# HumanGood Idaho
# (dba Terraces of Boise)
# (a Member of HumanGood Cornerstone)

Financial Statements

December 31, 2019 and 2018

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# Independent Auditors' Report

To the Board of Directors of
HumanGood Idaho (dba Terraces of Boise)
(a Member of HumanGood Cornerstone)

We have audited the accompanying financial statements of HumanGood Idaho (dba Terraces of Boise) (the Corporation), a member of HumanGood Cornerstone, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net deficit and cash flows as of and for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and the results of its operations, changes in net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matters - Accounting Changes**

As discussed in Note 2 to the financial statements, in 2019, the Corporation changed its accounting policy related to the accounting for investments. Our opinion is not modified with respect to this matter.

Also as discussed in Note 2 to the financial statements, in 2019, the Corporation changed the actuarial method of calculating its future service obligation. Our opinion is not modified with respect to this matter.

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

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
March 31, 2020

**HumanGood Idaho (dba Terraces of Boise)**
**(a Member of HumanGood Cornerstone)**

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

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 751 | $ 1,650 |
| Resident accounts receivable, less allowance for doubtful accounts of $49 and $42 | 911 | 716 |
| Other receivables | 112 | 1,056 |
| Current portion of restricted investments | 1,775 | 1,910 |
| Prepaid expenses and other assets | 36 | 52 |
| Total current assets | 3,585 | 5,384 |
| **Noncurrent Assets** | | |
| Restricted cash | 314 | 712 |
| Restricted investments | 11,360 | 11,542 |
| Land, building and equipment, net | 79,952 | 82,061 |
| Total noncurrent assets | 91,626 | 94,315 |
| Total assets | $ 95,211 | $ 99,699 |
| **Liabilities and Net Deficit** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 1,656 | $ 1,379 |
| Payable to affiliates | 1,489 | 1,339 |
| Deposits | 304 | 208 |
| Accrued interest | 2,108 | 2,043 |
| Current portion of notes and bonds payable | 760 | 710 |
| Total current liabilities | 6,317 | 5,679 |
| **Noncurrent Liabilities** | | |
| Notes and bonds payable, net | 76,345 | 77,097 |
| Subordinated notes and liquidity support payable | 5,250 | 5,250 |
| Due to GCI | 650 | 650 |
| Rebatable entrance fees due | 34,888 | 33,706 |
| Entrance fees subject to refund | 11,284 | 10,197 |
| Entrance fees nonrefundable | 2,557 | 3,233 |
| Future service benefit obligation | 9,329 | 2,540 |
| Total noncurrent liabilities | 140,303 | 132,673 |
| Total liabilities | 146,620 | 138,352 |
| **Net Deficit Without Donor Restrictions** | (51,409) | (38,653) |
| Total liabilities and net deficit | $ 95,211 | $ 99,699 |

*See notes to financial statements*

**HumanGood Idaho (dba Terraces of Boise)**
**(a Member of HumanGood Cornerstone)**

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

| | 2019 | 2018 (As Adjusted) |
|---|---|---|
| **Operating Revenues** | | |
| Residential living | $ 6,750 | $ 6,029 |
| Assisted living | 2,382 | 1,550 |
| Health center | 2,855 | 2,682 |
| Memory support | 1,546 | 1,457 |
| Amortization of entrance fees | 1,553 | 1,271 |
| Other operating revenue | 86 | 51 |
| Change in future service benefit obligations | (6,789) | 8,915 |
| Total operating revenues | 8,383 | 21,955 |
| **Operating Expenses** | | |
| Salaries and wages | 6,224 | 5,469 |
| Employee benefits | 1,333 | 1,128 |
| Supplies | 1,178 | 1,134 |
| Chargeable ancillary services | 553 | 543 |
| Repairs and maintenance | 224 | 142 |
| Marketing and advertising | 400 | 677 |
| Purchased services | 764 | 598 |
| Management fees | 155 | 211 |
| Utilities | 498 | 492 |
| Travel and related | 131 | 115 |
| Rentals and leases | 49 | 32 |
| Insurance | 136 | 118 |
| Taxes | 974 | 1,116 |
| Other operating expenses | 117 | 120 |
| Total operating expenses | 12,736 | 11,895 |
| Income before other operating (expense) income | (4,353) | 10,060 |
| **Other Operating Income (Expense)** | | |
| Investment income, net | 258 | 163 |
| Unrealized gain on investments | 106 | 44 |
| Depreciation and amortization | (2,212) | (2,234) |
| Mortgage interest | (6,555) | (6,573) |
| (Loss) income from operations and change in net deficit | (12,756) | 1,460 |
| **Net Deficit, Beginning of Year, As Previously Reported** | (38,653) | (32,092) |
| Adjustments for adoption of accounting pronouncement | - | (8,021) |
| Net deficit, beginning of year, as adjusted | (38,653) | (40,113) |
| **Net Deficit, End of Year** | $ (51,409) | $ (38,653) |

