

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview)
and Affiliate**

Consolidated Financial Statements
and Supplementary Information

December 31, 2023

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

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Independent Auditors' Report

To the Board of Directors of
West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate

Opinion

We have audited the consolidated financial statements of West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate (the Corporation), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, as identified in the table of contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 26, 2024

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidated Balance Sheet
December 31, 2023
(In Thousands)

Assets

Current Assets

Cash and cash equivalents	\$ 1,937
Resident accounts receivable, less allowance for credit losses of \$402	1,627
Other accounts receivable	755
Prepaid expenses and other assets	<u>581</u>

Total current assets 4,900

Restricted Cash 8

Investments 695

Restricted Investments 254

Land, Buildings and Equipment, Net 71,815

Goodwill 5,703

Other Noncurrent Assets 484

Total assets \$ 83,859

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 1,308
Payable to affiliates	1,238
Deposits	295
Accrued interest	1,924
Current portion of long-term debt	<u>125</u>

Total current liabilities 4,890

Notes and Bonds Payable Held by Affiliate 43,305

Rebatable Entrance Fees Due 2,596

Entrance Fees Subject to Refund 6,523

Entrance Fees Nonrefundable 11,320

Other Liabilities 157

Total liabilities 68,791

Net Assets

Net assets without donor restrictions	14,816
Net assets with donor restrictions	<u>252</u>

Total net assets 15,068

Total liabilities and net assets \$ 83,859

See notes to consolidated financial statements

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2023
(In Thousands)

Changes in Net Assets Without Donor Restrictions

Operating revenues:	
Residential living	\$ 9,168
Assisted living	4,745
Health center	9,794
Memory Support	885
Amortization of entrance fees	1,239
Other operating revenue	708
Net assets released from restrictions	<u>4</u>
 Total operating revenues	 <u>26,543</u>
Operating expenses:	
Salaries and wages	14,718
Employee benefits	2,838
Supplies	2,217
Ancillary services	677
Repairs and maintenance	204
Marketing and advertising	320
Purchased services	1,689
Management fees	297
Utilities	1,079
Travel and related	94
Rentals and leases	56
Insurance	455
Other operating expenses	<u>806</u>
 Total operating expenses	 <u>25,450</u>
 Income before other operating income (expense)	 <u>1,093</u>
Other operating income (expense):	
Investment income, net	232
Change in unrealized gains on investments, net	77
Depreciation and amortization	(3,529)
Interest expense	(2,015)
Nonrecurring operating expenses	<u>(304)</u>
 Loss from operations and change in net assets without donor restrictions	 <u>(4,446)</u>

Changes in Net Assets With Donor Restrictions

Investment income, net	1
Change in unrealized gains on investments, net	31
Restricted contributions	7
Net assets released from restrictions	<u>(4)</u>
 Change in net assets with donor restrictions	 <u>35</u>
 Change in net assets	 <u>(4,411)</u>
 Net Assets, Beginning	 <u>19,479</u>
 Net Assets, Ending	 <u><u>\$ 15,068</u></u>

See notes to consolidated financial statements

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidated Statement of Cash Flows
Year Ended December 31, 2023
(In Thousands)

Cash Flows From Operating Activities

Cash received for resident services	\$ 23,845
Cash received from nonrebatable entrance fees from reoccupancy	3,739
Cash received from other operating activities	600
Cash earnings realized from investments	93
Cash paid for employee salaries	(12,433)
Cash paid for employee benefits	(2,776)
Cash paid for temporary labor	(2,058)
Cash paid to vendors	(7,866)
Cash paid for interest	(97)
	<u>3,047</u>
Net cash provided by operating activities	<u>3,047</u>

Cash Flows From Investing Activities

Acquisition of land, buildings and equipment, net	(2,881)
Net purchases of restricted investments	(41)
Net sales of unrestricted investments	7,773
	<u>4,851</u>
Net cash provided by investing activities	<u>4,851</u>

Cash Flows From Financing Activities

Refunds of deposits and entrance fees	(92)
Cash received from inter-company transactions	7
Cash received from restricted gifts and donations	7
Cash paid for other trust activity, net	(2)
Payments on notes and bonds payable	(6,670)
	<u>(6,750)</u>
Net cash used in financing activities	<u>(6,750)</u>

