

**EASTSIDE RETIREMENT ASSOCIATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2024 AND 2023**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Eastside Retirement Association  
Redmond, Washington

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Eastside Retirement Association (a Washington corporation), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastside Retirement Association as of December 31, 2024 and 2023, 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 Financial Statements section of our report. We are required to be independent of Eastside Retirement Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

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

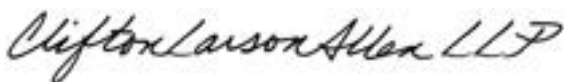
***Auditors' Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

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

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



**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 17, 2025



**EASTSIDE RETIREMENT ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
DECEMBER 31, 2024 AND 2023**

	2024	2023
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,163,115	\$ 1,170,055
Construction Payable	2,254,866	8,893,095
Accrued Payroll and Other Liabilities	1,356,859	1,055,230
Accrued Interest	2,153,125	1,907,431
Related Party Payable	386,070	217,682
Current Portion of Long-Term Debt	3,095,000	2,805,000
Current Portion of Refundable Entrance Fees	728,773	1,145,747
Total Current Liabilities	11,137,808	17,194,240
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	83,302,481	115,703,735
Advance Deposits and Other	1,054,906	1,792,755
Funds Held in Escrow for Future Development	-	3,262,615
Refundable Entrance Fees, Net of Current Portion	29,828,411	20,555,074
Deferred Revenue from Entrance Fees	126,729,411	94,096,859
Total Long-Term Liabilities	240,915,209	235,411,038
Total Liabilities	252,053,017	252,605,278
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions	110,080,571	93,529,785
Net Assets With Donor Restrictions	5,674,363	5,524,045
Total Net Assets	115,754,934	99,053,830
Total Liabilities and Net Assets	\$ 367,807,951	\$ 351,659,108

See accompanying Notes to Financial Statements.

**EASTSIDE RETIREMENT ASSOCIATION  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
<b>OPERATING REVENUES</b>		
Revenue from Residents:		
Monthly Service Fees	\$ 27,453,868	\$ 24,638,505
Net Assets Released from Benevolence Fund for		
Monthly Service Fees	239,562	195,825
Health Services, Net	2,533,667	2,270,195
Entrance Fees Earned	14,346,068	10,381,635
Other Resident Revenue	1,276,683	1,051,199
Contributions	119,430	159,811
Investment Income, Net	4,707,592	3,236,499
Interest on Emerald Communities Loan	223,764	257,272
Interest on Emerald Communities Long-Term Receivable	102,238	100,988
Net Assets Released from Restriction	114,139	1,444
Total Operating Revenues	51,117,011	42,293,373
<b>OPERATING EXPENSES</b>		
Health Services	8,026,936	7,915,098
Food Services	6,155,384	5,512,117
General Services	5,775,836	5,268,348
Administration and Marketing	6,657,016	5,630,489
Utilities	1,398,898	1,281,895
Interest and Financing	2,017,240	894,461
Depreciation	9,059,595	7,347,352
Total Operating Expenses	39,090,905	33,849,760
<b>OPERATING INCOME</b>	12,026,106	8,443,613
<b>NONOPERATING INCOME</b>		
Employee Retention Credit	-	1,548,740
Change in Fair Value of Interest Rate Swap Agreement	-	220,296
Gain on Debt Refinancing	-	568,200
Realized Changes in Value of Investments and Assets		
Limited as to Use	4,120,630	1,735,379
Unrealized Changes in Value of Investments and Assets		
Limited as to Use	1,447,722	7,043,162
Total Nonoperating Income	5,568,352	11,115,777
<b>EXCESS OF REVENUES OVER EXPENSES</b>	\$ 17,594,458	\$ 19,559,390

See accompanying Notes to Financial Statements.

**EASTSIDE RETIREMENT ASSOCIATION  
STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
<b>NET ASSETS - DECEMBER 31, 2022</b>	\$ 75,492,243	\$ 4,642,539	\$ 80,134,782
Excess of Revenues Over Expenses	19,559,390	-	19,559,390
Contributions	-	499,102	499,102
Net Investment Gain on Benevolence Fund	-	579,673	579,673
Equity Contribution to a Related Party	(1,521,848)	-	(1,521,848)
Net Assets Released from Restrictions for Benevolence Fund	-	(195,825)	(195,825)
Net Assets Released from Restrictions	-	(1,444)	(1,444)
Changes in Net Assets	<u>18,037,542</u>	<u>881,506</u>	<u>18,919,048</u>
<b>NET ASSETS - DECEMBER 31, 2023</b>	93,529,785	5,524,045	99,053,830
Excess of Revenues Over Expenses	17,594,458	-	17,594,458
Contributions	-	182,952	182,952
Net Investment Gain on Benevolence Fund	-	321,067	321,067
Equity Contribution to a Related Party	(1,043,672)	-	(1,043,672)
Net Assets Released from Restrictions for Benevolence Fund	-	(239,562)	(239,562)
Net Assets Released from Restrictions	-	(114,139)	(114,139)
Changes in Net Assets	<u>16,550,786</u>	<u>150,318</u>	<u>16,701,104</u>
<b>NET ASSETS - DECEMBER 31, 2024</b>	<u>\$ 110,080,571</u>	<u>\$ 5,674,363</u>	<u>\$ 115,754,934</u>

See accompanying Notes to Financial Statements.

