HumanGood Nevada (dba Las Ventanas)
(a Member of HumanGood Cornerstone)

Financial Statements

December 31, 2020 and 2019

Independent Auditors' Report

To the Board of Directors of
HumanGood Nevada (dba Las Ventanas)
(a Member of HumanGood Cornerstone)

We have audited the accompanying financial statements of HumanGood Nevada (dba Las Ventanas) (the Corporation), a member of HumanGood Cornerstone, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and the results of its operations, changes in net deficit and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 30, 2021

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HumanGood Nevada (dba Las Ventanas)
(a Member of HumanGood Cornerstone)

Balance Sheets
December 31, 2020 and 2019
(In Thousands)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 2,289	$ 2,985
Resident accounts receivable, less allowance for doubtful accounts of $705 in 2020 and $396 in 2019	1,159	1,087
Other receivables	288	772
Current portion of restricted investments	-	1,000
Prepaid expenses, deposits and other assets	360	227
Total current assets	4,096	6,071
Restricted Cash	2,610	2,657
Investments	3,239	3,168
Restricted Investments	3,888	4,802
Land, Buildings and Equipment, Net	64,530	65,614
Total assets	$ 78,363	$ 82,312
Liabilities and Net Deficit		
Current liabilities		
Accounts payable and accrued expenses	$ 1,522	$ 1,335
Payable to affiliates	755	239
Deposits	66	145
Accrued interest	530	530
Current portion of notes and bonds payable	-	1,000
Entrance fee rebates payable	-	877
Total current liabilities	2,873	4,126
Notes and Bonds Payable, Net	45,501	44,813
Notes and Bonds Payable Held by Affiliates	13,136	13,419
Subordinated Management Fees	2,662	2,412
Rebatable Entrance Fees Due	20,419	22,356
Entrance Fees Subject to Refund	3,081	4,305
Entrance Fees Nonrefundable	12,521	12,402
Other Liabilities	75	120
Total liabilities	100,268	103,953
Net Deficit	(21,905)	(21,641)
Total liabilities and net deficit	$ 78,363	$ 82,312

See notes to financial statements

HumanGood Nevada (dba Las Ventanas)
(a Member of HumanGood Cornerstone)

Statements of Operations and Changes in Net Deficit
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Operating Revenues		
Residential living	$ 9,408	$ 9,209
Assisted living	3,321	3,399
Health center	8,263	8,370
Memory care	1,097	1,121
Amortization of entrance fees	2,452	3,415
COVID relief funding	883	-
Other operating revenue	137	246
Change in future service benefit obligations	-	5,050
Total operating revenues	25,561	30,810
Operating Expenses		
Salaries and wages	8,853	8,722
Employee benefits	2,197	2,036
Supplies	2,231	1,947
Ancillary services	1,408	1,489
Repairs and maintenance	467	461
Marketing and advertising	430	412
Purchased services	1,754	1,289
Management fees	612	592
Utilities	946	940
Travel and related	54	133
Leases and rents	84	68
Insurance	255	248
Other operating expenses	1,539	1,329
Total operating expenses	20,830	19,666
Income before other operating income (expense)	4,731	11,144
Other Operating Income (Expense)		
Investment income, net	142	213
Change in unrealized (losses) gains on investments, net	(19)	25
Depreciation	(2,735)	(2,554)
Mortgage interest	(2,414)	(2,424)
(Loss) income from operations	(295)	6,404
Other Changes in Net Deficit		
Contributions in aid of construction	31	-
Change in net deficit	(264)	6,404
Net Deficit, Beginning	(21,641)	(28,045)
Net Deficit, Ending	$ (21,905)	$ (21,641)

See notes to financial statements

HumanGood Nevada (dba Las Ventanas)
(a Member of HumanGood Cornerstone)

Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(In Thousands)

