THE PINES AT DAVIDSON, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Pines at Davidson, Inc.
Davidson, North Carolina

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Pines at Davidson, Inc. (The Pines), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions, changes in net assets, 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 Pines as of December 31, 2023 and 2022, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Consolidated Financial Statements section of our report. We are required to be independent of The Pines 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.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Pines' ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Board of Directors
The Pines at Davidson, Inc.

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 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 judgement 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 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 purposes of expressing an opinion on the effectiveness of The Pines' 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 Pines' 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
April 2, 2024

THE PINES AT DAVIDSON, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,014,257	$ 6,588,524
Cash held under bond agreement for payment of:		
Interest	1,262,981	1,279,327
Principal	1,386,896	1,350,000
Accounts receivable	103,253	55,083
Interest receivable	158,521	174,503
Prepaid expenses and other current assets	655,454	625,597
Total Current Assets	10,581,362	10,073,034
PROPERTY AND EQUIPMENT		
Land and land improvements	19,518,416	19,816,880
Buildings and building improvements	122,747,225	120,562,769
Equipment, furniture and fixtures	20,232,484	18,434,924
Construction in progress	1,395,592	1,706,753
Total property and equipment	163,893,717	160,521,326
Less: accumulated depreciation	(60,571,065)	(54,859,821)
Property and equipment, Net	103,322,652	105,661,505
OTHER ASSETS		
Investments	30,803,913	27,131,000
Cash and investments whose use is limited		
Operating reserve as required by North Carolina General Statutes	7,540,000	6,869,000
Restricted Donor Funds:		
Restricted pledge receivable	990,362	972,062
Donor-restricted cash and investments	14,287,544	13,670,146
Total other assets	53,621,819	48,642,208
Total Assets	$ 167,525,833	$ 164,376,747

See accompanying Notes to Consolidated Financial Statements.

THE PINES AT DAVIDSON, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2023 AND 2022

	2023	2022
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,700,175	$ 3,866,044
Interest payable	1,259,241	1,278,486
Current portion of long-term debt	1,385,000	1,350,000
Total current liabilities	5,344,416	6,494,530
LONG-TERM DEBT, NET	59,530,742	60,985,269
OTHER LONG-TERM LIABILITIES		
Deferred entrance fee revenue	51,393,215	50,486,948
Refundable entrance fee	4,151,319	3,744,935
Entrance fee deposits	895,715	668,000
Total Other Long-Term Liabilities	56,440,249	54,899,883
Total liabilities	121,315,407	122,379,682
NET ASSETS		
Without donor restrictions:		
Board-designated	-	19,554,900
Undesignated	30,932,520	7,799,957
Total without donor restrictions	30,932,520	27,354,857
With donor restrictions	15,277,906	14,642,208
Total net assets	46,210,426	41,997,065
Total Liabilities and Net Assets	$ 167,525,833	$ 164,376,747

See accompanying Notes to Consolidated Financial Statements.

THE PINES AT DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
OPERATING REVENUE AND SUPPORT		
Resident services	$ 26,391,748	$ 24,466,974
Amortization of deferred entrance fees	6,059,695	5,098,354
Interest income	925,516	638,024
Other operating revenue	898,124	894,774
Net assets released from donor restrictions for operations	1,034,600	819,001
Total operating revenue and support	35,309,683	31,917,127
OPERATING EXPENSES		
Salaries and benefits	16,839,833	16,054,276
Depreciation	5,711,243	5,492,585
Other operating expenses	8,219,642	8,302,692
Interest and amortization expense	2,448,960	2,488,567
Total operating expenses	33,219,678	32,338,120
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENSES FROM OPERATIONS AND BEFORE OTHER CHANGES	2,090,005	(420,993)
OTHER CHANGES		
Contributions without donor restrictions	107,538	1,000
Nonroutine expenses	(234,308)	-
Net increase (decrease) in fair value of investments	735,009	(3,552,819)
Total Other Changes	608,239	(3,551,819)
EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENSES AND OTHER CHANGES	2,698,244	(3,972,812)
NET ASSETS RELEASED FROM DONOR RESTRICTIONS FOR BUILDING AND EQUIPMENT	879,419	119,438
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	3,577,663	(3,853,374)
Net Assets Without Donor Restrictions - Beginning of Year	27,354,857	31,208,231
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	$ 30,932,520	$ 27,354,857

See accompanying Notes to Consolidated Financial Statements.

THE PINES AT DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Total unrestricted revenue and support	$ 35,417,221	$ 31,918,127
Total unrestricted expenses	(33,219,678)	(32,338,120)
Net assets released from donor restrictions for buildings and equipment	879,419	119,438
Nonroutine expenses	(234,308)	-
Net increase (decrease) in fair value of investments	735,009	(3,552,819)
Increase (Decrease) in net assets without donor restrictions	3,577,663	(3,853,374)
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	629,282	530,852
Interest income	444,127	357,765
Net assets released from donor restrictions	(1,914,019)	(938,439)
Net increase (decrease) in fair value of investments	1,443,008	(2,285,326)
Change in value of pledges with donor restrictions	33,300	(165,129)
Increase (Decrease) in net assets with donor restrictions	635,698	(2,500,277)
CHANGE IN NET ASSETS	4,213,361	(6,353,651)
Net Assets - Beginning of Year	41,997,065	48,350,716
NET ASSETS - END OF YEAR	$ 46,210,426	$ 41,997,065

See accompanying Notes to Consolidated Financial Statements.