**EASTSIDE RETIREMENT ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 16,701,104	\$ 18,919,048
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	9,059,595	7,347,352
Amortization of Debt Issuance Costs	126,089	68,815
Amortization of Bond Premium	(32,344)	(80,480)
Change in Fair Value of Interest Rate Swap Agreements	-	(220,296)
Gain on Debt Refinancing	-	(568,200)
Provision for Credit Loss	39,701	35,449
Nonrefundable Entrance Fees Received	22,539,550	13,220,400
Entrance Fees Earned	(14,346,068)	(10,381,635)
Realized Changes in Value of Investments and Assets Limited as to Use	(4,120,630)	(1,735,379)
Unrealized Changes in Value of Investments and Assets Limited as to Use	(1,447,722)	(7,043,162)
Interest Earned on Loan to Emerald Communities	(223,764)	(257,272)
Interest Earned on Long-Term Receivable from Emerald Communities	(102,238)	(100,988)
Change in Operating Assets and Liabilities:		
Accounts Receivable	70,289	(474,867)
Prepaid and Other Assets	(264,922)	(72,212)
Accounts Payable	(6,939)	(406,517)
Accrued Payroll and Other Liabilities	301,629	85,805
Related Party Payable	168,388	3,020,980
Accrued Interest	245,694	100,000
Advance Deposits and Other	(737,849)	1,054,523
Net Cash Provided by Operating Activities	27,969,563	22,511,364
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(59,397,056)	(54,569,172)
Purchase of Investments and Assets Limited as to Use	(18,300,324)	(39,649,143)
Proceeds from Sale of Investments and Assets Limited as to Use	70,234,918	820,304
Funds Advanced to Emerald Communities	-	(250,000)
Change in Debt Service Funds, Net	(1,833,652)	(9,632,639)
Change in Benevolent Fund, Charitable Gift Annuities, and Other	(132,337)	(824,640)
Change in Funds Designated for Future Development and Outreach Programs	(29,317)	(85,195)
Net Cash Used by Investing Activities	(9,457,768)	(104,190,485)

See accompanying Notes to Financial Statements.

**EASTSIDE RETIREMENT ASSOCIATION  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	\$ (32,205,000)	\$ (1,360,000)
Draws on Bank of America Construction Loan	-	20,253,057
Cash Received from Swap Termination	-	804,000
Proceeds from Long-Term Debt	-	120,190,433
Principal Payments on Long-Term Debt Refinancing	-	(41,805,764)
Loan Issuance Costs Paid	-	(1,722,893)
Refundable and First Generation Entrance Fees and Received	35,917,728	1,472,450
Refundable Entrance Fees Refunded	(1,610,165)	(3,704,582)
Net Cash Provided by Financing Activities	2,102,563	94,126,701
 <b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	 20,614,358	 12,447,580
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	20,000,045	7,552,465
 <b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR</b>	 \$ 40,614,403	 \$ 20,000,045
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest and Financing	\$ 4,726,802	\$ 1,769,754
Cash and Cash Equivalents	\$ 6,539,857	\$ 6,344,206
Investments	32,477,643	147,385
Assets Limited as to Use	1,596,903	13,508,454
Total Cash, Cash Equivalents, and Restricted Cash	\$ 40,614,403	\$ 20,000,045

See accompanying Notes to Financial Statements.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Association**

Eastside Retirement Association (the Association) was incorporated under the laws of the state of Washington on September 18, 1979. The mission of the Association is to be a leader in the development and operation of nonprofit, new-generation retirement communities and services. The Association currently operates Emerald Heights, a life plan retirement community in Redmond, Washington since its opening in 1992.

As of December 31, 2024, Emerald Heights consists of 375 independent-living (IL) units, 61 skilled-nursing (SN) beds and 56 assisted-living (AL) units (including 16 memory care units), which are occupied by residents meeting age and health requirements specified by life care contracts (residence agreements). Emerald Heights placed into service 42 additional IL units in April 2024. An assisted living project of 54 units to replace the existing AL units was completed in January 2025.

The governance of the Association is vested in its board of directors. The board of directors is elected by the Association's directors, subject to approval of Emerald Communities (EC), and currently consists of 12 directors. Emerald Communities (EC) was incorporated under the laws of the state of Washington in February 2006 and was formed to pursue the mission of the Association, including overseeing the development of additional retirement communities and other ways to serve seniors. At the time of incorporation of EC, the Association bylaws were amended by its board to provide that EC is the sole member of the Association with certain reserve powers. EC is also the sole corporate member of Heron's Key (HK). These financial statements include only the activity of the Association.

**Basis of Presentation**

The financial statements are prepared on the accrual basis of accounting pursuant to accounting principles generally accepted in the United States of America (U.S. GAAP).

**Performance Indicator**

Excess (deficit) of revenues over expenses as reflected in the accompanying statements of operations is the performance indicator. The performance indicator includes all changes in net assets without donor restrictions, including unrealized changes in value of investments and assets limited as to use, changes in value of future services obligation, and changes in value of interest rate swap agreements. The performance indicator excludes restricted contributions, equity contributions to related parties, restricted return on investments as well as contributions received for capital.

**Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the Association considers highly liquid investments purchased with an original maturity of three months or less, other than limited use assets and those held in the Association's investment portfolio, to be cash equivalents.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable and Allowance for Expected Credit Loss**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation of credit loss based on its assessment of the current and the future status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Changes in the allowance for credit losses for the years ended December 31, 2024 and 2023 did not have a material impact on the financial statements.

**Investments**

Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. The fair value of other marketable investments, principally investments in hedge funds and private equity for which quoted market prices are not available, is determined by management with the assistance of third-party investment managers in good faith using methods it considers appropriate. Nonmarketable investments are reported at the lower of cost or impaired value. Interest and dividends are included in the statements of operations as a component of total operating revenues. Realized and unrealized gains and losses on investments without donor restrictions are reported separately as nonoperating income on the statements of operations as they are classified as trading securities. Investment interest, dividends and realized and unrealized gains and losses are included as changes in net assets without donor restrictions unless the income is restricted by donor or law.

**Assets Limited as to Use**

Assets limited as to use consist of donor-restricted and board-designated assets, as well as trustee-held project and reserve funds required under the terms of bond indenture agreements (see Note 4).

**Fair Value Measurements**

The Association's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. See Note 10 for fair value hierarchy disclosures.

**Property and Equipment**

Property and equipment are stated at cost. Donated property is recorded at its estimated fair value at the date of receipt, which is then treated as cost. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Buildings	35 to 40 Years
Building Improvements	10 to 25 Years
Landscaping Improvements	20 Years
Furniture and Equipment	3 to 10 Years

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment (Continued)**

The Association capitalizes property and equipment with individual costs in excess of \$1,000 and a useful life extending beyond one year. All other property and equipment not meeting these criteria are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is expensed as incurred. Significant renewals and betterments are capitalized.

