

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

Combined Financial Statements and
Combining Supplementary Information

December 31, 2021 and 2020

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

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Independent Auditors' Report

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

Opinion

We have audited the combined financial statements of the HumanGood National Obligated Group (the Corporations), which comprise the combined balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Corporations as of December 31, 2021 and 2020 and the results of their operations, changes in their net deficit and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 25 to 30 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, changes in net deficit and cash flows of the individual organizations, and it 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 combining information has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 28, 2022

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

Combined Balance Sheets
December 31, 2021 and 2020
(In Thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,947	\$ 4,485
Resident accounts receivables, less allowance for doubtful accounts of \$544 in 2021 and \$440 in 2020	1,797	1,746
Other receivables	201	648
Current portion of restricted investments	1,154	1,163
Prepaid expenses, deposits and other assets	434	452
Total current assets	9,533	8,494
Investments	21,388	21,452
Restricted Investments	2,399	2,398
Land, Buildings and Equipment, Net	68,507	69,572
Other Noncurrent Assets	177	-
Total assets	<u>\$ 102,004</u>	<u>\$ 101,916</u>
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,033	\$ 2,252
Payable to affiliates	2,492	2,989
Deposits	153	181
Accrued interest	876	892
Current portion of notes and bonds payable	1,552	1,488
Total current liabilities	7,106	7,802
Notes and Bonds Payable, Net	66,624	68,151
Subordinated Note Payable to HumanGood NorCal	12,000	12,000
Rebatable Entrance Fees Due	54,210	55,522
Entrance Fees Subject to Refund	5,359	3,176
Entrance Fees Nonrefundable	18,561	17,947
Advances Subject to Refund	3,821	-
Other Liabilities	299	124
Total liabilities	167,980	164,722
Net Deficit	<u>(65,976)</u>	<u>(62,806)</u>
Total liabilities and net deficit	<u>\$ 102,004</u>	<u>\$ 101,916</u>

See notes to combined financial statements

**HumanGood National Obligated Group (HumanGood Arizona, Inc.,
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, 2021 and 2020
(In Thousands)

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Residential living	\$ 16,587	\$ 16,551
Assisted living	6,018	5,551
Health center	16,786	16,248
Memory care	3,515	3,330
Other residential services	371	438
Amortization of entrance fees	3,954	3,721
COVID relief funding	251	2,445
Other operating revenue	651	524
	<u>48,133</u>	<u>48,808</u>
Total operating revenues		
Operating Expenses		
Salaries and wages	21,530	19,925
Employee benefits	4,796	4,777
Supplies	4,109	4,117
Chargeable ancillary services	2,190	2,307
Repairs and maintenance	425	449
Marketing and advertising	731	713
Purchased services	1,987	1,995
Management fees	3,683	3,856
Utilities	1,892	1,737
Travel and related	122	73
Leases and rents	315	269
Insurance	744	661
Other operating expenses	1,279	1,038
	<u>43,803</u>	<u>41,917</u>
Total operating expenses		
Income before other operating income (expense)	4,330	6,891
Other Operating Income (Expense)		
Investment income, net	529	530
Change in unrealized (losses) gains on investments, net	(620)	274
Mortgage interest	(2,305)	(2,512)
Depreciation and amortization	(5,195)	(5,018)
	<u>(3,261)</u>	<u>165</u>
(Loss) income from operations		
Other Changes in Net Deficit		
Capital contributions	66	-
Change in fair value of interest rate cap	25	(6)
	<u>(3,170)</u>	<u>159</u>
Change in net deficit		
Net Deficit, Beginning	<u>(62,806)</u>	<u>(62,965)</u>
Net Deficit, Ending	<u>\$ (65,976)</u>	<u>\$ (62,806)</u>

See notes to combined financial statements

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

Combined Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(In Thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Cash received from resident services	\$ 42,934	\$ 42,596
Cash received from nonrebatable entrance fees from reoccupancy	7,760	3,122
Cash received from advances subject to refund	3,821	-
Cash received from COVID relief funding	251	2,445
Cash received from other operating activities	626	533
Cash earnings realized from investments	152	333
Cash paid for employee salaries	(18,793)	(17,920)
Cash paid for employee benefits	(4,596)	(4,786)
Cash paid for temporary labor	(2,958)	(1,847)
Cash paid to vendors	(17,117)	(16,957)
Cash paid for interest	(2,284)	(2,533)
	<u>9,796</u>	<u>4,986</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Acquisition of land, buildings and equipment	(4,108)	(4,416)
Net purchases of unrestricted investments	(181)	(327)
	<u>(4,289)</u>	<u>(4,743)</u>
Net cash used in investing activities		
Cash Flows From Financing Activities		
Proceeds from rebatable entrance fees	6,426	3,850
Refunds of deposits and entrance fees	(8,550)	(5,713)
Cash (paid to) received from affiliates	(497)	1,132
Principal payments on notes and bonds payable	(1,498)	(1,437)
Capital contributions	66	-
	<u>(4,053)</u>	<u>(2,168)</u>
Net cash used in financing activities		
Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	1,454	(1,925)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	<u>8,046</u>	<u>9,971</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u>\$ 9,500</u>	<u>\$ 8,046</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combined Balance Sheets		
Cash and cash equivalents	\$ 5,947	\$ 4,485
Restricted cash included in current portion of restricted investments	1,154	1,163
Restricted cash included in restricted investments	<u>2,399</u>	<u>2,398</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 9,500</u>	<u>\$ 8,046</u>

