HumanGood California Obligated Groups & Foundation Affiliates (Members of HumanGood)

Special-Purpose Combined Financial Statements
and Supplementary Information

December 31, 2018

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Independent Auditors' Report

To the Boards of Directors of
HumanGood California Obligated Groups & Foundation Affiliates

Report on Special-Purpose Combined Financial Statements

We have audited the accompanying special-purpose combined financial statements of the HumanGood California Obligated Groups & Foundation Affiliates ("HGCOG") which comprise the special-purpose combined balance sheet as of December 31, 2018, and the related special-purpose combined statement of operations and changes in net assets, and cash flow for the year then ended, and the related notes to the special-purpose combined financial statements.

Management's Responsibility for the Special-Purpose Combined Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose combined financial statements in accordance with the financial reporting agreements of existing master trust indentures and loan agreements after the effect of the Material Event Notice; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose combined 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 special-purpose combined 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 special-purpose combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the special-purpose combined financial statements referred to above present fairly, in all material respects, the financial position of HGCOG as of December 31, 2018 and the results of its operations and changes in net deficit, and cash flows for the year then ended, in accordance with the financial reporting agreements of existing master trust indentures and loan agreements after the effect of the Material Event Notice.

Change in Reporting Entity

As described in Note 1 to the special-purpose combined financial statements, on November 13, 2018, management issued letters to its bond trustees and issued a Material Event Notice to bondholders that it is considering refinancing certain bonds, and which describes the effect on financial information provided in accordance with the financial reporting provisions of the existing Master Trust Indentures and Loan Agreements, and describes that if accomplished would create a single master trust indenture. As a result, the accompanying special-purpose combined financial statements of HGCOG are presented to include HumanGood NorCal Obligated Group, HumanGood SoCal Obligated Group, HumanGood Fresno, HumanGood Foundation West, and HumanGood Foundation South. Prior to the issuance of the Material Event Notice, such special-purpose combined financial statements had not been prepared.

Basis of Accounting

We draw attention to Note 1 to the special-purpose combined financial statements, which describes the basis of accounting. The special-purpose combined financial statements are prepared by HGCOG in accordance with the financial reporting agreements of existing master trust indentures and loan agreements after the effect of the Material Event Notice described in the Change in Reporting Entity section, which is a basis other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter, Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the special-purpose combined financial statements as a whole. The supplementary information is presented for the purpose of additional analysis and is not a required part of the special-purpose 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 special-purpose combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose 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 special-purpose combined financial statements or to the special-purpose combined financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the special-purpose combined financial statements as a whole.

Intended Use

Our report is intended solely for the information and use of the board of directors and management of HumanGood California Obligated Groups & Foundation Affiliates, the Master Trustees under the Master Trust Indentures, and other parties as required under the related Master Continuing Disclosure Agreements. It is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 30, 2019

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combined Balance Sheet
(In Thousands)
December 31, 2018

Assets		Liabilities and Net Assets	
Cash and Cash Equivalents	$ 34,418	**Accounts Payable and Accrued Expenses**	$ 31,439
Resident Accounts Receivable Less Allowances for Doubtful Accounts of $3,505	11,857	**Deposits**	3,354
Other Receivables	7,989	**Accrued Interest**	3,855
Restricted Cash	5,054	**Notes and Bonds Payable, Net**	341,102
Investments	177,274	**Rebatable Entrance Fees Due**	175,158
Designated Investments	103,681	**Entrance Fees Subject to Refund**	90,735
Investments in Las Ventanas Bonds	4,606	**Entrance Fees Non-refundable**	173,739
Restricted Investments	64,130	**Revocable Trusts**	289
Subordinated Notes Receivable, Net	11,897	**Obligations under Annuity Agreements**	3,504
Prepaid Expenses, Deposits and Other Assets	9,242	**Retirement Liabilities**	63
Land, Building, and Equipment, Net	490,257	**Workers' Compensation Liability**	15,281
Interest and Management Fees Due from Affiliates	2,835	**Other Liabilities**	4,484
Intercompany Advances Due	12,410	Total liabilities	843,003
		Net Assets	
		Without Donor Restrictions	64,558
		With Donor Restrictions	28,089
		Total net assets	92,647
Total assets	$ 935,650	Total liabilities and net assets	$ 935,650

See notes to special-purpose combined financial statements

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combined Statement of Operations and Changes in Net Assets
(In Thousands)
Year Ended December 31, 2018