The Association, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. The review addresses the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment losses were present for the years ended December 31, 2024 and 2023.

**Loan and Long-Term Receivable from EC**

The loan to EC consists of funds loaned to EC for the development of Heron's Key, a life plan retirement community in Gig Harbor, Washington (see Note 7).

**Residence Agreements**

The Association offers two types of residence agreements: Nonrefundable and Refundable. Both agreements require payment of the contract price (entrance fee) in full and a \$200 per person nonrefundable application fee prior to occupancy. Thereafter, the resident is subject to regular monthly service fees. Under both agreements, prior to occupancy, the resident may rescind the contract and receive a full refund. Subsequent to residency, under either contract, the resident has 90 days to terminate the contract and receive a full refund, less the full payment of costs incurred by the resident. If the contract is terminated after 90 days of residency under the Nonrefundable agreement, the resident will be refunded the contract fee, less a 10% penalty and a reduction of 1.5% of the contract fee for each month of residency. Upon demise of the resident, no amount is refunded under a Nonrefundable agreement. After 90 days of residency under the Refundable residence agreements, upon demise of the resident or upon cancellation of the contract, 50% or 90% of the contract fee will be refunded once the living unit has been reoccupied and a new entrance fee has been received by the Association. The residence agreement provides for lifetime use of the selected living unit and lifetime nursing care at no additional monthly service fee.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Entrance Fees**

Fees paid by a resident upon entering into a residence agreement, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue, and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. Upon demise or withdrawal, any remaining unamortized portion of the nonrefundable entrance fee is taken into income. As of December 31, 2024, \$80,121,447 represented entrance fees which were contractually refundable under the various refundable contracts; of the refundable portion, \$728,773 was included in current portion of refundable entrance fees, and will be refunded at the time the unit is reoccupied by another resident.

**Future Service Obligations**

The Association annually calculates the liability by determining the present value of future net cash flows of independent living residents and assumes discount rates of 5.5% as of December 31, 2024 and 2023. Based on the estimated calculation the Association had no liability at December 31, 2024 and 2023.

**Advance Deposits**

To be included on the resident waiting list, potential future residents are required to make a \$1,250 deposit. When a formal application is completed for a specific apartment, potential future residents are also required to deposit 10% of the applicable entrance fee with the Association.

**Interest Rate Swap Agreement**

The Association recognized all derivative financial instruments in the financial statements at fair value. Changes in fair value at the statements of financial position date are accounted for as nonoperating income (loss) in the statements of operations (see Note 9).

**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 represent unrestricted resources available to support the Association's operations and restricted resources which have become available for use by the Association in accordance with the intention of the donor.

*Net Assets with Donor Restrictions* – Net assets with donor restrictions include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources has been fulfilled, or both.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets (Continued)**

The board of directors has interpreted Washington's enacted 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 donations with permanent restrictions absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as net assets with donor restrictions (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Association to use all or part of the investment return on these assets.

Management reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Income earned on net assets with donor restrictions, including capital appreciation, is recognized in the period earned.

**Tax Exempt Status**

The Association has been granted exemption from federal taxes on income under Section 501(c)(3) of the Internal Revenue Code as an organization formed to establish and operate a charitable, nonprofit home for the aging. The Association files federal tax return Form 990 with the U.S. government. There are tax years that may be subject to review by the Internal Revenue Service; however, management has determined that no provision for uncertain tax positions was required as of December 31, 2024 and 2023.

**Concentrations of Risk**

The Association's cash, investments, and assets limited as to use consist of various financial instruments. These financial instruments may subject the Association to concentrations of risk as, from time to time, cash and investment balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The fair value of debt securities is dependent on the ability of the issuer to honor its contractual commitments, and the fair value of investments is subject to change. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Concentration of credit risk results from the Association granting credit without collateral to its residents and patients, most of whom are local residents and may be insured under third-party payor agreements. See Note 3 for the mix of receivables from residents and third-party payors at December 31, 2024 and 2023.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Insurance Cooperative**

The Association has insurance coverage for professional and comprehensive general liability exposure provided by Caring Communities, a Reciprocal Risk Retention Group (CCrRRG). CCrRRG is a multi-provider captive insurance company which has Emerald Communities and its Affiliates as members.

**Self-Insured Unemployment**

The Association self-insures its unemployment claims. There were no incurred but not reported (IBNR) claims as of December 31, 2024 and 2023.

**Use of Estimates**

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

**Subsequent Events**

The Association has evaluated subsequent events through April 17, 2025, the date on which the financial statements were available to be issued.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

As of December 31, 2024 and 2023, the Association had a working capital of \$2,694,483 and \$2,104,175, respectively.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consist of the following:

	2024	2023
Cash and Cash Equivalents	\$ 6,539,857	\$ 6,344,206
Investments	107,888,600	85,060,409
Accounts Receivable, Net	579,648	1,701,768
Assets Limited as to Use:		
Board-Designated	5,080,159	3,582,930
Total Financial Assets	<u>\$ 120,088,264</u>	<u>\$ 96,689,313</u>

The Association has certain board-designated assets limited as to use 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. The Association has other assets limited to use for donor-restricted funds and trustee-held funds. These assets limited to use, which are more fully described in Note 4, are not available for general expenditure within the next year.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of December 31:

	2024		2023	
	Amount	Percentage	Amount	Percentage
Resident Monthly Fees, Net	\$ 170,640	29 %	\$ 177,404	10 %
Medicare	294,094	51	162,561	10
Entrance Fees - Promissory Notes	-	-	1,012,130	59
Other Receivables	114,914	20	349,673	21
Accounts Receivable, Net	<u>\$ 579,648</u>	100	<u>\$ 1,701,768</u>	100

The Association has a policy that it may enter into entrance fee promissory notes for new residents who want to move into the community but need to sell their homes before paying the full entrance fee. If certain requirements are met, the resident and the Association may sign the resident agreement and enter into a short-term promissory note which is paid off upon the sale of the resident's home.

**NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE**

Investments and assets limited as to use held by the Association are represented in the following accounts on the statements of financial position and consisted of the following as of December 31:

	2024						
	Unrestricted	Assets Limited as to Use					Total
	Investments	Board				Funds Held in Escrow	
		Designated Funds	Benevolence Fund	Trustee-Held Funds	Funds Held in Escrow		
Funds		Fund	Funds				
Money Market Funds	\$ 32,477,643	\$ 1,529,277	\$ 67,626	\$ -	\$ -	\$ 34,074,546	
Mutual Funds - Equities	75,410,957	3,550,882	5,253,252	8,406,306	-	92,621,397	
Mutual Funds - Bonds	-	-	-	3,229,984	-	3,229,984	
Total	<u>\$ 107,888,600</u>	<u>\$ 5,080,159</u>	<u>\$ 5,320,878</u>	<u>\$ 11,636,290</u>	<u>\$ -</u>	<u>\$ 129,925,927</u>	

	2023						
	Unrestricted	Assets Limited as to Use					Total
	Investments	Board				Funds Held in Escrow	
		Designated Funds	Benevolence Fund	Trustee-Held Funds	Funds Held in Escrow		
Funds		Fund	Funds				
Money Market Funds	\$ 147,385	\$ 12,370	\$ 447,014	\$ 8,961,869	\$ 4,087,201	\$ 13,655,839	
Mutual Funds - Equities	44,787,373	2,409,173	1,921,602	-	-	49,118,148	
Mutual Funds - Bonds	40,125,651	1,161,387	2,819,925	50,256,632	-	94,363,595	
Total	<u>\$ 85,060,409</u>	<u>\$ 3,582,930</u>	<u>\$ 5,188,541</u>	<u>\$ 59,218,501</u>	<u>\$ 4,087,201</u>	<u>\$ 157,137,582</u>	

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)**

Investment interest and gains and losses on assets limited as to use, cash equivalents, investments, and benevolence funds are comprised of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Interest and Dividends	\$ 4,812,472	\$ 3,344,795
Investment Fees	(104,880)	(108,296)
Realized Gain on Sale of Securities	4,120,630	1,735,379
Unrealized Gain on Securities	1,447,722	7,043,162
Realized and Unrealized Gain on Benevolence Fund	321,067	579,673
Investment Return, Net	<u>\$ 10,597,011</u>	<u>\$ 12,594,713</u>

Investments classified as assets limited as to use as of December 31 are as follows:

	<u>2024</u>	<u>2023</u>
Board-Designated:		
Funds Designated for Repayments of Refundable Entrance Fees	\$ 3,675,496	\$ 2,207,584
Funds Designated for Future Development	700,000	700,000
Funds Designated for Future Outreach Programs	704,663	675,346
Total Board-Designated Investments	<u>5,080,159</u>	<u>3,582,930</u>
Donor-Restricted:		
Benevolence Fund	5,320,878	5,188,541
Escrow Funds:		
Funds Held in Escrow for Current Development	-	4,087,201
Trustee-Held Funds:		
Project Fund	7,895,207	57,311,070
Debt Service Fund	3,741,083	1,907,431
Total Trustee-Held Funds	<u>11,636,290</u>	<u>59,218,501</u>
Total Assets Limited as to Use	22,037,327	72,077,173
Less: Current Portion of Assets Limited as to Use	<u>5,995,949</u>	<u>10,800,526</u>
Assets Limited as to Use, Net of Current Portion	<u>\$ 16,041,378</u>	<u>\$ 61,276,647</u>

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 4 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)**

**Funds Set Aside for Repayment of Refundable Entrance Fees**

The board of directors has set aside funds based on the Association’s annual estimated amount of refunds that may become payable to residents over the next few years.

**Funds Designated for Future Development and Outreach Programs**

The board of directors has set aside funds designated for future health facility expansion at Emerald Heights and future outreach programs.

**Funds Held in Escrow for Current Development**

The Association has received funds from future residents of the planned independent living building. These deposits are included as limited use assets with a related liability on the statements of financial position. Upon opening of the Courtyard (see Note 6), these funds were used to pay down the Series 2023B Bonds and the liabilities were moved to the deferred revenue and entrance fee liabilities in accordance with their respective contracts.

**Funds Held by Trustees for Debt Service**

The Association makes monthly advance payments of bond principal and interest to the bond trustee related to the Series 2023 bonds. The funds held in the debt service fund will be used by the bond trustee to make the principal payments and the interest payments to the owners of the Series 2023 bonds when due.

**Funds Held by Trustees for Project Funds**

Upon issuance of the Series 2023 bonds, a project fund was funded from the proceeds of the Series 2023 bonds to include the amount of funds needed to pay for a portion of the Assisted Living Project and the Courtyard Project related costs.

**NOTE 5 OTHER INVESTMENTS**

Other investments classified as noncurrent are instruments that may have restrictions on liquidation and consisted of the following as of December 31:

	2024	2023
Alternative Investment	\$ 281,013	\$ 284,202
Investment in Insurance Cooperative	162,500	162,500
Total Other Investments	\$ 443,513	\$ 446,702

**Alternative Investment**

During the year ended December 31, 2017, the Association made a capital commitment of \$250,000 to a private equity investment (Alternative Investment) in which the Association became a limited partner. There was no unfunded commitments as of December 31, 2024 and 2023. A limited partner is liable to the fund only to the extent of its capital contribution obligation and its share of the fund’s assets and undistributed income, after its capital contribution obligation has been fully paid.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 5 OTHER INVESTMENTS (CONTINUED)**

**Investment in Insurance Cooperative**

Effective October 1, 2002, the Association entered into a contractual agreement to join Caring Communities Insurance Company (CCIC), a multi-provider captive insurance company which, through its risk-sharing provisions, provides the Association with insurance coverage for professional, employee benefit, and comprehensive general liability exposure. CCIC was a multi-organization insurance company for long-term care organizations incorporated under the laws of the Cayman Islands.

