function. The general and administrative portion of the professional fees and contracted services expense relates to the management fee and other costs charged by LSMNJ (Note 8). The Corporation believes substantially all utilities, real estate taxes, depreciation, and interest is applicable to program services. As such, these expenses were reported in the program services columns above.

13. Fair Value Measurements, Investments and Other Financial Instruments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to dispose of a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

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Notes to Financial Statements
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The following is a summary of the totals above, combined with cash and cash equivalents, by caption on the balance sheets at December 31:

| | <u>2024</u> | <u>2023</u> |
|--|----------------------|----------------------|
| Investments: | | |
| Cash and cash equivalents | \$ 506,251 | \$ 1,285,125 |
| Measured in the fair value hierarchy | <u>24,304,450</u> | <u>25,386,299</u> |
| Total | <u>\$ 24,810,701</u> | <u>\$ 26,671,424</u> |
| Assets restricted under loan and trust agreements: | | |
| Cash and cash equivalents | <u>\$ 4,696,612</u> | <u>\$ 4,532,337</u> |
| Total | <u>\$ 4,696,612</u> | <u>\$ 4,532,337</u> |

Valuation Methodologies

The following is a description of the valuation methodology used for assets and liabilities reported and disclosed at fair value. There have been no changes in methodology used at December 31, 2024 and 2023.

Mutual funds are valued at fair value based on quoted market prices in active markets for marketable equity securities.

Assets restricted under loan and trust agreements at December 31, 2024 and 2023 were as follows:

| | <u>2024</u> | <u>2023</u> |
|---|---------------------|---------------------|
| 2018 Bonds (Note 5): | | |
| Debt service fund | \$ 1,726,486 | \$ 1,709,545 |
| Interest fund | 901 | 857 |
| Debt service reserve fund | <u>2,969,225</u> | <u>2,821,935</u> |
| Total assets restricted under loan and trust agreements | <u>\$ 4,696,612</u> | <u>\$ 4,532,337</u> |

The Act requires continuing-care retirement communities to establish liquid reserves. At December 31, 2024, the liquid reserve requirement was no more than \$4,100,000, which is equal to 15% of the Corporation's budgeted operating expenses for 2024, excluding depreciation and amortization. Because not all of the residents of the Corporation are covered under entrance fee plans, the actual amount of the reserve requirement is equal to the proportionate share of expenses for residents under entrance fee plans at December 31, 2024. The liquid reserve requirement is satisfactorily funded with the Corporation's investments.

Investment return for 2024 and 2023 was comprised of the following:

| | <u>2024</u> | <u>2023</u> |
|--|---------------------|---------------------|
| Interest and dividends | \$ 947,768 | \$ 904,382 |
| Change in net unrealized gains and losses on investments | (3,648,730) | 2,898,513 |
| Net realized gain (loss) on sales of investments | <u>5,636,597</u> | <u>(153,541)</u> |
| Total | <u>\$ 2,935,635</u> | <u>\$ 3,649,354</u> |