See notes to combined financial statements

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

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, Inc. and HumanGood Washington.

HumanGood Arizona, Inc.

HumanGood Arizona, Inc. (dba Terraces of Phoenix or TOP) is an Arizona nonprofit tax-exempt corporation providing housing, health care and supportive services for seniors in Phoenix, Arizona through its Life Plan Community (LPC), 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 seniors 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 seniors 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 162 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 seniors 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 (formerly known as Seniority Properties), HumanGood East, Human Good Affordable Housing and Beacon Development Group, LLC (BDG), and in conjunction with an affiliation effective in February 2022, West Valley Nursing Homes, Inc., dba Living Care Retirement Community.

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

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 seniors through its LPCs and affordable housing communities. HumanGood is the sole member of HumanGood Cornerstone, HumanGood Fresno (dba Terraces at San Joaquin Gardens), HumanGood SoCal (SoCal) and 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 (U.S. GAAP) in the United States of America.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the combined financial statements in conformity with U.S. 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 cap; 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, money market funds 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.

Investments

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

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) 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.

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

The Corporations' 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 combined 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 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 uncollectible.

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, 2021 and 2020.

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 expense, which is included as a component of mortgage interest in the accompanying combined statements of operations and changes in net deficit, was \$84,000 in 2021 and \$83,000 in 2020.

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

Obligation to Provide Future Services

If the present value of future outflows to provide future health care services to current contracted residents, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. Management engages an actuary to periodically calculate the obligation to provide future health care services to current contracted residents. Based upon the last calculations performed using a discount rate of 5 percent, the present value of future outflows to provide future services, adjusted for certain noncash items, did not exceed the present value of future cash in-flows. Based upon these calculations, and analysis of management, no liability for the obligation to provide future services has been recorded at December 31, 2021 and 2020.

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 41 months after an initial reduction to the original fee after 90 days, 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, 2021 and 2020, \$54,210,000 and \$55,522,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable and are presented as rebatable entrance fees due in the accompanying combined balance sheets.

At December 31, 2021 and 2020, the Corporations had nonrefundable entrance fees of \$18,561,000 and \$17,947,000, respectively, related to entrance fees received that will be recognized as revenues in future years. Additionally, at December 31, 2021 and 2020, the Corporations had entrance fees subject to refund of \$5,359,000 and \$3,176,000, respectively, which will be recognized as revenues in future years, unless refunded.

Actual refunds and rebates of entrance fees were \$8,550,000 and \$5,713,000 for the years ended December 31, 2021 and 2020, respectively. Based on historical experience, management expects to pay refunds in future years of approximately \$8,400,000 per year.

Interest Rate Cap

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

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020 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, 2021 and 2020.

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. Included in other operating revenue in the accompanying combined statements of operations and changes in net deficit is \$221,000 and \$149,000 for the years ended December 31, 2021 and 2020, respectively, of distribution income from Foundation West. Additionally, for the year ended December 31, 2021, capital contributions from Foundation West of \$57,000 and \$9,000 of other capital contributions are included in other changes in net deficit in the accompanying statement of operations and changes in net deficit.

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. 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 are satisfied over time as services are provided. Therefore, health center revenues are recognized on a daily basis as services are rendered.

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

The Corporations receive revenues for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Nursing and ancillary services provided to Medicare and Medicaid 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.

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Notes to Combined Financial Statements
December 31, 2021 and 2020

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. 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. The basis for payment to the Corporations 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 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 2021 and 2020.

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 \$3,954,000 and \$3,721,000 in 2021 and 2020, 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 deficit.

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

Notes to Combined Financial Statements
December 31, 2021 and 2020

Benevolence

The Corporations provide services under their benevolence policy to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Partial payments to which the Corporations are entitled from public assistance programs on behalf of residents that meet the Corporations' benevolence criteria are reported as revenues. Because the Corporations do not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenues. For the years ended December 31, 2021 and 2020, benevolence recorded was \$447,000 and \$446,000, respectively

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 \$4,058,000 and \$4,273,000 for the years ended December 31, 2021 and 2020, respectively.