Increase in cash, cash equivalents and restricted cash 1,148

Cash, Cash Equivalents and Restricted Cash, Beginning 804

Cash, Cash Equivalents and Restricted Cash, Ending \$ 1,952

Noncash Investing and Financing Activities

Acquisition of Hillside	<u>\$ (43,430)</u>
Issuance of senior secured note to affiliate	<u>\$ 43,430</u>

Reconciliation of Cash, Cash Equivalents and Restricted Cash to Balance Sheet

Cash and cash equivalents	\$ 1,937
Restricted cash	8
Restricted cash included in restricted investments	7
	<u>7</u>
Total cash, cash equivalents and restricted cash	<u>\$ 1,952</u>

See notes to consolidated financial statements

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate

Notes to Consolidated Financial Statements
December 31, 2023

1. Business Organization and Nature of Operations

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) is a Washington nonprofit tax-exempt corporation providing housing, health care and supportive services for seniors in Yakima, Washington through its Life Plan Community (LPC), The Terraces at Summitview. On May 1, 2023, West Valley Nursing Homes, Inc., through a newly formed subsidiary, HG Hillside LLC, acquired a life plan community in McMinneville, Oregon (Hillside) (Note 3).

The Terraces at Summitview is located on a ten-acre campus in Yakima, Washington and consists of 194 residential living apartments located in 5 buildings, 39 assisted living apartments, and a 60-bed health center licensed for Medicaid and Medicare. Effective February 1, 2022, NorCal entered into a management agreement with The Terraces at Summitview at a base fee of 3% of budgeted cash revenues, with year-end adjustments allowing for an increase in management fees of 50% of net income for debt service exceeding \$1,572,000, with annual management fee amounts not to exceed 6.5% of budgeted cash revenues. The agreement automatically renews annually unless terminated.

Hillside is located on a 53-acre campus in McMinneville, Oregon and consists of 203 residential living apartments, 83 assisted living apartments (including 20 memory support units), and a 20-bed health center licensed for Medicaid and Medicare. Effective May 1, 2023, NorCal entered into a consulting and financial services agreement with Hillside at a base fee of 5% of budgeted cash revenues. The agreement automatically renews annually unless terminated.

Parent Organization

HumanGood Cornerstone (a Member of HumanGood), a California nonprofit public benefit tax-exempt corporation, is the sole member and exercises its direction and control through the appointment of the Board of Directors of the Corporation, HumanGood Arizona, Inc. (dba Terraces of Phoenix), HumanGood Washington (dba Judson Park), HumanGood Nevada (dba Las Ventanas), HumanGood Idaho (dba Terraces of Boise), HumanGood Properties, HumanGood East, and HumanGood Affordable Housing. HumanGood Arizona, Inc. and HumanGood Washington together constitute an obligated group (HumanGood National Obligated Group).

HumanGood is a California nonprofit public benefit tax-exempt corporation providing housing, health care and supportive services for seniors through its LPCs and affordable housing communities. HumanGood is the sole member of HumanGood Cornerstone, HumanGood Fresno (dba Terraces at San Joaquin Gardens), HumanGood SoCal (SoCal) and HumanGood NorCal (NorCal). NorCal is the sole member of HumanGood Foundation West and SoCal is the sole member of HumanGood Foundation South. HumanGood Fresno, HumanGood SoCal and HumanGood NorCal together constitute an obligated group (HumanGood California Obligated Group or COG).

HumanGood and HumanGood Cornerstone's Boards are composed of the same seven directors.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of West Valley Nursing Homes, Inc. and its subsidiary HG Hillside LLC (collectively, the Corporation). The consolidated financial statements of the Corporation were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) on the accrual basis of accounting. There were no intercompany balances or transactions that required elimination during 2023.

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate

Notes to Consolidated Financial Statements
December 31, 2023

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reported periods. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable, fair value of investments, future service obligations, rebatable entrance fees due, entrance fees subject to refund, and entrance fees nonrefundable. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions and overnight investments considered to be cash equivalents. For purposes of the statement of cash flows, cash, cash equivalents and restricted cash include investments purchased with an initial maturity of three months or less.

Restricted Cash

Restricted cash consists of funds held in resident trust accounts at December 31, 2023.

Investments

Investments include certain cash equivalents held by investment managers, mutual funds, and equity securities. Investments are stated at fair value in the accompanying consolidated balance sheet.