	2020	2019
Cash Flows From Operating Activities		
Cash received from resident services	$ 21,799	$ 21,229
Cash received from nonrebatable entrance fees from reoccupancy	2,298	3,241
Cash received from COVID relief funding	883	-
Cash received from other operating activities	102	244
Cash earnings realized from investments	142	213
Cash paid for employee salaries	(8,000)	(8,071)
Cash paid for employee benefits	(2,197)	(2,036)
Cash paid for temporary labor	(759)	(623)
Cash paid to vendors	(10,191)	(7,966)
Cash paid for interest	(2,149)	(2,143)
Net cash provided by operating activities	1,928	4,088
Cash Flows From Investing Activities		
Acquisition of land, buildings and equipment	(1,651)	(1,132)
Net purchases of unrestricted investments	(90)	(87)
Net cash used in investing activities	(1,741)	(1,219)
Cash Flows From Financing Activities		
Payments of notes and bonds payable	(982)	-
Proceeds from rebatable entrance fees	1,066	1,385
Refunds of deposits and refundable entrance fees	(3,475)	(5,189)
Cash paid for deferred debt issuance costs	-	(123)
Cash received from intercompany transactions	516	223
Cash received from contributions in aid of construction	31	-
Net cash used in financing activities	(2,844)	(3,704)
Decrease in cash, cash equivalents and restricted cash and cash equivalents	(2,657)	(835)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	11,444	12,279
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 8,787	$ 11,444
Noncash Disclosures		
Compounding of accrued interest on Series 2012 B Bonds to Series 2012 B Bonds principal	$ 231	$ 249
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Balance Sheets		
Cash and cash equivalents	$ 2,289	$ 2,985
Restricted cash included in current portion of restricted investments	-	1,000
Restricted cash	2,610	2,657
Restricted cash included in restricted investments	3,888	4,802
Total cash, cash equivalents and restricted cash and cash equivalents	$ 8,787	$ 11,444

See notes to financial statements

1. Business Organization

HumanGood Nevada (dba Las Ventanas) (the Corporation) is a California nonprofit public benefit tax-exempt corporation formed on January 7, 2004 and is qualified to do business in the state of Nevada. The Corporation was formed for the purpose of providing housing, health care and supportive services for the elderly in the Las Vegas, Nevada area. The Life Plan Community (LPC) consists of 171 residential living suites and common areas, 6 residential living villas, 60 assisted living apartments and a 16-bed memory care suite, which accepted its first occupants in February 2016, and a 60-bed health center.

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 Boards of Directors of the Corporation, HumanGood Arizona, Inc. (dba Terraces of Phoenix), HumanGood Washington (dba Judson Park), HumanGood Idaho (dba Terraces of Boise), Seniority Properties (dba HumanGood Properties), and in conjunction with an affiliation effective June 30, 2019, HumanGood East (formerly Philadelphia Presbytery Homes and Services for the Aging, dba Presby's Inspired Life). HumanGood Arizona, Inc. and HumanGood Washington together constitute an obligated group (HumanGood National Obligated Group). In conjunction with finalizing transfer agreements in 2019, HumanGood Cornerstone is the sole member and exercises its direction and control through the appointment of the Board of Directors of HumanGood Affordable Housing and Beacon Development Group (BDG). In March 2021, HumanGood Cornerstone approved a resolution to transfer BDG to HumanGood Affordable Housing as its sole member.

HumanGood is a California nonprofit public benefit tax-exempt corporation providing housing, health care and supportive services for the elderly through its LPCs and affordable housing communities. HumanGood is the sole member of HumanGood Cornerstone, HumanGood Fresno (dba Terraces at San Joaquin Gardens, TSJG), 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.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 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 benefit 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, money market funds, and overnight investments considered to be cash equivalents. For the purposes of the statements of cash flows, cash, cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less.

Restricted Cash

Restricted cash is defined as cash and cash equivalents, which are restricted in their use by regulatory or other agreements. These include assets held by trustees in accordance with the indentures relating to debt agreements to support payments of entrance fee refunds to residents in higher levels of care that have had their previous apartment reoccupied.