In January 2008, CCIC became a 100% wholly owned subsidiary of Caring Communities, a Reciprocal Risk Retention Group (CCrRRG). Upon this conversion, CCrRRG began writing the coverage for its members that was previously provided by CCIC. Claims liabilities are determined actuarially based on claims filed and estimates for claims incurred but not reported. Consistent with the operations of companies in the insurance industry, CCrRRG's provision for losses is ultimately based on management's reasonable expectations of future events. As of CCrRRG's fiscal year-end of December 31, 2024 and 2023, CCrRRG carried assets in excess of estimated claims and had total subscribers' equity of \$68,453,459 and \$64,998,724, respectively.

As of December 31, 2024 and 2023, the Association had invested \$162,500, as a nonrefundable capital contribution reported on the cost method.

**NOTE 6 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31:

	2024	2023
Land and Land Improvements	\$ 10,740,554	\$ 9,127,999
Building and Improvements	218,756,250	152,920,603
Furniture and Equipment	36,693,647	44,186,693
Subtotal	<u>266,190,451</u>	<u>206,235,295</u>
Less: Accumulated Depreciation	(109,255,798)	(108,869,169)
Subtotal	<u>156,934,653</u>	<u>97,366,126</u>
Construction in Progress	58,962,771	74,832,066
Property and Equipment, Net	<u><u>\$ 215,897,424</u></u>	<u><u>\$ 172,198,192</u></u>

**Construction in Progress**

Construction in progress, as of December 31, 2023, was comprised of costs related to the construction of a new independent living building (the Courtyard Project) and a new assisted living building (the Assisted Living Project). During the year ended December 31, 2024 the Courtyard Project was completed with total costs of approximately \$63,800,000. The Project was initially funded by a construction loan and obtained permanent financing upon issuance of the Series 2023 Bonds (see Note 8).

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2024 AND 2023**

**NOTE 6 PROPERTY AND EQUIPMENT (CONTINUED)**

**Construction in Progress (Continued)**

Construction in progress, as of December 31, 2024, is comprised of costs related to the new assisted living building with a sky bridge connecting to the main independent living building (the Assisted Living Project). As of December 31, 2024, construction in progress for the Assisted Living Project totaled approximately \$53.4 million. The total estimated cost to complete the project is \$55 million. The Assisted Living Project is being financed with proceeds from the Series 2023 Bonds (see Note 8). The project completed construction in January 2025 and is awaiting final licensure prior to opening which is expected in June 2025.

During the fiscal years ended December 31, 2024 and 2023, the Association capitalized interest in the amount of \$3,049,000 and \$2,288,933, respectively.

**NOTE 7 RELATED PARTY AGREEMENTS**

**Loan**

On September 1, 2012, the Association entered into a loan agreement with Emerald Communities (EC) (Note 1), for the development of a retirement community in Gig Harbor, Washington (Heron's Key, or the Project). Under the terms of the loan agreement, the Association agreed to loan up to \$10 million to EC to fund capital expenditures for planning and development until permanent financing was obtained. The loan is subordinate to the Heron's Key Series 2022 Bonds. As of December 31, 2024 and 2023, the amount loaned under the agreement totaled \$7,000,000.

\$5,000,000 of the original loan bears interest at 3% per annum. During the year ended December 31, 2015, the loan agreement was amended to adjust the interest rate on the portion of the loan that is held by EC in a \$5,000,000 liquidity support fund. The liquidity support fund was no longer required as of September 8, 2022 when Heron's Key extinguished its Series 2015 bonds.

Accrued interest receivable on the loan totaled \$2,726,033 and \$2,502,269 as of December 31, 2024 and 2023, respectively, and has been included with the loan receivable from EC on the accompanying statements of financial position.

The board of directors authorized a \$3,000,000 repayment of the loan in 2023. The outstanding loan to EC consisted of the following as of December 31:

	<u>2024</u>	<u>2023</u>
Loan to EC for Heron's Key Pre-Finance Costs:		
Loan to EC - Principal	\$ 7,000,000	\$ 7,000,000
Accrued Interest on Loan to EC	2,726,033	2,502,269
Loan to EC for Heron's Key Pre-Finance Costs	<u>\$ 9,726,033</u>	<u>\$ 9,502,269</u>

Subsequent to year end, the EC Board approved and repaid \$2,000,000 of principal and \$910,633 of accrued interest.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 7 RELATED PARTY AGREEMENTS (CONTINUED)**

**Management Agreement**

Effective January 1, 2016, an Affiliate Management Agreement (the Agreement) was implemented between the Association and EC. The term of the initial Agreement was for two years, and it was renewed for three more years, effective January 1, 2018. The Agreement, unless sooner terminated, automatically renews for additional five-year periods subject to fee renegotiation unless a written notice of termination or written request to review is delivered by either party to the other party no less than six months in advance of the expiration date of the term.

Under the terms of the Agreement, EC provides and maintains a qualified Executive Director for the Association and the Association reimburses EC for the Executive Director's salary and benefits. EC provides certain management services to the Association, including administration, human resources, marketing, finance, accounting, and information technology. The monthly fee for these services is 7.75% of the Association's total operating revenue for each prior month, and the fee is payable the following month. Management fees paid by the Association to EC totaled \$2,453,927 and \$2,197,313 for the years ended December 31, 2024 and 2023, respectively.