THE PINES AT DAVIDSON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,213,361	$ (6,353,651)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	5,711,243	5,492,585
Amortization	48,744	49,853
Amortization of deferred entrance fees	(5,918,614)	(4,954,516)
Amortization of improvement deposits	(141,081)	(143,838)
Amortization of bond premium	(118,271)	(118,268)
Net change in fair value of investments	(2,178,017)	5,838,145
Change in value of long-term pledges	(33,300)	165,129
Restricted contributions	(629,282)	(530,852)
Restricted interest income	(444,127)	(357,765)
Changes in operating assets and liabilities - net	(1,246,303)	(1,276,015)
Net cash used by operating activities	(735,647)	(2,189,193)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,373,246)	(7,164,905)
Net change of investments	(2,768,294)	2,774,654
Net cash used by investing activities	(6,141,540)	(4,390,251)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted contributions	629,282	530,852
Restricted interest income	444,127	357,765
Repayment of long-term debt	(1,350,000)	(1,310,000)
Net proceeds from entrance fees	7,284,959	6,362,565
Net proceeds from improvement deposits	87,387	405,997
Net entrance fee deposits	227,715	(1,835,374)
Net cash provided by financing activities	7,323,470	4,511,805
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	446,283	(2,067,639)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	9,217,851	11,285,490
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	$ 9,664,134	$ 9,217,851

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Mission Statement

The Pines at Davidson, Inc. (formerly known as Davidson Retirement Community, Inc.) (The Pines at Davidson) is a continuing care retirement community located on approximately 149 acres in Davidson, North Carolina, offering housing where residents aged 65 and older live independently in 292 residential apartments, cottages, and villas and are provided services that include meals, activities, and housekeeping. Residents use the Jetton Community Center, which features a central dining room, café, library, post office, private dining room, living room, game room, large meeting room, and chapel. There are also living accommodations and support services available in the Mariam Coltrane Schramm Health Center (Schramm Health Center) for residents who require assistance with the activities of daily living or who become ill and require long-term nursing care. The Schramm Health Center consists of the Workman Wellness Center, a 30-bed assisted living unit and a 75-bed nursing unit. The Workman Wellness Center includes a wellness clinic supervised by a registered nurse serving residents within The Pines at Davidson, a hot-water whirlpool, a warm-water therapy pool, exercise equipment room oriented towards strength and endurance training, and separate locker rooms for men and women.

The Pines at Davidson is a nonstock, nonprofit corporation organized under the laws of the state of North Carolina to own and operate the residential apartments, cottages, and villas and Schramm Health Center. As a nonstock corporation, The Pines at Davidson has no shareholders, and any surplus remains within the corporation to build reserves for unforeseen financial needs and repairs and renovations to benefit residents. As a nonprofit corporation, The Pines at Davidson is oriented toward fulfilling its mission while maintaining financial security for its residents rather than earning profits to benefit shareholders. The Davidson College Presbyterian Church and Davidson College, two founding organizations, continue to have involvement in The Pines at Davidson but have no responsibility for any of The Pines at Davidson's obligations.

The Pines at Davidson is the sole member of Mecklenburg Real Estate Holdings, LLC (MREH), a single member limited liability company, formed April 22, 2014 for the purpose of holding and managing real property for the benefit of The Pines at Davidson.

The Pines at Davidson is the sole member of SDK Enterprises (SDK), a single member limited liability company, formed June 21, 2019 for the purpose of holding and managing real property for the benefit of The Pines at Davidson.

The Pines at Davidson's mission statement is as follows:

The mission of The Pines at Davidson is to provide high quality housing, health care and other services that exceed residents' expectations.

Principles of Consolidation

The consolidated financial statements include the accounts of The Pines at Davidson, MREH, and SDK (collectively, The Pines). All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Assistance and Resident Support Fund

All residents have a contractual agreement with The Pines providing that in return for payment of an entrance fee and monthly fees, residents will have access to living arrangements and nursing care. It is The Pines' policy that a resident's agreement will not be terminated solely because of the resident's financial inability to continue to pay the monthly fee or other charges due under the agreement by reason of circumstances beyond the resident's control, such as outliving one's financial resources. This policy, however, shall not be construed as qualifying the right of The Pines to terminate a resident's agreement in accordance with the terms of the agreement. If a resident presents facts, which in the opinion of The Pines justify special financial consideration, The Pines will give careful consideration to subsidizing, in whole or in part, the monthly charge and other charges payable by a resident under the agreement so long as such subsidy can be made without impairing the ability of The Pines to attain its objectives while operating on a sound financial basis. Any determination by The Pines with regard to the granting of financial assistance is within the sole discretion of The Pines. Each resident's agreement with The Pines provides that the resident will not make any gift or other transfer of property for less than adequate consideration for the purpose of evading the resident's obligation under the agreement or if such gifts or transfer would render the resident unable to meet such obligations.

The Pines has established the Resident Support Fund, which is used to assist residents who become unable to pay their monthly fees and other charges as described above.

Entrance Fees

Under the terms of the residence and care agreement, each resident member pays an entrance fee. The agreement requires a deposit of 10% of the entrance fee amount when a unit is reserved with the balance of the fee to be paid 10 days prior to occupancy. During the years ended December 31, 2023 and 2022, The Pines received net entrance fees of $7,284,959 and $6,362,565, respectively. Entrance fees received upon occupancy, along with monthly service fees, pay the cost of services provided to residents. Once a unit is occupied, entrance fees are recognized as income over the actuarially determined expected residency period of each of The Pines' residents. Entrance fees are partially refunded to residents vacating a unit in the first 12 months of occupancy, except as noted below. The refund is determined based on the number of months occupied, less an administrative fee, and is paid after occupancy of the unit by a new resident.