*See notes to financial statements*

**HumanGood Idaho (dba Terraces of Boise)**
**(a Member of HumanGood Cornerstone)**

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

| | 2019 | 2018 (As Adjusted) |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Cash received for resident services | $ 13,421 | $ 11,761 |
| Cash received from nonrebatable entrance fees from reoccupancy | 2,098 | 2,838 |
| Cash paid for other operating activities | - | (56) |
| Cash earnings realized from investments | 258 | 164 |
| Cash paid for employee salaries | (5,429) | (5,087) |
| Cash paid for employee benefits | (1,333) | (1,128) |
| Cash paid for temporary labor | (782) | (364) |
| Cash paid to vendors | (4,808) | (5,491) |
| Cash paid for interest | (6,442) | (6,474) |
| Net cash used in operating activities | (3,017) | (3,837) |
| **Cash Flows From Investing Activities** | | |
| Acquisition of land, buildings, and equipment | (103) | (108) |
| Net purchases of investments | (1,179) | (2,483) |
| Change in restricted project related investments | 304 | 142 |
| Change in restricted entrance fee related investments | - | 3,042 |
| Net cash (used in) provided by investing activities | (978) | 593 |
| **Cash Flows From Financing Activities** | | |
| Cash received from initial entrance fees and deposits | 434 | 3,422 |
| Proceeds from rebatable entrance fees | 3,831 | 3,708 |
| Refunds of deposits and refundable fees | (2,252) | (3,152) |
| Payments on notes and bonds payable | (750) | (2,054) |
| Cash received from affiliates | 150 | 97 |
| Net cash provided by financing activities | 1,413 | 2,021 |
| Decrease in cash, cash equivalents and restricted cash and cash equivalents | (2,582) | (1,223) |
| **Cash, Cash Equivalents and Restricted Cash, Beginning** | 8,175 | 9,398 |
| **Cash, Cash Equivalents and Restricted Cash, Ending** | $ 5,593 | $ 8,175 |

*See notes to financial statements*

## HumanGood Idaho (dba Terraces of Boise)
## (a Member of HumanGood Cornerstone)

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

| | 2019 | 2018 (As Adjusted) |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Change in net deficit | $ (12,756) | $ 1,460 |
| Adjustments to reconcile change in net deficit to net cash used in operating activities: | | |
| Amortization of debt issuance costs and bond discount, net | 48 | 44 |
| Amortization of entrance fees | (1,553) | (1,271) |
| Entrance fees from reoccupancy | 2,098 | 2,838 |
| Amortization of deferred fees | - | 31 |
| Realized and unrealized loss on investments | (93) | 49 |
| Depreciation and amortization | 2,212 | 2,234 |
| Change in future service benefit obligation | 6,789 | (8,915) |
| Change in accounts receivable from residents | 556 | 54 |
| Other change in operating assets and liabilities, net | (318) | (361) |
| Net cash used in operating activities | $ (3,017) | $ (3,837) |
| **Noncash Investing and Financing Activities** | | |
| Obligation incurred for the acquisition of land, buildings and equipment | $ 21 | $ 2 |
| **Reconciliation of Cash and Restricted Cash to Balance Sheets** | | |
| Cash and cash equivalents | $ 751 | $ 1,650 |
| Restricted cash included in current portion of restricted investments | 1,775 | 1,910 |
| Restricted cash | 314 | 712 |
| Restricted cash included in noncurrent portion of restricted investments | 2,753 | 3,903 |
| Total cash and restricted cash | $ 5,593 | $ 8,175 |

*See notes to financial statements*

## 1. Business Organization

HumanGood Idaho (dba Terraces of Boise) (the Corporation), is a California nonprofit public benefit tax-exempt corporation formed on August 3, 2005, and is qualified to do business in the state of Idaho. The Corporation was formed for the purpose of constructing, owning and operating a continuing care retirement community in Boise, Idaho, known as the Terraces of Boise (the Community), to provide housing, health care and other related services to its residents in Boise, Idaho.

Development activities for the Community were initiated in December 2007. In September 2009, the Corporation began the process of accepting refundable conversion deposits for future residency in the Community. The Corporation began construction of the Community in December 2013. The Community opened Phase I of residential living apartments and cottages on July 27, 2015, Phase II opened on October 27, 2015 and Phase III opened on January 6, 2016. Assisted living apartments opened on May 10, 2016. Memory support apartments opened on May 31, 2016. Skilled nursing beds opened on January 27, 2016. The Corporation financed construction of the Community using tax-exempt bonds, as described further in Note 6. The final cost of construction, design and engineering was approximately $56,000,000. The Community consists of 161 residential living apartments and cottages, 40 assisted living apartments, 24 memory support apartments and 48 skilled nursing beds.