**Long-Term Receivable from EC**

During the period when Heron's Key was under construction and in its fill up the Association advances funds to EC to fund the portion of EC expenses not covered by management fees it receives. Amounts advanced and recorded as long-term receivable from EC consisted of the following for the years ended December 31:

	2024	2023
Balance - January 1	\$ 3,876,474	\$ 3,525,486
Funds Advanced to EC	-	250,000
Accrued Interest on Long-Term Receivable	102,238	100,988
Balance - December 31	<u>\$ 3,978,712</u>	<u>\$ 3,876,474</u>

The Association board and the EC board have agreed that EC will repay these advances, with interest at 3% per annum, after EC has repaid to the Association the principal and interest on the original \$10 million loan which was used for pre-finance funding of Heron's Key, an affiliate of the Association.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 LONG-TERM DEBT**

Long-term debt consisted of the following as of December 31:

<u>Description</u>	<u>2024</u>	<u>2023</u>
Series 2023 Bonds Payable	\$ 86,125,000	\$ 118,330,000
Add: Unamortized Bond Premium	1,820,771	1,853,115
Less: Unamortized Debt Issuance Costs	(1,548,290)	(1,674,380)
Carrying Amount of Long-Term Debt	<u>86,397,481</u>	<u>118,508,735</u>
Less: Current Portion	(3,095,000)	(2,805,000)
Total Long-Term Debt, Net of Current Portion	<u>\$ 83,302,481</u>	<u>\$ 115,703,735</u>

**Series 2013 Bonds**

On February 20, 2013, the Association redeemed Washington State Housing Finance Commission Variable Rate Demand Nonprofit Housing Revenue and Refunding Revenue Bonds, Series 2003 and issued the Washington State Housing Finance Commission Nonprofit Housing Revenue and Refunding Revenue Bonds, Series 2013 in the amount of \$29,845,000. The proceeds of the Series 2013 bonds, together with other available funds, were used to refund all of the outstanding Series 2003 bonds, fund a debt service reserve fund, and pay costs associated with the issuance of the Series 2013 bonds. The Series 2013 bonds were refunded on August 30, 2023, with the proceeds of the Series 2023 bonds.

The bonds were secured through a pledge and assignment of the underlying mortgage loan agreement. The agreements contained restrictive covenants which, among other things, required the achievement of certain financial ratios on a semi-annual basis.

**Bank of America Construction Loan**

On July 1, 2022, the Association entered into a construction loan with Bank of America (Lender) in the amount of \$56,000,000. The construction loan was extinguished on August 30, 2023, with the proceeds of the Series 2023 bonds.

**Series 2023 Bonds**

On August 30, 2023, the Association issued the Washington State Housing Finance Commission Nonprofit Housing Revenue and Refunding Revenue Bonds, Series 2023A, Series 2023B-1 and Series 2023B-2 (Series 2023 bonds), in the amount of \$118,330,000. The proceeds of the Series 2023 bonds, together with other available funds, were used to refund the outstanding Series 2013 bonds, repay the Construction Loan, pay or reimburse the Association for costs of the Assisted Living Project and the Courtyard Project, and pay certain costs associated with issuing the Series 2023 bonds.

The Series 2023 bonds have fixed interest rates ranging from 4.0% to 5.0% and mature at regular intervals from 2024 through 2048. The bonds are secured through a gross revenue pledge per the master trust indenture. The agreements contain restrictive covenants which, among other things, require the achievement of certain financial ratios on a semi-annual basis.

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 LONG-TERM DEBT (CONTINUED)**

**Series 2023 Bonds (Continued)**

Aggregate maturities of long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2025	\$ 3,095,000
2026	2,005,000
2027	2,105,000
2028	2,210,000
2029	2,320,000
Thereafter	74,390,000
Total	<u>\$ 86,125,000</u>

Management repaid the Series 2023B-1 and Series 2023B-2 bonds, the Unscheduled Series B maturities, during 2024. Management used \$29,400,000 of proceeds from initial entrance fees collected from occupants of the Courtyard.

Interest and financing expense consisted of the following for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Interest Expense	\$ 1,888,752	\$ 881,682
Bank, Trustee, and Financing Authority Fees	34,743	24,444
Amortization of Debt Issuance Costs	126,089	68,815
Amortization of Bond Premium	(32,344)	(80,480)
Total Interest and Financing Expense	<u>\$ 2,017,240</u>	<u>\$ 894,461</u>

**Debt Issuance Costs and Bond Premium**

Debt issuance costs and bond premium are amortized over the term of the related debt using the effective interest rate method. Debt issuance costs and bond premium activity for the year ended December 31, 2024 consisted of the following:

	<u>Debt Issuance Costs</u>	<u>Bond Premium</u>
Beginning Balance (at Inception)	\$ (707,665)	\$ 3,014,420
Accumulated Amortization - December 31, 2022	342,232	(2,165,926)
Balance at December 31, 2022	(365,433)	848,494
2023 Amortization - Series 2013	77,576	(73,162)
Extinguishment Due to Refinancing	287,857	(775,332)
2023 Bonds Debt Issuance Costs and Premium	(1,722,893)	1,860,433
2023 Amortization - Series 2023	48,513	(7,318)
Balance at December 31, 2023	(1,674,380)	1,853,115
2024 Amortization - Series 2023	126,090	(32,344)
Balance at December 31, 2024	<u>\$ (1,548,290)</u>	<u>\$ 1,820,771</u>

**EASTSIDE RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 LONG-TERM DEBT (CONTINUED)**

**Debt Issuance Costs and Bond Premium (Continued)**

The Association recognized a net gain on refinancing with the issuance of the Series 2023 Bonds after writing off the Series 2013 unamortized debt issuance costs and bond premium. The gain is included in nonoperating income on the statement of operations and also includes settlement of the Swap Agreement (see Note 9).

**Restrictive Covenants**

The provisions of the Series 2023 third supplemental master trust indenture contain various covenants. As of December 31, 2024 and 2023, management was not aware of any violations in relation to these covenants.

**NOTE 9 DERIVATIVE FINANCIAL INSTRUMENTS**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Association entered into an interest rate swap agreement with Bank of America as the counterparty. The agreement was terminated at the time of issuance of the Series 2023 Bonds during the year ended December 31, 2023.

**NOTE 10 FAIR VALUE MEASUREMENTS**

U.S. GAAP for Fair Value Measurements has established a framework that requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The framework uses a three-level valuation hierarchy based on observable and unobservable inputs. Observable inputs consist of data obtained from independent sources. Unobservable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Financial assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Financial assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in active markets and model-derived valuations whose inputs are observable. Financial assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of December 31, 2024 and 2023:

Money Market Funds – Valued at cost, which approximates fair value and are therefore excluded from the table below.