Investments

Investments include certain cash and cash equivalents and fixed income securities. Investments are measured at fair value in the accompanying balance sheets.

Investment income or loss (including interest, dividends and fees), realized gains and losses and unrealized gains and losses on investments are included in (loss) income from operations. 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 classified as restricted investments in the accompanying balance sheets (see Note 4). Restricted investments include assets held by trustees in accordance with the indentures related to the debt agreement for principal, interest and other reserves.

Resident Accounts Receivable

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable (outstanding balances over 150 days are fully reserved) and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and accounts are deemed impaired.

Other Receivables

Other receivables at December 31, 2020 and 2019, include noninterest bearing, unsecured promissory notes from residents to pay entrance fees in the amount of $0 and $514,000, respectively. Entrance fee promissory notes receivable are evaluated for collectability prior to residents being admitted to the community based on each resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed. All amounts are contractually due within 90 days. Also included in other receivables is $275,000 and $250,000 of litigation insurance recovery receivables at December 31, 2020 and 2019, respectively (see professional liability insurance section of Note 11).

Other receivables are stated at the amount management expects to collect. If necessary, management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to other receivables.

Land, Buildings and Equipment, Net

Land, buildings and equipment, net 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 its 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 recognized at December 31, 2020 and 2019.

Deferred Debt Issuance Costs

Expenses incurred in connection with the issuance of debt are deferred and are amortized over the term of the related financing agreements using the interest method and are presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization expense, which is included as a component of mortgage interest in the accompanying statement of operations and changes in net deficit, was $32,000 in 2020 and 2019.

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.77 An evaluation of the future service benefit obligation for residents indicated that a liability was not considered necessary at December 31, 2020 and 2019. The discount rate used to calculate the obligation to provide future services was 5 percent for 2020 and 2019.

Types of Entrance Fees

The Care and Residence Agreements between the Corporation and the residents provide for the payment of an entrance fee. Entrance fees received by the Corporation 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 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

The Care and Residence Agreement provides the resident with the right to a refund of the entrance fee, less 2.0 percent for each month of residency for 44 months after an initial reduction to the original fee, under certain circumstances. In certain cases, upon the move out of a resident, the unamortized balance of the entrance fee on a contractual basis is payable to the resident.

The Corporation has offered contract options whereby 50 percent to 100 percent of the entrance fee is rebatable at termination of the contract and subsequent reoccupancy of the apartment. Prior to fiscal year ended September 30, 2013, the predominant contract type outstanding was a 90 percent rebatable contract. Effective for fiscal year 2013 and beyond, primarily modified Type A contracts and 75 percent rebatable entrance fee contracts have been offered by the Corporation.

At December 31, 2020 and 2019, the Corporation had nonrefundable entrance fees of $12,521,000 and $12,402,000, respectively, related to entrance fees received that will be recognized as revenue in future years. Additionally, at December 31, 2020 and 2019, the Corporation had entrance fees subject to refund of $3,081,000 and $4,305,000, respectively, which will be recognized as revenue in future years, unless refunded.

Additionally, at December 31, 2020 and 2019, $20,419,000 and $23,233,000, respectively, of the entrance fees are contractually rebatable and are presented as rebatable entrance fees due and entrance fee rebates payable in the accompanying balance sheets. Included in these amounts are $1,037,000 and $674,000 of entrance fee rebates due pending apartment reoccupancy, $905,000 and $649,000 of entrance fee rebates due pending the move-out of residents who are currently residing in higher levels of care and reoccupancy of their apartment and $3,278,000 and $5,314,000 of entrance fee rebates due pending only the move-outs of residents currently residing in higher levels of care at December 31, 2020 and 2019, respectively.

Actual refunds and rebates of entrance fees were $3,475,000 and $5,189,000 for the years ended December 31, 2020 and 2019, respectively. Based on historical experience, management expects to pay refunds in future years of approximately $4,840,000 per year.