Deposits paid, less an administrative charge, are refundable to persons canceling their residency contract prior to occupying The Pines. No administrative charge is assessed for cancelation resulting from death or from physical or mental impairment.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Entrance Fees (Continued)

Residents may elect to pay additional incremental entrance fees based on the resident's age at his or her nearest birthday on the date of occupancy. Under this option, 90% or 50% of the original entrance fees are refundable dependent on the contract option elected. The contract provides for payment of the refundable fees after the unit is vacated and a new resident occupies the unit and pays the entrance fee in effect at the time of occupancy. Prospective residents may reserve priority on The Pines' waiting list to occupy a unit to become available in the future by making a $1,000 refundable deposit for a unit or paying a $100 nonrefundable fee if under the age of 70. Total deposits, including the 10% and $1,000 deposits held, were $895,715 and $668,000 at December 31, 2023 and 2022, respectively. The refundable portion of entrance fees paid under the refund option contracts and deposits paid to reserve priority for a future unit are classified on the accompanying consolidated balance sheets as refundable entrance fees.

The Pines also allows its tenants to pay improvement deposits to fund the construction of improvements to their independent living units. During the years ended December 31, 2023 and 2022, the Pines received approximately $87,000 and $406,000, respectively, of such improvement deposits.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates include the useful lives of property and equipment and the expected residency period. Actual results could differ from these estimates.

Cash and Cash Equivalents

All liquid investments with a maturity of three months or less are considered to be cash equivalents, unless designated as a cash position within long-term investments or restricted as to use by the donor. These investments are recorded at cost in the accompanying consolidated balance sheets.

Restricted cash is included with cash and cash equivalents in the consolidated statements of cash flows. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total amounts shown in the consolidated statements of cash flows.

	2023	2022
Cash and Cash Equivalents	$ 7,014,257	$ 6,588,524
Cash held under bond agreement for payment of:		
Interest	1,262,981	1,279,327
Principal	1,386,896	1,350,000
Total	$ 9,664,134	$ 9,217,851

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Resident accounts receivable consists of resident monthly service fees. The Pines provides an allowance for uncollectible accounts using management's estimate about the collectability of any past due accounts. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. At both December 31, 2023 and 2022 the Pines did not have an allowance for credit losses.

Fair Value of Financial Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy based upon observable and unobservable inputs for fair value measurement of financial instruments that is discussed below in Note 3.

Property and Equipment

Purchased property and equipment are recorded at cost. Expenditures that materially increase values, change capacities, or extend estimated useful lives are capitalized. All fixed assets are depreciated using the straight-line method using the following estimated useful lives:

Land Improvements	5 to 40 Years
Buildings and Building Improvements	3 to 40 Years
Equipment, Furniture, and Fixtures	3 to 30 Years

Depreciation expense for 2023 and 2022 was $5,711,243 and $5,492,585, respectively. No interest was capitalized during the years ended December 31, 2023 and 2022.

Construction in progress at December 31, 2023 and 2022 is related to general renovations.

The Pines capitalizes all property and equipment expenditures which have a cost in excess of $500 and an expected life greater than or equal to three years.

The Pines periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is determined to exist for asset to be held and used if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Impairment is determined to exist for assets to be disposed of if estimated net realizable value is less than the carrying amount. Management has determined that no such impairments exist as of December 31, 2023 and 2022.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets is comprised primarily of amounts paid in advance for property and liability insurance.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board-Designated Funds

In 2022, board-designated funds included assets set aside by the board to be used for capital expenditures for the repair or replacement of The Pines' property and equipment. The board retains control over these funds and may, at its discretion, use the funds for other purposes. For the year ended December 31, 2023, the board approved a dissolution of the board designated funds.

Cash and Investments Whose Use is Limited

Cash and investments whose use is limited consist of funds held pursuant to the requirements of The Pines' revenue bond agreement (see Note 2), funds held to maintain an operating reserve as required by North Carolina General Statutes (see Note 11).

Debt Issuance Costs

During 2013, The Pines completed a bond offering of its Series 2013 North Carolina Medical Care Commission Health Care Facilities Revenue Bonds. The Pines deferred the bond issuance costs associated with the bond offering totaling approximately $213,000. The Pines used the proceeds from the bond offering to expand The Pines' existing continuing care retirement community, including the construction of two new multi-story apartment buildings.

During 2015, The Pines completed a refinance of its Series 2006 Bonds with Series 2015 Bonds (both defined hereinafter). The Pines deferred the bond issuance costs associated with the bond offering totaling approximately $154,000.

During 2018, The Pines began the process for a bond offering of two Series 2019 bonds. The Pines deferred the bond issuance costs associated with such bond offering totaling approximately $46,000.

During 2019, The Pines completed a bond offering of two Series 2019 North Carolina Medical Care Commission Retirement Facilities First Mortgage Revenue Bonds (Series 2019A Bonds and Series 2019B Bonds). The Pines deferred the bond issuance costs associated with the bond offerings totaling approximately $1,016,000, including the portion deferred in 2018. The Pines used the proceeds from the bond offering to expand The Pines' existing continuing care retirement community, including the construction of two new multi-story apartment buildings.

Deferred debt issuance costs are presented as a reduction of the carrying amount of the related debt and amortized using the effective interest method over the life of the debt as a component of interest expense.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using discount rates, which are calculated annually. The Pines anticipates long-term pledges outstanding as of December 31, 2023, will be collected in entirety over a period of approximately 15 years. Conditional promises to give are not included as support until the conditions are substantially met. Pledges receivable with restrictions are included in net assets with donor restrictions in the accompanying consolidated balance sheets (see Note 7).

Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases to net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were approximately $24,000 and $52,000 for the years ended December 31, 2023 and 2022.

Net Assets Without Donor Restrictions

Net assets without donor restrictions consist of all resources of The Pines that do not have donor-imposed restrictions. The Pines' board had designated $19,554,900 at December 31, 2022, representing an amount that is directly attributable to gifts without donor restrictions and gifts released from donor restrictions for their intended purpose during the year ended December 31, 2023.

