The United Methodist Homes of New Jersey and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

June 30, 2023 and 2022

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Independent Auditors' Report

To the Board of Trustees of
The United Methodist Homes of New Jersey and Subsidiaries

Opinion

We have audited the consolidated financial statements of The United Methodist Homes of New Jersey and Subsidiaries (The Homes), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of operations 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Homes as of June 30, 2023 and 2022, and the results of their operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Homes' 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Homes' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Homes' 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 an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

Iselin, New Jersey
January 8, 2024

Consolidated Balance Sheets
June 30, 2023 and 2022

Assets	2023	2022
Current Assets		
Cash and cash equivalents	$ 5,635,630	$ 3,304,441
Investments	14,204,272	20,808,305
Assets whose use is limited, required for current liabilities	-	4,043,119
Accounts receivable, less allowance for doubtful accounts of $2,952,950 in 2023 and $2,494,853 in 2022	7,656,842	6,937,691
Entrance fees receivable	152,183	209,267
Other current assets	1,588,171	1,627,912
Total current assets	29,237,098	36,930,735
Assets Whose Use is Limited		
By the Board of Directors	4,099,678	3,797,205
Donor restricted funds (including trusts of $5,448,194 in 2023 and $5,339,730 in 2022)	8,563,362	8,281,422
Under bond indenture agreement, held by trustee	7,643,579	5,000,350
Under borrowing agreements	1,250,000	1,250,000
Under financing agreement	1,451,100	1,292,523
Annuity obligations	443,675	397,408
Cash held in escrow	1,207,312	2,563,604
Total assets whose use is limited	24,658,706	22,582,512
Derivative Financial Instruments	2,242,746	-
Other Assets	812,203	927,869
Property, Plant and Equipment, Net	106,999,887	108,684,726
Total assets	$ 163,950,640	$ 169,125,842

Liabilities and Net Assets	2023	2022
Current Liabilities		
Current portion of long-term debt	$ 305,548	$ 5,392,829
Accounts payable	6,080,873	3,864,084
Accrued liabilities	6,188,143	5,539,597
Accrued interest payable	198,733	978,871
Deferred revenue	64,716	60,216
Total current liabilities	12,838,013	15,835,597
Deposits Held and Resident Deposits	501,487	550,034
Annuity Obligations	443,675	397,408
Refundable Entrance Fees	14,436,919	14,140,526
Deferred Revenue From Entrance Fees	2,134,004	2,426,862
Other Liabilities	422,887	465,885
Asset Retirement Obligations	1,220,451	1,151,369
Long-Term Debt, Excluding Current Portion	78,460,942	71,133,186
Total liabilities	110,458,378	106,100,867
Net Assets		
Net assets without donor restrictions	44,928,900	54,743,553
Net assets with donor restrictions	8,563,362	8,281,422
Total net assets	53,492,262	63,024,975
Total liabilities and net assets	$ 163,950,640	$ 169,125,842

See notes to consolidated financial statements

The United Methodist Homes of New Jersey and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Year Ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and Other Support			
Patient service revenue, net	$ 29,446,572	$ -	$ 29,446,572
Resident service revenue, including amortization of entrance fees of $705,325	50,214,798	-	50,214,798
Other income, primarily contributions	1,066,330	13,375	1,079,705
Other revenue	85,882		85,882
Investment income, operating, net	311,731	-	311,731
Gain on disposal of property, plant, and equipment	-	-	-
Net assets released from restrictions, satisfaction of special-purpose restrictions	273,669	(273,669)	-
Total revenue and other support	81,398,982	(260,294)	81,138,688
Operating Expenses			
Healthcare services	21,865,739	-	21,865,739
Resident and assisted-living services	11,308,324	-	11,308,324
Memory support	4,367,248	-	4,367,248
Dining services	10,150,059	-	10,150,059
Activities	1,355,164	-	1,355,164
Building services	9,967,069	-	9,967,069
Utilities	2,416,613	-	2,416,613
Administrative services	21,605,469	3,250	21,608,719
Interest expense	2,370,913	-	2,370,913
Depreciation	7,024,543	-	7,024,543
Municipal charge	485,370	-	485,370
Loss on disposal of property, plant and equipment	6,109	-	6,109
Provision for bad debt	411,648	-	411,648
Total operating expenses	93,334,268	3,250	93,337,518
Operating loss	(11,935,286)	(263,544)	(12,198,830)
Other Income, Net			
Investment income, net	382,263	339,534	721,797
Net unrealized loss on investment and assets whose use is limited	1,684,225	209,470	1,893,695
Realized loss on investments and assets whose use is limited	(778,297)	(3,520)	(781,817)
Change in fair value of derivative financial instruments	2,242,746	-	2,242,746
Loss on refinancing	(1,410,304)	-	(1,410,304)
Total other income, net	2,120,633	545,484	2,666,117
Revenue (less than) in excess of expenses	(9,814,653)	281,940	(9,532,713)
Net Assets, Beginning	54,743,553	8,281,422	63,024,975
Net Assets, Ending	$ 44,928,900	$ 8,563,362	$ 53,492,262

See notes to consolidated financial statements

The United Methodist Homes of New Jersey and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Year Ended June 30, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and Other Support			
Patient service revenue, net	$ 25,250,278	$ -	25,250,278
Resident service revenue, including amortization of entrance fees of $814,546	46,696,994	-	46,696,994
Other income, primarily contributions	1,225,412	591,616	1,817,028
Other revenue	1,965,860		1,965,860
Investment income, operating, net	412,991	-	412,991
Gain on disposal of property, plant, and equipment	4,600	-	4,600
Net assets released from restrictions, satisfaction of special-purpose restrictions	712,100	(712,100)	-
Total revenue and other support	76,268,235	(120,484)	76,147,751
Operating Expenses			
Healthcare services	18,186,167	-	18,186,167
Resident and assisted-living services	10,829,953	-	10,829,953
Memory support	4,161,376	-	4,161,376
Dining services	9,214,246	-	9,214,246
Activities	1,163,883	-	1,163,883
Building services	9,353,632	-	9,353,632
Utilities	2,378,970	-	2,378,970
Administrative services	20,038,284	11,000	20,049,284
Interest expense	2,616,294	-	2,616,294
Depreciation	6,941,083	-	6,941,083
Municipal charge	484,307	-	484,307
Provision for bad debt	69,655	-	69,655
Total operating expenses	85,437,850	11,000	85,448,850
Operating loss	(9,169,615)	(131,484)	(9,301,099)
Other Income (Loss), Net			
Investment income, net	320,478	336,207	656,685
Net unrealized loss on investment and assets whose use is limited	(6,550,035)	(1,233,646)	(7,783,681)
Realized gain on investments and assets whose use is limited	4,022,330	-	4,022,330
Total other income (loss), net	(2,207,227)	(897,439)	(3,104,666)
Revenue less than expenses	(11,376,842)	(1,028,923)	(12,405,765)
Other Changes			
Net unrealized loss on debt securities	(96,079)	-	(96,079)
Grants for capital purchases	46,493	-	46,493
Change in net assets	(11,426,428)	(1,028,923)	(12,455,351)
Net Assets, Beginning	66,169,981	9,310,345	75,480,326
Net Assets, Ending	$ 54,743,553	$ 8,281,422	$ 63,024,975

