HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combined Financial Statements
and Supplementary Information

December 31, 2019 and 2018

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Independent Auditors' Report

To the Members of the Board of Directors of
HumanGood National Obligated Group (HumanGood Arizona,
dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park)
(Members of HumanGood Cornerstone)

Report on the Financial Statements

We have audited the accompanying combined financial statements of the HumanGood National Obligated Group (National Obligated Group or NOG), which comprise the combined balance sheets as of December 31, 2019 and 2018, and the related combined statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the National Obligated Group as of December 31, 2019 and 2018, and the results of their operations and changes in net deficit and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters, Accounting Changes

As discussed in Note 2 to the combined financial statements, in 2019, the National Obligated Group changed their accounting policy related to the accounting for investments. Our opinion is not modified with respect to this change.

In addition, as discussed in Note 2 to the combined financial statements, in 2019, the National Obligated Group retrospectively adopted new accounting guidance on the presentation of amounts generally described as restricted cash and restricted cash equivalents in the combined statements of cash flows. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information is presented for the purpose of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 29, 2020

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combined Balance Sheets
December 31, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 6,617	$ 10,956
Resident accounts receivables, less allowance for doubtful accounts of $398 in 2019 and $234 in 2018	2,827	2,286
Other receivables	367	217
Investments	20,655	19,724
Current portion of restricted investments	1,008	920
Prepaid expenses, deposits and other assets	486	433
Total current assets	31,960	34,536
Noncurrent Assets		
Restricted investments	2,346	2,346
Land, buildings and equipment, net	70,174	72,853
Total noncurrent assets	72,520	75,199
Total assets	$ 104,480	$ 109,735
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,006	$ 2,246
Payable to affiliates	1,857	4,897
Deposits	179	161
Accrued interest	946	1,003
Current portion of notes and bonds payable	1,415	1,350
Entrance fee rebates payable	529	237
Total current liabilities	6,932	9,894
Noncurrent Liabilities		
Notes and bonds payable	69,377	70,717
Subordinated note payable to HumanGood NorCal	12,000	12,000
Rebatable entrance fees due	57,108	57,709
Entrance fees subject to refund	3,873	3,752
Entrance fees nonrefundable	17,786	16,275
Other liabilities	369	204
Total noncurrent liabilities	160,513	160,657
Total liabilities	167,445	170,551
Net Deficit Without Donor Restrictions	(62,965)	(60,816)
Total liabilities and net deficit	$ 104,480	$ 109,735

See notes to combined financial statements

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combined Statements of Operations and Changes in Net Deficit
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Operating Revenues		
Residential living	$ 16,538	$ 16,506
Assisted living	5,770	5,893
Health center	18,251	16,714
Memory care	3,185	3,180
Other residential services	374	683
Amortization of entrance fees	3,889	3,837
Other operating revenue	926	958
Total operating revenues	48,933	47,771
Operating Expenses		
Salaries and wages	21,060	19,249
Employee benefits	4,821	4,170
Supplies	3,960	3,873
Chargeable ancillary services	3,281	2,958
Repairs and maintenance	464	470
Marketing and advertising	678	708
Purchased services	2,012	1,812
Management fees	3,759	3,482
Utilities	1,750	1,870
Travel and related	163	212
Leases and rents	290	284
Insurance	562	598
Other operating expenses	1,143	342
Total operating expenses	43,943	40,028
Income before other operating income (expense)	4,990	7,743
Other Operating Income (Expense)		
Investment income, net	563	413
Unrealized gains (losses) on investments	431	(223)
Mortgage interest	(3,121)	(2,938)
Depreciation	(4,856)	(4,884)
Loss on early retirement of debt	-	(523)
Loss from operations	(1,993)	(412)
Change in Fair Value of Interest Rate Swap and Cap	(156)	339
Change in net deficit	(2,149)	(73)
Net Deficit, Beginning, As Previously Reported	(60,816)	(51,544)
Adjustments for adoption of accounting pronouncement	-	(274)
Adjustments for admission of HumanGood Washington to the National Obligated Group	-	(8,925)
Net deficit, beginning, as adjusted	(60,816)	(60,743)
Net Deficit, Ending	$ (62,965)	$ (60,816)

See notes to combined financial statements

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combined Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018 (As Adjusted)
Cash Flows From Operating Activities		
Cash received from resident services	$ 42,842	$ 41,885
Cash received from nonrebatable entrance fees from reoccupancy	5,511	3,157
Cash provided by other operating activities	915	1,652
Cash earnings realized from investments	563	410
Cash paid for other employees salaries	(18,376)	(17,630)
Cash paid for employees benefits	(4,803)	(4,147)
Cash paid for temporary labor	(2,714)	(1,853)
Cash paid to vendors	(17,743)	(17,360)
Cash paid for interest	(3,102)	(2,634)
Net cash provided by operating activities	3,093	3,480
Cash Flows From Investing Activities		
Acquisition of land, buildings and equipment	(2,177)	(2,054)
Net purchases of unrestricted investments	(501)	(415)
Net cash used in investing activities	(2,678)	(2,469)
Cash Flows From Financing Activities		
Proceeds from rebatable entrance fees	6,860	5,098
Refunds of deposits and refundable entrance fees	(7,136)	(5,806)
Cash paid for deferred debt issuance costs	-	(1,789)
Cash paid to affiliates	(3,040)	(5,535)
Principal payments on notes and bonds payable	(1,350)	(848)
Proceeds from issuance of notes and bonds payable	-	11,175
Net cash (used in) provided by financing activities	(4,666)	2,295
(Decrease) Increase in cash, cash equivalents and restricted cash and cash equivalents	(4,251)	3,306
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	14,222	10,916
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 9,971	$ 14,222
Cash Flows From Operating Activities		
Change in net deficit	$ (2,149)	$ (73)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Amortization of entrance fees	(3,889)	(3,837)
Proceeds from nonrebatable entrance fees from reoccupancy	5,511	3,157
Depreciation	4,856	4,884
Amortization of debt issuance costs	124	129
Amortization of bond premium	(48)	(25)
Unrealized (gains) losses on investments	(431)	223
Loss on early retirement of debt	-	523
Change in fair value of interest rate swap and cap	156	(339)
Change in residents accounts receivable and other receivable	(691)	(199)
Change in prepaids, deposits and other assets	(53)	182
Other changes in operating assets and liabilities, net	(293)	(1,145)
Net cash provided by operating activities	$ 3,093	$ 3,480
Noncash Disclosures		
Long-term debt repaid with proceeds from Series 2018 Bonds	$ -	$ 62,516
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combined Balance Sheets		
Cash and cash equivalents	$ 6,617	$ 10,956
Restricted cash included in current portion of restricted investments	1,008	920
Restricted cash included in noncurrent portion of restricted investments	2,346	2,346
Total cash, cash equivalents and restricted cash and cash equivalents	$ 9,971	$ 14,222