COVID Relief Funding

COVID relief funding in the accompanying combined statements of operations and changes in net deficit is comprised of amounts received from federal, state and other funding sources related to the COVID-19 pandemic. The Corporations account for this funding in accordance with the FASB ASC 958-605 guidance for conditional contributions and accordingly, revenues are recognized when barriers are substantially met, which occurs when the Corporations comply 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 (PRF) to provide financial support for healthcare providers. In accordance with the terms and conditions of PRF, the Corporations could apply the funding against lost revenues and eligible expenses not reimbursed from other sources. The Corporations received PRF payments of \$251,000 in 2021 and \$2,378,000 in 2020, including \$600,000 transferred to TOP in 2020 from NorCal, an affiliated organization with a common parent, as allowed under the CARES Act Provider Relief Fund terms and conditions. No amounts were transferred in 2021.

The Corporations incurred lost revenues and eligible expenses sufficient to allow them, in accordance with the terms of the respective funding sources, to recognize PRF revenues of \$251,000 in 2021 and \$2,378,000 in 2020. These amounts were recognized and included in COVID relief funding in the accompanying combined statement of operations and changes in net assets.

Additionally, \$67,000 was received through Washington State Department of Social and Health Services funding which were recognized and included in COVID relief funding in the accompanying combined statement of operations and changes in net deficit for the year ended December 31, 2020 as the funds were used for eligible purposes. No amounts were received in 2021.

COVID-19 testing expenses of \$197,000 in 2021 and \$185,000 in 2020 are included in other operating expenses in the accompanying combined statement of operations and changes in net assets. Other costs due to the pandemic, such as increased personal protective equipment usage, are included in supplies in the accompanying statements of operations and changes in net assets.

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The Corporations' methodology for calculating lost revenues, considered an alternate reasonable method due to the standard timing of budget approvals for the Corporations, was calculated using the difference between budgeted resident care revenues and actual resident care revenues for quarterly periods in 2021 and 2020. The Corporations' budgeting process is consistent, rigorous and represents the Corporations' best estimate of actual results given the current environments and known circumstances. Budget variances in operating revenues for 2020 and 2021 were attributable to fluctuations in occupancy due to the COVID-19 pandemic and as such an alternate reasonable method mirroring the budget revenue method was deemed a reasonable approach by the Corporations in establishing how lost revenues were attributable to the coronavirus pandemic.

The majority of the funding received is subject to future reporting and audit requirements. Noncompliance with the terms and conditions of the funding sources could result in repayment of some or all of the support, which can be subject to government review and interpretation. An estimate of the possible effects of these matters cannot be made as of the date these combined financial statements were issued.

Paycheck Protection Program

In May 2021, the Corporations received proceeds in the amount of \$3,821,000 under the Paycheck Protection Program (PPP) which was established as part of the CARES Act (as amended by the Economic Aid Act (EAA) on December 27, 2020) and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying nonprofit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a "covered period" (of eight to 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period. The Corporations initially recorded the funds as an advance subject to refund and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right of return of the PPP loan, or when such conditions are explicitly waived.

As of December 31, 2021, the Corporations had expended all of the PPP funds received on qualified expenses. Though written notification of forgiveness was received for the TOP PPP loan, the Corporations continue to work with counsel to confirm that there are no barriers to recognition, and as such, no grant revenue is recorded within the accompanying combined statement of operations and changes in net deficit for the year ended December 31, 2021. The full amount of \$3,821,000 of PPP funds received is included as advances subject to refund in the Corporations' accompanying combined balance sheet as of December 31, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act (as amended by the EAA), the Corporations are required to maintain their PPP loan documentation for six years after the PPP loan is forgiven or repaid in full and to provide that documentation to the SBA upon request. The Corporations do not believe the results of any audits or reviews by the SBA would have a material impact on the financial statements.

Performance Indicator

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

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Tax-Exempt Status

HumanGood Arizona, Inc. 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, 2021 and 2020, there were no such uncertain tax positions.

Reclassifications

Certain items in the 2020 combined financial statements have been reclassified to conform with the 2021 combined financial statements presentation.

Future Accounting Standards

During March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities may elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. The Corporations have not elected the optional expedients and exceptions included in ASU No. 2020-04 as of December 31, 2021.