See notes to consolidated financial statements

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	(9,532,713)	(12,455,351)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	7,024,543	6,941,083
Interest component of deferred financing costs	60,431	141,240
Gain on disposal of property, plant, and equipment	6,109	(4,600)
Realized gain on investments, net	781,817	(4,022,330)
Net unrealized (gain) loss on investments and change in value of trusts	(1,893,695)	7,879,760
Net change in fair value of derivative financial instruments	(2,242,746)	-
Loss on refinancing of debt	1,410,304	-
Accretion of premium on long-term debt	(8,896)	(114,427)
Provision for bad debts	411,648	69,655
Accretion of asset retirement obligation	69,082	65,172
Amortization of entrance fees	(705,325)	(859,742)
Proceeds from nonrefundable entrance fees	425,577	271,891
Present value adjustments to annuity obligations	122,931	(121,812)
Restricted contributions for capital	(447,616)	(46,493)
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,130,799)	(681,507)
Entrance fees receivable	57,084	(192,562)
Other current assets	39,741	204,913
Other assets	115,666	34,702
Deposits held	(48,547)	46,274
Accounts payable	2,216,789	(41,428)
Accrued liabilities	648,546	64,752
Accrued interest payable	(780,138)	(54,038)
Other liabilities	(42,998)	(47,486)
Deferred revenue	4,500	(2,100)
Net cash used in operating activities	(3,438,705)	(2,924,434)
Cash Flows From Investing Activities		
Purchases of property and equipment	(5,345,813)	(6,138,286)
Proceeds from sales of investments and assets limited as to use	16,758,277	37,937,422
Purchases of investments and assets limited as to use	(8,293,051)	(26,895,290)
Net cash provided by investing activities	3,119,413	4,903,846
Cash Flows From Financing Activities		
Principal payments on long-term debt	(56,353,257)	(5,753,038)
Proceeds from long term debt	58,606,896	4,236,700
Increase in deferred financing costs	(1,475,003)	(279,128)
Refunds of entrance fees	(1,141,992)	(1,169,768)
Proceeds from refundable entrance fees	1,425,274	1,018,881
Payments of annuity obligations	(76,664)	(94,338)
Restricted contributions for capital	447,616	46,493
Net cash provided by (used in) financing activities	1,432,870	(1,994,198)
Increase (decrease) in cash and cash equivalents	1,113,578	(14,786)
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	7,272,908	7,287,694
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 8,386,486	$ 7,272,908
Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents		
Cash and cash equivalents	$ 5,635,630	$ 3,304,441
Donor restricted fund (including trusts)	92,444	112,340
Under financing agreement	1,451,100	1,292,523
Held in escrow	1,207,312	2,563,604
Total Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	$ 8,386,486	$ 7,272,908
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 3,220,378	$ 2,925,999

See notes to consolidated financial statements

1. Organization

The United Methodist Homes of New Jersey (The Company) is a not-for-profit corporations located in Neptune, New Jersey. The Company provides administrative, financial and support services to its affiliated organizations and also operates United Methodist Communities at Collingswood (Collingswood) and United Methodist Communities at the Shores (the Shores), full-service senior living communities which offer long-term care, assisted living and memory care.

The United Methodist Homes of New Jersey and Subsidiaries (The Homes) consist of the Company and the following affiliates. All members of the Homes described below are not-for-profit corporations.

Bristol Glen, Inc. (Bristol Glen) is a continuing care retirement community offering independent living, long-term care, assisted living and memory care.

Pitman Manor, Inc. (Pitman) is a full-service senior living community offering long-term care, assisted living and memory care.

UMC Memory Care, Inc. (The Enclave) is a planned memory care village.

United Methodist Communities HomeWorks, Inc. (HomeWorks) provides homecare services.

United Methodist Homes of New Jersey Foundation, Inc. (The Foundation) was formed for, and its activities shall be exclusively limited to, charitable, religious and benevolent purposes for providing a ministry of facilities, and services for the elderly. The objectives and purposes of the Foundation are to obtain funds and property by way of gifts, bequests, annuities or devices, to invest and reinvest the same, and to apply the income and principal thereof, as the board of trustees may determine from time to time, either by payments directly to, or for the benefit of, The Homes.

The Homes also operates five affordable housing communities (HUD Facilities):

Burnet Walnut Corporation
Covenant Housing Corporation
Nine Wall Street Corporation
Pineridge Brook Corporation
Ocean City 2406

Obligated Group

In connection with its bond offerings (Note 6), The Homes formed the Obligated Group. The Obligated Group consists of The Company and Bristol Glen.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For the years ended June 30, 2023 and 2022, management did not make any significant changes to estimates established in prior years.

Cash Equivalents

The Homes considers all highly liquid investments with a maturity of three months or less when purchased, other than those held in the investment portfolio and assets whose use is limited, to be cash equivalents. For the purpose of the consolidated balance sheets and consolidated 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

The Homes assesses collectability on all resident accounts prior to providing services. The Homes has agreements with third-party payors that provide for payment at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the consolidated balance sheets. Accounts receivable are further reduced by an allowance for doubtful accounts.

The allowance for doubtful accounts is The Homes' best estimate of the amount of probable credit losses in The Homes' existing patient accounts receivable. The Homes determines the allowance based on a detailed analysis of the aging of past-due accounts.

Patient Service and Resident Services Revenues

Patient service revenue and resident services revenue are reported at the amount that reflects the consideration The Homes 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. Patient service revenue and resident services revenue are recognized as performance obligations are satisfied.

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

Patient Service - Patient service revenue is primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. The Homes 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.

Resident Services - Resident services revenue is primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Homes 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, resident services revenue is recognized on a month-to-month basis.

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees in the accompanying consolidated balance sheets.

For residents with a continuing care contract, revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. The unamortized portion is classified as deferred revenue from entrance fees on the consolidated balance sheets. Amortization of nonrefundable entrance fees is included as amortization of entrance fees in the consolidated statements of operations and changes in net assets and was $705,325 in 2023 and $859,742 in 2022.

The Homes receives revenue for services under third-party payor programs, including Medicare, Medicaid 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 Homes 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.

Payment terms and conditions for The Homes' resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident services revenue for recurring and routine monthly services is generally billed monthly in advance. Net resident service revenue for ancillary services is 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 revenue from entrance fees in the accompanying consolidated balance sheets.

The Homes 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 patient service and resident services revenues consist of the following for the years ended June 30:

	2023		
	Patient Service	**Resident Services**	**Total**
Self-pay	$ 12,604,428	$ 49,298,391	$ 61,902,819
Medicare and other	10,500,811	-	10,500,811
Medical assistance	6,341,333	211,082	6,552,415
Amortization of nonrefundable entrance fees	-	705,325	705,325
Total	$ 29,446,572	$ 50,214,798	$ 79,661,370

	2022		
	Patient Service	**Resident Services**	**Total**
Self-pay	$ 11,144,110	$ 45,279,758	$ 56,423,868
Medicare and other	7,423,364	-	7,423,364
Medical assistance	6,682,804	557,494	7,240,298
Amortization of nonrefundable entrance fees	-	859,742	859,742
Total	$ 25,250,278	$ 46,696,994	$ 71,947,272

Other Revenue

Other revenue is primarily comprised of amounts received from federal funding sources related to the COVID-19 pandemic. The Homes accounts for this funding in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and accordingly, revenues are recognized and measured when barriers are substantially met, which occurs when The Homes complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund to provide financial support for hospitals and other healthcare providers. The Homes received $1,691,368 in the year ended June 30, 2022, related to this funding. No amounts were received in the year ended June 30, 2023. In accordance with the original terms and conditions, The Homes could apply the funding against lost revenues and eligible expenses not reimbursed from other sources. The Homes' methodology for calculating lost revenues was the difference between budgeted and actual revenue.