See notes to combined financial statements

1. Business Organization

HumanGood National Obligated Group

The HumanGood National Obligated Group (NOG or Corporations) formed in 2018 under the terms of a Master Trust Indenture (Note 6) includes HumanGood Arizona and HumanGood Washington.

HumanGood Arizona

HumanGood Arizona (dba Terraces of Phoenix or TOP) is an Arizona nonprofit tax-exempt corporation providing housing, health care and supportive services for the elderly in Phoenix, Arizona through its Life Plan Community (LPC, formerly Continuing Care Retirement Community or CCRC), Terraces of Phoenix. HumanGood NorCal (NorCal) has managed TOP since 1971 and from 1998 through September 29, 2003, NorCal was the sole corporate member of TOP. Since September 29, 2003, NorCal has continued to manage TOP under a multiyear management agreement. Simultaneous with the 2018 financing discussed in Note 6, the TOP management agreement with NorCal was amended and restated such that the management fee was increased from 6 percent of actual cash revenues to 8.5 percent of total budgeted cash revenues, with half of this amount subject to subordination upon noncompliance with certain covenants. This amended and restated agreement renews automatically annually unless terminated with 60 days prior written notice. The funds previously advanced by NorCal to support TOP's operating and capital needs were retained in the form of a subordinated note payable from TOP to NorCal.

The Terraces of Phoenix is located on a 21-acre campus in Phoenix, Arizona and currently consists of 209 residential living apartments, 49 assisted living apartments, 25 memory care apartments and a 64-bed health center with 36 private and 28 semi-private beds. TOP was founded in 1963 with the mission of providing a full continuum of retirement living services to the elderly in the greater Phoenix area.

HumanGood Washington

HumanGood Washington (dba Judson Park or JP) is a Washington nonprofit public benefit tax-exempt corporation providing housing, health care and supportive services for the elderly in Washington through its LPC, Judson Park. NorCal has managed JP since 1975. The management agreement with NorCal calls for a management fee of 8.5 percent of total budgeted cash revenues, with half of this amount subject to subordination upon noncompliance with certain covenants. This agreement renews automatically annually unless terminated with 60 day prior notice.

Judson Park is located on a 10-acre campus in Des Moines, Washington and consists of 167 residential living apartments, 31 assisted living apartments, 16 memory care apartments and a 96-bed health center with 20 private and 76 semi-private beds. The campus opened in 1963 with the mission of providing a full continuum of retirement living services to the elderly in the greater Seattle metro area.

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 Corporations, HumanGood Nevada (dba Las Ventanas), HumanGood Idaho (dba Terraces of Boise), 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). 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.

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), 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 Combination

The Corporations prepare combined financial statements in accordance with the financial reporting provisions specified in the disclosure requirements of the Master Trust Indenture. The Master Trust Indenture specifies the preparation of combined financial statements of the Obligated Group members; accordingly, the accompanying combined financial statements include only the accounts of the National Obligated Group members, which is in conformity with generally accepted accounting principles (GAAP) in the United States of America.

Change in Reporting Entity

During 2017, HumanGood Washington and HumanGood Arizona prepared separate standalone financial statements. Additional debt was issued in May 2018 (Note 6). As of the date of issuance of the additional debt, a Second and Amended Restated Master Indenture Trust was executed admitting HumanGood Washington to the Obligated Group. Prior to HumanGood Washington's admission into the Obligated Group, HumanGood Arizona was the sole member of the Obligated Group.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the combined 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 combined financial statements and reported amounts of revenues and expenses during the reported periods. Significant items subject to such estimates and assumptions include the fair value of interest rate swap; allowances for contractual and uncollectible accounts receivable; fair value of investments; future service benefit obligation; 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 the purposes of the combined 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 Investments

Restricted investments include assets held by trustees in accordance with the indentures related to the debt agreement for principal, interest and other reserves.

Investments

Investments include certain cash equivalents held by investment managers, domestic corporate debt securities, mutual funds, municipal bonds and U.S. government securities. Investments are measured at fair value in the accompanying combined balance sheets.

In 2019, the Corporations were required to adopt the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-01, which requires equity investments to be measured at fair value with changes in fair value recognized in the performance indicator. The Corporations manage their investments and restricted investments under one investment policy and as one portfolio, and accordingly, elected in 2019 to also change their accounting policy for all securities, by electing to adopt the fair value option for all financial assets included within investments and restricted investments. That election requires including changes in the unrealized gains and losses for those financial assets in the performance indicator. In accordance with GAAP, this change has been applied retrospectively to the combined financial statements. Prior to this change and the adoption of ASU No. 2016-01, the Corporations had reported the change in unrealized gains and losses on investments and restricted investments outside of the performance indicator. There was no effect on net deficit of the combined balance sheets as a result as a result of the change.