Net Deficit

Net deficit, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. All net deficits as of December 31, 2020 and 2019 are classified as net deficit without donor restrictions as they are not subject to donor or time restrictions and are available for use in general operations. There were no net assets or net deficits with donor-imposed restrictions, temporary or perpetual in nature, as of December 31, 2020 and 2019.

Contributions

The Corporation participates in the HumanGood Foundation West fundraising activity. Gifts and bequests to the Corporation are credited to the Corporation's funds with Foundation West. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to the Corporation's fund. Funds held by Foundation West that the Foundation West board has designated for the Corporation amount to approximately $1,193,000 and $1,125,000 of board designated funds and $175,000 and $198,000 of donor-restricted project funds at December 31, 2020 and 2019, respectively. Foundation West retains a legal right to redirect the use of these unrestricted funds. Board practice since inception has been to designate earnings distributions on funds for community benevolence needs. The Corporation receives distributions from Foundation West based upon the market value of the twelve-quarter rolling average of the Corporation's board-designated funds at a current rate of 3.5 percent. This rate is subject to change based upon the Foundation West board's action. Included in other changes in net deficit in the accompanying statements of operations and changes in net deficit are $31,000 and $0 for the years ended December 31, 2020 and 2019, respectively, of contributions in aid of construction received from Foundation West.

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, although terms generally include payment to be made within 30 days. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, 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 is 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 services 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.

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 2020 or 2019.

Assisted Living and Memory Care

Assisted living and memory care revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Corporation has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation for each of these levels of care, which is satisfied over time as services are provided. Therefore, assisted living and memory care 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 balance sheets. The Corporation recognized amortization income of $2,452,000 in 2020 and $3,415,000 in 2019. 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 balance sheets.

For residents with Life Care contracts (modified Type A) and Type B contracts, revenues from entrance fees other than rebatable entrance fees received are recognized through amortization 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.

COVID Relief Funding

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

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund to provide financial support for hospitals and other healthcare providers. The Corporation received approximately $883,000 in the year ended December 31, 2020 related to this funding. In accordance with the terms and conditions in place at December 31, 2020, the Corporation could apply the funding first against eligible expenses, and then lost revenues, which the Corporation's methodology for calculating lost revenues was the difference between 2020 budgeted and 2020 actual patient care revenue.

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

The Corporation has incurred lost revenues and eligible expenses sufficient to allow it, in accordance with the original terms and conditions of the Provider Relief Fund as of December 31, 2020, to recognize revenues of $883,000 which are included in COVID relief funding in the accompanying statement of operations and changes in net deficit for the year ended December 31, 2020.

COVID-19 related expenses of $441,000, including personal protective equipment and other equipment or supplies, are included in supplies in the accompanying statement of operations and changes in net deficit for the year ended December 31, 2020. COVID-19 testing expenses of $77,000 are included in other operating expenses in the accompanying statement of operations and changes in net deficit for the year ended December 31, 2020. COVID-19 direct team member costs of $14,000 and $218,000 are included in salaries and wages and employee benefits, respectively in the accompanying statement of operations and changes in net deficit for the year ended December 31, 2020.

Performance Indicator

(Loss) income from operations as reflected in the accompanying statements of operations is the performance indicator. (Loss) income from operations includes all changes in net deficit, other than contributions in aid of construction.

Tax-Exempt Status

The Corporation is a California nonprofit public benefit tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The Corporation assesses uncertain tax positions in accordance with the provisions of the 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 percent likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2020 and 2019, there were no such uncertain tax positions.

3. Liquidity and Availability of Resources

As of December 31, 2020 and 2019, the Corporation has financial assets available for utilization within one year of the balance sheet date, consisting of the following (in thousands):

	2020	2019
Cash and cash equivalents	$ 2,289	$ 2,985
Resident accounts receivable	1,159	1,087
Entrance fee notes receivable	-	514
Investments	3,239	3,168
Total	$ 6,687	$ 7,754

The Corporation has investments, which 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.