Noncompliance with the terms and conditions could result in repayment of some or all of the support, which can be subject to government review and interpretation. The Department of Health and Human Services (HHS) has indicated Provider Relief Fund payments are subject to future reporting and audit requirements. These matters could cause reversal or claw-back of amounts previously recognized; however, an estimate of the possible effects cannot be made as of the date these consolidated financial statements were issued. In addition, it's unknown whether there will be further developments in regulatory guidance.

During 2022, The Homes has incurred lost revenues and excess expenses related to COVID-19 that management believes exceeds the total amount received from the CARES Act and the State of New Jersey, therefore, the entire amount of these funds are recorded as revenue within other revenue on the consolidated statement of operations and changes in net assets.

Net Assets

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

Net Assets Without Donor Restrictions - Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors and include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between The Homes and an outside party other than a donor or grantor.

Net Assets With Donor Restrictions - Net assets with donor restrictions are those whose use by The Homes has been limited by donors to a specific period or purpose. 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.

When certain donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions include split-interest agreements, which have a time restriction, and funds raised for capital projects.

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. The change in present value of annuity obligations is included in the change in net assets with donor restrictions. Investment earnings on net assets with donor restrictions are available for certain purposes (Note 11).

Split Interest Agreements

Donors have established and funded trusts that are administered by organizations other than The Homes. Under the terms of certain perpetual trusts, The Homes has the irrevocable right to receive the income earned on the trust assets of $5,009,356 and $4,910,843 at June 30, 2023 and 2022, respectively. The Homes also has the irrevocable right to receive the principal and income of $438,838 and $428,887 at June 30, 2023 and 2022, respectively, upon the expiration of a charitable remainder unitrust. The Homes does not control the assets held by outside trusts. The Homes recognizes its interest in the trusts based on the fair value of the assets contributed to the trust as restricted contributions. These trusts are recorded at the fair value of The Homes' interest in the assets held in trust based principally upon quoted market prices at year-end. The trusts are included in assets whose use is limited: donor-restricted funds in the consolidated balance sheets. Annual distributions from these trusts are included in investment income in the consolidated statements of operations and changes in net assets. The change in value of these trusts is included in net unrealized gain (loss) on equity securities in the consolidated statements of operations and changes in net assets.

Assets Whose Use is Limited

Assets whose use is limited include board designated funds; donor-restricted funds; assets held by trustee under bond master trust indenture agreements; assets held under borrowing and financing agreements; annuity obligations; and deposits held in escrow for funds received from potential residents. Investments included in assets whose use is limited are reported at fair value in the consolidated balance sheets. The current portion of assets whose use is limited represents the portion of the debt service principal fund and debt service interest fund required to pay the current portion of bonds payable and accrued interest payable.

Charity Care

The Homes provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. As The Homes does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues (Note 3).

Functional Expenses

The Homes provides housing, health care and other related services to residents within its geographic location. The consolidated financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses relating to direct resident care, including salaries and building expense, are attributable to Healthcare Services. Expenses that are not directly related to resident care are attributable to General and Administrative. Expenses relating to fundraising are attributable to Fundraising. Utilities allocation is based on square footage. Property taxes, depreciation and interest expense are also attributed to Healthcare Services as they relate to the buildings and equipment used in resident care. Expenses related to providing these services are as follows:

	2023			
	Healthcare Services	General and Administrative	Fundraising	Total
Healthcare services	$ 21,442,075	$ 423,664	$ -	$ 21,865,739
Resident and assisted-living services	11,271,459	36,865	-	11,308,324
Memory support	4,361,766	5,482	-	4,367,248
Dining services	10,108,743	41,316	-	10,150,059
Activities	1,353,878	1,286	-	1,355,164
Building services	9,965,155	1,914	-	9,967,069
Utilities	2,174,952	241,661	-	2,416,613
Administrative services	-	21,373,896	234,823	21,608,719
Interest expense	2,370,913	-	-	2,370,913
Depreciation	7,024,477	66	-	7,024,543
Municipal charge	485,370	-	-	485,370
Provision for bad debt	411,648	-	-	411,648
Loss on disposal of fixed assets	6,109	-	-	6,109
Total	$ 70,976,545	$ 22,126,150	$ 234,823	$ 93,337,518

	2022			
	Healthcare Services	General and Administrative	Fundraising	Total
Healthcare services	$ 17,772,525	$ 413,642	$ -	$ 18,186,167
Resident and assisted-living services	10,788,148	41,805	-	10,829,953
Memory support	4,155,968	5,408	-	4,161,376
Dining services	9,172,112	42,134	-	9,214,246
Activities	1,163,282	601	-	1,163,883
Building services	9,351,472	2,160	-	9,353,632
Utilities	2,141,073	237,897	-	2,378,970
Administrative services	-	19,798,220	251,064	20,049,284
Interest expense	2,616,294	-	-	2,616,294
Depreciation	6,941,017	66	-	6,941,083
Municipal charge	484,307	-	-	484,307
Provision for bad debt	69,655	-	-	69,655
Total	$ 64,655,853	$ 20,541,933	$ 251,064	$ 85,448,850

Investments and Investment Risks

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, based on quoted market prices, in the consolidated balance sheets. Donated investments are recorded at the fair market value at the date of donation. Investment income or loss (including realized gains and losses on investments and interest and dividends) and unrealized gains and losses on equity securities are included in revenues less than expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on debt securities are excluded from the determination of revenues less than expenses.

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

Fair Value of Financial Instruments

The Homes measures its investments, investments held under split-interest agreements, investments held by others under split-interest agreements, beneficial interest in perpetual trusts and assets whose use is limited at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

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

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

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

Derivative Financial Instruments

In August 2022, the Obligated Group entered into interest rate swap agreements, which are considered derivative financial instruments, to manage interest rate risk on their long-term debt.

The interest rate swap agreements are reported at fair value in the accompanying consolidated balance sheets and related changes in fair value are reported in the consolidated statements of operations and changes in net assets as a change in fair value of derivative financial instruments within the performance indicator, since there are no hedging designations. The asset for the fair value of the interest rate swap agreements is $2,242,746 at June 30, 2023.

Inventories

Inventories, reported in other current assets, are recorded at the lower of cost or net realizable value. The cost of inventories is determined on a first-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at fair value at the date of gift.

Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recognized in 2023 or 2022.

Deferred Costs

Deferred financing costs, net of amortization, which are included in long-term debt, are $1,728,371 and $1,014,058 as of June 30, 2023 and 2022, respectively. These costs include the costs of obtaining financing and are amortized using the effective interest method over the life of the related debt. Amortization expense, a component of interest expense, for the years ended June 30, 2023 and 2022 was approximately $60,400 and $141,000, respectively.

Entrance Fees

The Homes records a liability for entrance fees related to the sale of certain residency and care agreements. Residents may cancel their residence agreement after establishing residency in Bristol Glen under certain conditions after 60 days written notice. In the event of such cancellation, residents will receive from 0% to 95% of the entrance fees they paid, depending on the type of contract, time elapsed since entrance, and upon re-occupancy of the unit. Nonrefundable fees of approximately $2,134,000 and $2,427,000 at June 30, 2023 and 2022, respectively, are being amortized over the estimated remaining life expectancy of each resident, with the life expectancy reevaluated annually. The refundable portion of entrance fees under existing contracts was approximately $14,437,000 and $14,141,000 at June 30, 2023 and 2022, respectively.