The following line items on the combined statements of operations and changes in net deficit for the year ended December 31, 2018 were affected by the changes in accounting principle (in thousands):

	As Previously Reported	As Adjusted	Effect of Change
Other Operating Income (Expense):			
Unrealized losses on investments	$ -	$ (223)	$ (223)
Loss from operations	(189)	(412)	(223)
Other Change in Net Deficit:			
Unrealized losses on investments, net	(223)	-	(223)

Investment income or loss (including interest, dividends and fees), realized gains and losses and unrealized gains and losses on investments and restricted investments are included in loss 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.

Resident Accounts Receivable

The Corporations assess 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 Corporations have exhausted all collection efforts and accounts are deemed impaired.

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 Corporations periodically evaluate 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 recognized at December 31, 2019 and 2018.

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 effective interest method, and are presented in the combined balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization is included as a component of interest expense. Unamortized deferred debt issuance costs amounted to $1,918,000 and $2,041,000 at December 31, 2019 and 2018, respectively. Accumulated amortization of deferred debt issuance costs was $284,000 and $160,000 at December 31, 2019 and 2018, respectively.

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. An evaluation of the future service benefit obligation for residents indicated that a liability was not considered necessary at December 31, 2019 and 2018. The discount rate used to calculate the obligation to provide future services was 5 percent for 2019 and 2018.

Types of Entrance Fees

The Care and Residence Agreements between the Corporations and their residents provide for the payment of an entrance fee. Entrance fees received by the Corporations are categorized into two types: initial entrance fees and entrance fees from reoccupancy, which are recorded as either rebatable entrance fees due, entrance fees subject to refund, or entrance fees nonrefundable in the accompanying combined 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 Corporations have 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. At December 31, 2019 and 2018, $57,637,000 and $57,946,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable and are presented as rebatable entrance fees due and entrance fee rebates payable in the accompanying combined balance sheets. Included in these amounts are $2,234,000 and $1,297,000 in entrance fee rebates due pending apartment reoccupancy, $1,522,000 and $1,358,000 in entrance fee rebates due pending the move-out of residents in higher levels of care and reoccupancy of their apartment and $4,131,000 and $5,320,000 in entrance fee rebates due pending only the move-out of residents currently residing in higher levels of care at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the Corporations had nonrefundable entrance fees of $17,786,000 and $16,275,000, respectively, related to entrance fees received that will be recognized as revenues in future years. Additionally, at December 31, 2019 and 2018, the Corporations had entrance fees subject to refund of $3,873,000 and $3,752,000, respectively, which will be recognized as revenues in future years, unless refunded.

Actual refunds and rebates of entrance fees were $7,136,000 and $5,806,000 for the years ended December 31, 2019 and 2018, respectively. Based on historical experience, management expects to pay refunds in future years of approximately $7,300,000 per year.

Interest Rate Swap and Cap

The Corporations have utilized interest rate swap and cap as part of its overall debt management policy. The Corporations account for the interest rate cap and swap in accordance with FASB Accounting Standards Codification (ASC) *Topic 815*, *Derivatives and Hedging*. The topic requires that all derivatives be carried at fair value on the combined balance sheets. Changes in the fair value of derivatives were recorded each period as a change in net deficit (see Note 7).

Net Deficit

Net deficit, revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. All net assets as of December 31, 2019 and 2018 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. No assets with donor imposed restrictions, temporary or perpetual in nature, are held as of December 31, 2019 and 2018.

Contributions

The Corporations participate in the HumanGood Foundation West fundraising activity. Gifts and bequests to the Corporations are credited to the Corporations' funds with Foundation West. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to the Corporations' funds. Funds held by Foundation West that the Foundation West board has designated for the Corporations amount to approximately $6,163,000 and $4,988,000 of board designated funds and $222,000 and $151,000 of donor restricted project funds at December 31, 2019 and 2018, 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 Corporations receive distributions from Foundation West based upon the market value of the 12-quarter rolling average of the Corporations' 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 operating revenue in the accompanying combined statements of operations and changes in net deficit is $177,000 and $155,000 for the years ended December 31, 2019 and 2018, respectively, of distribution income from Foundation West.

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration the Corporations expect 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 Corporations' resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service 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 Corporations have 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 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 Corporations receive revenues for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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 and Medicaid programs.

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 Corporations' 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 2019 and 2018.

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 Corporations have 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 Corporations have 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 combined balance sheets. The Corporations recognized amortization income of $3,889,000 and $3,837,000 in 2019 and 2018, respectively. The Corporations apply the practical expedient in ASC 606, and therefore, do 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 combined balance sheets.

For residents with Type B contracts, revenue 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. Amortization of entrance fees other than rebatable entrance fees is included as amortization of entrance fees in the combined statements of operations and changes in net assets.

Contractual Allowances

A portion of the Corporations' health center revenue is subject to explicit price concessions (contractual allowances) under contracts with third-party payors. These price concessions were $4,882,000 and $3,827,000 for the years ended December 31, 2019 and 2018, respectively.

Performance Indicator

Loss from operations as reflected in the accompanying combined statements of operations and changes in net deficit is the performance indicator. Loss from operations includes all changes in net deficit other than changes in the fair value of interest rate swap and cap agreements.

Workers' Compensation Plan

HumanGood Arizona participates in the State of Arizona's fully insured workers' compensation program and HumanGood Washington participates in the State of Washington's fully insured workers' compensation program. Both corporations receive safety program support from NorCal. The Corporations' expenses for these coverages are reflected as a component of the benefit burden applied to payroll. Amounts charged to the Corporations for their workers' compensation programs was $470,000 and $446,000 for the year ended December 31, 2019 and 2018, respectively.