4. Investments and Restricted Investments and Fair Value Measurements

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

	2020	2019
Investments:		
Cash and cash equivalents	$ 9	$ 176
Mutual funds, fixed income	2,447	630
Municipal bonds	148	207
Corporate bonds	323	971
U.S. government securities	312	1,184
Total	$ 3,239	$ 3,168
Restricted investments:		
Cash and cash equivalents	$ 3,888	$ 5,802

Investment Return

Investment return for the years ended December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Realized gains on investments	$ 50	$ 21
Dividend, interest and other investment income	92	192
Total investment income, net	$ 142	$ 213
Change in unrealized (losses) gains on investments, net	$ (19)	$ 25

Investment income is net of investment expenses of $4,000 and $6,000 for the years ended December 31, 2020 and 2019, respectively.

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.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying 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.

- Municipal bonds - Municipal bonds are valued using inputs and techniques which include identification of similar issues and market activity. To the extent that these inputs are observable and timely, values are categorized as Level 2.

- Corporate bonds - Investment-grade bonds are valued using inputs and techniques which include third-party pricing vendors, dealer quotations and recently executed transactions in securities of the issuer or comparable issuers. To the extent that these inputs are observable and timely, the values are categorized as Level 2.

- U.S. government securities - U.S. Treasury securities are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that these inputs are observable and timely, values are categorized as Level 2.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets 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, 2020 and 2019 (in thousands):

	Fair Value at December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Mutual funds	$ 2,447	$ -	$ -	$ 2,447
Municipal bonds	-	148	-	148
Corporate bonds	-	323	-	323
U.S. government securities	-	312	-	312
Total investments in the fair value hierarchy	$ 2,447	$ 783	$ -	$ 3,230
Reconciliation of investments to the balance sheet:				
Cash and cash equivalents	$ 9			
Investments in the fair value hierarchy	3,230			
Total investments	$ 3,239			

	Fair Value at December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Mutual funds	$ 630	$ -	$ -	$ 630
Municipal bonds	-	207	-	207
Corporate bonds	-	971	-	971
U.S. government securities	-	1,184	-	1,184
Total investments in the fair value hierarchy	$ 630	$ 2,362	$ -	$ 2,992
Reconciliation of investments to the balance sheet:				
Cash and cash equivalents	$ 176			
Investments in the fair value hierarchy	2,992			
Total investments	$ 3,168			

5. Land, Buildings and Equipment, Net

Land, buildings and equipment at cost at December 31, 2020 and 2019, consisted of the following (in thousands):

	2020	2019
Land	$ 8,900	$ 8,900
Land improvements	415	357
Buildings and improvements	87,054	85,620
Furnishings, equipment and automotive	3,160	2,703
	99,529	97,580
Accumulated depreciation	(35,213)	(32,478)
	64,316	65,102
Construction in progress	214	512
Total	$ 64,530	$ 65,614

Depreciation expense for the years ended December 31, 2020 and 2019, was $2,735,000 and $2,554,000, respectively.

Fully depreciated assets of $146,000 were disposed of during the year ended December 31, 2019. There were no disposals during 2020.

6. Notes and Bonds Payable, Net

A summary of the Corporation's notes and bonds payable at December 31, 2020 and 2019, is as follows (in thousands):

	2020	2019
Series 2012 A-1 Tax-Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012 and due October 1, 2042), with interest at 7.0%, funded monthly, and paid on October 1 and April 1.	$ 27,237	$ 27,237
Series 2012 A-2 Tax-Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012 and due October 1, 2042), with interest at 5.0%, with a projected step up to 7.0% upon paydown of the Series B Bonds, with interest that accrues but does not compound. The Series A-2 Bonds are at parity with the Series 2012 A-1 Bonds in collateral but subordinate in cash flow and do not have voting rights.	4,250	4,250
Series 2012 B-1 Tax-Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012 and due October 1, 2042), with interest at 2.0%, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow.	7,263	7,730