The gross contractual refund obligations under existing resident agreements were approximately $15,225,000 and $15,100,000 at June 30, 2023 and 2022, respectively.

Obligation to Provide Future Services

The Homes annually calculates the present value of the estimated net cost of future services and the 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 cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5% at June 30, 2023 and 2022. At June 30, 2023 and 2022, the present value of the net cost of future services and use of facilities is less than deferred revenue from entrance fees. Therefore, an additional liability for an obligation to provide future services was not required.

Annuity Obligations

Charitable gift annuities are arrangements between a donor and the Foundation in which a donor contributes assets to the Foundation in exchange for a promise by the Foundation to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. The time period can be for the life of the donor or his/her designee. The assets received are recognized at fair value when received. On an annual basis, an annuity payment liability is calculated at the present value of future cash flows expected to be paid to the donors or his/her designees (based upon mortality tables and interest assumptions approved by the State of New Jersey) and the liability is adjusted to equal the present value calculation. The net present value of the future cash flows was discounted at an average rate of 5.99% at June 30, 2023 and 5.99% at June 30, 2022. Contributions, investments and a liability to annuitants are recognized by the Foundation in the period in which the assets are donated.

Contributions

Contributions, which include unconditional promises to give, if any, are recognized as revenue in the period received at fair value. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions whose restrictions are met in the same fiscal year as their receipt are reported as net assets without donor restrictions contributions. 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 assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Contributions of property, plant and equipment without donor stipulations concerning the use of such long-lived assets are reported as other changes in the net assets without donor restrictions class. Contributions of cash and other assets to be used to acquire property, plant and equipment with such donor stipulations are reported as revenues of the net assets with donor restrictions class; the restrictions are considered released at the time of acquisition of such long-lived assets or when the project is complete, based on donor intent.

Malpractice

The Homes maintains claims-made professional liability coverage through a commercial insurance carrier (Note 12).

Income Taxes

The United Methodist Homes of New Jersey and Subsidiaries have been recognized by the Internal Revenue Service (IRS) as organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC) of 1986, as amended, that are exempt from federal income taxes under Section 501(a) of the IRC.

There are certain transactions that could be deemed unrelated business income and would result in a tax liability. Management reviews transactions to estimate potential tax liabilities using a threshold of more likely than not of being sustained. It is management's estimation that there are no material tax liabilities that need to be recorded at June 30, 2023 or 2022.

Measure of Operations

The consolidated statements of operations include the determination of operating loss and revenue (less than) in excess of expenses. Operating loss includes only those operating revenue and expenses that are an integral part of its program activities. Revenue (less than) in excess of expenses includes all operating revenues and expenses that are an integral part of its program activities, as well as investment income, contributions and other nonoperating activities that are used to support its program activities.

Changes in net assets without donor restrictions which are excluded from revenue (less than) in excess of expenses, consistent with industry practice, include net unrealized gain (loss) on debt securities and change in value of trusts and net assets released from restriction for purchase of property and equipment.

3. Charity Care

The Homes maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies provided under its charity care policy, which approximates the estimated costs of those services and supplies. Charges forgone, based on established rates, were approximately $3,132,000 and $2,815,000 for the years ended June 30, 2023 and 2022, respectively. An overall cost to charge ratio was applied to arrive at the cost of charity care. As a result, the cost of providing charity care was approximately $3,571,000 and $3,153,000 for the years ended June 30, 2023 and 2022, respectively.

4. Investments and Assets Whose Use is Limited

The Homes' investments and assets whose use is limited, at fair value, at June 30 consist of the following:

	2023	2022
Cash and cash equivalents	$ 11,661,616	$ 17,296,900
Money market	1,990,000	-
U.S. treasury bills	-	199,000
U.S. government and agency obligations	3,002,200	5,326,831
U.S. corporate bonds	2,379,076	2,485,690
U.S. fixed income mutual funds	3,110,188	4,015,280
Certificates of deposit	25,000	25,000
U.S. equity securities	298,014	385,919
U.S. equity mutual funds and exchange traded funds	8,662,414	10,377,900
Alternative investments	191,972	195,137
International equity mutual funds and exchange traded funds	1,341,022	1,076,910
Other	753,282	709,639
	33,414,784	42,094,206
Perpetual trusts	5,009,356	4,910,843
Charitable remainder unitrust	438,838	428,887
Total	$ 38,862,978	$ 47,433,936

Assets whose use is limited that are required for current liabilities include accrued interest payable and current portion of long-term debt associated with tax-exempt bond offerings.

Assets whose use is limited under bond indenture agreement, held by trustee consist of the following:

	2023	2022
Debt service reserve fund	$ -	$ 4,916,212
Debt service interest fund	-	1,046,616
Debt service principal fund	-	3,080,641
Project funds	7,643,579	-
Total	$ 7,643,579	$ 9,043,469

The investments and assets whose use is limited are included on the consolidated balance sheets at June 30, as follows:

	2023	2022
Investments	$ 14,204,272	$ 20,808,305
Assets whose use is limited, required for current liabilities	-	4,043,119
Assets whose use is limited, long-term	24,658,706	22,582,512
Total	$ 38,862,978	$ 47,433,936

Fair Value of Financial Instruments

The following table presents The Homes' fair value measurements at June 30, 2023 and 2022:

	June 30, 2023			
	Total	Level 1	Level 2	Level 3
Reported at Fair Value				
Financial assets:				
Investments and assets whose use is limited:				
Money market	$ 1,990,000	$ 1,990,000	$ -	$ -
U.S. government and agency obligations	3,002,200	-	3,002,200	-
U.S. corporate bonds	2,379,076	-	2,379,076	-
U.S. fixed income mutual funds	3,110,188	3,110,188	-	-
Certificates of deposits	25,000	25,000	-	-
U.S. equity securities	298,014	298,014	-	-
U.S. equity mutual funds and exchange traded funds	8,662,414	8,662,414	-	-
International equity mutual funds and exchange traded funds	1,341,022	1,341,022	-	-
Other	753,282	753,282	-	-
Perpetual trusts	5,009,356	-	-	5,009,356
Charitable remainder unitrust	438,838	-	-	438,838
Total financial assets	27,009,390	$ 16,179,920	$ 5,381,276	$ 5,448,194
Cash and cash equivalents	11,661,616			
Investments measured at net asset value (a)	191,872			
Total	$ 38,862,878			
Interest rate swap agreements	$ 2,242,746	$ -	$ 2,242,746	$ -

	June 30, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
Reported at Fair Value				
Financial assets:				
Investments and assets whose use is limited:				
Money market	$ -	$ -	$ -	$ -
U.S. treasury bills	199,000	199,000	-	-
U.S. government and agency obligations	5,326,831	-	5,326,831	-
U.S. corporate bonds	2,485,690	-	2,485,690	-
U.S. fixed income mutual funds	4,015,280	4,015,280	-	-
Certificates of deposits	25,000	25,000	-	-
U.S. equity securities	385,919	385,919	-	-
U.S. equity mutual funds and exchange traded funds	10,377,900	10,377,900	-	-
International equity mutual funds and exchange traded funds	1,076,910	1,076,910	-	-
Other	709,639	709,639	-	-
Perpetual trusts	4,910,843	-	-	4,910,843
Charitable remainder unitrust	428,887	-	-	428,887
Total financial assets	29,941,899	$ 16,789,648	$ 7,812,521	$ 5,339,730
Cash and cash equivalents	17,296,900			
Investments measured at net asset value (a)	195,137			
Total	$ 47,433,936			

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value is presented to reconcile to total investments.