3. Liquidity and Availability of Resources

As of December 31, 2021 and 2020, the Corporations have financial assets available for utilization within one year of the combined balance sheet date, which consist of the following (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,947	\$ 4,485
Resident accounts receivable	1,797	1,746
Entrance fee notes receivable	182	647
Investments	<u>21,388</u>	<u>21,452</u>
Total	<u>\$ 29,314</u>	<u>\$ 28,330</u>

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

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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):

	<u>2021</u>	<u>2020</u>
Investments:		
Cash and cash equivalents	\$ 11,233	\$ 675
Mutual funds	6,157	5,613
Municipal bonds	766	903
Corporate bonds	1,851	12,548
U.S. government securities	1,381	1,713
Total	<u>\$ 21,388</u>	<u>\$ 21,452</u>
Restricted investments:		
Cash and cash equivalents	<u>\$ 3,553</u>	<u>\$ 3,561</u>

Investment Return

Investment return for the years ended December 31, 2021 and 2020 is as follows (in thousands):

	<u>2021</u>	<u>2020</u>
Dividend, interest and other investment income, net of expenses	\$ 152	\$ 333
Realized gains on investments	377	197
Total investment income, net	<u>\$ 529</u>	<u>\$ 530</u>
Change in unrealized (losses) gains on investments, net	<u>\$ (620)</u>	<u>\$ 274</u>

Investment income is net of investment expenses of \$66,000 and \$75,000 for the years ended December 31, 2021 and 2020, respectively.

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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.

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 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.
- Interest rate cap agreement - 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.

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The following table presents the fair value measurements of financial instruments 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, 2021 and 2020 (in thousands):

	Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 6,157	\$ -	\$ -	\$ 6,157
Municipal bonds	-	766	-	766
Corporate bonds	-	1,851	-	1,851
U.S. government securities	-	1,381	-	1,381
Total investments in fair value hierarchy	<u>\$ 6,157</u>	<u>\$ 3,998</u>	<u>\$ -</u>	<u>\$ 10,155</u>
Liabilities:				
Interest rate cap	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ -</u>	<u>\$ 59</u>
Reconciliation of investments to the balance sheet:				
Cash and cash equivalents	\$ 11,233			
Investments in the fair value hierarchy	<u>10,155</u>			
Total investments	<u>\$ 21,388</u>			
Fair Value at December 31, 2020				
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 5,613	\$ -	\$ -	\$ 5,613
Municipal bonds	-	903	-	903
Corporate bonds	-	12,548	-	12,548
U.S. government securities	-	1,713	-	1,713
Total investments in fair value hierarchy	<u>\$ 5,613</u>	<u>\$ 15,164</u>	<u>\$ -</u>	<u>\$ 20,777</u>
Liabilities:				
Interest rate cap	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 34</u>
Reconciliation of investments to the balance sheet:				
Cash and cash equivalents	\$ 675			
Investments in the fair value hierarchy	<u>20,777</u>			
Total investments	<u>\$ 21,452</u>			

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5. Land, Buildings and Equipment, Net

Land, buildings and equipment, net at cost at December 31, 2021 and 2020 consist of the following
(in thousands):

	<u>2021</u>	<u>2020</u>
Land	\$ 597	\$ 597
Land improvements	3,157	3,157
Buildings and improvements	124,048	124,416
Furnishings, equipment and automotive	9,284	9,474
Total	137,086	137,644
Accumulated depreciation	<u>(72,392)</u>	<u>(69,667)</u>
Total	64,694	67,977
Construction in progress	<u>3,813</u>	<u>1,595</u>
Total	<u>\$ 68,507</u>	<u>\$ 69,572</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$5,173,000 and \$5,018,000, respectively. Fully depreciated assets of \$2,448,000 were disposed of during the year ended 2021. There were no fixed asset disposals in 2020.

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6. Notes and Bonds Payable, Net

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

	<u>2021</u>	<u>2020</u>
Bonds used to refinance existing debt and renovate and redevelop the Corporations, secured by the Corporations' property and equipment and a security interest in gross revenues:		
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.	\$ 16,130	\$ 16,435
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.	18,134	18,480
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, 2021 and 2020 was approximately 1.37%.	15,248	15,635
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, 2021 and 2020 was 1.84% and 1.90%, respectively.	18,490	18,950

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	<u>2021</u>	<u>2020</u>
Related-party notes payable:		
Subordinated note payable to NorCal due to previously advanced operating and capital needs prior to the transfer of sole membership of TOP from NorCal to Cornerstone in 2003. 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
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, or if not amortized, in a single payment due on January 28, 2028, or upon the sale of TOP.	800	800
Total	80,802	82,300
Less current portion	(1,552)	(1,488)
Plus unamortized premium	876	925
Less unamortized debt issuance cost	(1,502)	(1,586)
Notes and bonds payable, net	<u>\$ 78,624</u>	<u>\$ 80,151</u>