### Parent Organization

HumanGood Cornerstone (a Member of HumanGood), a California nonprofit public benefit tax-exempt corporation, is the sole member and exercises its direction and control through the appointment of the Boards of Directors of the Corporation, HumanGood Arizona (dba Terraces of Phoenix), HumanGood Washington (dba Judson Park), HumanGood Nevada (dba Las Ventanas) and HumanGood Properties and in conjunction with an affiliation effective June 30, 2019, HumanGood East (formerly Philadelphia Presbytery Homes and Services for the Aging, dba Presby's Inspired Life). HumanGood Arizona and HumanGood Washington together constitute an obligated group (HumanGood National Obligated Group).

HumanGood is a California nonprofit public benefit tax-exempt corporation providing housing, health care and supportive services for the elderly through its continuing care retirement 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.

## 2. Summary of Significant Accounting Policies

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (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 financial statements and reported amounts of revenues and expenses during the reported periods. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable; fair value of investments; future service benefit obligations; rebatable entrance fees due; entrance fees subject to refund; and entrance fees nonrefundable. Actual results could differ from those estimates.

### Cash and Cash Equivalents

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

### Restricted Cash

Restricted cash is defined as cash, which is restricted in its use by regulatory or other agreements. These accounts consist of refundable conversion deposits for future residency of the Community. A portion of the restricted cash is limited as to use in accordance with the Master Trust Indenture Agreement.

### Restricted Investments

Restricted investments include assets held by trustees in accordance with the indentures related to the debt agreement. Restricted investments include certain cash and cash equivalents, domestic and foreign corporate debt securities and U.S. government securities.

In 2019, the Corporation was 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 Corporation manages their restricted investments under one investment policy and as one portfolio, and accordingly, elected in 2019 to also change their accounting policy for all securities, as this is representative of the manner in which the restricted investments are managed, by electing to adopt the fair value option for all financial assets included within restricted investments. That election requires including changes in the unrealized gains and losses for those financial assets in the performance indicator and is irrevocable. In accordance with generally accepted accounting principles, this change has been applied retrospectively to the financial statements. Prior to this change and the adoption of ASU No. 2016-01, the Corporation had reported the change in unrealized gains and losses on restricted investments outside of the performance indicator. There was no effect on net assets of the balance sheets as a result of the change. The following line items on the statements of operations and changes in net assets for the year ended December 31, 2018 were affected by the changes in accounting principle:

| | As Previously Reported | As Adjusted | Effect of Change |
|---|---|---|---|
| Other operating income (expense): | | | |
| Unrealized gain on investments | $ - | $ 44 | $ 44 |
| Income from operations | 1,416 | 1,460 | 44 |
| Other change in net deficit without donor restrictions: | | | |
| Unrealized gain (loss) on investments | 44 | - | (44) |

Investment income or loss (including interest, dividends and fees), realized gains and losses and unrealized gains and losses on investments are included in (loss) income from operations and change in net deficit. 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 Corporation assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Company has exhausted all collection efforts and accounts are deemed impaired.

**Other Receivables**

Other receivables at December 31, 2019 and 2018, includes noninterest bearing, unsecured promissory notes from residents to pay entrance fees in the amount of $0 and $966,000, respectively. Entrance fee promissory notes receivable are evaluated for collectability prior to residents being admitted to the community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

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

**Land, Building and Equipment, Net**

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

**Asset Impairment**

The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No asset impairment was recognized as of December 31, 2019 or 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 interest method and are presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization expense is included as a component of interest expense. Unamortized deferred debt issuance costs amounted to $1,885,000 and $1,878,000 at December 31, 2019 and 2018, respectively. Accumulated amortization of deferred debt issuance cost was $165,000 and $132,000 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 was performed in accordance with ASU No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities - Refundable Advance Fees*. A liability of $9,329,000 and $2,540,000 has been recorded in the accompanying balance sheets at December 31, 2019 and 2018, respectively. The Corporation prospectively changed the actuarial method of calculating the liability at December 31, 2019 by including certain administrative expenses and other revenues due to a change in classification. In addition, the Corporation began using a method of allocation of expense to the levels of care based on their historical trends. In the past, an industry benchmark was used for this allocation. The liability increased $6,789,000 from 2018 which includes the effect of the change in estimate of approximately $5,199,000, which decreased the intermediate measures of operations and the performance indicator in 2019. The Corporation believes that the new method of calculating the liability is preferable in that it's in accordance with industry practices, aligns the method with the other entities under common control, and is representative of the nature of the Corporation's operations. The discount rate used to calculate the obligation to provide future services was 5 percent and 5.5 percent for 2019 and 2018, respectively.