Operating Revenues	
Residential living	$ 100,209
Assisted living	31,712
Health center	87,688
Memory support	12,947
Other residential services	1,912
Amortization of entrance fees	41,164
Other operating revenue	11,834
Affordable housing fees	1,677
Net assets released from restrictions	3,960
Unrestricted contributions	2,110
Total operating revenues	295,213
Operating Expenses	
Salaries and wages	124,288
Employee benefits	28,817
Supplies	21,292
Ancillary services	13,756
Repairs and maintenance	4,519
Marketing and advertising	3,256
Purchased services	15,750
Utilities	11,932
Travel and related	2,900
Leases and rents	1,819
Insurance	3,434
Other operating expenses	7,783
Total operating expenses	239,546
Income Before Other Operating Income (Expense)	55,667
Other Operating Income (Expense)	
Realized gains on investments, net	6,795
Investment income, net	9,343
Mortgage interest	(19,095)
Depreciation	(38,994)
Loss on disposal of fixed assets	(381)
Income from operations	13,335

See notes to special-purpose combined financial statements

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combined Statement of Operations and Changes in Net Assets
(In Thousands)
Year Ended December 31, 2018

Other Change in Net Assets Without Donor Restrictions		
Change in unrealized losses on investments, net	$	(24,044)
Unrealized gain on investment in Las Ventanas bonds		727
Change in minimum pension liability		3,891
Net equity transfers from SoCal Affordable Housing		27,831
Other interaffiliate distributions and equity transfers		(4,560)
Unrealized gains on interest rate caps		172
Change in net assets without donor restrictions		17,352
Net Assets With Donor Restrictions		
Dividend and interest income		865
Unrealized loss on investments with donor restrictions, net		(4,922)
Restricted equity contributions		1,240
Contributions		4,640
Net assets released from restrictions for benevolence		(358)
Contractual payments to beneficiaries		(807)
Realized gains on investments, net		2,695
Contractual liability adjustments		259
Net assets released from restrictions for special project funds		(3,602)
Change in net assets with donor restrictions		10
Change in net assets		17,362
Net Assets, Beginning of Year		87,951
Adjustment for Adoption of Accounting Pronouncement		(12,666)
Beginning Net Assets as Adjusted for Adoption of Accounting Pronouncement		75,285
Net Assets, End of Year	$	92,647

See notes to special-purpose combined financial statements

HumanGood California Obligated Group & Foundation Affiliates (Members of HumanGood)

Special-Purpose Combined Statement of Cash Flows
(In Thousands)
Year Ended December 31, 2018

Cash Flows from Operating Activities	
Cash received for resident services	$ 232,543
Cash received from non-rebatable entrance fees from reoccupancy	57,341
Cash received from other operating activities	14,504
Cash received from unrestricted contributions	2,110
Cash earnings realized from investments	15,968
Cash paid for employee salaries	(114,510)
Cash paid for employee benefits	(31,767)
Cash paid for temporary labor	(11,162)
Cash paid to vendors	(83,440)
Cash paid for interest, net of amounts capitalized	(18,296)
Net cash provided by operating activities	63,291
Cash Flows from Investing Activities	
Acquisition of land, buildings, and equipment	(36,270)
Increase in restricted cash	(3,139)
Purchase of unrestricted investments	(175,048)
Proceeds from sale of unrestricted investments	128,418
Purchase of restricted investments	(56,038)
Proceeds from sale of restricted investments	73,930
Cash received from intercompany and interaffiliate transactions	16,755
Net cash used in investing activities	(51,392)
Cash Flows from Financing Activities	
Cash received from initial entrance fees and deposits	3,172
Proceeds from rebatable entrance fees	14,520
Refunds of deposits and refundable entrance fees	(20,194)
Principal payments on notes and bonds payable	(7,604)
Cash paid from other trust activity	(1,229)
Interaffilate cash distributions	(3,372)
Cash received from restricted contributions	4,606
Net cash used in financing activities	(10,101)
Increase in cash and cash equivalents	1,798
Cash and Cash Equivalents, Beginning of Year	32,620
Cash and Cash Equivalents, End of Year	$ 34,418

See notes to special-purpose combined financial statements

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combined Statement of Cash Flows
(In Thousands)
Year Ended December 31, 2018