Investment income or loss (including interest, dividends, realized gains and losses and fees), and unrealized gains and losses on investments are included in loss from operations and changes in net assets without donor restrictions. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

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

Restricted Investments

Certain investments are restricted as assets held in trust. These include assets set aside in accordance with various trust agreements with third parties, including donors. Assets managed with donor restrictions are classified as restricted investments in the accompanying consolidated balance sheet.

Resident Accounts Receivable

Accounts receivable are reported net of an allowance for credit losses, which represents the Corporation's estimate of expected losses at the balance sheet date. Accounts are written off when they are determined to be uncollectible. The adequacy of the Corporation's allowance for credit losses is reviewed on an ongoing basis, using historical payment trends, write-off experience, analyses of receivable portfolios by payor source and aging of receivables, a review of specific accounts, and expected future economic conditions and market trends. Adjustments are made to the allowance as necessary.

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate

Notes to Consolidated Financial Statements
December 31, 2023

Other Noncurrent Assets

Other noncurrent assets are primarily comprised of capitalized contract acquisition costs and a note receivable from a third party, collateralized by land and buildings owned by the third party.

Goodwill

During 2023, the Corporation recorded approximately \$6,057,000 related to the acquisition (Note 3). The Corporation has elected the accounting alternative to amortize goodwill. Goodwill is amortized on a straight-line basis over ten years and is tested for impairment at the entity level. Amortization expense was \$354,000 for 2023. The Corporation evaluates goodwill for impairment on an annual basis. The Corporation assesses qualitative factors (events and circumstances) to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of the acquired community is less than its carrying amount, including goodwill. If the assessment of qualitative factors results in a conclusion that it is more-likely-than-not that the fair value of the acquired community is less than its carrying amount, including goodwill, the Corporation is required to perform additional testing to identify potential impairment and, if necessary, to measure the amount of impairment loss, if any. Based on the assessment of various qualitative factors as of December 31, 2023, management concluded that it is more likely than not that the fair value of the acquired community exceeded its carrying amount, including goodwill. Therefore, additional testing to identify potential impairment was unnecessary.

Land, Buildings and Equipment, Net

Land, buildings and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges and other related costs capitalized during construction. Maintenance and repair costs are charged to operations when incurred.

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

Asset Impairment

The Corporation periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address 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 asset impairment was recorded during the year ended December 31, 2023.

Obligation to Provide Future Services

If the present value of future outflows to provide future services, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. Evaluations of the future service benefit obligation for residents of Hillside were performed as of December 31, 2023 in accordance with Accounting Standards Update (ASU) No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities - Refundable Advance Fees*. There was no liability as of December 31, 2023. The discount rate used to calculate the obligation to provide future services was 5%.

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate

Notes to Consolidated Financial Statements
December 31, 2023

Types of Entrance Fees

The care and residence agreements between Hillside and the residents provide for the payment of an entrance fee. Entrance fees received by Hillside are categorized into two types: Initial entrance fees and entrance fees from reoccupancy and are recorded as either rebatable entrance fees due, entrance fees subject to refund or entrance fees nonrefundable in the accompanying consolidated balance sheets. Initial entrance fees, which are the initial fees on new or expanded facilities, are used to provide funds for acquisition and construction of physical facilities, debt retirement and to defray anticipated deficits in the operations of new homes for a period of time. Entrance fees from reoccupancy in existing homes are used for general purposes, including capital expenditures, support of operations (including benevolence) and funding of reserves.

Refund Policy on Entrance Fees

Hillside offers contract options whereby 0% to 90% of the entrance fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. At December 31, 2023, \$2,596,000 of the entrance fees related to these types of contracts are contractually rebatable and are presented as rebatable entrance fees due in the accompanying consolidated balance sheet. At December 31, 2023, Hillside had nonrefundable entrance fees of \$11,320,000, related to entrance fees received that will be recognized as revenue in future years. Additionally, at December 31, 2023, Hillside had entrance fees subject to refund of \$6,523,000 which will be recognized as revenue in future years, unless refunded. Actual refunds and rebates of deposits and entrance fees were \$92,000 for the year ended December 31, 2023. Management expects to pay refunds in future years of approximately \$550,000 per year.

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 available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. All revenues restricted by donors as to either timing or purpose of the related expenditures are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are included in net assets released from restrictions in the accompanying consolidated statement of operations and changes in net assets. There were no assets with donor-imposed restrictions that were perpetual in nature as of December 31, 2023.