Professional Liability Insurance

The Corporations have professional liability insurance through a pooled program provided by HumanGood. HumanGood has secured claims-made policies for malpractice and general liability insurance with a self-insured retention of $100,000 for the years ended December 31, 2019 and 2018. At December 31, 2019 and 2018, the Corporations had a remaining liability of approximately $50,000, as their best estimate of the cost of known claims and claims incurred but not reported. The liability is included in accounts payable and accrued expenses on the accompanying combined balance sheets.

Tax-Exempt Status

HumanGood Arizona is an Arizona 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 (IRS) and the Arizona Department of Revenue. HumanGood Washington is a Washington nonprofit public benefit tax-exempt corporation as described in Section 501(c)(3) of the IRC and has been granted tax-exempt status by the IRS and the Washington State Department of Revenue.

The Corporations assess uncertain tax positions in accordance with the provisions of the FASB ASC *Topic 740-10, Income Taxes.* The Corporations recognize 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 Corporations recognize interest and penalties related to income tax matters in operating expenses. At December 31, 2019 and 2018, there were no such uncertain tax positions.

New Accounting Pronouncements

In 2019, the Corporations retrospectively adopted the FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Purchases of restricted investments and net cash used in investing activities increased on the combined statement of cash flows for the year ended December 31, 2018 by $2,986,000 as a result of this change in accounting principle. Cash, cash equivalents and restricted cash on the combined statement of cash flows for the year ended December 31, 2018 was increased by $3,266,000.

Reclassification

Certain items in the 2018 combined financial statements have been reclassified to conform with the 2019 combined financial statement presentation.

3. Liquidity and Availability of Resources

As of December 31, 2019 and 2018, the Corporations have financial assets available for general expenditure within one year of the combined balance sheet date, which consist of the following (in thousands):

	2019	2018
Cash and cash equivalents	$ 6,617	$ 10,956
Resident accounts receivable	2,827	2,286
Entrance fee notes receivable	363	233
Investments	20,655	19,724
Total	$ 30,462	$ 33,199

The Corporations' investments are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above.

As part of the Corporations' 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):

	2019	2018
Investments:		
Cash and cash equivalents	$ 2,490	$ 2,229
Mutual funds	1,313	1,276
Municipal bonds	1,127	1,216
Corporate bonds	8,891	12,495
U.S. government securities	6,834	2,508
Total	$ 20,655	$ 19,724
Restricted investments:		
Cash and cash equivalents	$ 3,354	$ 3,266

Investment Return

Investment return for the year ended December 31, 2019 and 2018 is as follows (in thousands):

	2019	2018
Dividend, interest and other investment income	$ 537	$ 439
Realized gains (losses) on investments	26	(26)
Total investment income, net	$ 563	$ 413
Unrealized gains (losses) on investments	$ 431	$ (223)

Investment income is net of investment expenses of $70,000 and $69,000 for the years ended December 31, 2019 and 2018, 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 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.

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 combined 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 net asset value of shares, and are categorized as Level 1.
- 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.
- 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.
- 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.
- Interest rate cap agreements - The fair value is estimated by a third-party using inputs that are observable or that can be corroborated by observable market data, and therefore, are classified as Level 2.

The following table presents the fair value measurements of assets recognized in the accompanying combined 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, 2019 and 2018 (in thousands):

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	$ 1,313	$ -	$ -	$ 1,313
Municipal bonds	-	1,127	-	1,127
Corporate bonds	-	8,891	-	8,891
U.S. government securities	-	6,834	-	6,834
Total investments in fair value hierarchy	$ 1,313	$ 16,852	$ -	$ 18,165
Interest rate cap	$ -	$ 40	$ -	$ 40
Reconciliation of investments to the balance sheet:				
Cash and cash equivalents	$ 2,490			
Investments in the fair value hierarchy	18,165			
Total investments	$ 20,655			

	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	$ 1,276	$ -	$ -	$ 1,276
Municipal bonds	-	1,216	-	1,216
Corporate bonds	-	12,495	-	12,495
U.S. government securities	-	2,508	-	2,508
Total investments in the fair value hierarchy	$ 1,276	$ 16,219	$ -	$ 17,495
Interest rate cap	$ -	$ 237	$ -	$ 237

Reconciliation of investments to the balance sheet:	
Cash and cash equivalents	$ 2,229
Investments in the fair value hierarchy	17,495
Total investments	$ 19,724

5. Land, Buildings and Equipment, Net

Land, buildings and equipment, net at cost at December 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Land	$ 597	597
Land improvements	3,054	3,054
Buildings and improvements	121,152	119,684
Furnishings, equipment and automotive	9,061	9,324
Total	133,864	132,659
Accumulated depreciation	(64,649)	(60,712)
Total	69,215	71,947
Construction in progress	959	906
Total	$ 70,174	$ 72,853

Depreciation expense for the year ended December 31, 2019 and 2018 was $4,856,000 and $4,884,000, respectively.

Fully depreciated assets of $919,000 and $571,000 were disposed of during the years ended December 31, 2019 and 2018, respectively.

6. Notes and Bonds Payable

A summary of the Corporations' notes and bonds payable at December 31 is as follows (in thousands):