### Types of Entrance Fees

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

### Refund Policy on Entrance Fees

The Corporation offers contract options whereby 0 percent to 95 percent of the entrance fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. At December 31, 2019 and 2018, the Corporation had nonrefundable entrance fees of $2,557,000 and $3,233,000, respectively, related to entrance fees received that will be recognized as revenue in future years. Additionally, at December 31, 2019 and 2018, the Corporation had entrance fees subject to refund of $11,284,000 and $10,197,000, respectively, which will be recognized as revenue in future years, unless refunded.

Additionally, at December 31, 2019 and 2018, $34,888,000 and $33,706,000, respectively, of the entrance fees are contractually rebatable and are presented as rebatable entrance fees due in the accompanying balance sheets.

Actual refunds and rebates of entrance fees were $2,252,000 and $3,152,000 for the years ended December 31, 2019 and 2018, respectively. Management expects to pay refunds in future years of approximately $2,500,000 per year.

### Net Deficit

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. All net deficits 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 deficits with donor-imposed restrictions, temporary or perpetual in nature, are held as of December 31, 2019 and 2018.

### Contributions

The Corporation participates in the HumanGood Foundation West fundraising activity. Gifts and bequests to the Corporation are credited to the Corporation's fund with Foundation West. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to the Corporation's fund. Funds held by Foundation West that the Foundation West board has designated for the Corporation amount to approximately $139,000 and $49,000 of board designated unrestricted funds and $63,000 and $97,000 of donor restricted project funds at December 31, 2019 and 2018, respectively. Foundation West retains a legal right to redirect the use of unrestricted funds. Board practice since inception has been to designate earnings distributions on funds for community benevolence needs. The Corporation receives distributions from Foundation West based upon the market value of the twelve-quarter rolling average of the Corporation's fund at a current rate of 3.5 percent. This rate is subject to change based upon the Foundation West's board's action. Included in the accompanying statements of operations and changes in net deficit are $0 for both 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 Corporation expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Payment terms and conditions for the Corporation's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, entrance fees are generally billed and collected in advance of move-in, and are recognized as deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying balance sheets. The Corporation recognized amortization income of $1,553,000 in 2019 and $1,271,000 in 2018. The Corporation applies the practical expedient in Accounting Standards Codification (ASC) Topic 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

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

For residents with Life Care contracts (modified Type A), 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.

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

**Health Center**

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

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

The Corporation receives revenue for services under third-party payor programs, including Medicare and other third-party payors. Laws and regulations governing the Medicare program are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare programs.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, as new information becomes available), or as years are settled or no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price, were not significant in 2019 or 2018.

**Assisted Living and Memory Support**

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

**Residential Living**

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

### Benevolence

The Corporation provides services 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 Corporation is entitled from public assistance programs on behalf of residents that meet the Corporation's benevolence criteria are reported as revenues. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenues. For the years ended December 31, 2019 and 2018, there was no benevolence recorded, as the Corporation had not received any requests for benevolent care.

### Performance Indicator

(Loss) income from operations and changes in net deficit as reflected in the accompanying statements of operations and changes in net deficit is the performance indicator. Loss from operations includes all changes in unrestricted net deficit.

### Workers' Compensation Plan

The Corporation has a workers' compensation insurance policy through Oasis AHR, formerly Aureon HR, Inc., a professional employer organization. The coverage under Part A of the workers' compensation policy does not have a limit unless set forth by the State statute. The coverage under Part B of the workers' compensation policy has a limit of $1,000,000 per accident, $1,000,000 per disease (per employee) and $1,000,000 per disease (policy limit). Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. The expense for this coverage is reflected as a component of employee costs in the statements of operations and changes in net deficit.

### Professional Liability Insurance

The Corporation has 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 as of and for the years December 31, 2019 and 2018, respectively. Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets. There are no amounts recorded at December 31, 2019 and 2018 for these matters.

### Tax-Exempt Status

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

The Corporation assesses uncertain tax positions in accordance with the provisions of the FASB ASC Topic 740-10, *Income Taxes.* The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2019, there were no such uncertain tax positions.

### New Accounting Pronouncements

In 2019, the Corporation 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. Net purchases of investments increased and net cash provided by investing activities decreased on the statement of cash flows for the year ended December 31, 2018 by $2,455,000 as a result of this change in accounting principle. Cash received from initial entrance fees and deposits and net cash provided by financing activities on the statement of cash flows for the year ended December 31, 2018 were decreased by $195,000 as a result of this change in accounting principle. Cash, cash equivalents and restricted cash on the statement of cash flows for the year ended December 31, 2018 was increased by $6,525,000.