The following is a description of the valuation methodologies used for Level 1, Level 2 and Level 3 assets.

Money market, U.S. treasury bills, U.S. corporate bonds, U.S. government and agency obligations, fixed income, certificates of deposit and other: These securities are valued on the basis of the quoted market prices at year-end. If quoted market prices are not available for the investments, these investments are valued based on yields currently available on comparable securities or issuers with similar credit ratings.

Mutual funds, exchange traded funds and equity securities: The estimated fair values of these funds are based on quoted market prices.

Perpetual trusts and charitable remainder unitrust: The trusts are recorded at the fair value of the Foundation's interest in the assets held in trust based principally upon quoted market prices at year-end. Trusts are composed of cash and cash equivalents, equities, and fixed income mutual funds. The trusts are categorized as Level 3 due to the lack of control of the restricted trust assets.

Other: Certain investments are measured at net asset value as a practical expedient. The investments have no monthly redemption notices.

Interest rate swap agreements: The fair value is estimated by a third-party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified as Level 2 (see note 7).

There have been no changes to the valuation methodologies from the prior year.

The following table presents a summary of the changes in the fair value of The Homes' Level 3 assets for the years ended June 30, 2023 and 2022:

	Trusts
Balance at June 30, 2021	$ 6,540,592
Change in value of trusts	(1,200,862)
Balance at June 30, 2022	5,339,730
Change in value of trusts	108,464
Balance at June 30, 2023	$ 5,448,194

Investment Return

Investment return on investments and assets whose use is limited is comprised of the following for the years ended June 30:

	2023	2022
Investment income, net of expenses of $77,889 and $122,609 in 2023 and 2022, respectively	$ 1,033,528	$ 1,069,676
Net realized (loss) gain on investments	$ (781,817)	$ 4,022,330
Net unrealized (loss) on debt securities	$ -	$ (96,079)
Net unrealized gain (loss) on equity securities	$ 1,893,695	$ (7,783,681)

5. Property, Plant and Equipment, Net

A summary of property, plant and equipment, net at June 30 is as follows:

	2023	2022	Depreciable Life
Land	$ 11,723,798	$ 11,723,798	
Building and improvements	184,539,406	181,936,834	10 - 40 years
Equipment	16,344,844	15,437,572	4 - 20 years
	212,608,048	209,098,204	
Less accumulated depreciation	112,205,894	105,228,178	
	100,402,154	103,870,026	
Construction in progress	6,597,733	4,814,700	
	$ 106,999,887	$ 108,684,726	

Depreciation expense was approximately $7,025,000 and $6,941,000 for the years ended June 30, 2023 and 2022, respectively.

Included in the summary above are property, plant and equipment of five facilities (Burnet Walnut Corporation, Covenant Housing Corporation, Nine Wall Street Corporation, Pineridge Brook Corporation and Ocean City 2406, Inc.) financed by HUD and pledged as collateral. This property, plant and equipment at June 30 are summarized as follows:

	2023	2022
Land	$ 1,997,564	$ 1,997,564
Building and improvements	28,360,271	27,495,511
Equipment	745,721	701,624
	31,103,556	30,194,699
Less accumulated depreciation	18,837,664	17,958,854
	12,265,892	12,235,845
Construction in progress	2,620,468	856,048
	$ 14,886,360	$ 13,091,893

6. Long-Term Debt

A summary of long-term debt at June 30 is as follows:

	2023	2022
Series 2022A, National Finance Authority Revenue Refunding Bonds (a)	$ 22,687,350	$ -
Series 2022B, National Finance Authority Revenue Refunding Bonds (a)	22,915,860	-
Series 2022C, National Finance Authority Revenue Refunding Bonds (a)	13,003,533	-
3.76% term loan with a bank, with monthly installments of principal and interest of $25,744 to July 2028, paid in full in August 2022 with the Series 2022A bond	-	4,631,179
2.793% term loan with a bank, with monthly installments of principal and interest of approximately $193,000 to October 2025, paid in full in August 2022 with the Series 2022A bond	-	7,366,662
Series 2014A, Economic Development Revenue Refunding Bonds (net of unamortized premium of $306,088 at June 30, 2022), refinanced in August 2022 with the Series 2022C bond (b)	-	16,341,088
Series 2013, Economic Development Revenue Refunding Bonds (net of unamortized premium of $364,266 at June 30, 2022) refinanced in August 2022 with the Series 2022B bond (c)	-	27,029,266
2.75% secured mortgage loan, payable to HUD in monthly installments of $15,720 (principal and interest) to May 2057 (Ocean City 2406, Inc.)	4,157,479	4,230,690
9% secured mortgage loan, payable to HUD in monthly installments of $33,226 (principal and interest) to January 2030 (Burnet Walnut Corporation)	1,975,139	2,185,688
HUD Capital Advances. Notes, ranging from 40-70 years, bear no interest and repayment is not required as long as the housing constructed with these funds remains available for low-income elderly persons	15,755,500	15,755,500
Total	80,494,861	77,540,073
Less current portion of long-term debt	(305,548)	(5,392,829)
Less deferred financing costs	(1,728,371)	(1,014,058)
Long-term debt	$ 78,460,942	$ 71,133,186

(a) On August 5, 2022, the Obligated Group issued three series of 2022 bonds through a private placement with a bank. The three issuances and their purpose are as follows:

Series 2022A - Tax-exempt refunding of 2014B and 2018 term loans with $10 million in additional borrowing. The additional borrowing will be used to fund an operating reserve fund of $3 million, to reimburse the Obligated Group for certain prior capital expenditures, and to establish a project fund which will be used to fund future capital purchases.

Series 2022B - Taxable refunding of Series 2013 Economic Development Revenue Refunding Bonds. These bonds will convert to tax-exempt upon the call date of the Series 2013 Bonds, on July 1, 2023. The 2013 Series will be considered to be legally defeased with funds placed in escrow to refund them on the call date.

Series 2022C - Taxable refunding of Series 2014A Economic Development Revenue Refunding Bonds. These bonds will convert to tax-exempt upon the call date of the Series 2014A Bonds, on July 1, 2024. The 2014A Series will be considered to be legally defeased with funds placed in escrow to refund them on the call date.

Each of the 2022 Series are amortized over 30 years, with a 10-year term ending August 2032. The first two years of debt service are interest only, with the first principal amounts being due on September 1, 2024.

(b) In October 2014, The Homes refinanced a total of $38,510,000 of prior outstanding Series 1998 and Series 1999 Bonds. A total of $15,179,000 was borrowed through the issuance of a Note with a bank. In addition, Economic Development Revenue Refunding Bonds, Series 2014A, were issued in the amount of $18,905,000, net of original issue premium of $919,194. At June 30, 2022, the unamortized premium was $306,088. Series 2014A bonds were refinanced with the Series 2022C bonds noted above.

(c) In June 2013, The Homes advance refunded prior outstanding debt through the issuance of $35,995,000, net of original issue premium of $796,195, of Economic Development Revenue Refunding Bonds Series 2013. At June 30, 2022, the unamortized premium was $364,266. Series 2013 bonds were refinanced with the Series 2022A bonds noted above.

The Series 2013 bonds, maturing on or prior to July 1, 2023 are not subject to optional redemption. Those maturing on or after July 1, 2024 are subject to optional redemption.

Each of the 2022 Series Bonds have a variable rate (SOFR), with a fixed rate swap. The fixed rates for each series are as follows:

Series 2022A - 3.675%

Series 2022B - 3.783%

Series 2022C - 3.894%

The Series 2022 bonds are collateralized by the land, building and property, as well as the gross receipts of the Obligated Group.