	2019	2018
Bonds used to refinance existing debt and renovate and redevelop the Corporations:		
Series 2018 tax-exempt Revenue Bonds issued by the Washington State Housing Finance Commission (dated May 24, 2018), annual principal payments commencing on July 1, 2019 in varying amounts ranging from $285 to $1,045 through July 1, 2048; interest rates ranging from 3.7% to 5.0%, payable semi-annually on each January 1 and July 1.	$ 16,730	$ 17,015
Series 2018A tax-exempt Revenue Bonds issued by the Industrial Development Authority of the City of Glendale, Arizona (dated May 24, 2018), annual principal payments commencing on July 1, 2019 in varying amounts ranging from $320 to $1,175 through July 1, 2048; interest rates ranging from 3.6% to 5.0%, payable semi-annually on each January 1 and July 1.	18,810	19,130
Series 2018B tax-exempt Revenue Bonds issued by the Industrial Development Authority of the City of Glendale, Arizona (dated May 24, 2018), the bonds mature on June 1, 2043; variable interest at a rate of 79% of one-month LIBOR plus 1.75% with monthly principal and interest payments commencing July 1, 2018 through maturity. Interest rate at December 31, 2019 and 2018 was approximately 2.72% and 3.74%, respectively.	16,001	16,323
Series 2018 taxable corporate loan issued by Washington Federal Bank (dated May 24, 2018), the bonds mature on June 1, 2043; variable interest at a rate of one-month LIBOR plus 1.75% with monthly principal and interest payments commencing July 1, 2018 through maturity. Interest rate at December 31, 2019 and 2018 was approximately 3.45 % and 4.27%, respectively.	19,396	19,819
Related-party notes payable:		
Subordinated note payable to NorCal. The note is unsecured and is subordinated to the lien in favor of the Series 2018 Bonds. The note is noninterest bearing and is payable from operating revenues based on the achievement of certain operating and liquidity covenants.	12,000	12,000

	2019	2018
Promissory note:		
Promissory note to American Baptist Service Corporation (ABSCO), secured by deeds of trust. The note is noninterest bearing and is payable on a ratable basis with the NorCal subordinated note estimated to begin in 2030, or if not amortized, in a single payment due on January 28, 2028, or upon the sale of TOP.	$ 800	$ 800
	83,737	85,087
Less current portion	(1,415)	(1,350)
Plus unamortized premium	973	1,021
Less unamortized debt issuance cost	(1,918)	(2,041)
Total notes and bonds payable	$ 81,377	$ 82,717

On December 15, 2015, TOP entered into a direct placement financing with Washington Federal Bank to replace its Series 2003 and Series 2007 bonds, which included a key provision that NorCal make advances of $11,000,000 in exchange for subordinated notes to TOP bearing interest at 4 percent and provide $3,500,000 of maximum recourse credit support in the event of default on bonded indebtedness. On May 24, 2018, in conjunction with the financing of $72,646,000 of bank and publicly issued notes, TOP refinanced its Series 2015 notes and fully repaid to NorCal its $11,000,000 in subordinated notes and JP refinanced its Series 2012 notes and borrowed an additional $9,000,000 to fund repayment of existing intercompany operating advances outstanding. In conjunction with this transaction, the Corporations recorded a loss on early retirement of debt of $523,000 that is included in the combined statements of operations and changes in net deficit.

As of September 29, 2003, due to the transfer of sole membership of TOP from NorCal to Cornerstone, $12,000,000 of funds previously advanced by NorCal to support TOP's operating and capital needs were retained in the form of a note payable to NorCal from TOP. Payments on the note payable will be made based on the achievement of certain operating metrics. Repayment of the note is subordinate to the 2018 bonded indebtedness.

Scheduled maturities of notes and bonds payable are as follows (in thousands):

Years ending December 31:	
2020	$ 1,415
2021	1,488
2022	1,552
2023	1,619
2024	1,688
Thereafter	75,975
Total	$ 83,737

The Corporations are subject to financial covenants on debt, which include a debt service coverage ratio and days cash on hand ratio.

7. Interest Rate Swap and Cap

In 2016, TOP entered into an interest rate cap agreement with Commonwealth Bank of Australia to manage interest rate risk on $18,700,000 of its Series 2015 bonds. The agreement establishes that when 70 percent of the one month LIBOR rate exceeds 2.5 percent, the Terraces of Phoenix is reimbursed for the excess by the counterparty to the transaction. The 10 year agreement expires in February 2026. The net effect of this interest rate cap was an increase in interest expense of approximately $41,000 for the years ended December 31, 2019 and 2018. The change in the fair value of the interest rate cap for the years ended December 31, 2019 and 2018 was a decrease of $197,000 and an increase of $58,000, respectively. The fair value of this instrument was $40,000 and $237,000 as of December 31, 2019 and 2018, respectively, and is included in other liabilities in the accompanying combined balance sheets.

On May 24, 2018, in conjunction with the financing, an existing Judson Park swap with a $10,753,000 notional amount was terminated concurrent with a $158,000 termination payment from JP to the swap counterparty. The net effect of this interest rate swap was an increase in interest expense of approximately $240,000 for the year ended December 31, 2018, inclusive of the termination payment.

8. Employee Benefit Plans

Effective January 1, 1999, NOG also participates in a 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 $425,000 and $327,000 for the years ended December 31, 2019 and 2018, respectively.

9. Net Resident Service Revenues

The Corporations disaggregate 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 years ended December 31, 2019 and 2018 (in thousands):

	2019				
	Residential Living	Assisted Living	Health Center	Memory Care	Total
Private (contract)	$ 16,389	$ 2,640	$ 1,847	$ 1,672	$ 22,548
Private (noncontract)	149	3,130	2,320	1,513	7,112
Medicare (Part A)	-	-	6,738	-	6,738
Medicare (Part B)	-	-	201	-	201
Medicaid	-	-	4,239	-	4,239
Managed care	-	-	2,906	-	2,906
Subtotal	16,538	5,770	18,251	3,185	43,744
Amortization of nonrebatable entrance fees	-	-	-	-	3,889
Total	$ 16,538	$ 5,770	$ 18,251	$ 3,185	$ 47,633

	2018				
	Residential Living	**Assisted Living**	**Health Center**	**Memory Care**	**Total**
Private (contract)	$ 16,395	$ 2,795	$ 3,123	$ 1,675	$ 23,988
Private (noncontract)	111	3,098	2,082	1,505	6,796
Medicare (Part A)	-	-	5,571	-	5,571
Medicare (Part B)	-	-	289	-	289
Medicaid	-	-	3,136	-	3,136
Managed care	-	-	2,513	-	2,513
Subtotal	16,506	5,893	16,714	3,180	42,293
Amortization of nonrebatable entrance fees	-	-	-	-	3,837
Total	$ 16,506	$ 5,893	$ 16,714	$ 3,180	$ 46,130

In 2019 and 2018, approximately 62 percent and 67 percent, respectively, of the Corporations' resident services and patient revenue is derived from private pay. The Corporations also have agreements with third-party payors. The Medicare Part A program makes up approximately 14 percent and 12 percent of the Corporations' resident services and patient revenues in 2019 and 2018, respectively. 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 Corporations' clinical assessment of their residents. The Corporations are required to clinically assess their residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by Medicare. The basis for payment to the Corporations for other payer agreements includes prospectively determined rates per day or discounts from established charges.