### Reclassification

Certain items in the 2018 financial statements have been reclassified to conform with the 2019 financial statement presentation. These reclassifications had no effect on the previously reported income from operations.

## 3. Liquidity and Availability of Resources

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

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 751 | $ 1,650 |
| Resident accounts receivables | 911 | 716 |
| Other receivables | 112 | 1,056 |
| Total | $ 1,774 | $ 3,422 |

A portion of the Corporation's restricted investments include operating reserves and liquidity support funds to comply with certain requirements. These funds may be used for budgeted operating expenses when no other funds are available or will reasonably be available to make such payments.

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

## 4. Fair Value Measurements and Investments

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.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- Domestic and foreign corporate debt securities are valued using inputs and techniques which third-party pricing vendors, dealer quotations and recently executed transactions in securities of the issuer or comparable issuers.
- U.S. government 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.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018 (in thousands):

| | Fair Value at December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Restricted investments: | | | | |
| Domestic corporate debt | $ - | $ 3,253 | $ - | $ 3,253 |
| Foreign corporate debt | - | 339 | - | 339 |
| U.S. government securities | - | 5,015 | - | 5,015 |
| Total | $ - | $ 8,607 | $ - | $ 8,607 |
| Reconciliation of restricted investments to the balance sheet: | | | | |
| Cash equivalents | $ 4,528 | | | |
| Investments in the fair value hierarchy | 8,607 | | | |
| Total restricted investments | $ 13,135 | | | |

| | Fair Value at December 31, 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Restricted investments: | | | | |
| Domestic corporate debt | $ - | $ 3,665 | $ - | $ 3,665 |
| Foreign corporate debt | - | 365 | - | 365 |
| U.S. government securities | - | 3,609 | - | 3,609 |
| Total | $ - | $ 7,639 | $ - | $ 7,639 |
| Reconciliation of restricted investments to the balance sheet: | | | | |
| Cash equivalents | $ 5,813 | | | |
| Investments in the fair value hierarchy | 7,639 | | | |
| Total restricted investments | $ 13,452 | | | |

**Investment Return**

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

| | **2019** | **2018** |
|---|---|---|
| Net realized losses on investments | $ (13) | $ (93) |
| Dividend, interest and other investment income | 271 | 256 |
| Total investment income, net | $ 258 | $ 163 |
| Unrealized gains on investments | $ 106 | $ 44 |

Investment income is net of investment expenses of $19,000 and $40,000 for the years ended December 31, 2019 and 2018, respectively.

## 5. Land, Buildings and Equipment

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

| | **2019** | **2018** |
|---|---|---|
| Land | $ 5,138 | $ 5,138 |
| Land improvements | 65 | 65 |
| Buildings and improvements | 83,687 | 83,675 |
| Furnishings, equipment and automotive | 1,339 | 1,248 |
| | 90,229 | 90,126 |
| Accumulated depreciation | (10,277) | (8,065) |
| Total | $ 79,952 | $ 82,061 |

Depreciation expense for the years ended December 31, 2019 and 2018 was $2,212,000 and $2,234,000, respectively.

## 6. Notes and Bonds Payable and Liquidity Support Payable

A summary of the Corporation's notes and bonds payable and liquidity support payable at December 31, 2019 and 2018, is as follows (in thousands):

| | 2019 | 2018 |
|---|---|---|
| Bonds used to develop the Community: | | |
| Series 2014 Tax Exempt, Fixed Rate Term Revenue Bonds (dated January 28, 2014), secured by deed of trust and gross revenue, Serial certificates, annual principal payable commencing on April 1, 2016, in varying amounts ranging from $710,000 to $6,565,000, through 2049. Interest rates are fixed ranging from 7.0% to 8.125% for the various tranches of the debt. | $ 79,975 | $ 80,685 |
| HumanGood NorCal subordinated promissory note, with interest accruing at 4.0% annually and repayment of principal and interest subject to restrictions defined in the Master Trust Indenture. | 2,000 | 2,000 |
| HumanGood NorCal Liquidity Support Agreement dated January 1, 2014. Non-interest bearing obligation with repayment contingent upon the achievement of certain financial performance criteria defined in the Master Trust Indenture. | 1,000 | 1,000 |
| GCI Boise, LP (GCI Boise) Liquidity Support Agreement dated January 1, 2014. Non-interest bearing obligation with repayment contingent upon the achievement of certain financial performance criteria defined in the Master Trust Indenture. | 2,250 | 2,250 |
| | 85,225 | 85,935 |
| Less current portion | (760) | (710) |
| Less unamortized bond issuance costs, net | (1,885) | (1,878) |
| Less unamortized bond discount, net | (985) | (1,000) |
| Total notes and bonds payable | $ 81,595 | $ 82,347 |