	2020	2019
Series 2012 B-2 Tax-Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012 and due October 1, 2042), with interest at 2.0%, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow, however the Series 2012 B-2 Bonds do not have voting rights.	$ 996	$ 1,062
Series 2012 B-3 Taxable, Fixed Rate Term Revenue Bonds (dated September 12, 2012 and due October 1, 2042), with interest at 2.0%, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow, however the Series 2012 B-3 Bonds do not have voting rights.	3,336	3,554
Series 2012 C-1 Tax-Exempt, Noninterest Bearing Bonds (dated September 12, 2012 and due October 1, 2042). Payments on the Series 2012 C Bonds will be made from available cash flow as detailed in the Master Trust Indenture only after the Series A and B Bonds are paid in full. All Series 2012 C Bonds are at parity in collateral and cash flow.	11,695	11,695
Series 2012 C-2 Taxable, Noninterest Bearing Bonds (dated September 12, 2012 and due October 1, 2042). Payments on the Series 2012 C Bonds will be made from available cash flow as detailed in the Master Trust Indenture only after the Series A and B Bonds are paid in full. All Series 2012 C Bonds are at parity in collateral and cash flow, however the Series C-2 Bonds do not have voting rights.	4,554	4,554
Total	59,331	60,082
Less current maturities	-	(1,000)
Less unamortized bond issuance costs, net	(694)	(850)
Notes and bonds payable, net	$ 58,637	$ 58,232

Estimated maturities of notes and bonds payable are dependent on cash flows and are estimated as follows (in thousands):

Years ending December 31:	
2021	$ -
2022	2,000
2023	2,000
2024	2,000
2025	2,000
Thereafter	51,331
Total	$ 59,331

The Series 2012 Bonds are subject to financial and occupancy covenants, which include a days cash on hand ratio and a debt service coverage ratio. The Series 2012 bonds are secured by the Corporation's property and equipment and a security interest in the gross revenues of the Corporation.

Restructuring of Obligations

The Corporation failed to pay installments of principal and interest due from January 2009 through September 12, 2012, on its Series 2004A and 2004B Bonds, failed to promptly repay amounts withdrawn from the debt service reserve fund and failed to pay down its original construction loan in full on February 27, 2009. These events represented events of default under the construction loan and bond financing agreements.

On June 22, 2012, the bondholders, the Corporation, NorCal as manager and construction loan and ground lease holder, executed a letter of agreement for the restructuring of Las Ventanas' debt and lease obligations. On September 12, 2012, the restructuring was finalized, which involved the exchanging of existing bonded indebtedness for three new series of tax-exempt bonds: Series A-1, Series B-1 and Series C-1. In exchange for contributed capital and the relinquishment of its interests in the ground lease and construction loan, NorCal received interests in the Series A-2, Series B-2, Series B-3 and Series C-2 Bonds which are classified as notes and bonds payable held by affiliates in the accompanying balance sheets.

The restructuring allowed for an entrance fee escrow, whereby entrance fee funds received from turnover occupancy of an apartment wherein the previous occupant had moved into a higher level of care are deposited into a restricted account and may only be utilized to aid in funding entrance fee refunds of the residents in higher levels of care. At December 31, 2020 and 2019, this account contained a balance of $2,610,000 and $2,657,000, respectively, which is reported as restricted cash on the accompanying balance sheets.

In accordance with the restructured loan agreements, cash in excess of 100 days is deposited in the debt service reserve fund and subsequently swept with 10 percent of the distribution deposited into a Repair and Replacement Fund, 10 percent into a Series A Principal Sinking Fund and the remaining 80 percent allocated on a pro-rata basis to pay down Series B Bonds. The table below lists all such distributions made through December 31, 2020. There were no distributions made in 2019.