10. Functional Expenses

The Corporations provide housing, healthcare and other related services to residents within their geographic location. The combined 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 years ended December 31, 2019 and 2018 (in thousands):

	2019		
	Residential Services	General and Administrative	Total
Salaries and wages	$ 19,905	$ 1,155	$ 21,060
Employee benefits	4,470	351	4,821
Supplies	3,917	43	3,960
Chargeable ancillary services	3,281	-	3,281
Repairs and maintenance	464	-	464
Marketing and advertising	678	-	678
Purchased services	1,395	617	2,012
Management fees	-	3,759	3,759
Utilities	1,595	155	1,750
Travel and related	131	32	163
Leases and rents	159	131	290
Insurance	562	-	562
Other operating expenses	418	725	1,143
Mortgage interest	3,121	-	3,121
Depreciation	4,856	-	4,856
Total expenses	$ 44,952	$ 6,968	$ 51,920

	2018		
	Residential Services	General and Administrative	Total
Salaries and wages	$ 18,099	$ 1,150	$ 19,249
Employee benefits	3,838	332	4,170
Supplies	3,804	69	3,873
Chargeable ancillary services	2,958	-	2,958
Repairs and maintenance	470	-	470
Marketing and advertising	708	-	708
Purchased services	1,312	500	1,812
Management fees	-	3,482	3,482
Utilities	1,691	179	1,870
Travel and related	171	41	212
Leases and rents	152	132	284
Insurance	598	-	598
Other operating expenses	342	-	342
Mortgage interest	2,938	-	2,938
Depreciation	4,884	-	4,884
Total expenses	$ 41,965	$ 5,885	$ 47,850

11. 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 Corporations recognized expenses of $3,759,000 and $3,482,000 during 2019 and 2018, respectively, that consisted of management fees, and received distributions from Foundation West as described in Note 2. The Corporations owed NorCal $1,857,000 and $4,897,000 as of December 31, 2019 and 2018, respectively.

Effective in 2019, the Corporations are self-insured for health insurance claims for eligible active employees up to an annual maximum of $200,000 for each claimant. Claims above this amount are insured by a third-party for an unlimited amount for each claimant. Additionally, in the event that aggregate claims exceed 120 percent of anticipated claims totals, a separate aggregate stop loss policy will provide reimbursement for up to the first $1,000,000 of amounts in excess of the 120 percent. 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 Corporations through intercompany transactions based on a percentage of payroll.

12. Commitments and Contingencies

The Corporations are 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 Corporations.

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 Corporations, if any, are not presently determinable.

13. Concentrations of Credit Risk

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

The Corporations maintains cash and cash equivalent accounts, which, at times, may exceed federally insured limits. The Corporations have 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.

14. Subsequent Events

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

The Corporations have evaluated subsequent events through April 29, 2020, which is the date the combined financial statements were issued.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in 2020 has caused significant volatility in U.S. and international markets and is having significant impact on supply chains, businesses and communities. The Corporations' evaluation of the effects of these events is ongoing as of the date the accompanying combined financial statements were available to be issued. COVID-19 may impact various parts of the Corporations' 2020 operations and financial performance including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption, sales of residential living units, or 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.

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Balance Sheet Schedule
December 31, 2019
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Assets			
Current Assets			
Cash and cash equivalents	$ 4,589	$ 2,028	$ 6,617
Resident accounts receivables, net	1,230	1,597	2,827
Other receivables	7	360	367
Investments	12,796	7,859	20,655
Current portion of restricted investments	542	466	1,008
Prepaid expenses, deposits and other assets	216	270	486
Total current assets	19,380	12,580	31,960
Noncurrent Assets			
Restricted investments	1,248	1,098	2,346
Land, buildings and equipment, net	43,140	27,034	70,174
Total noncurrent assets	44,388	28,132	72,520
Total assets	$ 63,768	$ 40,712	$ 104,480
Liabilities and Net Deficit			
Current Liabilities			
Accounts payable and accrued expenses	$ 1,045	$ 961	$ 2,006
Payable (due from) to affiliates	(49)	1,906	1,857
Deposits	99	80	179
Accrued interest	519	427	946
Current portion of notes and bonds payable	925	490	1,415
Entrance fee rebates payable	315	214	529
Total current liabilities	2,854	4,078	6,932
Noncurrent Liabilities			
Notes and bonds payable	44,769	24,608	69,377
Subordinated note payable to HumanGood NorCal	12,000	-	12,000
Rebatable entrance fees due	48,374	8,734	57,108
Entrance fees subject to refund	227	3,646	3,873
Entrance fees nonrefundable	7,859	9,927	17,786
Other liabilities	246	123	369
Total noncurrent liabilities	113,475	47,038	160,513
Total liabilities	116,329	51,116	167,445
Net Deficit Without Donor Restrictions	(52,561)	(10,404)	(62,965)
Total liabilities and net deficit	$ 63,768	$ 40,712	$ 104,480