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

| Years ending December 31: | |
|---|---|
| 2020 | $ 760 |
| 2021 | 815 |
| 2022 | 870 |
| 2023 | 930 |
| 2024 | 995 |
| Thereafter | 80,855 |
| Total | $ 85,225 |

The Corporation closed on the Series 2014 Bonds (the 2014 Bonds) which included the Series 2014A, B1, B2, B3 and C issued by the Idaho Health Facilities Authority (the Authority) in the amount of $103,185,000 on January 28, 2014. The 2014 Bonds were issued pursuant to a Bond Indenture of Trust (the Bond Indenture) dated January 1, 2014, by and between the Authority and U.S. Bank National Association, as bond trustee (the Bond Trustee).

Concurrent with issuance of the Series 2014 Bonds, GCI Boise entered into a Liquidity Support Agreement with the Corporation, dated January 1, 2014, and contributed $2,250,000 to the Liquidity Support Fund. Additionally, NorCal entered into a separate Liquidity Support Agreement with the Corporation, dated January 1, 2014, with NorCal contributing $1,000,000 and NorCal agreeing to potentially fund $1,250,000 into the fund contingent upon the occurrence of certain funding events defined in the Liquidity Support Agreement. This fund is held under the Master Trust Indenture to pay costs of the project, operating costs of the Corporation or debt service payments with respect to the 2014 Bonds. Finally, at closing of the Series 2014 bonds, NorCal accepted a subordinated note of $2,000,000 from the Corporation in conjunction with the sale of the Community's land.

The Corporation has utilized the proceeds from the sale of the 2014 Bonds, together with other available funds, to: (i) finance or reimburse the Corporation for a portion of the costs of the Community; (ii) refinance outstanding indebtedness of an affiliate of the Corporation incurred in connection with the acquisition of the land upon which the Community is located; (iii) pay a portion of the interest on the 2014 Bonds during the construction of the Community; (iv) fund a debt service reserve fund; and (v) pay certain costs associated with the issuance of the 2014 Bonds.

The Series 2014A bonds were sold at a discount of $1,057,000 in order to affect a market rate of interest. The discount is being amortized under the effective interest rate method. At December 31, 2019 and 2018, the net unamortized discount was $985,000 and $1,000,000, respectively. The effective interest rate on Series 2014A bonds ranges from 7.0 percent to 8.125 percent.

The Series 2014A bonds maturing on and after October 1, 2029, are subject to optional redemption prior to maturity by the Authority at the direction of the Corporation in whole or in part on October 1, 2024, or on any date thereafter, at the redemption price equal to the principal amount together with accrued interest to the redemption date.

The Corporation is currently subject to a Marketing Covenant, an Occupancy Covenant and a Cumulative Cash Operating Loss (CCOL) Covenant until stabilized occupancy is achieved. The Corporation will be subject to additional covenants starting June 30, 2021 (see Note 12). The CCOL Covenant was not met as of March 31, 2017 however is not considered an event of default under the terms of the Master Trust Indenture. A Management Report was prepared and posted to EMMA on June 23, 2017. As the CCOL Covenant was not met for the second consecutive fiscal quarter as of June 30, 2017, a Consultant's Report and Recommendations was posted to EMMA on February 27, 2018. Management has evaluated the significance of this condition in relation to the Corporation's ability to meet its obligations until June 30, 2021 and has determined that the Corporation has the ability to meet its obligations through operating cash flow and, as necessary use of the liquidity support committed by GCI Boise and NorCal as described above. Management's plans alleviate substantial doubt about the Corporation's ability to continue as a going concern within one year after the date the financial statements are issued.

## 7. Net Resident Service Revenues

The Corporation disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Resident services and patient revenues consist of the following for the years ended December 31, 2019 and 2018 (in thousands):

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Residential Living | Assisted Living | Health Center | Memory Support | Total |
| Private (contract) | $ 6,750 | $ 369 | $ 310 | $ 212 | $ 7,641 |
| Private (noncontract) | - | 2,013 | 1,192 | 1,334 | 4,539 |
| Medicare (Part A) | - | - | 753 | - | 753 |
| Medicare (Part B) | - | - | 115 | - | 115 |
| Managed care | - | - | 485 | - | 485 |
| Subtotal | 6,750 | 2,382 | 2,855 | 1,546 | 13,533 |
| Amortization of nonrebatable entrance fees | - | - | - | - | 1,553 |
| Total | $ 6,750 | $ 2,382 | $ 2,855 | $ 1,546 | $ 15,086 |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Residential Living | Assisted Living | Health Center | Memory Support | Total |
| Private (contract) | $ 6,029 | $ 136 | $ 297 | $ 166 | $ 6,628 |
| Private (noncontract) | - | 1,414 | 1,111 | 1,291 | 3,816 |
| Medicare (Part A) | - | - | 1,028 | - | 1,028 |
| Medicare (Part B) | - | - | 166 | - | 166 |
| Managed care | - | - | 80 | - | 80 |
| Subtotal | 6,029 | 1,550 | 2,682 | 1,457 | 11,718 |
| Amortization of nonrebatable entrance fees | - | - | - | - | 1,271 |
| Total | $ 6,029 | $ 1,550 | $ 2,682 | $ 1,457 | $ 12,989 |