	Series B-1 Principal	Series B-2 Principal	Series B-3 Principal	Repair and Replacement Fund	Series A Principal Sinking Fund	Total Distribution
January 2016	$ 860,000	$ 121,000	$ 407,000	$ 173,000	$ 173,000	$ 1,734,000
January 2017	1,116,000	155,000	517,000	224,000	224,000	2,236,000
February 2018	1,936,000	267,000	893,000	387,000	387,000	3,870,000
December 2018	1,632,000	224,000	750,000	326,000	326,000	3,258,000
May 2020	612,000	85,000	285,000	124,000	124,000	1,230,000
	$ 6,156,000	$ 852,000	$ 2,852,000	$ 1,234,000	$ 1,234,000	$ 12,328,000

On February 19, 2019, the Corporation filed a voluntary public disclosure through the Electronic Municipal Market Access website announcing its intent to explore various options related to tendering, purchasing, refinancing or restructuring all, or portions, of its Series 2012 Bonds. On February 12, 2021, an additional disclosure was filed detailing that NorCal had refined this exploration to potentially contacting holders of the Series 2012B-1 and C-1 Bonds to purchase all or a portion of those bonds with a current expectation to hold such Series 2012B-1 and C-1 Bonds within its investment portfolio in anticipation of a possible refinancing of the Series 2012 Bonds in the future. On February 18, 2021 NorCal purchased $4,922,000 par amount of the Series 2012B-1 and $9,136,000 par amount of the Series 2012C-1 Bonds at a discount.

7. Employee Benefit Plans

Effective January 1, 2018, the Corporation joined the HumanGood defined contribution retirement plan covering all eligible employees with a corporate match of employee contributions up to 4 percent of eligible earnings. Expenses amounted to $202,000 and $187,000 as of December 31, 2020 and 2019, respectively.

8. Net Resident Service Revenues

The Corporation disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Resident service and patient revenues consist of the following for the years ended December 31, 2020 and 2019 (in thousands):

	2020				
	Residential Living	**Assisted Living**	**Health Center**	**Memory Care**	**Total**
Private (contract)	$ 9,352	$ 2,262	$ 516	$ 461	$ 12,591
Private (noncontract)	56	1,059	2,255	636	4,006
Medicare (Part A)	-	-	4,333	-	4,333
Medicare (Part B)	-	-	155	-	155
Managed care	-	-	1,004	-	1,004
Subtotal	9,408	3,321	8,263	1,097	22,089
Amortization of entrance fees	-	-	-	-	2,452
Total	$ 9,408	$ 3,321	$ 8,263	$ 1,097	$ 24,541

	2019				
	Residential Living	**Assisted Living**	**Health Center**	**Memory Care**	**Total**
Private (contract)	$ 9,209	$ 2,641	$ 633	$ 311	$ 12,794
Private (noncontract)	-	758	2,377	810	3,945
Medicare (Part A)	-	-	4,907	-	4,907
Medicare (Part B)	-	-	136	-	136
Managed care	-	-	317	-	317
Subtotal	9,209	3,399	8,370	1,121	22,099
Amortization of entrance fees	-	-	-	-	3,415
Total	$ 9,209	$ 3,399	$ 8,370	$ 1,121	$ 25,514

9. Functional Expense

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 at December 31, 2020 and 2019 (in thousands):

	2020		
	Residential Services	**General and Administrative**	**Total**
Salaries and wages	$ 8,369	$ 484	$ 8,853
Employee benefits	2,067	130	2,197
Supplies	2,211	20	2,231
Ancillary services	1,408	-	1,408
Repairs and maintenance	467	-	467
Marketing and advertising	429	1	430
Purchased services	963	791	1,754
Management fees	-	612	612
Utilities	887	59	946
Travel and related	52	2	54
Leases and rents	82	2	84
Insurance	255	-	255
Other operating expense	1,110	429	1,539
Mortgage interest	2,414	-	2,414
Depreciation	2,735	-	2,735
Total	$ 23,449	$ 2,530	$ 25,979