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

Years ending December 31:	
2022	\$ 1,552
2023	1,619
2024	1,688
2025	1,769
2026	1,855
Thereafter	<u>72,319</u>
Total	<u>\$ 80,802</u>

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 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, TOP is reimbursed for the excess by the counterparty to the transaction. The ten year agreement expires in February 2026. The change in the fair value of the interest rate cap for the years ended December 31, 2021 and 2020 was an increase of \$25,000 and decrease of \$6,000, respectively. The fair value of this instrument was \$59,000 and \$34,000 as of December 31, 2021 and 2020, respectively, and is included in other liabilities in the accompanying combined balance sheets.

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8. Employee Benefit Plans

The Corporations participate 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 \$347,000 and \$450,000 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 (in thousands):

	2021				Total
	Residential Living	Assisted Living	Health Center	Memory Care	
Private (contract)	\$ 16,170	\$ 3,091	\$ 1,496	\$ 1,877	\$ 22,634
Private (noncontract)	417	2,927	1,641	1,638	6,623
Medicare (Part A)	-	-	5,742	-	5,742
Medicare (Part B)	-	-	180	-	180
Medic aid	-	-	4,676	-	4,676
Managed care	-	-	3,051	-	3,051
Subtotal	<u>\$ 16,587</u>	<u>\$ 6,018</u>	<u>\$ 16,786</u>	<u>\$ 3,515</u>	42,906
Amortization of entrance fees					3,954
Total					<u>\$ 46,860</u>
	2020				Total
	Residential Living	Assisted Living	Health Center	Memory Care	
Private (contract)	\$ 16,244	\$ 2,755	\$ 1,294	\$ 1,915	\$ 22,208
Private (noncontract)	307	2,796	1,691	1,415	6,209
Medicare (Part A)	-	-	5,711	-	5,711
Medicare (Part B)	-	-	194	-	194
Medicaid	-	-	4,844	-	4,844
Managed care	-	-	2,514	-	2,514
Subtotal	<u>\$ 16,551</u>	<u>\$ 5,551</u>	<u>\$ 16,248</u>	<u>\$ 3,330</u>	41,680
Amortization of entrance fees					3,721
Total					<u>\$ 45,401</u>

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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, 2021 and 2020 (in thousands):

	2021		
	Residential Services	General and Administrative	Total
Salaries and wages	\$ 20,530	\$ 1,000	\$ 21,530
Employee benefits	4,430	366	4,796
Supplies	3,913	196	4,109
Chargeable ancillary services	2,190	-	2,190
Repairs and maintenance	425	-	425
Marketing and advertising	731	-	731
Purchased services	1,351	636	1,987
Management fees	-	3,683	3,683
Utilities	1,794	98	1,892
Travel and related	100	22	122
Leases and rents	143	172	315
Insurance	744	-	744
Other operating expenses	610	669	1,279
Mortgage interest	2,305	-	2,305
Depreciation and amortization	5,195	-	5,195
	<u>\$ 44,461</u>	<u>\$ 6,842</u>	<u>\$ 51,303</u>
Total expenses			
	<u>\$ 44,461</u>	<u>\$ 6,842</u>	<u>\$ 51,303</u>
	2020		
	Residential Services	General and Administrative	Total
Salaries and wages	\$ 18,899	\$ 1,026	\$ 19,925
Employee benefits	4,459	318	4,777
Supplies	3,875	242	4,117
Chargeable ancillary services	2,307	-	2,307
Repairs and maintenance	449	-	449
Marketing and advertising	713	-	713
Purchased services	1,276	719	1,995
Management fees	-	3,856	3,856
Utilities	1,618	119	1,737
Travel and related	62	11	73
Leases and rents	144	125	269
Insurance	661	-	661
Other operating expenses	592	446	1,038
Mortgage interest	2,512	-	2,512
Depreciation	5,018	-	5,018
	<u>\$ 42,585</u>	<u>\$ 6,862</u>	<u>\$ 49,447</u>
Total expenses			
	<u>\$ 42,585</u>	<u>\$ 6,862</u>	<u>\$ 49,447</u>

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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 \$3,683,000 and \$3,856,000 during 2021 and 2020, respectively, that consisted of management fees, and received distributions from Foundation West as described in Note 2. The Corporations owed NorCal \$2,492,000 and \$2,989,000 as of December 31, 2021 and 2020, respectively. These balances are settled in the normal course of operations with no fixed repayment terms.