Net Assets With Donor Restrictions

The Pines reports gifts of cash and other assets as restricted support if they are received or pledged 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 to net assets without donor restrictions and reported in the accompanying consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions as other operating revenue.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions (Continued)

The Pines reports gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, The Pines reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Operating Revenue and Support and Expenses

All revenue, support, and expenses directly related to the operation of the continuing care community are included in operating revenue and support and expenses in the accompanying consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions.

Excess (Deficit) of Revenue Over (Under) Expenses and Other Changes

The consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions include deficit of revenues under expenses and other changes. Changes in net assets without donor restrictions that are excluded from excess (deficit) of revenue over (under) expenses and other changes, consistent with industry practice, include net assets released from restrictions used for the purpose of purchases of property and equipment.

Income Tax Status

The Pines is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Pines qualifies for the charitable contribution deduction under Section 170 and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Pines files as a tax-exempt organization. Management is not aware of any activities that would jeopardize tax-exempt status of the organization. Management is not aware of any significant activities that are subject to tax on unrelated business income or excise or other taxes for the organization.

The Pines follows guidance on the income tax standard regarding the recognition and measurement of uncertain tax positions. The implementation has had no impact on The Pines' consolidated financial statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Obligation to Provide Future Services

The Pines calculates the present value of the estimated cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees and the present value of estimated periodic service fees. If the present value of the cost of future services and use of facilities exceeds the deferred revenue from entrance fees and the present value of periodic fees, a liability is recorded (obligation to provide future services). No liability has been recorded for the years ended December 31, 2023 and 2022, because the estimated present value of the cost of future services and use of facilities is less than deferred revenue from entrance fees and the present value of estimated periodic service fees.

Adoption of New Accounting Standards

The Pines has adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Pines adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on The Pines' consolidated financial statements and did not change how the allowance for credit loss is determined as The Pines did not have an allowance for credit losses for the years ended December 31, 2023 and 2022.

Reclassifications

Certain amounts in the 2022 consolidated financial statements were reclassified for comparison purposes with the 2023 consolidated financial statements. The reclassifications did not result in a change in net assets as previously reported.

Subsequent Events

In preparing these consolidated financial statements, The Pines has evaluated events and transactions for potential recognition or disclosure through April 2, 2024, the date the consolidated financial statements were available to be issued.

NOTE 2 CASH AND INVESTMENTS HELD UNDER BOND AGREEMENT

Cash and investments held under bond agreement are carried at fair value based on quoted market prices.

A summary of cash and investments held under bond agreement at December 31 is as follows:

	2023	2022
Investments held by trustee under bond agreement:		
Money market accounts	$ 2,649,877	$ 2,629,327
Less: current portion held under bond agreement for interest and principal	(2,649,877)	(2,629,327)
Total	$ -	$ -

NOTE 3 INVESTMENTS

The Pines' investments include cash and investments held by bond trustee, long-term unrestricted investments, and restricted funds.

The Pines adheres to ASC Topic 958-320, *Not-For-Profit Entities - Investments - Debt and Equity Securities*, which requires all investments in debt securities (such as U.S. Treasury notes and corporate and municipal bonds) and investments in equity securities (stocks and stock/bond mutual funds) with readily determinable fair values to be reflected at fair value in the accompanying consolidated balance sheets. The Pines' investments are carried at fair value based on quoted market prices. The effect in 2023 and 2022 of applying ASC Topic 958-320, as it relates to the investments in the funds, was net unrealized gains of $817,312 and unrealized losses of $3,473,035, respectively. The Pines concurs with this treatment of the investments in the funds required by ASC Topic 958-320.

The net realized losses on The Pines unrestricted investment portfolio were $7,730 and $9,451 in 2023 and 2022, respectively.

Managed Investments

The Pines invests its unrestricted, noncurrent funds primarily in U.S. Treasury notes, which are held until maturity and then typically reinvested or in money market funds that are invested in U.S. Treasury Securities and repurchase agreements collateralized by such obligations and assigned the highest credit ratings by Moody's, Standard & Poor's, and Fitch. The Pines has adopted conservative investment goals for its unrestricted noncurrent investments, which can be summarized as follows: The Pines seeks to a) preserve principal and maximize the safety of its unrestricted investments and b) reduce interest rate risk, since its primary mission is to operate a continuing care retirement community as opposed to buying and selling debt or equity securities. The Pines has chosen to invest its internally managed investments mainly in U.S. Treasury notes in order to help achieve its goal of preserving principal.

- The investment goals for the Managed Investments are to a) preserve principal and maximize the safety of The Pines investments and b) to minimize interest rate risk.

- Eligible securities are limited to high-quality money market funds and debt securities, primarily obligations issued or guaranteed by the U.S. Treasury, federal agencies, or government-sponsored corporations or agencies, municipal obligations, corporate obligations, mortgage-backed securities (MBS), asset-backed securities (ABS), sovereign securities, and foreign quasi- and government-related securities.

  The performance and characteristics of the Externally Managed Investments is measured against the Bloomberg Intermediate Government/Credit Total Risk Index, which is a high-quality moderate duration benchmark (Benchmark).

NOTE 3 INVESTMENTS (CONTINUED)

Managed Investments (Continued)

- The maximum allocation to any single obligor, at time of purchase, is limited to the greater of 10% of the Managed Investments' market value or $1 million par value, except there is no limit for obligations of the United States of America or any agency thereof. The percentage of assets in the separate account portfolios, which are obligations of the United States of America or agency thereof, or which is collateralized by obligations of the U.S. or any agency thereof, shall not be limited.