	2019		
	Residential Services	**General and Administrative**	**Total**
Salaries and wages	$ 8,317	$ 405	$ 8,722
Employee benefits	1,876	160	2,036
Supplies	1,921	26	1,947
Ancillary services	1,489	-	1,489
Repairs and maintenance	461	-	461
Marketing and advertising	412	-	412
Purchased services	1,009	280	1,289
Management fees	-	592	592
Utilities	897	43	940
Travel and related	114	19	133
Leases and rents	68	-	68
Insurance	248	-	248
Other operating expense	1,074	255	1,329
Mortgage interest	2,424	-	2,424
Depreciation	2,554	-	2,554
Total	$ 22,864	$ 1,780	$ 24,644

10. Transactions With Affiliates

Amounts payable to affiliates include management fees and cost recoveries for other services such as dining, purchase cards, payroll, benefits and insurance payable to NorCal. The Corporation recognized expenses of $612,000 and $592,000 during 2020 and 2019, respectively, that consisted of management fees, and received distributions from Foundation West as described in Note 2. The Corporation owed NorCal $755,000 and $239,000 as of December 31, 2020 and 2019, respectively. These balances are settled in the normal course of operations with no fixed repayment terms.

11. Insurance Programs

Workers' Compensation Plan

The Corporation maintains a premium based insurance plan for workers' compensation claims in accordance with applicable State statutes. Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits. The expense for this coverage is reflected as a component of employee benefits in the accompanying statements of operations and changes in net deficit.

Professional Liability Insurance

The Corporation 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. The Corporation has accrued a liability of $375,000 and $340,000 as its best estimate of the cost of known claims incurred prior to December 31, 2020 and 2019, respectively. These liabilities are included in accounts payable and accrued expenses in the accompanying balance sheets. Related insurance recovery receivables of $275,000 and $250,000 at December 31, 2020 and 2019, respectively, are recorded under other receivables in the accompanying balance sheets.

Health Insurance

Effective in 2019, 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.

12. Commitments and Contingencies

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.

COVID-19

The spread of COVID-19 around the world has caused significant volatility in U.S. and international markets, supply chains, and businesses. The Corporation's evaluation of the effects of these events is ongoing as of the date the accompanying financial statements were issued. COVID-19 may impact various parts of the Corporation's 2021 operations and financial performance including but not limited to additional costs for emergency preparedness, disease control and containment, COVID testing and vaccinations, potential shortages of personnel, supply chain disruption, declines in revenue related to decreases in occupancy or volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions. Throughout the pandemic, the Corporation has provided up to date information on its COVID-19 response through a dedicated page on the Corporations' website.

13. Concentrations of Credit Risk

The Corporation grants credit without collateral to its 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 it is not subject to any significant credit risk on its cash and cash equivalent accounts.

14. Subsequent Events

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

For the rolling four quarters ending March 31, 2021, the Corporation's debt service coverage ratio failed to achieve the 1.20:1 minimum requirement, and as such, Section 410(c)(i) of the Master Trust Indenture requires the retention of an independent consultant within 30 days following the calculation to make recommendations within 60 days, with the failure to hire and follow the recommendations of the consultant constituting an event of default. In addition, Section 410(c)(iii) triggers an event of default if the debt service coverage ratio falls below 1.00:1 for two consecutive quarters. For the rolling four-quarter period ended March 31, 2021, the debt service coverage ratio was 0.65:1. Subsequent to the March 31, 2021 measurement date, management sought and received a waiver of the requirements in the aforementioned provisions of Section 410(c)(i) and Section 410(c)(iii) of the Master Trust Indenture for all periods prior to the December 31, 2021 quarterly testing date to allow the Corporation time to improve its debt service coverage ratio without the retention of an independent consultant.

In April 2021, the Corporation applied for and was approved for a loan pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration in the amount of $1,708,000 with an effective date of April 30, 2021. The loan carries no collateral or guarantee requirements. Under the terms of the loan, interest and principal payments are deferred for six months from the date of issuance. The PPP loan bears interest at 1 percent per annum and matures five years after issuance. Subject to certain eligibility and certification requirements under the PPP, some or all of the loan amount may be forgiven; however, the amount and timing of any forgiveness is uncertain.

The Corporation has evaluated subsequent events through April 30, 2021, which is the date the financial statements were issued.