Under terms of a Continuing Covenant Agreement, The Obligated Group will be required to maintain a debt service coverage ratio of 1.1 to 1 (measured on a rolling 12-month basis with the first measurement date being September 30, 2023) and maintain at least $20 million in unrestricted cash and investments (including the funds in the $3 million operating reserve fund).

The funds in the operating reserve fund can be released upon the Obligated Group meeting a "Release Debt Service Coverage Ratio" of 1.25 to 1 for four consecutive calendar quarters.

In addition, the Foundation has provided the Obligated Group an Operating Support Agreement for an amount of no more than one year of principal and interest payments associated with its Series 2022 bonds. During the first 36-month period following the closing of the bonds, the maximum guarantee shall be $3,089,330. This Operating Support Agreement will be released when the Obligated Group meets a "Release Debt Service Coverage Ratio" of 1.25 to 1 for four consecutive calendar quarters. Management believes the risk of performance under this guarantee is remote.

See Note 16 for subsequent events disclosure related to the Continuing Covenants Agreement and Operating Support Agreement.

Future principal payments, as refinanced with the Series 2022 B and C Bonds noted above, (excluding Capital Advances of $15,755,500 not expected to be paid back) on long-term debt are as follows:

Years ending June 30:	
2024	$ 305,548
2025	1,227,859
2026	1,469,912
2027	1,540,610
2028	1,609,744
Thereafter	58,585,688
Total principal payments on long-term debt	$ 64,739,361

7. Derivative Financial Instruments

In connection with certain bonds, the Obligated Group, has entered into interest rate swap agreements with a financial institution which are considered derivative financial instruments. The objective of these swap agreements was to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are a contract to exchange fixed rate for variable rate payments over the term of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote and that the swaps are continuing to function as intended.

The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense. The Obligated Group does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

The Obligated Group measures its derivative financial instruments at fair value based on proprietary models of the maker of the instruments based upon estimated future cash flows and forecasted interest rate yields. This value represents the estimated amount they would receive or pay upon termination of the agreements, taking into consideration current interest rates. Derivative financial instruments are considered level two investments within the fair value hierarchy.

Changes in fair value of the interest rate swap agreements are recorded as a change in fair value of derivative financial instruments. The change in fair value on derivative financial instruments was $2,242,746 at June 30, 2023.

As of June 30, 2023, the Obligated Group had the following interest rate swaps in effect:

Notional Amount	Fixed Rate	Variable Rate	Period
$ 22,687,348	3.675 %	(SOFR +1.36%) 5.48 % at June 30, 2023	August 2022 to August 2032
22,915,860	3.783 %	(SOFR +1.70%) 6.86 % at June 30, 2023	August 2022 to August 2032
13,003,533	3.894 %	(SOFR +1.70%) 6.86 % at June 30, 2023	August 2022 to August 2032

The fair value of the interest rate swap agreements was $2,242,746 at June 30, 2023 and was obtained from the financial institution.

8. Retirement Plan

The Homes has a defined contribution plan called The United Methodist Homes of New Jersey 403(b) Savings and Retirement Plan for substantially all its employees. Under the plan, The Homes provides a contribution for employees at least 21 years old and who have completed 1,000 hours of service in one year. The Homes matches, after one year of employment, up to 4% of compensation. Employees are immediately vested in The Homes' matching contributions. The expenses relating to this plan for the years ended June 30, 2023 and 2022 were $711,889 and $683,778, respectively.

9. Concentrations of Credit Risk

The Homes grants credit without collateral to its patients, most of whom are New Jersey residents and are insured under third-party payor agreements. The mix of receivables, which include healthcare and residential services at June 30, is as follows:

	2023	2022
Medicaid	9 %	15 %
Medicare	22	19
Other third-party payors	22	19
Self-pay (including medical and residential services)	47	47
	100 %	100 %

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

10. Commitments and Contingencies

Line of Credit

At June 30, 2023 and 2022, The Homes has an available unsecured line of credit with a bank in the amount of $750,000 at an interest rate of prime (8.25% and 4.75% at June 30, 2023 and 2022, respectively), which is collateralized by $1,250,000 of investments. The line of credit expires on March 31, 2024. As of June 30, 2023 and 2022, The Homes has not used the line of credit.

Regulatory Environment

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

Medicaid Reimbursement

Nursing services provided to Medicaid program beneficiaries are paid at prospectively determined rates per day. The rates are determined using state-wide nursing facility cost information and The Homes cost information from a prior year. The reimbursement methodology is subject to various limitations and adjustments.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are held for the following purposes:

	2023	2022
Restricted in perpetuity:		
Endowment funds	$ 1,883,335	$ 1,883,335
Beneficial interest in perpetual trusts	5,009,356	4,910,843
Total restricted in perpetuity	6,892,691	6,794,178
Restricted for specific purposes and time:		
Charitable remainder unitrust	438,838	428,887
Various healthcare related activities	1,231,833	1,058,357
Total restricted for specific purposes and time	1,670,671	1,487,244
Total net assets with donor restrictions	$ 8,563,362	$ 8,281,422

The endowment has been established by the Foundation's donors to provide funding for charitable, religious and benevolent purposes for providing a ministry of facilities and services for the elderly. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires The Homes to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are to be reported in unrestricted net assets as of year-end. There were no such deficiencies as of June 30, 2023 and 2022.

Interpretation of Relevant Law

The board of trustees of The Homes has interpreted the New Jersey Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Homes classifies as net assets with donor restrictions (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.

Spending Policy

The Homes spends earnings on donor-restricted endowment funds as expenses have been incurred that satisfy the donor-imposed restrictions. The expenditure of this income will not exceed 7% of the fair market value of the endowment fund as averaged over the prior three years. The investment income earned on the permanently restricted endowment funds is classified based on donor stipulations as either net assets without donor restrictions when donor restrictions are met and appropriated for expenditure or net assets with donor restrictions until the donor-imposed restrictions have been met.

Return Objectives and Risk Parameters

The Homes has adopted investment and spending policies for endowment assets, excluding those invested by third-party trustees that attempt to provide a predictable stream of income and growth, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that The Homes must hold in perpetuity. Under this policy, as approved by The Homes board of trustees, the endowment assets are invested in a manner that is intended to produce moderate to high rates of return while assuming a moderate to low level of investment risk.

The Homes has no board-designated endowment funds.

The following represents the changes in net asset classes of The Homes endowment funds at June 30, 2023 and 2022:

	With Donor Restrictions		
	Purpose Restricted	Held in Perpetuity	Total
Endowment net assets, June 30, 2021	$ 325,323	1,883,335	$ 2,208,658
Investment return	(252,815)	-	(252,815)
Endowment net assets, June 30, 2022	72,508	1,883,335	1,955,843
Investment return	172,739	-	172,739
Net assets released from restrictions	(131,833)	-	(131,833)
Endowment net assets, June 30, 2023	$ 113,414	$ 1,883,335	$ 1,996,749

12. Malpractice Insurance

The Homes has a claims made liability insurance policy. Effective April 1, 2013, The Homes became a member of Caring Communities (the Company), a Reciprocal Risk Retention Group domiciled in the District of Columbia. The Company provides insurance coverage to its members and The Homes maintains professional and general liability and excess liability coverage with the Company. The policies provide coverage of $1,000,000 per claim and $3,000,000 in aggregate. The excess policy provides $20,000,000 per claim and a $20,000,000 aggregate limit. The Homes has estimated that any losses would be within the policy limits. The Homes' investment in the Company was $562,257 and $532,768 at June 30, 2023 and 2022, respectively, and is included in the investments line of the consolidated balance sheets.