12. Insurance Programs

Workers' Compensation Plan

HumanGood Arizona, Inc. maintains a guaranteed cost policy for workers' compensation claims in accordance with applicable State statutes. Management is not aware of any claims outstanding that are uninsured by the policy, yet any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. 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 \$398,000 and \$429,000 for the years ended December 31, 2021 and 2020, respectively.

Professional Liability Insurance

The Corporations maintain professional liability insurance through a pooled program with HumanGood. HumanGood has secured claims-made policies for malpractice and general liability insurance with certain self-insured retention limits for the years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, the Corporations had a liability of approximately \$50,000 and \$100,000, respectively, 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. Any related insurance recovery receivables are recorded under other receivables in the accompanying combined balance sheets. There are no amounts recorded at December 31, 2021 and 2020 for these matters.

Health Insurance

The Corporations are 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 Corporations through intercompany transactions based on a percentage of payroll.

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Notes to Combined Financial Statements
December 31, 2021 and 2020

13. 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.

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 Corporations' evaluation of the effects of these events is ongoing as of the date the accompanying combined financial statements were issued. COVID-19 may impact various parts of the Corporations' 2022 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 Corporations have provided up to date information on their COVID-19 response through a dedicated page on the Corporations' website.

14. 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 maintain 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.

15. 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 28, 2022, which is the date the combined financial statements were issued.

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Combining Balance Sheet Schedule

December 31, 2021

(In Thousands)

	<u>Terraces of Phoenix</u>	<u>Judson Park</u>	<u>Total Combined</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 3,239	\$ 2,708	\$ 5,947
Resident accounts receivables, net	816	981	1,797
Other receivables	40	161	201
Current portion of restricted investments	615	539	1,154
Prepaid expenses, deposits and other assets	230	204	434
Total current assets	4,940	4,593	9,533
Investments	13,282	8,106	21,388
Restricted Investments	1,301	1,098	2,399
Land, Buildings and Equipment, Net	42,510	25,997	68,507
Other Noncurrent Assets	80	97	177
Total assets	<u>\$ 62,113</u>	<u>\$ 39,891</u>	<u>\$ 102,004</u>
Liabilities and Net Deficit			
Current Liabilities			
Accounts payable and accrued expenses	\$ 930	\$ 1,103	\$ 2,033
Payable to affiliates	242	2,250	2,492
Deposits	29	124	153
Accrued interest	473	403	876
Current portion of notes and bonds payable	1,020	532	1,552
Total current liabilities	2,694	4,412	7,106
Notes and Bonds Payable, Net	43,028	23,596	66,624
Subordinated Note Payable to HumanGood NorCal	12,000	-	12,000
Rebatable Entrance Fees Due	47,190	7,020	54,210
Entrance Fees Subject to Refund	492	4,867	5,359
Entrance Fees Nonrefundable	8,512	10,049	18,561
Advances Subject to Refund	1,717	2,104	3,821
Other Liabilities	1	298	299
Total liabilities	115,634	52,346	167,980
Net Deficit	<u>(53,521)</u>	<u>(12,455)</u>	<u>(65,976)</u>
Total liabilities and net deficit	<u>\$ 62,113</u>	<u>\$ 39,891</u>	<u>\$ 102,004</u>

**HumanGood National Obligated Group (HumanGood Arizona, Inc.,
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, 2021
(In Thousands)

	<u>Terraces of Phoenix</u>	<u>Judson Park</u>	<u>Total Combined</u>
Operating Revenues			
Residential living	\$ 9,333	\$ 7,254	\$ 16,587
Assisted living	3,052	2,966	6,018
Health center	6,368	10,418	16,786
Memory care	1,924	1,591	3,515
Other residential services	105	266	371
Amortization of entrance fees	1,640	2,314	3,954
COVID relief funding	116	135	251
Other operating revenue	216	435	651
	<u>22,754</u>	<u>25,379</u>	<u>48,133</u>
Operating Expenses			
Salaries and wages	8,825	12,705	21,530
Employee benefits	2,047	2,749	4,796
Supplies	2,131	1,978	4,109
Chargeable ancillary services	950	1,240	2,190
Repairs and maintenance	159	266	425
Marketing and advertising	405	326	731
Purchased services	1,122	865	1,987
Management fees	1,826	1,857	3,683
Utilities	1,152	740	1,892
Travel and related	55	67	122
Leases and rents	167	148	315
Insurance	376	368	744
Other operating expenses	449	830	1,279
	<u>19,664</u>	<u>24,139</u>	<u>43,803</u>
Income before other operating income (expense)	3,090	1,240	4,330
Other Operating Income (Expense)			
Investment income, net	443	86	529
Change in unrealized losses on investments, net	(477)	(143)	(620)
Mortgage interest	(1,334)	(971)	(2,305)
Depreciation and amortization	(2,923)	(2,272)	(5,195)
	<u>(1,201)</u>	<u>(2,060)</u>	<u>(3,261)</u>
Other Changes in Net Deficit			
Capital contributions	57	9	66
Change in fair value of interest rate cap	25	-	25
	<u>(1,119)</u>	<u>(2,051)</u>	<u>(3,170)</u>
Net Deficit, Beginning	<u>(52,402)</u>	<u>(10,404)</u>	<u>(62,806)</u>
Net Deficit, Ending	<u>\$ (53,521)</u>	<u>\$ (12,455)</u>	<u>\$ (65,976)</u>