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Notes to Consolidated Financial Statements
December 31, 2023

Net Resident Service Revenues

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

Payment terms and conditions for the Corporation's resident contracts vary by contract type and payor source. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, entrance fees are generally billed and collected in advance of move-in.

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

Health Center

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

Health center revenues, including daily service fees, ancillary and other service fees are reported at the estimated net realizable amounts from residents, third party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Corporation receives revenue for services under third-party payor programs, including Medicare and other third-party payors. Laws and regulations governing the Medicare program are complex and subject to interpretation. Nursing and ancillary services provided to Medicare beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments. The determination of these rates is partially based on the Corporation's clinical assessment of their residents. The Corporation is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by Medicare. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare programs. The basis for payment to the Corporation for other payor agreements includes prospectively determined rates per day or discounts from established charges.

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
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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 with the payor and the Corporation'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, as new information becomes available), or as years are settled or no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price, were not significant in 2023.

Assisted Living and Memory Support

Assisted living and memory support revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Corporation has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation for each of these levels of care, which is satisfied over time as services are provided. Therefore, assisted living and memory support revenues are recognized on a month-to-month basis.

Residential Living

Residential living revenues are primarily derived from providing housing and services to residents. The Corporation has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation, which is satisfied over time as services are provided. Therefore, residential living monthly fees are recognized on a month-to-month basis.

Entrance fees collected from residents in advance are recognized as deferred revenue from entrance fees until performance obligations are satisfied and are included in entrance fees nonrefundable in the accompanying consolidated balance sheets. The Corporation recognized amortization income of \$1,239,000 in 2023. The Corporation applies the practical expedient in Accounting Standards Codification (ASC) Topic 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

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

For residents with Life Care contracts (modified Type A), revenue from entrance fees other than rebatable entrance fees received are recognized through amortization income using the straight-line method over annually adjusted estimated remaining life expectancies of the residents, which approximates the period of time the goods and services under the agreements are expected to be transferred to residents.

Benevolence

The Corporation provides services under their benevolence policy to residents who meet certain criteria without charge or at amounts less than its established rates. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenues. For the year ended December 31, 2023, benevolence recorded was \$4,000.

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) and Affiliate

Notes to Consolidated Financial Statements
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Contractual Allowances

A portion of the Corporation's health center revenue is subject to explicit price concessions (contractual allowances) under contracts with third-party payors. These price concessions were \$1,980,000 for the year ended December 31, 2023.

Tax-Exempt Status

West Valley Nursing Homes, Inc. is a Washington nonprofit tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and has been granted tax-exempt status by the Internal Revenue Service and the Washington State Department of Revenue. HG Hillside LLC is an Oregon single member LLC, whose sole member is West Valley Nursing Homes, Inc. and is therefore disregarded for tax purposes.

The Corporation assesses uncertain tax positions in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC Topic 740-10, *Income Taxes*. The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2023, there were no such uncertain tax positions.

Performance Indicator

Loss from operations and changes in net assets without donor restrictions as reflected in the accompanying consolidated statement of operations and changes in net assets is the performance indicator. Loss from operations and changes in net assets without donor restrictions includes all changes in net assets other than changes in net assets with donor restrictions.

3. Acquisition

On May 1, 2023, Terraces at Summitview, through its subsidiary HG Hillside, LLC acquired the real estate, resident contracts and related entrance fee liabilities, and certain other assets and liabilities of a LPC from an unrelated third party. HG Hillside, LLC was assigned and assumed the purchase and sale agreement of the Life Plan Community from NorCal. The purchase and sale agreement was subject to certain working capital adjustments and related credits given by the seller, such that actual net cash consideration paid was \$43,430,000, financed by NorCal with the issuance of a senior secured note in an equivalent amount (Note 7). The acquired assets consist of a 20-bed skilled nursing facility, an 83-bed assisted living facility (including 20 memory care beds) and 203 independent living units in McMinnville, Oregon.

The transaction was accounted for under the acquisition method of accounting under ASC Topic 805, *Business Combinations*. Goodwill recognized in the transaction is attributable to the acquisition of an operating business beyond the value of real estate acquired.