Cash Flows from Operating Activities		
Change in net assets	$	17,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of entrance fees		(41,164)
Proceeds from non-rebatable entrance fees from reoccupancy		57,341
Depreciation		38,994
Unrealized losses on investments, net		24,044
Unrealized losses on investments with donor restriction, net		4,922
Unrealized gains on investments in Las Ventanas bonds		(727)
Gain from change in unrecognized pension obligations		(3,891)
Unrealized gains on interest rate caps		(172)
Net equity transfers from SoCal Affordable Housing		(27,831)
Other interaffiliate distributions and equity transfers		4,560
Change in accounts receivable from residents and others		8,130
Change in prepaid expenses, deposits, and other assets		9,869
Other changes in operating assets and liabilities, net		(28,146)
Net cash provided by operating activities	$	63,291

See notes to special-purpose combined financial statements

1. Business and Organization

HumanGood ("Parent Organization"), is a California nonprofit public benefit tax-exempt corporation. HumanGood is the sole member of HumanGood NorCal ("NorCal", formerly American Baptist Homes of the West), HumanGood SoCal ("SoCal", formerly Southern California Presbyterian Homes), Redwood Senior Homes and Services ("RSHS"), Westminster Gardens, HumanGood Fresno (dba Terraces at San Joaquin Gardens, "TSJG"), and HumanGood Cornerstone ("Cornerstone"). NorCal is the sole member of HumanGood Foundation West ("Foundation West", formerly American Baptist Homes Foundation of the West, Inc.) and SoCal is the sole member of HumanGood Foundation South ("Foundation South", formerly Southern California Presbyterian Homes Foundation). NorCal, SoCal, RSHS, Westminster Gardens, Foundation West and Foundation South share the common parent entity of HumanGood, and constitute the reporting entity contained herein ("HumanGood California Obligated Groups & Foundation Affiliates" or "HGCOG").

HumanGood NorCal

HumanGood NorCal ("NorCal") is a California nonprofit public benefit tax-exempt corporation which owns, operates, and manages both continuing care retirement communities (CCRCs) and rental housing communities in which housing, health care, and supportive services are provided for the elderly. HumanGood is the sole member of NorCal and seven of NorCal's nine directors are HumanGood's directors. The executive officers of HumanGood also serve as executive officers of NorCal. As of December 31, 2018, the following CCRCs were owned and operated by NorCal and make up the NorCal Obligated Group:

Grand Lake Gardens
Piedmont Gardens
Terrace at Los Altos
Plymouth Village
Rosewood
Valle Verde
Terraces of Los Gatos

HumanGood Foundation West

HumanGood Foundation West ("Foundation West") is a California nonprofit public benefit tax-exempt corporation whose primary purpose is to develop, invest, and administer funds to provide residential and nursing home care on behalf of the residents of certain owned and managed communities of NorCal. Foundation West's principal activity is to administer such funds under donor agreements. NorCal is the sole member of Foundation West, and therefore, elects the directors of Foundation West. As a result, NorCal has control over Foundation West, and therefore, Foundation West is included in these special-purpose combined financial statements. Foundation West guarantees the bond obligations of NorCal. Foundation West's obligations under the guaranty agreement are limited to Foundation West's income earned on its unrestricted net assets.

HumanGood SoCal

HumanGood SoCal ("SoCal", formerly Southern California Presbyterian Homes) is a California nonprofit public benefit tax-exempt corporation which owns, operates and manages CCRCs and rental housing communities, primarily in Southern California, in which housing, health care, and supportive services are provided for the elderly. SoCal includes four CCRCs (Royal Oaks, White Sands, Windsor, and Regents Point) together with its controlled affiliates, Redwood Senior Homes and Services, and Westminster Gardens which together constitute the SoCal Obligated Group. SoCal serves as the majority General Partner and controlling organization for seven low-income senior housing tax-credit communities as well as providing management services to an additional 20 affordable housing communities.

SoCal has provided non-interest-bearing advances to partially finance the construction of their low-income senior housing tax-credit communities. These advances along with other assets and liabilities related to SoCal's affordable housing business line were all transferred from SoCal to HumanGood Affordable Housing in late 2018, giving rise to a $6,464,000 equity distribution. This amount is recorded in net equity transfers from SoCal Affordable Housing in the accompanying special-purpose combined statement of operations and changes in net assets.

HumanGood Foundation South

HumanGood Foundation South ("Foundation South") is a California nonprofit public benefit tax-exempt corporation whose primary purpose is to develop, invest, and administer funds to provide residential and nursing home care on behalf of the SoCal residents. Foundation South's principal activity is to administer such funds under donor agreements. SoCal is the sole member of Foundation South, and therefore, elects the directors of Foundation South. As a result, SoCal has control over Foundation South, and therefore Foundation South is included in these special-purpose combined financial statements.