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

Combining Statement of Cash Flows Schedule
Year Ended December 31, 2021
(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Cash Flows From Operating Activities			
Cash received from resident services	\$ 20,317	\$ 22,617	\$ 42,934
Cash received from nonrebatable entrance fees from reoccupancy	3,528	4,232	7,760
Cash received from advances subject to refund	1,717	2,104	3,821
Cash received from COVID relief funding	116	135	251
Cash received from other operating activities	175	451	626
Cash earnings realized from investments	95	57	152
Cash paid for employee salaries	(8,043)	(10,750)	(18,793)
Cash paid for employee benefits	(2,028)	(2,568)	(4,596)
Cash paid for temporary labor	(881)	(2,077)	(2,958)
Cash paid to vendors	(8,904)	(8,213)	(17,117)
Cash paid for interest	(1,326)	(958)	(2,284)
Net cash provided by operating activities	<u>4,766</u>	<u>5,030</u>	<u>9,796</u>
Cash Flows From Investing Activities			
Acquisition of land, buildings and equipment	(2,422)	(1,686)	(4,108)
Net purchases of unrestricted investments	(109)	(72)	(181)
Net cash used in investing activities	<u>(2,531)</u>	<u>(1,758)</u>	<u>(4,289)</u>
Cash Flows From Financing Activities			
Proceeds from rebatable entrance fees	6,197	229	6,426
Refunds of deposits and entrance fees	(6,986)	(1,564)	(8,550)
Cash (paid to) received from affiliates	579	(1,076)	(497)
Principal payments on notes and bonds payable	(986)	(512)	(1,498)
Capital contributions	57	9	66
Net cash used in financing activities	<u>(1,139)</u>	<u>(2,914)</u>	<u>(4,053)</u>
Increase in cash, cash equivalents and restricted cash and cash equivalents	1,096	358	1,454
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	<u>4,059</u>	<u>3,987</u>	<u>8,046</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u>\$ 5,155</u>	<u>\$ 4,345</u>	<u>\$ 9,500</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combining Balance Sheet			
Cash and cash equivalents	\$ 3,239	\$ 2,708	\$ 5,947
Restricted cash included in current portion of restricted investments	615	539	1,154
Restricted cash included in restricted investments	<u>1,301</u>	<u>1,098</u>	<u>2,399</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 5,155</u>	<u>\$ 4,345</u>	<u>\$ 9,500</u>

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

Combining Balance Sheet Schedule

December 31, 2020

(In Thousands)

	<u>Terraces of Phoenix</u>	<u>Judson Park</u>	<u>Total Combined</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,142	\$ 2,343	\$ 4,485
Resident accounts receivables, net	474	1,272	1,746
Other receivables	648	-	648
Current portion of restricted investments	617	546	1,163
Prepaid expenses, deposits and other assets	215	237	452
Total current assets	4,096	4,398	8,494
Investments	13,303	8,149	21,452
Restricted Investments	1,300	1,098	2,398
Land, Buildings and Equipment, Net	43,001	26,571	69,572
Total assets	<u>\$ 61,700</u>	<u>\$ 40,216</u>	<u>\$ 101,916</u>
Liabilities and Net Deficit			
Current Liabilities			
Accounts payable and accrued expenses	\$ 1,179	\$ 1,073	\$ 2,252
(Due from) payable to affiliates	(337)	3,326	2,989
Deposits	94	87	181
Accrued interest	482	410	892
Current portion of notes and bonds payable	976	512	1,488
Total current liabilities	2,394	5,408	7,802
Notes and Bonds Payable, Net	44,041	24,110	68,151
Subordinated Note Payable to HumanGood NorCal	12,000	-	12,000
Rebatable Entrance Fees Due	47,553	7,969	55,522
Entrance Fees Subject to Refund	162	3,014	3,176
Entrance Fees Nonrefundable	7,944	10,003	17,947
Other Liabilities	8	116	124
Total liabilities	114,102	50,620	164,722
Net Deficit	<u>(52,402)</u>	<u>(10,404)</u>	<u>(62,806)</u>
Total liabilities and net deficit	<u>\$ 61,700</u>	<u>\$ 40,216</u>	<u>\$ 101,916</u>