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Notes to Consolidated Financial Statements
December 31, 2023

The recognized amounts of assets acquired and liabilities assumed were as follows (in thousands):

Consideration:		
Cash	\$	<u>43,430</u>
Fair value of total consideration transferred	\$	<u><u>43,430</u></u>
Assets acquired and liabilities assumed:		
Entrance fee promissory notes	\$	1,750
Land		11,000
Property and equipment		43,760
Prepays and other assets		157
Accrued liabilities		(49)
Rebatable entrance fee liabilities		(2,604)
Deferred revenue from entrances fees		<u>(16,641)</u>
Total identifiable net assets		37,373
Goodwill		<u>6,057</u>
Total purchase price	\$	<u><u>43,430</u></u>

The deferred revenue from entrance fees assumed as part of the transaction represent contract liabilities for performance obligations outstanding and were recognized in accordance with ASC 606 as of the acquisition date. Contract liabilities are part of the list of exceptions to the principle of fair value measurement in FASB ASC 805.

As part of the transaction, the Corporation incurred acquisition costs of \$298,000, which are included in nonrecurring operating expenses in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2023.

4. Liquidity and Availability of Resources

As of December 31, 2023, the Corporation has financial assets available for utilization within one year of the consolidated balance sheet date, which consist of the following (in thousands):

Cash and cash equivalents	\$	1,937
Resident accounts receivable		1,627
Other accounts receivable		755
Investments		<u>695</u>
Total	\$	<u><u>5,014</u></u>

The Corporation's investments are available for utilization within one year in the normal course of operations. Accordingly, these assets have been included above.

As part of the Corporation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. These funds may be drawn upon, if necessary, to meet unexpected liquidity needs.

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Notes to Consolidated Financial Statements
December 31, 2023

5. Investments, Restricted Investments and Fair Value Measurements

The composition of investments and restricted investments is set forth in the following table (in thousands):

Investments:		
Cash and cash equivalents	\$	445
Mutual funds		230
Equity securities		<u>20</u>
Total investments		<u>695</u>
Restricted investments:		
Cash and cash equivalents		7
Mutual funds		227
Equity securities		<u>20</u>
Total restricted investments		<u>254</u>
Total investments and restricted investments	\$	<u><u>949</u></u>

Investment Returns

Investment returns for the year ended December 31, 2023 is as follows (in thousands):

Dividend, interest and other investment income, net of expenses	\$	93
Realized gains on investments		<u>139</u>
Total investment income, net	\$	<u><u>232</u></u>
Change in unrealized gains on investments, net	\$	<u><u>77</u></u>

Investment income is net of investment expenses of \$22,000 for the year ended December 31, 2023.

Fair Value Measurements

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value (NAV) per share (or its equivalent) with the ability to redeem the investments in the near term.

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

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
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The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- Mutual funds - Mutual funds registered with the U.S. Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted market prices, which represent the NAV of shares, and are categorized as Level 1.
- Equities - Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange and are categorized as Level 1.

The following table presents the fair value measurements of financial instruments recognized in the accompanying consolidated balance sheet measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2023 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments and restricted investments:				
Mutual funds:				
Equity	\$ 266	\$ -	\$ -	\$ 266
Fixed income	191	-	-	191
Equity securities	<u>40</u>	<u>-</u>	<u>-</u>	<u>40</u>
Total investments and restricted investments measured at fair value	<u>\$ 497</u>	<u>\$ -</u>	<u>\$ -</u>	497
Cash and cash equivalents				<u>452</u>
Total investments and restricted investments				<u>\$ 949</u>

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
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6. Land, Buildings and Equipment, Net

Land, buildings and equipment, net at cost at December 31, 2023 consists of the following (in thousands):

Land	\$ 14,478
Land improvements	2,631
Buildings and improvements	66,571
Furnishings, equipment and automotive	<u>8,229</u>
Total	91,909
Accumulated depreciation	<u>(21,115)</u>
Total	70,794
Construction in progress	<u>1,021</u>
Total	<u><u>\$ 71,815</u></u>

Depreciation expense for the year ended December 31, 2023 was \$3,129,000. Fully depreciated assets of \$112,000 were disposed of during the year ended December 31, 2023.

In March 2024, Hillside entered into a contract totaling approximately \$3,600,000 related to the construction of additional residential living cottages.