In 2019 and 2018, approximately 90 percent of the Corporation's resident services and patient revenue is derived from private pay. The Corporation also has agreements with third party payors. The Medicare Part A program makes up approximately 6 percent and 9 percent of the Corporation's resident services and patient revenue 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 Corporation's clinical assessment of their residents. The Corporation is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by Medicare. The basis for payment to the Corporation for other payer agreements includes prospectively determined rates per day or discounts from established charges.

## 8. Functional Expenses

The Corporation provides housing, healthcare and other related services to residents within its geographic location. Financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses relating to providing these services are approximately as follows at December 31, 2019 and 2018 (in thousands):

| | 2019 | | |
|---|---|---|---|
| | **Residential services** | **General and Administrative** | **Total** |
| Salaries and wages | $ 5,630 | $ 594 | $ 6,224 |
| Employee benefits | 1,188 | 145 | 1,333 |
| Supplies | 1,160 | 18 | 1,178 |
| Chargeable ancillary services | 553 | - | 553 |
| Repairs and maintenance | 200 | 24 | 224 |
| Marketing and advertising | 398 | 2 | 400 |
| Purchased services | 470 | 294 | 764 |
| Management fees | - | 155 | 155 |
| Utilities | 455 | 43 | 498 |
| Travel and related | 37 | 94 | 131 |
| Rentals and leases | 42 | 7 | 49 |
| Insurance | 136 | - | 136 |
| Taxes | 974 | - | 974 |
| Other operating expenses | 43 | 74 | 117 |
| Mortgage interest | 6,555 | - | 6,555 |
| Depreciation and amortization | 2,212 | - | 2,212 |
| Total | $ 20,053 | $ 1,450 | $ 21,503 |

| | 2018 | | |
|---|---|---|---|
| | **Residential services** | **General and Administrative** | **Total** |
| Salaries and wages | $ 4,908 | $ 561 | $ 5,469 |
| Employee benefits | 958 | 170 | 1,128 |
| Supplies | 1,111 | 23 | 1,134 |
| Chargeable ancillary services | 543 | - | 543 |
| Repairs and maintenance | 127 | 15 | 142 |
| Marketing and advertising | 677 | - | 677 |
| Purchased services | 357 | 241 | 598 |
| Management fees | - | 211 | 211 |
| Utilities | 445 | 47 | 492 |
| Travel and related | 23 | 92 | 115 |
| Rentals and leases | 28 | 4 | 32 |
| Insurance | 118 | - | 118 |
| Taxes | 1,116 | - | 1,116 |
| Other operating expenses | 55 | 65 | 120 |
| Mortgage interest | 6,573 | - | 6,573 |
| Depreciation and amortization | 2,234 | - | 2,234 |
| Total | $ 19,273 | $ 1,429 | $ 20,702 |

## 9. Transactions With Affiliates

Amounts payable to affiliates include deferred sales and marketing fees, deferred development administrative support fees and insurance expense payable to NorCal. The Corporation recognized expenses of $136,000 and $172,000 during 2019 and 2018, which consisted of both insurance and marketing expenses for the respective years. The Corporation owed NorCal $1,489,000 and $1,339,000 as of December 31, 2019 and 2018, respectively.

## 10. Commitments and Contingencies

### Management and Marketing Services Agreement

The Corporation entered into a Management and Marketing Services Agreement, as amended and restated on October 25, 2013, with Greystone Management Services Company Idaho, LLC (GMSC) whereby GMSC assumed pre-opening duties to manage and operate the Community. The Management and Marketing Services Agreement commenced in June 2014 for a term of 84 months.

In conjunction with the Management and Marketing Services Agreement, the Corporation agreed to pay a monthly management fee of $12,500 per month from the commencement date through July 2015, the month of initial occupancy. Beginning with the Initial Occupancy Date, an ongoing Base Management Fee will be adjusted as follows:

| | Monthly Base |
|---|---|
| Occupancy Months: | |
| Months 1 - 54 | $ 12,500 |
| Months 55 - 66 | 32,500 |
| Months 67 and thereafter | 35,000 |

Beginning in the first month of the second full fiscal year following the achievement of Stabilized Occupancy, as defined in the Master Trust Indenture, the Corporation will pay GMSC a fee equal to $4,500 for each occupancy and/or reoccupancy of the residential living apartments.