HumanGood Fresno

HumanGood Fresno (dba Terraces at San Joaquin Gardens or "TSJG") is a California nonprofit public benefit tax-exempt corporation providing housing, healthcare, and supportive services for the elderly in Fresno, California, through its CCRC.

Prior to September 26, 2012, TSJG was one of eight CCRCs constituting NorCal's Obligated Group. Effective September 26, 2012, by vote of the NorCal Board of Directors, and consistent with the rights and abilities granted in NorCal's Master Trust Indenture, sole corporate membership and control of TSJG was transferred from NorCal to Cornerstone, in conjunction with the issuance of the TSJG Series 2012 bonds. Furthermore, at this time, the portion of NorCal's Series 2006 bonds previously allocated to TSJG was replaced with a $23,336,000 variable rate subordinated note, and a portion of NorCal's Series 2010 bonds previously allocated to TSJG was replaced with a $6,438,000 fixed rate subordinated note. Debt service payments on these subordinated notes are contingent upon TSJG being in compliance with certain performance metrics. These subordinated notes receivable from TSJG are included in NorCal's subordinated notes receivable in the accompanying supplemental special-purpose combining balance sheet as of December 31, 2018. The recognition of $1,333,000 of interest income for 2018 was fully deferred pending collection. Both subordinated notes payable are included in TSJG's notes and bonds payable in the accompanying supplemental special-purpose combining balance sheet as of December 31, 2018. Interest expense of $2,864,000 related to these notes was accrued but not paid at December 31, 2018. All amounts related to these notes and their debt service payments eliminate in the accompanying combined special-purpose financial statements.

Concurrent with the 2012 financing, NorCal entered into a 10-year management agreement at a base fee of 8.5% of budgeted cash revenues, with half of this fee subject to subordination. During the year ended December 31, 2018, the recognition of $973,000 of TSJG management fee revenue was deferred by NorCal, with collection pending achievement of certain TSJG operating performance criteria. $5,376,000 of management fees have been accrued but not paid and are included in subordinated management fees in the accompanying supplemental special-purpose combining balance sheet of TSJG and are eliminated in the accompanying special-purpose combined financial statements. On January 12, 2016, the HumanGood board of directors voted to accept sole membership of TSJG.

TSJG participates in the Foundation West fundraising activity. Gifts and bequests to TSJG are credited to TSJG's fund with Foundation West. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to TSJG's fund. Funds held by Foundation West that the Foundation West board has designated for TSJG amounted to approximately $5,677,000 of board designated funds, and $60,000 of donor restricted project funds at December 31, 2018. Foundation West retains a legal right to redirect the use of unrestricted board designated funds. Board practice since inception has been to designate earnings distributions on funds for community benevolence needs. TSJG receives distributions from Foundation West based upon the market value of the twelve-quarter rolling average of TSJG's funds at a current rate of 3.5%. This rate is subject to change based upon the Foundation West board's action. Distribution income for the year ended December 31, 2018 was approximately $173,000, and is reflected in other operating revenue in the accompanying supplemental special-purpose combining statement of operations and changes in net assets.

HumanGood Cornerstone, a California nonprofit public benefit tax-exempt corporation, is the sole member and exercises its direction and control through the appointment of the Board of Directors of HumanGood Arizona (formerly American Baptist Estates, Inc., dba Terraces of Phoenix, "TOP"), HumanGood Washington (formerly American Baptist Homes of Washington, dba Judson Park), HumanGood Nevada (formerly Las Ventanas Retirement Community, dba Las Ventanas), HumanGood Idaho (formerly Boise Retirement Community, dba The Terraces of Boise, "Boise"), and HumanGood Properties (formerly Seniority Properties). HumanGood and HumanGood Cornerstone's Boards are composed of the same seven directors.

Cornerstone Related Enterprises

HumanGood

HumanGood is a California nonprofit public benefit tax-exempt corporation originally established in 1997 to serve as a real property holding company for HumanGood Cornerstone.

HumanGood Affordable Housing

HumanGood Affordable Housing (formerly Beacon Communities, Inc. or "HGAH"), an affiliate of NorCal, is a California nonprofit public benefit tax-exempt corporation.

HGAH serves as the majority General Partner and controlling organization for 12 tax-credit affordable housing communities, serves as the sole or majority member and controlling organization for 9 additional affordable housing communities, and provides management services to 10 affordable housing communities.