**HumanGood National Obligated Group (HumanGood Arizona, Inc.,
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, 2020
(In Thousands)

	<u>Terraces of Phoenix</u>	<u>Judson Park</u>	<u>Total Combined</u>
Operating Revenues			
Residential living	\$ 9,700	\$ 6,851	\$ 16,551
Assisted living	2,861	2,690	5,551
Health center	5,181	11,067	16,248
Memory care	1,793	1,537	3,330
Other residential services	177	261	438
Amortization of entrance fees	1,659	2,062	3,721
COVID relief funding	1,419	1,026	2,445
Other operating revenue	125	399	524
	<u>22,915</u>	<u>25,893</u>	<u>48,808</u>
Operating Expenses			
Salaries and wages	8,530	11,395	19,925
Employee benefits	1,978	2,799	4,777
Supplies	2,117	2,000	4,117
Chargeable ancillary services	747	1,560	2,307
Repairs and maintenance	182	267	449
Marketing and advertising	407	306	713
Purchased services	1,063	932	1,995
Management fees	1,968	1,888	3,856
Utilities	1,095	642	1,737
Travel and related	50	23	73
Leases and rents	175	94	269
Insurance	340	321	661
Other operating expenses	373	665	1,038
	<u>19,025</u>	<u>22,892</u>	<u>41,917</u>
Income before other operating income (expense)	3,890	3,001	6,891
Other Operating Income (Expense)			
Investment income, net	254	276	530
Change in unrealized losses on investments, net	265	9	274
Mortgage interest	(1,488)	(1,024)	(2,512)
Depreciation	(2,756)	(2,262)	(5,018)
	<u>165</u>	<u>-</u>	<u>165</u>
Change in Fair Value of Interest Rate Cap	<u>(6)</u>	<u>-</u>	<u>(6)</u>
Change in net deficit	159	-	159
Net Deficit, Beginning	<u>(52,561)</u>	<u>(10,404)</u>	<u>(62,965)</u>
Net Deficit, Ending	<u>\$ (52,402)</u>	<u>\$ (10,404)</u>	<u>\$ (62,806)</u>

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

Combining Statement of Cash Flows Schedule

Year Ended December 31, 2020

(In Thousands)

	Terraces of Phoenix	Judson Park	Total Combined
Cash Flows From Operating Activities			
Cash received from resident services	\$ 20,255	\$ 22,341	\$ 42,596
Cash received from nonrebatable entrance fees from reoccupancy	1,127	1,995	3,122
Cash received from COVID relief funding	1,419	1,026	2,445
Cash received from other operating activities	134	399	533
Cash earnings realized from investments	221	112	333
Cash paid for employee salaries	(7,765)	(10,155)	(17,920)
Cash paid for employee benefits	(1,978)	(2,808)	(4,786)
Cash paid for temporary labor	(714)	(1,133)	(1,847)
Cash paid to vendors	(8,387)	(8,570)	(16,957)
Cash paid for interest	(1,510)	(1,023)	(2,533)
Net cash provided by operating activities	<u>2,802</u>	<u>2,184</u>	<u>4,986</u>
Cash Flows From Investing Activities			
Acquisition of land, buildings and equipment	(2,618)	(1,798)	(4,416)
Net purchases of unrestricted investments	(209)	(118)	(327)
Net cash used in investing activities	<u>(2,827)</u>	<u>(1,916)</u>	<u>(4,743)</u>
Cash Flows From Financing Activities			
Proceeds from rebatable entrance fees	3,436	414	3,850
Refunds of deposits and entrance fees	(4,502)	(1,211)	(5,713)
Cash (paid to) received from affiliates	(288)	1,420	1,132
Principal payments on notes and bonds payable	(941)	(496)	(1,437)
Net cash (used in) provided by financing activities	<u>(2,295)</u>	<u>127</u>	<u>(2,168)</u>
(Decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(2,320)	395	(1,925)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	<u>6,379</u>	<u>3,592</u>	<u>9,971</u>
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	<u>\$ 4,059</u>	<u>\$ 3,987</u>	<u>\$ 8,046</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents to Combining Balance Sheet			
Cash and cash equivalents	\$ 2,142	\$ 2,343	\$ 4,485
Restricted cash included in current portion of restricted investments	617	546	1,163
Restricted cash included in restricted investments	<u>1,300</u>	<u>1,098</u>	<u>2,398</u>
Total cash, cash equivalents and restricted cash and cash equivalents	<u>\$ 4,059</u>	<u>\$ 3,987</u>	<u>\$ 8,046</u>