13. Asset Retirement Obligations

The Homes has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings are disposed. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life.

The following table presents the activity for the asset retirement obligations for the years ended June 30, 2023 and 2022:

	2023	2022
Balance, beginning	$ 1,151,369	$ 1,086,197
Accretion expense	69,082	65,172
Balance, ending	$ 1,220,451	$ 1,151,369

14. Liquidity and Availability of Resources

As of June 30, 2023 and 2022, The Homes has financial assets available for general expenditure within one year of the balance sheet date, consisting of the following:

	2023	2022
Cash and cash equivalents	$ 5,635,630	$ 3,304,441
Accounts receivable, net	7,656,842	6,937,691
Investments without restrictions	14,204,272	20,808,305
Entrance fees receivable	152,183	209,267
Total	$ 27,648,927	$ 31,259,704

The Homes has cash and investments, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the information above. Cash in excess of current requirements are held in various investments in accordance with The Homes investment policy. The Homes has other assets whose use is limited for residents' deposits, assets reserved for future gift annuity payments, donor-restricted purposes, designated by the Board of Directors and other limited uses.

The Homes is regulated by the New Jersey Department of Community Affairs (DCA) pursuant to the Continuing Care Retirement Community Regulation and Financial Disclosures Act (the Act). The Act requires, among other things, that the Homes establish and maintain a liquid reserve fund, which is calculated as the greater of the following years debt service or 15% of the projected operating expenses, excluding depreciation and amortization and expenses related to private pay residents. Funds held under bond indenture agreements can be used to satisfy the requirement.

15. Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Homes 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 balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements. The Homes' consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued.

The Homes has evaluated subsequent events through January 8, 2024, which is the date the consolidated financial statements were issued.

On December 22, 2023, the Continuing Covenants Agreement was amended. The amendment provided a one-time waiver of compliance with the debt service coverage ratio covenant for the twelve month period ended September 30, 2023 and changed the calculation of the debt service coverage calculation as follows:

- The December 31, 2023 calculation is to be based on a trailing six month basis rather than a trailing twelve month basis. In addition, the December 31, 2023 calculation requires a ratio of 1.0 to 1.0 rather than 1.1 to 1.0.

- The March 31, 2024 calculation is to be based on a trailing nine month basis rather than a trailing twelve month basis. The ratio requirement for this period remains at 1.1 to 1.0.

On December 22, 2023, the Operating Support Agreement was amended to modify the release date. The amendment allows for the release to occur when the Obligated Group meets a "Release Debt Service Coverage Ratio" of 1.25 to 1 for six consecutive calendar quarters, rather than four consecutive quarters. Management believes the risk of performance under this guarantee is remote.

The United Methodist Homes of New Jersey and Subsidiaries

Consolidating Balance Sheet
June 30, 2023

	Obligated Group				Subtotal Obligated Group	HUD	Pitman	Foundation	HomeWorks	The Enclave	Eliminations	The Homes
	Bristol Glen	Collingswood	The Shores	Home Office								
Assets												
Current Assets												
Cash and cash equivalents	$ 2,625,327	$ 3,150	$ 5,450	$ 2,897,954	$ 5,531,881	$ 82,915	$ 3,700	$ 12,681	$ 300	$ 4,153	$ -	$ 5,635,630
Investments	10,805,645	-	5,000	1,214,556	12,025,201	-	-	2,179,071	-	-	-	14,204,272
Accounts receivable, net	1,394,108	3,082,314	1,861,034	-	6,337,456	127,351	961,001		231,034	-	-	7,656,842
Entrance fees receivable	152,183	-	-	-	152,183	-	-	-	-	-	-	152,183
Other current assets	481,334	198,888	342,764	170,810	1,193,796	111,699	236,948	33,672	12,056	-	-	1,588,171
Due from the Foundation	484,256	346,802	1,846,233	(1,773,411)	903,880	35,914	494,879	-	241,762	-	(1,676,435)	-
Total current assets	15,942,853	3,631,154	4,060,481	2,509,909	26,144,397	357,879	1,696,528	2,225,424	485,152	4,153	(1,676,435)	29,237,098
Assets Whose Use is Limited					-							
By the Board of Directors	-	-	-	4,099,678	4,099,678	-	-	-	-	-	-	4,099,678
Donor-restricted funds	-	-	-	438,178	438,178	-	-	8,125,184	-	-	-	8,563,362
Under bond indenture agreement - held by trustee	-	-	-	7,643,579	7,643,579	-	-	-	-	-	-	7,643,579
Under borrowing agreements	-	-	-	-	-	-	-	1,250,000	-	-	-	1,250,000
Under financing agreement	-	-	-	-	-	1,451,100	-	-	-	-	-	1,451,100
Annuity obligations			-	-	-	-	-	443,675	-	-	-	443,675
Cash held in escrow	83,143	-	-		83,143	1,124,169	-	-	-	-	-	1,207,312
Total assets whose use is limited	83,143	-	-	12,181,435	12,264,578	2,575,269	-	9,818,859	-	-	-	24,658,706
Derivative Financial Instruments	1,000,265	139,050	1,103,431	-	2,242,746	-	-	-	-	-	-	2,242,746
Other Assets	27,982	58,340	53,870	462,887	603,079	124,518	80,131	-	4,475	-	-	812,203
Interest in Net Assets of the Foundation	-	-	-	9,878,383	9,878,383	-	-	-	-	-	(9,878,383)	-
Property, Plant and Equipment, Net	37,065,371	11,019,895	30,209,428	1,688,021	79,982,715	14,886,360	3,438,428	350	14,518	8,677,516	-	106,999,887
Total assets	$ 54,119,614	$ 14,848,439	$ 35,427,210	$ 26,720,635	$ 131,115,898	$ 17,944,026	$ 5,215,087	$ 12,044,633	$ 504,145	$ 8,681,669	$ (11,554,818)	$ 163,950,640