- All investments will have a minimum credit quality rating by at least two of the nationally recognized statistical rating organizations (NRSRO) of "A2" or equivalent by Moody's, "A" or equivalent by S&P or "A" or equivalent by Fitch Ratings at the time of purchase and thereafter. Such ratings are the sixth highest among the 10 investment grade rating categories used by such rating agencies. As of December 31, 2023 and 2022, all investments were in compliance with this aspect of the investment policy.

The cash used for long-term investment purposes comes primarily from up-front entrance fees paid by residents. Entrance fees are established with the assistance of an actuary who makes certain interest rate assumptions. This plays a role in establishing the entrance fee. Entrance fees are used to pay the cost of services to residents over their lifetime and are, therefore, recognized as revenue over the life expectancy of each resident.

Equity Securities

As referred to in Note 1, The Pines has established a Resident Support Fund, which will be used to assist residents who become unable to pay their monthly fees and other charges for reasons beyond their control. The Pines receives charitable contributions restricted for this purpose. Equity investments in the Resident Support Fund and the warm-water therapy pool fund are invested in the Vanguard Wellington Fund.

NOTE 3 INVESTMENTS (CONTINUED)

Equity Securities (Continued)

Investments as of December 31, 2023 and 2022 are composed of the following:

		2023 Fair Value Measurement at Reporting Date		
	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 12,877,118	$ 12,877,118	$ -	$ -
Externally managed funds:				
U.S. treasury notes	10,981,684	10,981,684	-	-
U.S. government obligations	492,874	492,874	-	-
Corporate bonds	9,289,928	9,289,928	-	-
U.S. municipal bonds	3,134,031	3,134,031	-	-
Mortgage backed securities	3,296,217	-	3,296,217	-
Asset backed securities	1,310,302	-	1,310,302	-
Equity securities - mutual funds	13,899,180	13,899,180	-	-
Total investments	$ 55,281,334	$ 50,674,815	$ 4,606,519	$ -
Cash and cash equivalents	$ 7,014,257			
Total investments cash and cash equivalents	$ 62,295,591			

		2022 Fair Value Measurement at Reporting Date		
	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 6,046,786	$ 6,046,786	$ -	$ -
Externally managed funds:				
U.S. treasury notes	12,490,087	12,490,087	-	-
U.S. government obligations	486,046	486,046	-	-
Corporate bonds	9,899,815	9,899,815	-	-
U.S. municipal bonds	3,558,185	3,558,185	-	-
Mortgage backed securities	4,123,998	-	4,123,998	-
Asset backed securities	1,546,133	-	1,546,133	-
Equity securities - mutual funds	12,148,423	12,148,423	-	-
Total investments	$ 50,299,473	$ 44,629,342	$ 5,670,131	$ -
Cash and cash equivalents	$ 6,588,524			
Total investments cash and cash equivalents	$ 56,887,997			

The Pines is required to use inputs for measuring fair value according to the three-level hierarchy established in ASC 820, using the lowest level possible (i.e., Level 1) if such inputs are available, and if not, going to the next highest level. The three levels for measuring fair value are listed below. The three-level hierarchy established in ASC 820 does not in and of itself reflect the credit quality or liquidity of any investment.

NOTE 3 INVESTMENTS (CONTINUED)

Equity Securities (Continued)

Level 1 inputs are quoted prices unadjusted in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. The Pines accounted for its Level 1 investments through the use of quoted market prices for those identical investments in debt and equity securities with readily determinable market values in active markets.

Level 2 inputs are inputs other than quoted prices including within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 permits use of a variety of different inputs. The inputs used by The Pines in classifying its investments as Level 2 were quoted prices for similar assets in active markets.

As of December 31, 2023 and 2022, The Pines' Level 2 investments consist of mortgage-backed securities and asset backed securities.

The mortgage-backed securities (MBS) classified as Level 2 in The Pines' portfolio as of December 31, 2023 and 2022 contributed to sector diversification.

The value and income payments of the ABS classified as Level 2 in The Pines' portfolio as of December 31, 2023 and 2022, are derived from and collateralized by a specific pool of underlying assets for a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution or proceeds to security holders.

All such Level 2 investments were classified as Level 2 because identical investments with the same Committee on Uniform Security Identification Procedures (CUSIP) numbers did not trade at or near December 31, 2023 and 2022. Therefore, The Pines had to value such investments based upon quoted prices for similar assets in active markets.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the asset or liability. Unobservable inputs reflect management's own judgment about the assumptions that market participants would use in pricing the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies or similar techniques, or for which the determination of fair value requires significant management judgment or estimation. None of The Pines' investments are classified as Level 3 as of December 31, 2023 and 2022.

Investment revenue is reported net of related investment expenses in the consolidated statements of revenue, expenses, and other changes in net assets without donor restrictions. The amounts of expenses netted with revenues were $74,573 and $70,333 for the years ended December 31, 2023 and 2022, respectively.