7. Notes and Bonds Payable Held by Affiliate

A summary of the Corporation's bonds payable at December 31 is as follows (in thousands):

Series 2023, Senior Secured Interaffiliate Note, payable to NorCal and issued in connection with the acquisition of Hillside, bearing interest at the twelve-month SOFR rate (subject to a 1% floor) plus 1.4% over 35 years. Secured by the property of Hillside. Annual principal payments commencing on May 1, 2024 in varying amounts ranging from \$125 to \$650 through May 1, 2057. A balloon payment is due on May 1, 2058 in the amount of \$32,530. Interest rate at December 31, 2023 was 6.52%.	\$ 43,430
Less current portion	<u>(125)</u>
	<u><u>\$ 43,305</u></u>

Scheduled maturities of bonds payable are as follows:

Years ending December 31:	
2024	\$ 125
2025	125
2026	150
2027	150
2028	150
Thereafter	<u>42,730</u>
Total	<u><u>\$ 43,430</u></u>

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
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In conjunction with the acquisition, Hillside entered into a revolving line of credit with NorCal for a maximum amount of \$8,000,000, with \$6,500,000 designated to meet statutory reserve requirements and the remaining \$1,500,000 designated to support working capital needs. The line of credit bears interest at the twelve-month SOFR rate (subject to a 1% floor) plus 1.4%. No amounts have been drawn on the revolving note as of December 31, 2023.

During 2023, The Terraces at Summitview paid off its outstanding bonds payable in full.

8. Retirement Plan

The Corporation participates in the HumanGood defined contribution retirement plan covering all eligible employees with a corporate match of employee contributions up to 4% of eligible earnings. Expenses amounted to \$139,000 as of December 31, 2023.

9. Net Resident Service Revenue

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

	<u>Residential Living</u>	<u>Assisted Living</u>	<u>Memory Support</u>	<u>Health Center</u>	<u>Total</u>
Private (contract)	\$ 4,281	\$ 1,056	\$ 661	\$ 600	\$ 6,598
Private (noncontract)	4,887	3,689	224	1,217	10,017
Medicare (Part A)	-	-	-	2,029	2,029
Medicare (Part B)	-	-	-	118	118
Medicaid	-	-	-	4,434	4,434
Managed Care	-	-	-	1,396	1,396
Subtotal	<u>\$ 9,168</u>	<u>\$ 4,745</u>	<u>\$ 885</u>	<u>\$ 9,794</u>	24,592
Amortization of entrance fees					<u>1,239</u>
Total					<u>\$ 25,831</u>

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
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10. Functional Expenses

The Corporation provides housing, healthcare and other related services to residents within its geographic location. Financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses relating to providing these services are approximately as follows for the year ended December 31, 2023 (in thousands):

	<u>Residential Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 13,867	\$ 851	\$ 14,718
Employee benefits	2,674	164	2,838
Supplies	2,153	64	2,217
Ancillary services	677	-	677
Repairs and maintenance	184	20	204
Marketing and advertising	320	-	320
Purchased services	977	712	1,689
Management fees	-	297	297
Utilities	1,011	68	1,079
Travel and related	58	36	94
Rentals and leases	55	1	56
Insurance	455	-	455
Other operating expenses	612	194	806
Interest expense	2,015	-	2,015
Depreciation and amortization	3,529	-	3,529
Nonrecurring operating expenses	304	-	304
	<u>\$ 28,891</u>	<u>\$ 2,407</u>	<u>\$ 31,298</u>
Total expenses	<u>\$ 28,891</u>	<u>\$ 2,407</u>	<u>\$ 31,298</u>

11. Transactions With Affiliates

Amounts payable to affiliates include management fees, consulting fees and cost recoveries for other services such as purchase cards, payroll, benefits and insurance payable to NorCal. During 2023, the Corporation recognized management fee expenses of \$297,000 and consulting fees of \$351,000 (included in purchased services in the accompanying consolidated statement of operations and changes in net assets.) The Corporation owed NorCal \$1,238,000 as of December 31, 2023, for recurring intercompany transactions and cost recoveries in the normal course of business. These balances are settled in the normal course of operations with no fixed repayment terms.

12. Insurance Programs

Workers' Compensation Plan

The Terraces at Summitview participates in the State of Washington's fully insured workers' compensation program and receives safety program support from NorCal. Expenses for these coverages are reflected as a component of the benefit burden applied to payroll. Amounts charged to the Terraces at Summitview for its workers' compensation programs was \$199,000 for the year ended December 31, 2023.

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Notes to Consolidated Financial Statements
December 31, 2023

Hillside maintains a guaranteed cost policy for workers' compensation claims in accordance with applicable State statutes. Management of Hillside is not aware of any claims outstanding that are uninsured by the policy, yet any liability would be included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. The expense for this coverage is reflected as a component of employee benefits in the accompanying consolidated statement of operations and changes in assets.