On January 1, 2015, NorCal purchased for $350,000 in cash and a $2,000,000 note (see Note 6) all of the outstanding membership interests in the Beacon Development Group ("BDG") and assigned its rights thereto HGAH. NorCal then entered into a $2,350,000 interaffiliate note with Beacon Development Group to assign the cost of purchase to the acquired entity.

Simultaneous with this January 1, 2015 purchase, NorCal affordable housing employees became employees of HGAH. All operational activities, assets, and liabilities associated with NorCal's affordable housing line of business were also transferred to HGAH. In late fiscal year 2015, following United States Department of Housing and Urban Development approval, NorCal transferred its sole memberships in all of its owned affordable housing communities as well as the management agreements for all of its owned and managed communities to HGAH.

In exchange for this transfer of affordable housing related assets and liabilities, HGAH entered into a non-interest bearing interaffiliate note with NorCal for $2,242,000 as well as a non-interest bearing contingent note with NorCal for $1,364,000, which is payable upon HGAH's ability to achieve certain levels of cash flow and operating margin. These notes receivable are included in other receivables on the balance sheet of NorCal. The remaining $1,542,000 of assets transferred was recorded as a capital contribution from NorCal to HGAH.

The financial results of HGAH and its affiliates are not included in the accompanying special-purpose combined financial statements contained herein.

HumanGood Arizona

HumanGood Arizona ("TOP") is an Arizona nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Phoenix, Arizona through its CCRC, Terraces of Phoenix. Prior to September 29, 2003, TOP was a controlled affiliate of NorCal. The funds previously advanced by NorCal to support TOP's operating and capital needs were retained in the form of a subordinated note receivable from TOP. Based on Terraces of Phoenix's projected cash flows, payments on the note receivable are not anticipated by NorCal until 2030. The note has been recorded as part of subordinated notes receivable in the accompanying special-purpose combined balance sheet at the estimated net realizable value of $4,315,000 as of December 31, 2018.

NorCal manages Terraces of Phoenix under a multiyear management agreement. On December 15, 2015, in conjunction with a 2015 replacement financing, NorCal, in addition to providing $3.5 million of maximum recourse credit support in the event of default of bonded indebtedness, lent $11 million to TOP on a subordinated basis at 4.0% fixed interest, principally to fund a partial paydown of existing TOP primary debt.

On May 24, 2018, TOP and Judson Park formed a two member obligated group pursuant to the terms of the master trust indenture revised in conjunction with the financing of $72,646,000 of bank and publicly issued notes, and TOP refinanced its Series 2015 notes and fully repaid to NorCal its $11 million subordinated note. Simultaneous with the closure of the financing, the TOP management agreement with NorCal was amended and restated such that the management fee was increased from 6% of actual cash revenues to 8.5% of budgeted cash revenues, with half of this amount subject to subordination upon noncompliance with certain covenants.

HumanGood Nevada

HumanGood Nevada (dba "Las Ventanas") is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in the Las Vegas, Nevada area, through its CCRC. On July 1, 2004, NorCal began providing oversight management services to Las Ventanas. On January 1, 2010, NorCal began providing full management services to Las Ventanas. Under the new agreement, management fees accrue at 3.0% of total cash revenue, with payment deferred until certain operating metrics have been met as laid out in the agreement. The paydown of deferred fees cannot cause the total fees paid in any one year to exceed 5.0% of total revenues.

On September 12, 2012, Las Ventanas, its bondholders, and NorCal executed a restructuring agreement of Las Ventanas' debt, ground lease, and other key obligations, which involved the exchanging of existing bonded indebtedness for three new series of tax-exempt bonds.

NorCal contributed capital and released its interests in the Las Ventanas ground lease and construction loan, and forgave all previously accrued management fees in exchange for interests in the newly issued Las Ventanas Series 2012 A-2, Series B-2, Series B-3, and Series C-2 bonds. Additionally, NorCal provided an unfunded $2,000,000 debt service support agreement for the Las Ventanas Series A-1 bonds, with any resulting funded amounts triggering the issuance to NorCal of an equal amount of the Las Ventanas Series B-4 bonds, comparable in structure to the Las Ventanas Series B-3 bonds.

As a result of the aforementioned restructuring, NorCal received $16,414,000 (par value) of Las Ventanas bonds, which were revalued to $8,250,000 in the year of receipt and classified as investments in Las Ventanas bonds in the accompanying special-purpose combined balance sheet. Subsequent annual revaluations of the investments have resulted in additional adjustments to the unrealized mark-to-market loss on the bonds, for an aggregate unrealized loss on investments in Las Ventanas bonds of $8,711,000 as of December 31, 2018.