NOTE 4 LIQUIDITY

The Pines' financial assets available within one year of the consolidated balance sheet date for general expenditures are as follows:

	2023	2022
Cash and Cash Equivalents	$ 7,014,257	$ 6,588,524
Money market funds	12,877,118	6,046,786
U.S. treasury notes	10,981,684	12,490,087
U.S. government obligations	492,874	486,046
Corporate bonds	9,289,928	9,899,815
U.S. municipal bonds	3,134,031	3,558,185
Mortgage-backed securities	3,296,217	4,123,998
Asset backed securities	1,310,302	1,546,133
Equity securities - mutual funds	13,899,180	12,148,423
Subtotal	62,295,591	56,887,997
Less: Donor-Restricted Assets	(14,287,544)	(13,670,146)
Less: Operating Reserve	(7,540,000)	(6,869,000)
Less: Funds Held Under Bond Agreement	(2,649,877)	(2,629,327)
Total Unrestricted Cash and Investments	37,818,170	33,719,524
Accounts Receivable	103,253	55,083
Interest Receivable	158,521	174,503
Total Assets Available to Meet Liquidity Needs	$ 38,079,944	$ 33,949,110

NOTE 5 LONG-TERM DEBT

In September 2013, The Pines issued $14,645,000 Health Care Facilities Revenue Bonds (Series 2013 Bonds). The Series 2013 Bonds were issued through the North Carolina Medical Care Commission in order to fund construction of the 24 villa apartments that comprise the Hickory Crest Villas. The Series 2013 Bonds bear interest at fixed rate of 2.8% through January 1, 2029. Interest on Series 2013 Bonds was payable monthly through January 1, 2015 and then semiannually beginning July 1, 2015. The aggregate entrance fees derived from the Hickory Crest Villas totaled approximately $6,895,300. Pursuant to the provisions of Supplemental Indenture No. 4 to the Master Indenture (Supplement #4), The Pines was required to use $6,500,000 of those entrance fees to redeem either 2013 Bonds or 2006 Bonds, which were subject to redemption at par beginning on January 1, 2016.

During 2015, The Pines paid down $6,500,000 (pursuant to Supplement #4 as described above) of the Series 2006 Bonds and subsequently refunded the Series 2006 Bonds through the issuance of $11,125,000 of Health Care Facilities Refunding Revenue Bonds (Series 2015 Bonds). The proceeds from the Series 2015 Bonds along with $6,500,000 of entrance fees associated with the 24 villa expansion pay down and $1,495,000 of additional funds were used to legally defease the Series 2006 Bonds as of October 2015. The Series 2015 Bonds bear interest at a fixed rate of 2.87% through maturity with semi-annual interest payments. The Series 2015 Bonds have annual principal payments with a final maturity of January 2030.

NOTE 5 LONG-TERM DEBT (CONTINUED)

In March 2019, The Pines issued $42,725,000 Retirement Facilities First Mortgage Revenue Bonds Series 2019A (Series 2019A Bonds) and $11,905,000 Retirement Facilities First Mortgage Revenue Bonds Series 2019B (Series 2019B Bonds) (collectively the Series 2019 Bonds). The Series 2019 Bonds were issued through the North Carolina Medical Care Commission in order to fund the expansion and renovation of the existing facility. The issuance of the Series 2019 Bonds involved an original issue premium of $2,945,241 for total original par amount plus premium of $57,575,241. The Series 2019A Bonds bear interest at a varying rate between 3.0% and 5.0% through maturity with semi-annual interest payments. The Series 2019A Bonds have annual principal payments beginning January 1, 2021 with a final maturity of January 2049. The Series 2019B Bonds were paid in full during the year ended December 31, 2021.

The future debt service requirements of The Pines' long-term debt as of December 31, 2023 are as follows:

Years Ending December 31,	Principal	Interest	Total
2024	$ 1,385,000	$ 2,510,072	$ 3,895,072
2025	1,430,000	2,470,294	3,900,294
2026	1,470,000	2,429,003	3,899,003
2027	1,515,000	2,386,332	3,901,332
2028	1,560,000	2,342,347	3,902,347
Thereafter	52,165,000	29,506,342	81,671,342
Subtotal	59,525,000	41,644,390	101,169,390
Less: unamortized deferred financing costs	(991,737)	-	(991,737)
Plus: unamortized bond premium	2,382,479	-	2,382,479
Less: current portion of long-term debt	(1,385,000)	-	(1,385,000)
Total	$ 59,530,742	$ 41,644,390	$ 101,175,132

The terms of the Series 2013 Bonds require, among other provisions, the maintenance of various trustee-held funds including: a) a Series 2013 Bond fund, in which there is established an interest account, a sinking fund account, and a credit facility account, b) a redemption fund, c) a bond purchase fund, and d) a construction fund. Under the terms of the Series 2013 Bonds' covenants, The Pines must set rates to maintain a minimum debt service coverage ratio as defined by the bond agreements and maintain certain other financial ratios at minimum levels as described in the bond agreements. Management is unaware of any instances of non-compliance with these covenants as of December 31, 2023.

The terms of the Series 2015 Bonds require, among other provisions, the maintenance of various trustee-held funds including: a) a Series 2015 Bond fund, in which there is established an interest account, a sinking fund account, and a credit facility account, b) a redemption fund, and c) a bond purchase fund. Under the terms of the Series 2015 Bonds' covenants, The Pines must set rates to maintain a minimum debt service coverage ratio as defined by the bond agreements and maintain certain other financial ratios at minimum levels as described in the bond agreements. Management is unaware of any instances of non-compliance with these covenants as of December 31, 2023.

NOTE 5 LONG-TERM DEBT (CONTINUED)

The terms of the Series 2019 Bonds require, among other provisions, the maintenance of various trustee-held funds including: a) Series 2019 Bond funds, in which there is established an interest account, a sinking fund account, and a credit facility account, b) a redemption fund, c) a bond purchase fund, and d) construction funds. Under the terms of the Series 2019 Bonds' covenants, The Pines must set rates to maintain a minimum debt service coverage ratio as defined by the bond agreements and maintain certain other financial ratios at minimum levels as described in the bond agreements. Management is unaware of any instances of non-compliance with these covenants as of December 31, 2023.

All outstanding revenue bonds are secured by the real property owned by The Pines that is necessary for the operation of the existing facilities and the expansion project. The mortgaged property does not include unimproved land owned by The Pines that is contiguous or adjacent to the mortgaged property.