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Statement of Operations and Changes in Net Deficit Schedule
Year Ended December 31, 2019
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Operating Revenues			
Residential living	$ 9,895	$ 6,643	$ 16,538
Assisted living	3,188	2,582	5,770
Health center	7,721	10,530	18,251
Memory care	1,776	1,409	3,185
Other residential services	94	280	374
Amortization of entrance fees	1,357	2,532	3,889
Other operating revenue	447	479	926
Total operating revenues	24,478	24,455	48,933
Operating Expenses			
Salaries and wages	9,366	11,694	21,060
Employee benefits	2,051	2,770	4,821
Supplies	2,202	1,758	3,960
Chargeable ancillary services	1,456	1,825	3,281
Repairs and maintenance	197	267	464
Marketing and advertising	374	304	678
Purchased services	1,086	926	2,012
Management fees	1,881	1,878	3,759
Utilities	1,067	683	1,750
Travel and related	108	55	163
Leases and rents	170	120	290
Insurance	302	260	562
Other operating expenses	319	824	1,143
Total operating expenses	20,579	23,364	43,943
Income before other operating income (expense)	3,899	1,091	4,990
Other Operating Income (Expense)			
Investment income, net	341	222	563
Unrealized gains	295	136	431
Mortgage interest	(1,928)	(1,193)	(3,121)
Depreciation	(2,575)	(2,281)	(4,856)
(Loss) income from operations	32	(2,025)	(1,993)
Change in Fair Value of Interest Rate Swap and Cap	(156)	-	(156)
Change in net deficit	(124)	(2,025)	(2,149)
Net Deficit, Beginning, As Previously Reported	(52,437)	(8,379)	(60,816)
Adjustments for adoption of accounting pronouncement	-	-	-
Net deficit, beginning, as adjusted	(52,437)	(8,379)	(60,816)
Net Deficit, Ending	$ (52,561)	$ (10,404)	$ (62,965)

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Statement of Cash Flows Schedule
Year Ended December 31, 2019
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Cash Flows From Operating Activities			
Cash received from resident services	$ 22,200	$ 20,642	$ 42,842
Cash received from nonrebatable entrance fees from reoccupancy	3,038	2,473	5,511
Cash provided by other operating activities	439	476	915
Cash earnings realized from investments	341	222	563
Cash paid for employee salaries	(8,386)	(9,990)	(18,376)
Cash paid for employee benefits	(2,053)	(2,750)	(4,803)
Cash paid for temporary labor	(961)	(1,753)	(2,714)
Cash paid to vendors	(9,378)	(8,365)	(17,743)
Cash paid for interest	(1,918)	(1,184)	(3,102)
Net cash provided by (used in) operating activities	3,322	(229)	3,093
Cash Flows From Investing Activities			
Acquisition of land, buildings and equipment	(1,354)	(823)	(2,177)
Net purchases of unrestricted investments	(309)	(192)	(501)
Net cash used in investing activities	(1,663)	(1,015)	(2,678)
Cash Flows From Financing Activities			
Proceeds from rebatable entrance fees	6,051	809	6,860
Refunds of deposits and refundable entrance fees	(5,706)	(1,430)	(7,136)
Cash paid to affiliates	(1,773)	(1,267)	(3,040)
Principal payments on notes and bonds payable	(875)	(475)	(1,350)
Net cash used in financing activities	(2,303)	(2,363)	(4,666)
Decrease in cash, cash equivalents and restricted cash and cash equivalents	(644)	(3,607)	(4,251)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	7,023	7,199	14,222
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 6,379	$ 3,592	$ 9,971
Cash Flows From Operating Activities			
Change in net deficit	$ (124)	$ (2,025)	$ (2,149)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:			
Amortization of entrance fees	(1,357)	(2,532)	(3,889)
Proceeds from nonrebatable entrance fees from reoccupancy	3,038	2,473	5,511
Depreciation	2,575	2,281	4,856
Amortization of debt issuance costs	84	40	124
Amortization of bond premium	(27)	(21)	(48)
Unrealized gains on investments	(295)	(136)	(431)
Change in fair value of interest rate swap and cap	156	-	156
Change in residents accounts receivable and other receivable	(351)	(340)	(691)
Change in prepaids, deposits and other assets	(1)	(52)	(53)
Other changes in operating assets and liabilities, net	(376)	83	(293)
Net cash provided by (used in) operating activities	$ 3,322	$ (229)	$ 3,093
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combining Balance Sheet			
Cash and cash equivalents	$ 4,589	$ 2,028	$ 6,617
Restricted cash included in current portion of restricted investments	542	466	1,008
Restricted cash included in noncurrent portion of restricted investments	1,248	1,098	2,346
Total cash, cash equivalents and restricted cash and cash equivalents	$ 6,379	$ 3,592	$ 9,971

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Balance Sheet Schedule
December 31, 2018
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Assets			
Current Assets			
Cash and cash equivalents	$ 5,270	$ 5,686	$ 10,956
Resident accounts receivables, net	886	1,400	2,286
Other receivables	-	217	217
Investments	12,194	7,530	19,724
Current portion of restricted investments	514	406	920
Prepaid expenses, deposits and other assets	215	218	433
Total current assets	19,079	15,457	34,536
Noncurrent Assets			
Restricted investments	1,239	1,107	2,346
Land, buildings and equipment, net	44,361	28,492	72,853
Total noncurrent assets	45,600	29,599	75,199
Total assets	$ 64,679	$ 45,056	$ 109,735
Liabilities and Net Deficit			
Current Liabilities			
Accounts payable and accrued expenses	$ 1,110	$ 1,136	$ 2,246
Payable to affiliates	1,724	3,173	4,897
Deposits	-	161	161
Accrued interest	566	437	1,003
Current portion of notes and bonds payable	875	475	1,350
Entrance fee rebates payable	237	-	237
Total current liabilities	4,512	5,382	9,894
Noncurrent Liabilities			
Notes and bonds payable	45,637	25,080	70,717
Subordinated note payable to HumanGood NorCal	12,000	-	12,000
Rebatable entrance fees due	48,195	9,514	57,709
Entrance fees subject to refund	62	3,690	3,752
Entrance fees nonrefundable	6,608	9,667	16,275
Other liabilities	102	102	204
Total noncurrent liabilities	112,604	48,053	160,657
Total liabilities	117,116	53,435	170,551
Net Deficit Without Donor Restrictions	(52,437)	(8,379)	(60,816)
Total liabilities and net deficit	$ 64,679	$ 45,056	$ 109,735