Professional Liability Insurance

The Terraces at Summitview has professional liability insurance through a claims-made policy for the year ended December 31, 2023. Hillside maintains professional liability coverage through a pooled program with HumanGood. HumanGood has secured claims-made policies for malpractice and general liability insurance with certain self-insured retention limits. Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying consolidated balance sheet. Any related insurance recovery receivables would be recorded under other receivables in the accompanying consolidated balance sheet. There are no amounts recorded at December 31, 2023 for these matters.

Health Insurance

The Corporation is self-insured for health insurance claims for eligible active employees with certain self-insured retention limits. The program is managed by COG and estimates of the liability for claims incurred but not reported are included in the combined balance sheets of COG and costs related thereto are allocated to the Corporation through intercompany transactions based on a percentage of payroll.

13. Commitments and Contingencies

Legal

The Corporation 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 these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Senior Living Services Industry

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

**West Valley Nursing Homes, Inc.
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Notes to Consolidated Financial Statements
December 31, 2023

14. Concentrations of Credit Risk

The Corporation grants credit without collateral to their residents, some of whom are insured under third-party payor arrangements.

The Corporation maintains cash and cash equivalent accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash and cash equivalent accounts in excess of federally insured limits. Management believes they are not subject to any significant credit risk on their cash and cash equivalent accounts.

15. Subsequent Events

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

The Corporation has evaluated subsequent events through April 26, 2024, which is the date the consolidated financial statements were available to be issued.

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidating Balance Sheet Schedule
December 31, 2023
(In Thousands)

	<u>Terraces at Summitview</u>	<u>Hillside</u>	<u>Total Consolidated</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 355	\$ 1,582	\$ 1,937
Resident accounts receivable, net	828	799	1,627
Other accounts receivable	8	747	755
Prepaid expenses and other assets	373	208	581
	<u>1,564</u>	<u>3,336</u>	<u>4,900</u>
Total current assets	1,564	3,336	4,900
Restricted Cash	8	-	8
Investments	695	-	695
Restricted Investments	254	-	254
Land, Buildings and Equipment, Net	17,195	54,620	71,815
Goodwill	-	5,703	5,703
Other Noncurrent Assets	422	62	484
	<u>20,138</u>	<u>63,721</u>	<u>83,859</u>
Total assets	\$ 20,138	\$ 63,721	\$ 83,859
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued expenses	\$ 634	\$ 674	\$ 1,308
Payable to affiliates	1,131	107	1,238
Deposits	44	251	295
Accrued interest	-	1,924	1,924
Current portion of long-term debt	-	125	125
	<u>1,809</u>	<u>3,081</u>	<u>4,890</u>
Total current liabilities	1,809	3,081	4,890
Notes and Bonds Payable Held by Affiliates	-	43,305	43,305
Rebatable Entrance Fees Due	-	2,596	2,596
Entrance Fees Subject to Refund	-	6,523	6,523
Entrance Fees Nonrefundable	-	11,320	11,320
Other Liabilities	127	30	157
	<u>1,936</u>	<u>66,855</u>	<u>68,791</u>
Total liabilities	1,936	66,855	68,791
Net Assets			
Net assets (deficit) without donor restrictions	17,950	(3,134)	14,816
Net assets with donor restrictions	252	-	252
	<u>18,202</u>	<u>(3,134)</u>	<u>15,068</u>
Total net assets (deficit)	18,202	(3,134)	15,068
Total liabilities and net assets	\$ 20,138	\$ 63,721	\$ 83,859

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidated Statement of Operations and Changes in Net Assets Schedule
Year Ended December 31, 2023
(In Thousands)