Mutual Funds – Valued at quoted market prices in active markets, securities are classified within Level 1 of valuation hierarchy.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)**

Fair values of investments and assets limited as to use measured on a recurring basis were as follows:

Fair Value Measurements as of December 31, 2024				
	Level 1	Level 2	Level 3	Total
Mutual Funds - Equities	\$ 92,621,397	\$ -	\$ -	\$ 92,621,397
Mutual Funds - Bonds	-	3,229,984	-	3,229,984
Total	\$ 92,621,397	\$ 3,229,984	\$ -	\$ 95,851,381

Fair Value Measurements as of December 31, 2023				
	Level 1	Level 2	Level 3	Total
Mutual Funds - Equities	\$ 49,118,148	\$ -	\$ -	\$ 49,118,148
Mutual Funds - Bonds	44,106,963	50,256,632	-	94,363,595
Total	\$ 93,225,111	\$ 50,256,632	\$ -	\$ 143,481,743

**NOTE 11 REFUNDABLE ENTRANCE FEES AND DEFERRED REVENUE FROM ENTRANCE FEES**

Changes in refundable entrance fees and deferred entrance fees revenue were as follows for the years ended December 31:

	Deferred Revenue	Refundable
Balance - December 31, 2022	\$ 91,807,844	\$ 23,932,953
Entrance Fees from New Residents for Existing Units and from Relocations	12,670,650	1,472,450
Move Outs or Refunds Upon Withdrawals, Deaths, or Relocations of Residents		(3,704,582)
Earned Due to Deaths, Withdrawals, or Relocations	(2,295,380)	-
Amortization of Entrance Fees	(8,086,255)	-
Balance - December 31, 2023	94,096,859	21,700,821
Entrance Fees from New Residents for Existing Units and from Relocations	21,527,420	10,272,305
Entrance Fees from Initial Residents (First Generation)	25,551,185	-
Move Outs or Refunds Upon Withdrawals, Deaths, or Relocations of Residents	-	(1,610,165)
Other Adjustments and Changes to Entrance Fees	(99,985)	194,223
Earned Due to Deaths, Withdrawals, or Relocations	(3,398,508)	-
Amortization of Entrance Fees	(10,947,560)	-
Balance - December 31, 2024	\$ 126,729,411	\$ 30,557,184

**EASTSIDE RETIREMENT ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following as of December 31:

	2024	2023
Net Assets with Temporary Donor Restrictions:		
Benevolence Funds, Held by the Association	\$ 5,041,072	\$ 4,908,735
Other Restricted Purpose Funds	353,484	335,503
Subtotal	5,394,556	5,244,238
Net Assets with Permanent Donor Restrictions:		
Benevolence Funds, Held by the Association	279,807	279,807
Total	\$ 5,674,363	\$ 5,524,045

The benevolence fund consists of donated funds and charitable gift annuities used to subsidize monthly service fees of contract residents whose funds have decreased to the extent that they are no longer able to pay the entire monthly service fee. Benevolence funds used to subsidize monthly service fees totaled \$239,562 and \$195,825 for the years ended December 31, 2024 and 2023, respectively.

**NOTE 13 ENDOWMENT**

The Association's endowment consists of one fund established for the purpose of subsidizing monthly service fees of contract residents whose funds have decreased to the extent that they are no longer able to pay the entire monthly service fee. The endowment includes donor-restricted donations held by the Association. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the state and adopted by the Association on July 1, 2009. The Association has reviewed UPMIFA and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as net assets with donor restrictions temporary in nature and is available for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 13 ENDOWMENT (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Association and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Association, and
- The investment policies of the Association.

Changes to endowment net assets were as follows for the years ended December 31:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Endowment Net Assets - December 31, 2022	\$ -	\$ 398,456	\$ 398,456
Endowment Investment Return:			
Investment Income, Net	-	9,189	9,189
Realized and Unrealized Gain	-	31,260	31,260
Endowment Net Assets - December 31, 2023	-	438,905	438,905
Endowment Investment Return:			
Investment Income, Net	-	12,434	12,434
Realized and Unrealized Gain	-	4,450	4,450
Endowment Net Assets - December 31, 2024	<u>\$ -</u>	<u>\$ 455,789</u>	<u>\$ 455,789</u>

**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 or UPMIFA requires the Association to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2024 or 2023.

**Return Objectives and Risk Parameters**

The Association has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for donor-specified periods.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 13 ENDOWMENT (CONTINUED)**

**Return Objectives and Risk Parameters (Continued)**

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of benchmarks for each asset class, including the Russell 1000 and 2000 indexes, while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of a minimum of 2.5% above inflation. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized, and current yield, such as interest and dividends. The Association targets a diversified asset allocation with investments in domestic equities, fixed income, international equity, and commodities to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

As of December 31, 2024 and 2023, the Association had retained all earnings on the endowment.

**NOTE 14 RESIDENT SERVICE REVENUE**

Resident service revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Association bills the residents in advance and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied. For the years ended December 31, 2024 and 2023, approximately 2% of resident service revenue was derived under federal and state third-party reimbursement programs.

Performance obligations are determined based on the nature of the services provided by the Association. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Association 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 in the facility receiving health care services or housing residents receiving services in the facility. The Association considers daily services provided to residents of the skilled nursing facility, and monthly rental for housing services as a separate performance obligation and measures this 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.

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**NOTE 14 RESIDENT SERVICE REVENUE (CONTINUED)**

Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the residents and customers in a retail setting (for example, salon, transportation, and dining room) and the Association does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Association has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Association determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Association's policy and/or implicit price concessions provided to residents. The Association determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. The Association determines its estimate of implicit price concessions based on its historical collection experience.