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Statement of Operations and Changes in Net Deficit Schedule
Year Ended December 31, 2018
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Operating Revenues			
Residential living	$ 9,666	$ 6,840	$ 16,506
Assisted living	3,131	2,762	5,893
Health center	6,953	9,761	16,714
Memory care	1,746	1,434	3,180
Other residential services	102	581	683
Amortization of entrance fees	1,198	2,639	3,837
Other operating revenue	519	439	958
Total operating revenues	23,315	24,456	47,771
Operating Expenses			
Salaries and wages	8,885	10,364	19,249
Employee benefits	1,872	2,298	4,170
Supplies	2,300	1,573	3,873
Chargeable ancillary services	1,269	1,689	2,958
Repairs and maintenance	196	274	470
Marketing and advertising	446	262	708
Purchased services	925	887	1,812
Management fees	1,631	1,851	3,482
Utilities	1,163	707	1,870
Travel and related	129	83	212
Leases and rents	189	95	284
Insurance	303	295	598
Other operating expenses	218	124	342
Total operating expenses	19,526	20,502	40,028
Income before other operating income (expense)	3,789	3,954	7,743
Other Operating Income (Expense)			
Investment income, net	243	170	413
Unrealized losses on investments	(178)	(45)	(223)
Mortgage interest	(1,745)	(1,193)	(2,938)
Depreciation	(2,585)	(2,299)	(4,884)
Loss on early retirement of debt	(448)	(75)	(523)
(Loss) income from operations	(924)	512	(412)
Change in Fair Value of Interest Rate Swap and Cap	99	240	339
Change in net deficit	(825)	752	(73)
Net Deficit, Beginning of Year, As Previously Reported	(51,544)	-	(51,544)
Adjustments for adoption of accounting pronouncement	(68)	(206)	(274)
Adjustments for admission of HumanGood Washington to the National Obligated Group	-	(8,925)	(8,925)
Net deficit, beginning of year, as adjusted	(51,612)	(9,131)	(60,743)
Net Deficit, End of Year	$ (52,437)	$ (8,379)	$ (60,816)

HumanGood National Obligated Group (HumanGood Arizona, dba Terraces of Phoenix, and HumanGood Washington, dba Judson Park) (Members of HumanGood Cornerstone)

Combining Statement of Cash Flows Schedule
Year Ended December 31, 2018 (As Adjusted)
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Cash Flows From Operating Activities			
Cash received from resident services	$ 21,076	$ 20,809	$ 41,885
Cash received from nonrebatable entrance fees from reoccupancy	1,202	1,955	3,157
Cash provided by other operating activities	873	779	1,652
Cash earnings realized from investments	246	164	410
Cash paid for employee salaries	(8,135)	(9,495)	(17,630)
Cash paid for employee benefits	(1,853)	(2,294)	(4,147)
Cash paid for temporary labor	(876)	(977)	(1,853)
Cash paid to vendors	(9,403)	(7,957)	(17,360)
Cash paid for interest	(1,792)	(842)	(2,634)
Net cash provided by operating activities	1,338	2,142	3,480
Cash Flows From Investing Activities			
Acquisition of land, buildings and equipment	(1,014)	(1,040)	(2,054)
Net purchases of unrestricted investments	(261)	(154)	(415)
Net cash used in investing activities	(1,275)	(1,194)	(2,469)
Cash Flows From Financing Activities			
Proceeds from rebatable entrance fees	4,871	227	5,098
Refunds of deposits and refundable entrance fees	(5,309)	(497)	(5,806)
Cash paid for deferred debt issuance costs	(973)	(816)	(1,789)
Cash received (paid) from affiliates	976	(6,511)	(5,535)
Principal payments on notes and bonds payable	(634)	(214)	(848)
Proceeds from issuance of notes and bonds payable	1,235	9,940	11,175
Net cash provided by financing activities	166	2,129	2,295
Increase in cash, cash equivalents and restricted cash and cash equivalents	229	3,077	3,306
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	6,794	4,122	10,916
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 7,023	$ 7,199	$ 14,222
Cash Flows From Operating Activities			
Change in net deficit	$ (825)	$ 752	$ (73)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:			
Amortization of entrance fees	(1,198)	(2,639)	(3,837)
Proceeds from nonrebatable entrance fees from reoccupancy	1,202	1,955	3,157
Depreciation	2,585	2,299	4,884
Amortization of debt issuance costs	81	48	129
Amortization of bond premium	(16)	(9)	(25)
Unrealized losses on investments	178	45	223
Loss on early retirement of debt	448	75	523
Change in fair value of interest rate swap and cap	(99)	(240)	(339)
Change in residents accounts receivable and other receivable	45	(244)	(199)
Change in prepaids, deposits and other assets	115	67	182
Other changes in operating assets and liabilities, net	(1,178)	33	(1,145)
Net cash provided by operating activities	$ 1,338	$ 2,142	$ 3,480
Noncash Disclosures			
Long-term debt repaid with proceeds from Series 2018 Bonds	$ 46,011	$ 16,505	$ 62,516
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combining Balance Sheet			
Cash and cash equivalents	$ 5,270	$ 5,686	$ 10,956
Restricted cash included in current portion of restricted investments	514	406	920
Restricted cash included in noncurrent portion of restricted investments	1,239	1,107	2,346
Total cash, cash equivalents and restricted cash and cash equivalents	$ 7,023	$ 7,199	$ 14,222