	<u>Terraces at Summitview</u>	<u>Hillside</u>	<u>Total Consolidated</u>
Changes in Net Assets Without Donor Restrictions			
Operating revenues:			
Residential living	\$ 4,652	\$ 4,516	\$ 9,168
Assisted living	2,602	2,143	4,745
Health center	7,928	1,866	9,794
Memory Support	-	885	885
Amortization of entrance fees	-	1,239	1,239
Other operating revenue	475	233	708
Net assets released from restrictions	4	-	4
	<u>15,661</u>	<u>10,882</u>	<u>26,543</u>
Total operating revenues			
Operating expenses:			
Salaries and wages	9,361	5,357	14,718
Employee benefits	2,004	834	2,838
Supplies	1,459	758	2,217
Ancillary services	595	82	677
Repairs and maintenance	80	124	204
Marketing and advertising	147	173	320
Purchased services	866	823	1,689
Management fees	297	-	297
Utilities	634	445	1,079
Travel and related	37	57	94
Rentals and leases	37	19	56
Insurance	288	167	455
Other operating expenses	245	561	806
	<u>16,050</u>	<u>9,400</u>	<u>25,450</u>
Total operating expenses			
(Loss) income before other operating income (expense)	(389)	1,482	1,093
Other operating income (expense):			
Investment income, net	232	-	232
Change in unrealized gains on investments, net	77	-	77
Depreciation and amortization	(1,135)	(2,394)	(3,529)
Interest expense	(91)	(1,924)	(2,015)
Nonrecurring operating expenses	(6)	(298)	(304)
	<u>(1,312)</u>	<u>(3,134)</u>	<u>(4,446)</u>
Loss from operations and change in net assets without donor restrictions			
Changes in Net Assets With Donor Restrictions			
Investment income	1	-	1
Change in unrealized losses on investments, net	31	-	31
Restricted contributions	7	-	7
Net assets released from restrictions	(4)	-	(4)
	<u>35</u>	<u>-</u>	<u>35</u>
Change in net assets with donor restrictions			
Change in net assets	(1,277)	(3,134)	(4,411)
Net Assets, Beginning	<u>19,479</u>	<u>-</u>	<u>19,479</u>
Net Assets (Deficit), Ending	<u>\$ 18,202</u>	<u>\$ (3,134)</u>	<u>\$ 15,068</u>

**West Valley Nursing Homes, Inc.
(dba The Terraces at Summitview) and Affiliate**

Consolidating Statement of Cash Flows Schedule
Year Ended December 31, 2023
(In Thousands)

	<u>Terraces at Summitview</u>	<u>Hillside</u>	<u>Total Consolidated</u>
Cash Flows From Operating Activities			
Cash received for resident services	\$ 15,152	\$ 8,693	\$ 23,845
Cash received from nonrebatable entrance fees from reoccupancy	-	3,739	3,739
Cash received from other operating activities	478	122	600
Cash earnings realized from investments	93	-	93
Cash paid for employee salaries	(8,616)	(3,817)	(12,433)
Cash paid for employee benefits	(1,960)	(816)	(2,776)
Cash paid for temporary labor	(675)	(1,383)	(2,058)
Cash paid to vendors	(4,791)	(3,075)	(7,866)
Cash paid for interest	(97)	-	(97)
Net cash (used in) provided by operating activities	<u>(416)</u>	<u>3,463</u>	<u>3,047</u>
Cash Flows From Investing Activities			
Acquisition of land, buildings and equipment, net	(985)	(1,896)	(2,881)
Net purchases of restricted investments	(41)	-	(41)
Net sales of unrestricted investments	7,773	-	7,773
Net cash provided by (used in) investing activities	<u>6,747</u>	<u>(1,896)</u>	<u>4,851</u>
Cash Flows From Financing Activities			
Refunds of deposits and entrance fees	-	(92)	(92)
Cash received from inter-company transactions	(100)	107	7
Cash received from restricted gifts and donations	7	-	7
Cash paid for other trust activity, net	(2)	-	(2)
Payments on notes and bonds payable	(6,670)	-	(6,670)
Net cash (used in) provided by financing activities	<u>(6,765)</u>	<u>15</u>	<u>(6,750)</u>
(Decrease) increase in cash, cash equivalents and restricted cash	(434)	1,582	1,148
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>804</u>	<u>-</u>	<u>804</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 370</u>	<u>\$ 1,582</u>	<u>\$ 1,952</u>
Noncash Investing and Financing Activities			
Acquisition of Hillside	<u>\$ -</u>	<u>\$ (43,430)</u>	<u>\$ (43,430)</u>
Issuance of senior secured note to affiliate	<u>\$ -</u>	<u>\$ 43,430</u>	<u>\$ 43,430</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to Balance Sheet			
Cash and cash equivalents	\$ 355	\$ 1,582	1,937
Restricted cash	8	-	8
Restricted cash included in restricted investments	7	-	7
Total cash, cash equivalents and restricted cash	<u>\$ 370</u>	<u>\$ 1,582</u>	<u>\$ 1,952</u>