The Association recognizes the majority of its revenues over a period of time from its payors based on fees for services performed. Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Organization participates in the Medicare program. This federal program is administered by Center for Medicare and Medicaid Services (CMS). Effective October 1, 2019, CMS implemented the Patient Driven Payment Model (PDPM). Under PDPM, therapy minutes are removed as the primary basis for payment and instead uses the underlying complexity and clinical needs of a patient as a basis for reimbursement. In addition, PDPM introduces variable adjustment factors that change reimbursement rates during the resident's length of stay. Annual cost reports are required to be submitted to the designated Medicare Administrative Contractor; however, they do not contain a cost settlement.

Nursing facilities licensed for participation in the Medicare and Medical Assistance programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance. Such a payment ban would have a negative impact on the revenues of the licensed nursing facility.

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**NOTE 14 RESIDENT SERVICE REVENUE (CONTINUED)**

Other

Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined daily rates.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Association's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in an implicit price concession impacting transaction price, were not significant in 2024 or 2023.

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

The Association has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. Tables providing details of these factors are presented below.

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 14 RESIDENT SERVICE REVENUE (CONTINUED)**

The composition of service fees and health care revenue by service line for the years ended December 31 consisted of the following:

	<u>2024</u>	<u>2023</u>
Independent Living	\$ 38,875,930	\$ 31,991,624
Skilled Nursing	4,278,097	4,076,852
Assisted Living	2,695,821	2,468,883
Total Resident Service Revenue	<u>\$ 45,849,848</u>	<u>\$ 38,537,359</u>

The composition of service fees and health care revenue by primary payor for the years ended December 31 consisted of the following:

	<u>2024</u>	<u>2023</u>
Private Pay	\$ 44,690,705	\$ 37,502,832
Medicare	858,732	811,349
HMO/Commercial	203,118	146,365
Other	97,293	76,813
Total Resident Service Revenue	<u>\$ 45,849,848</u>	<u>\$ 38,537,359</u>

Revenues from resident and patient deductibles and coinsurance are included in the categories presented above based on the primary payor.

**Financing Component**

The Association has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from residents and third-party payors for the effects of a significant financing component due to the Association's expectation that the period between the time the service is provided to a resident and the time that the resident or a third-party payor pays for that service will be one year or less. However, the Association does, in certain instances, enter into payment agreements with residents that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

**Contract Costs**

The Association has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Association otherwise would have recognized is one year or less in duration.

The opening and closing contract balances were as follows:

	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>
Balance as of January 1, 2023	\$ 1,812,100	\$ 91,807,844
Balance as of December 31, 2023	1,701,768	94,096,859
Balance as of December 31, 2024	579,648	126,729,411

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**NOTE 15 COMMITMENTS AND CONTINGENCIES**

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

The Association has a signed contract to complete the Assisted Living Project in the amounts disclosed in Note 6.

**NOTE 16 FUNCTIONAL EXPENSES**

The financial statements report certain expense categories that are attributable to more than one life plan service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest, and other occupancy costs, are allocated to a function based on a square-footage or units-of-service basis. Allocated life plan services costs not allocated on a units-of-service basis are otherwise allocated based on revenue.

Functional expenses consisted of the following for the years ended December 31:

		2024				
		Life Plan Services			Management and General	Total
		Independent Living	Assisted Living	Skilled Nursing		
Salaries and Benefits		\$ 8,943,217	\$ 1,582,183	\$ 4,587,642	\$ 1,466,092	\$ 16,579,134
Purchased Services		2,105,985	7,939	72,113	235,125	2,421,162
Supplies		771,164	-	203,951	395,081	1,370,196
Depreciation		6,935,114	443,158	1,681,323	-	9,059,595
Interest and Financing		1,400,470	128,654	488,117	-	2,017,240
Insurance		34,938	2,333	8,856	456,630	502,757
Other		3,024,958	312	867,479	3,248,072	7,140,821
Total Expenses		<u>\$ 23,215,845</u>	<u>\$ 2,164,579</u>	<u>\$ 7,909,481</u>	<u>\$ 5,801,000</u>	<u>\$ 39,090,905</u>
		2023				
		Life Plan Services			Management and General	Total
		Independent Living	Assisted Living	Skilled Nursing		
Salaries and Benefits		\$ 8,175,086	\$ 1,446,290	\$ 4,193,610	\$ 1,340,170	\$ 15,155,156
Purchased Services		1,925,102	7,257	65,919	214,930	2,213,208
Supplies		704,929	-	186,434	361,148	1,252,511
Depreciation		5,624,393	359,402	1,363,557	-	7,347,352
Interest and Financing		620,980	57,046	216,435	-	894,461
Insurance		31,937	2,133	8,095	417,410	459,575
Other		2,765,145	285	792,971	2,969,096	6,527,497
Total Expenses		<u>\$ 19,847,572</u>	<u>\$ 1,872,413</u>	<u>\$ 6,827,021</u>	<u>\$ 5,302,754</u>	<u>\$ 33,849,760</u>

**EASTSIDE RETIREMENT ASSOCIATION  
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**NOTE 17 EMPLOYEE BENEFIT PLANS**

The Association has a 403(b) defined contribution retirement plan. Eligible employees can elect to defer up to the maximum allowable subject to current regulatory limits. The Association provides matching contributions of 50% of the first 10% of the compensation contributed by each participating employee that who completed one year of service with the Association. The Association's total retirement expense was \$202,691 and \$205,720 for the years ended December 31, 2024 and 2023, respectively.

**NOTE 18 EMPLOYEE RETENTION CREDIT**

The Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes.

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During the year ended December 31, 2023, the Association determined it met the compliance requirements and conditions of the ERC program. The Association recognized ERC credits totaling \$1,548,740 during the year ended December 31, 2023 for the quarter ended March 31, 2021. The Association recognized these credits as a component of nonoperating income on the statement of operations.

There is a possibility that upon subsequent review the Internal Revenue Service could reach a different conclusion regarding the Association's eligibility to retain the ERC credits received. That could result in repayment of the credits, interest, and potential penalties. The amount of liability, if any, from potential ineligibility cannot be determined with certainty.



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