Interest payments relating to the Series 2013 Bonds totaling $315,140 and $328,930, were made during the years ended December 31, 2023 and 2022, respectively. Interest payments relating to the Series 2015 Bonds totaling $184,110 and $205,851 were made during the years ended December 31, 2023 and 2022, respectively. Interest payments relating to the Series 2019 Bonds totaling $1,920,211 and $1,922,613 were made during the years ended December 31, 2023 and 2022, respectively.

Interest and amortization expense, excluding amounts capitalized, in the amount of $2,448,960 and $2,488,567 for the years ended December 31, 2023 and 2022 included $48,744 and $49,853 of amortization expense, respectively.

NOTE 6 DEFINED CONTRIBUTION PLAN

The Pines maintains a defined contribution retirement savings plan governed by Section 403(b) of the Internal Revenue Code. The plan covers all employees and provides for discretionary employer contributions on behalf of eligible employees who meet certain service requirements. Employer contributions to the plan were $229,076 and $161,721 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS AND BOARD-DESIGNATED NET ASSETS

Net assets with donor restrictions are contributions, which are designated for a specific use by the donor. Net assets with donor restrictions as of December 31, 2023 and 2022 consist of assets to be used to finance the Resident Support Fund, to fund the operation of a warm-water therapy pool and hot-water whirlpool, and to fund certain other needs, including those identified in The Pines' former strategic plan entitled *Preserve and Progress*. In 2011, The Pines revised and renamed its strategic plan *Exceeding Expectations*. Equity investments held in the Resident Support Fund and the warm water therapy pool fund are invested in the Vanguard Wellington Fund. The Resident Support Fund will be used to assist residents who become unable to pay their monthly charges after admission to The Pines for reasons beyond their control (see Note 1). Contributions of investment securities for restricted purposes are recorded at fair market value at the date of the gift.

Board-designated net assets in 2022 represented an amount that is directly attributable to gifts without donor restrictions and gifts released from donor restrictions for capital expenditures.

Net assets with donor restrictions and net assets without donor restrictions at December 31, 2023 were composed of the following:

	Total Net Assets
Resident Support Fund	$ 7,955,420
Warm Water Therapy Pool Fund	3,956,803
Preserve and Progress strategic plan objectives	3,043,570
Beyond Expectations strategic plan objectives	(13,541)
Other net assets with donor restrictions	335,654
Total Net Assets With Donor Restrictions	15,277,906
Undesignated Net Assets without Donor Restrictions	30,932,520
Total Net Assets	$ 46,210,426

Activity within the board-designated net assets and net assets with donor restrictions balances during the year ended December 31, 2023 was composed of the following:

	Total Net Assets
Balance — beginning of year	$ 14,642,208
Investment return — investment income	1,887,135
Contributions	629,282
Other changes:	
Net asset released	(1,914,019)
Change in pledge receivable	33,300
Total Net Assets With Donor Restrictions	15,277,906
Balance — beginning of year	19,554,900
Dissolution of board-designated net assets	(19,554,900)
Total Board-Designated Net Assets	-
Undesignated Net Assets without Donor Restrictions	30,932,520
Total net assets — end of year	$ 46,210,426

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS AND BOARD-DESIGNATED NET ASSETS (CONTINUED)

Board-designated net assets and net assets with donor restrictions balances at December 31, 2022 were composed of the following:

	Total Net Assets
Resident Support Fund	$ 7,180,924
Warm Water Therapy Pool Fund	3,976,698
Preserve and Progress strategic plan objectives	2,965,778
Beyond Expectations strategic plan objectives	140,962
Other net assets with donor restrictions	377,846
Total Net Assets With Donor Restrictions	14,642,208
Board-Designated Net Assets	19,554,900
Undesignated Net Assets without Donor Restrictions	7,799,957
Total Net Assets	$ 41,997,065

Activity within the board-designated net assets and net assets with donor restrictions balances during the year ended December 31, 2022 was composed of the following:

	Total Net Assets
Balance — beginning of year	$ 17,142,485
Investment return — investment income	(1,927,561)
Contributions	530,852
Other changes:	
Net asset released	(938,439)
Change in pledge receivable	(165,129)
Total Net Assets With Donor Restrictions	14,642,208
Balance — beginning of year	19,509,900
Increase in board-designated net assets	45,000
Total Board-Designated Net Assets	19,554,900
Undesignated Net Assets without Donor Restrictions	7,799,957
Total net assets — end of year	$ 41,997,065

The Pines has been designated as the beneficiary of certain charitable gifts upon the death of individual donors and these amounts have been recorded as irrevocable gifts receivable in accordance with ASC Topic 958-605, *Not-For-Profit Entities — Revenue Recognition — Recognition.*

NOTE 8 NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets, which were released from donor restrictions upon satisfaction of the donors' restricted purpose or upon occurrence of other events specified by donors at December 31 are as follows:

	2023	2022
Released for operations	$ 1,034,600	$ 819,001
Released for building and equipment	879,419	119,438
Purpose restrictions accomplished	$ 1,914,019	$ 938,439

NOTE 9 FUNCTIONAL EXPENSES

The Pines provides services to the residents of its facility that include independent living, assisted living, and healthcare nursing services. Certain categories are attributable to more than one program or supporting function, therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits and other operating expenses, which are allocated on a time and effort basis, and depreciation and interest, which are allocated on a square footage basis.