The United Methodist Homes of New Jersey and Subsidiaries

Consolidating Balance Sheet
June 30, 2023

	Obligated Group				Subtotal Obligated Group	HUD	Pitman	Foundation	HomeWorks	The Enclave	Eliminations	The Homes
	Bristol Glen	Collingswood	The Shores	Home Office								
Liabilities and Net Assets (Deficit)												
Current Liabilities												
Due to The Homes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,676,435	$ -	$ -	$ (1,676,435)	$ -
Current portion of long-term debt	-	-	-	-	-	305,548	-	-	-	-		305,548
Accounts payable	1,380,853	1,115,375	1,299,816	261,755	4,057,799	943,020	949,961	-	52,734	77,359		6,080,873
Accrued liabilities	1,120,718	1,130,952	1,336,311	819,763	4,407,744	354,107	1,241,472	46,140	138,680	-		6,188,143
Accrued interest payable	82,028	11,403	90,488		183,919	14,814	-	-	-	-		198,733
Deferred revenue	5,000	7,000	30,258		42,258	-	22,458	-	-	-		64,716
Due (from) affiliates	(19,858,658)	(24,595,539)	(15,715,325)	53,772,601	(6,396,921)	2,186,313	2,332,545	-	2,806,191	(928,128)		-
Total current liabilities	(17,270,059)	(22,330,809)	(12,958,452)	54,854,119	2,294,799	3,803,802	4,546,436	1,722,575	2,997,605	(850,769)	(1,676,435)	12,838,013
Deposits Held and Resident Deposits	106,525	58,340	53,870	90,000	308,735	112,621	80,131	-	-	-	-	501,487
Annuity Obligations	-	-	-	-	-	-	-	443,675	-	-	-	443,675
Refundable Entrance Fees	14,436,919	-	-	-	14,436,919	-	-	-	-	-	-	14,436,919
Deferred Revenue from Entrance Fees	2,134,004	-	-	-	2,134,004	-	-	-	-	-	-	2,134,004
Other Liabilities	12,500	12,500	12,500	372,887	410,387	-	12,500	-	-	-	-	422,887
Asset Retirement Obligation	-	-	-	-	-	-	1,220,451	-	-	-	-	1,220,451
Long-Term Debt, Excluding Current Portion	25,492,193	3,545,522	28,135,645	-	57,173,360	21,287,582	-	-	-	-	-	78,460,942
Total liabilities	24,912,082	(18,714,447)	15,243,563	55,317,006	76,758,204	25,204,005	5,859,518	2,166,250	2,997,605	(850,769)	(1,676,435)	110,458,378
Net Assets					-							
Net assets without donor restrictions	29,207,532	33,562,886	20,183,647	(37,159,733)	45,794,332	(7,259,979)	(644,431)	1,753,199	(2,493,460)	9,532,438	(1,753,199)	44,928,900
Net assets with donor restrictions				8,563,362	8,563,362	-	-	8,125,184	-	-	(8,125,184)	8,563,362
Total net assets (deficit)	29,207,532	33,562,886	20,183,647	(28,596,371)	54,357,694	(7,259,979)	(644,431)	9,878,383	(2,493,460)	9,532,438	(9,878,383)	53,492,262
Total liabilities and net assets (deficit)	$ 54,119,614	$ 14,848,439	$ 35,427,210	$ 26,720,635	$ 131,115,898	$ 17,944,026	$ 5,215,087	$ 12,044,633	$ 504,145	$ 8,681,669	$ (11,554,818)	$ 163,950,640

The United Methodist Homes of New Jersey and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (Deficit)
Year Ended June 30, 2023

	Obligated Group				Subtotal Obligated Group	HUD	Pitman Manor	Foundation	HomeWorks	The Enclave	Eliminations	The Homes
	Bristol Glen	Collingswood	The Shores	Home Office								
Revenues and Other Support												
Patient service revenue												
(net of contractual allowances and discounts)	$ 6,512,488	$ 7,599,363	$ 8,052,600	$ -	$ 22,164,451	$ -	$ 7,282,121	$ -	$ -	$ -		$ 29,446,572
Resident service revenue	13,467,544	9,224,058	11,753,784	-	34,445,386	5,816,586	7,968,097	-	1,984,729	-		50,214,798
Other revenues, primarily contributions	36,742	38,611	49,523	5,477,638	5,602,514	253,671	45,398	369,029	313	12,000	(5,216,595)	1,066,330
Other revenues	85,882	-	-	-	85,882	-			-	-	-	85,882
Investment income, operating, net	311,731	-	-	-	311,731	-	-					311,731
Net assets released from restrictions, satisfaction of												
special-purpose restrictions	47,407	77,361	228,060	-	352,828	21,800	20,733	(121,692)		-		273,669
Total revenues and other support	20,461,794	16,939,393	20,083,967	5,477,638	62,962,792	6,092,057	15,316,349	247,337	1,985,042	12,000	(5,216,595)	81,398,982
Operating Expenses												
Healthcare services	5,507,199	5,665,276	5,521,518		16,693,993	-	5,171,746	-	-	-	-	21,865,739
Resident and assisted-living services	2,487,645	2,011,843	2,466,989		6,966,477	508,360	1,891,573	-	1,941,914	-	-	11,308,324
Memory support	818,329	1,095,877	1,493,221		3,407,427	-	959,821	-	-	-	-	4,367,248
Dining services	2,644,496	2,294,759	2,907,523		7,846,778	-	2,303,281	-	-	-	-	10,150,059
Activities	405,943	294,249	353,159		1,053,351	-	301,813	-	-	-	-	1,355,164
Building services	2,047,762	2,008,689	1,889,096	108,531	6,054,078	1,899,618	2,012,443	-	930	-	-	9,967,069
Utilities	557,927	338,729	706,462	13,971	1,617,089	360,830	438,694	-	-	-	-	2,416,613
Administrative services	3,237,294	2,917,380	3,449,147	5,518,679	15,122,500	2,011,246	3,284,905	569,204	535,463	82,151	-	21,605,469
Interest expense	911,179	127,641	1,010,664	215	2,049,699	321,214	-	-	-	-	-	2,370,913
Depreciation and amortization	2,248,003	1,073,740	2,059,944	203,488	5,585,175	878,806	553,182	66	7,314	-	-	7,024,543
Management fee expense	1,467,201	1,171,544	1,281,688		3,920,433	198,775	1,097,387	-	-	-	(5,216,595)	-
Municipal charge	169,254	55,565	88,752	10,279	323,850	148,173	-	-	-	13,347	-	485,370
Loss on disposal of property, plant, and equipment	-	-	-	-	-	-	-	-	6,109	-	-	6,109
Provision for bad debt	119,901	123,187	19,039	-	262,127	4,685	79,163	-	65,673	-	-	411,648
Total operating expenses	22,622,133	19,178,479	23,247,202	5,855,163	70,902,977	6,331,707	18,094,008	569,270	2,557,403	95,498	(5,216,595)	93,334,268
Operating loss	(2,160,339)	(2,239,086)	(3,163,235)	(377,525)	(7,940,185)	(239,650)	(2,777,659)	(321,933)	(572,361)	(83,498)	-	(11,935,286)
Other Income, Net												
Investment income, net	18,807	832	2,931	166,503	189,073	20,078	716	170,610	-	1,786	-	382,263
Net unrealized gain on equity securities	1,121,477	-	42,264	306,927	1,470,668	-	-	213,557	-	-	-	1,684,225
Realized gain (loss) on investments	(728,683)	-	(42,366)	(106,728)	(877,777)	-	-	99,480	-	-	-	(778,297)
Change in fair value of derivative financial instruments	1,000,265	139,050	1,103,431	-	2,242,746	-	-	-	-	-	-	2,242,746
Loss on refinancing	(622,958)	(62,119)	(718,860)	(6,367)	(1,410,304)	-	-	-	-	-	-	(1,410,304)
Net change in unrestricted Foundation activity	-	-	-	161,714	161,714	-	-	-	-	-	(161,714)	-
Total other income, net	788,908	77,763	387,400	522,049	1,776,120	20,078	716	483,647	-	1,786	(161,714)	2,120,633
Revenue in excess of (less than) expenses	(1,371,431)	(2,161,323)	(2,775,835)	144,524	(6,164,065)	(219,572)	(2,776,943)	161,714	(572,361)	(81,712)	(161,714)	(9,814,653)
Net Assets (Deficit) Without Donor Restrictions, Beginning	30,578,963	35,724,209	22,959,482	(37,304,257)	51,958,397	(7,040,407)	2,132,512	1,591,485	(1,921,099)	9,614,150	(1,591,485)	54,743,553
Net Assets (Deficit) Without Donor Restrictions, Ending	$ 29,207,532	$ 33,562,886	$ 20,183,647	$ (37,159,733)	$ 45,794,332	$ (7,259,979)	$ (644,431)	$ 1,753,199	$ (2,493,460)	$ 9,532,438	$ (1,753,199)	$ 44,928,900