The Corporation incurred management fees to GMSC of $150,000 for years ended December 31, 2019 and 2018 included in management fees on the statements of operations and changes in net deficit.

### Development Consulting Agreement

The Corporation entered into a Development Consulting Agreement, as amended on October 23, 2013, with Greystone Development Services XX, LLC (GDS), as assigned by Greystone Development Company II, LP (GDC), an affiliate of GMSC, whereby GDS plans, coordinates and implements a development plan relating to the construction and financing of the Community, and for the services and activities of the residents. GDS also employs, trains and supervises the marketing and sales staff for the Community, on behalf of the Corporation, and is responsible for the payroll-related expenses, sales commissions and payroll tax liabilities for this staff. These personnel costs are billed monthly and are to be reimbursed to GDS by the Corporation.

In addition, the development consulting agreement called for an investment limited partnership, GCI Boise, LP (GCI), to be formed for the purposes of providing the funds necessary to pay for any pre-financing costs incurred by the Corporation prior to the tax-exempt bond financing. Through GCI, GDC advanced funds to the Corporation of $8,600,000. Pursuant to the amended development consulting agreement, the funds advanced by GCI are to be repaid as follows: (i) $5,600,000 was paid upon delivery of the 2014 Bonds (ii) $650,000 remains deferred until after repayment of the Liquidity Support Agreement (iii) of the remaining $2,350,000 advanced by GDS, $100,000 was forgiven by GDS and $2,250,000 was recorded as a loan to help fund the Liquidity Support Agreement during the year ended September 30, 2014.

As compensation for the services provided pursuant to the amended development consulting agreement, the Corporation agreed to pay GDS a consulting fee consisting of a fixed base fee, a variable base fee and an incentive occupancy fee. The fixed base fee is equal to $1,023,000, reduced from $5,758,000. The variable base fee is equal to $3,365,000 and will be paid as follows: (i) $358,000 upon commencement of development consulting services, (ii) $415,000 paid pro-rata over 12 months after commencement of development consulting services, (iii) $207,000 paid upon the presale of 25 percent of the residential living apartments, (iv) $207,000 paid upon the presale of 50 percent of the residential living apartments, (v) $781,000 upon issuance of the Series 2014 Bonds, (vi) $371,000 paid in equal installments during the construction period of the Community, (vii) $308,000 upon obtaining an initial Certificate of Occupancy for resident occupancy, (viii) $287,000 paid on a pro-rata basis upon first occupancy of each residential living apartments, (ix) $100,000 paid upon the Community having achieved 25 percent occupancy of the residential living apartments, (x) $100,000 paid upon the Community having achieved 50 percent occupancy of the residential living apartments, (xi) $77,000 paid upon the Community having achieved 65 percent occupancy of the residential living apartments, (xii) $77,000 paid upon the Community having achieved 80 percent occupancy of the residential living apartments and (xiii) $77,000 paid upon the Community having achieved 90 percent of the residential living apartments.

As of December 31, 2019 and 2018, there was $0 of accounts payable due to GDC, of which $0 represent reimbursable personnel expenses related to the marketing and sales staff, included in accounts payable and accrued expenses on the balance sheets. As of December 31, 2019 and 2018, there was $650,000 due to GCI.

### Senior Living Services Industry

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

## 11. Concentrations of Credit Risk

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

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

## 12. Subsequent Events

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

The Corporation has evaluated subsequent events through March 31, 2020, which is the date the financial statements were issued.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets and is having significant impact on supply chains, businesses and communities. The Corporation’s evaluation of the effects of these events is ongoing as of the date the accompanying financial statements were available to be issued. COVID-19 may impact various parts of the Corporation’s 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.

On March 20, 2020, the Corporation posted a notice to EMMA that on March 18, 2020, the Corporation and US. Bank National Association, as Master Trustee, after obtaining the needed majority bondholder consents, entered into a Second Supplemental Master Trust Indenture (Second Supplemental). The amendments contained within the Second Supplemental primarily related to: (i) changing certain covenant testing dates to align with the fiscal year ending December 31, (ii) setting a date certain of June 30, 2021 for the initial testing date of certain financial covenants, (iii) amending the definition of stable occupancy, and (iv) requiring HumanGood NorCal to deposit with the Master Trustee $1.25 million by March 31, 2020 in full satisfaction of the previously unfunded liquidity support obligation. On March 13, 2020, the funds were deposited.