Program and management expenses for the years ended December 31 are summarized in the tables below:

	2023		
	Total Program Services	Management and General	Total
Salaries and benefits	$ 14,987,451	$ 1,852,382	$ 16,839,833
Depreciation	5,679,187	32,056	5,711,243
Other operating expenses	7,524,016	695,626	8,219,642
Interest and amortization	2,435,214	13,746	2,448,960
Total	$ 30,625,868	$ 2,593,810	$ 33,219,678

	2022		
	Total Program Services	Management and General	Total
Salaries and benefits	$ 14,288,306	$ 1,765,970	$ 16,054,276
Depreciation	5,461,756	30,829	5,492,585
Other operating expenses	7,389,396	913,296	8,302,692
Interest and amortization	2,474,599	13,968	2,488,567
Total	$ 29,614,057	$ 2,724,063	$ 32,338,120

NOTE 10 RESIDENT SERVICE REVENUE

Resident revenue is reported at the amount that reflects the consideration to which The Pines expects to be entitled in exchange for providing resident care. These amounts are due from residents. Monthly service fees paid by residents for maintenance, meals, and other services are assessed monthly and are recognized as revenue in the period services are rendered. Revenue is recognized as performance obligations are satisfied.

NOTE 10 RESIDENT SERVICE REVENUE (CONTINUED)

Performance obligations are determined based on the nature of the services provided by The Pines. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Pines believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents living at The Pines receiving independent living or healthcare services. The Pines considers daily services provided to residents of the health center, and monthly rent charged to residents living in independent living, as a separate performance obligation measured on a monthly basis or upon move-out within the month, whichever is shorter. Nonrefundable entrance fees are considered to contain a material right associated with access to future services, which is the related performance obligation. Revenue from nonrefundable entrance fees is recognized ratably in future periods covering a resident's life expectancy using a time-based measurement similar to the output method.

Other operating revenue includes revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to residents in a retail setting (for example guest rooms) and The Pines does not believe it is required to provide additional goods or services related to that sale.

The Pines determines the transaction price based on standard charges for goods and services provided, assistance provided to residents in accordance with The Pines' practice, and/or implicit price concessions provided to residents. The Pines determines its estimate of implicit price concessions based on its historical collection experience.

The Pines has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: service line, method of payment, and timing of when revenue is recognized.

All resident revenue is private pay for the years ended December 31, 2023 and 2022.

NOTE 10 RESIDENT SERVICE REVENUE (CONTINUED)

The composition of resident revenue based on the organization's lines of business, method of reimbursement, and timing of revenue recognition for the years ended December 31 are as follows:

	2023	2022
Service Lines:		
Independent Living	$ 16,480,553	$ 15,493,181
Healthcare	9,911,195	8,973,793
Amortization of Deferred Entrance Fees	6,059,695	5,098,354
Total	$ 32,451,443	$ 29,565,328
Method of Reimbursement:		
Monthly Fees and Other Services	$ 26,391,748	$ 24,466,974
Amortization of Deferred Entrance Fees	6,059,695	5,098,354
Total	$ 32,451,443	$ 29,565,328
Timing of Revenue and Recognition:		
Services Transferred Over Time	$ 32,451,443	$ 29,565,328

The opening and closing contract balances were as follows:

	Accounts Receivable	Deferred Entrance Fee Revenue
Account Balance as of January 1, 2022	$ 87,716	$ 49,090,747
Account Balance as of December 31, 2022	55,083	50,486,948
Account Balance as of December 31, 2023	103,253	51,393,215

NOTE 11 STATUTORY OPERATING RESERVE

Under Section 58-64-33 of the North Carolina General Statutes, which is administered by the North Carolina Department of Insurance, continuing care retirement communities are required to maintain an operating reserve equal to 25% of the total operating costs, as defined, projected for the 12-month period following the period covered by the most recent annual statement filed with the North Carolina Department of Insurance, if occupancy levels are in excess of 90%. If occupancy levels are less than 90%, the operating reserve requirement is 50% of total operating costs, as defined. The Pines has historically maintained an occupancy level in excess of 90%. The statutory operating reserve for 2023 and 2022 was $7,540,000 and $6,869,000, respectively. Use of the operating reserve by The Pines is restricted under Section 58-64-33 of the North Carolina General Statutes. The North Carolina General Statutes do not require The Pines to maintain such operating reserve in a separate escrow account.

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Pines' financial instruments consist primarily of cash and cash equivalents, receivables, investments, accounts payable, accrued expenses, and short-term and long-term debt. The carrying value of these items, excluding investments and long-term debt, approximates fair value due to their short maturity. Investments are recorded at fair value, determined using fair market value in accordance with guidance regarding accounting for certain investments held by not-for-profit organizations.

NOTE 13 COMMITMENTS AND CONTINGENCIES

The Pines continually evaluates contingencies based upon the best available evidence and provides loss allowance where necessary. Principal contingencies include professional liability risks and compliance with applicable federal, state, and local government laws and regulations. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, property and sales taxation, and The Pines' not-for-profit tax status. Management believes that allowances for loss have been provided to the extent necessary and that The Pines is in compliance with applicable government laws and regulations. Management believes that resolution of contingencies will not materially affect The Pines' consolidated financial position, results of operations, and cash flows. The Pines had no outstanding construction commitments as of the year ended December 31, 2023 and 2022.

In 2020, The Pines received approximately $1,493,000 through the Paycheck Protection Program (PPP Loan) administered by the Small Business Administration (SBA). In 2021, The Pines was formally forgiven from obligations of the PPP Loan, however, the SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty, however, management is of the opinion that any review will not have a material adverse impact on The Pines' financial position.

NOTE 14 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information as of December 31 are as follows:

	2023	2022
Cash paid for interest during the year	$ 2,419,461	$ 2,356,744
Supplemental disclosures of noncash investing and finance information are as follows - accrued capital expenditures	$ 142,484	$ 143,340

NOTE 15 RELATED PARTY TRANSACTIONS

In the ordinary course of business, The Pines has an ongoing business relationship with two firms in which three members of the board of trustees were related parties in 2023 and 2022.