HumanGood Idaho

HumanGood Idaho (dba Terraces of Boise or "Boise") is a California nonprofit public benefit tax-exempt corporation, which leased, and subsequently purchased from NorCal, a site in Boise, Idaho, upon which the Terraces of Boise was constructed and began operations in July 2015, with the community fully operational in all levels of care on June 1, 2016. The obligations of Boise are non-recourse to NorCal.

To support the Boise financing, in 2014 NorCal provided $3,000,000 in equity at financing along with $1,000,000 of funded liquidity support and an additional $1,250,000 of unfunded liquidity support. At the same time, Boise purchased the parcel of land upon which the Terraces of Boise is built from NorCal for $5,000,000. This purchase price consisted of $3,000,000 in cash and a $2,000,000 interest-bearing subordinated note receivable. The land sale resulted in a deferred gain on sale of $533,000 as of December 31, 2018, and is included in other liabilities in the accompanying special-purpose combined balance sheet.

Boise had a Sales and Marketing Oversight Services Agreement with NorCal. Additionally, under Boise's Development Administration Services Agreement, NorCal was entitled to a Development Administrative Support Services Fee equal to $17,000 per month for each month that Greystone Development Corporation ("GDC") is entitled to a management fee during the term.

On May 31, 2017, the Sales and Marketing Oversight Services and Development Administration Service agreements were terminated, thus ending the accrual of further amounts owing. These fees are subject to subordination under the Boise master indenture, and as such, NorCal has fully reserved the accrual of this revenue.

HumanGood Washington

HumanGood Washington (dba "Judson Park") is a Washington nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Washington through its CCRC, Judson Park. On May 30, 2012, NorCal entered into a 10-year management agreement at a base fee of 8.5% of budgeted cash revenues, with the payment of such fees subject to subordination if Judson Park fails to achieve certain operating performance criteria.

HumanGood Properties

HumanGood Properties is a California for-profit corporation, which was formed in February 2014 for the purpose of holding equity interests in developed and acquired senior housing communities and other similar investments.

During the 12-months ended September 30, 2015, NorCal contributed $3,000,000 to HumanGood Properties in support of its purpose of investing in senior housing communities, and to that end, HumanGood Properties, through a subsidiary limited liability company ("LLC"), purchased a parcel of land for $1,000,000 upon which a free-standing memory support and assisted living community would be constructed. On December 15, 2017, the parcel of land and related assets were sold for $2,352,000, and, in February 2018, $1,337,000 of previously contributed capital was returned to NorCal, and finally on February 21, 2018 the LLC used to purchase the land was dissolved. Additionally, on September 1, 2015, HumanGood Properties, through a subsidiary LLC, purchased a 49% equity interest, and later, through a purchase option, an additional 1% interest in an existing memory support senior housing community in Oklahoma.

Change in Reporting Entity

On November 13, 2018, management issued a Material Event Notice (the "Notice") to bondholders along with additional notice letters to bond trustees that it is considering refinancing certain bonds, and which describes the effect on the financial information provided in accordance with the Master Trust Indenture of HumanGood SoCal, Master Trust Indenture of HumanGood NorCal, and HumanGood Fresno Loan Agreement. The effect, if accomplished, is these obligated groups may be brought together under a single master trust indenture. On April 22, 2019, an additional Material Event Disclosure was filed confirming and expanding upon this intent to refinance as described further in Note 17. Accordingly, management, in cooperation with the bond trustees, determined that the financial statements for these obligated groups should be presented as those of a single economic entity in one special-purpose combined financial statement. The creation of this new reporting entity for HGCOG by combining previously separate reporting entities accomplishes that.

Basis of Presentation and Principles of Combination

The accompanying special-purpose financial statements combine the accounts of the NorCal Obligated Group, SoCal Obligated Group, Foundation West, Foundation South and TSJG (collectively "HGCOG"), in accordance with the financial reporting agreements of existing master trust indentures and loan agreements after the effect of the Notice. All entities except Foundation West and Foundation South share a common parent, HumanGood, which has the sole corporate membership and controlling financial interest in each of these organizations, and Foundation West and Foundation South are affiliates of NorCal and SoCal, respectively. The combination of financial statements for only certain controlled organizations differs from accounting principles generally accepted in the United States of America.

All inter-affiliate transactions between HGCOG eliminate in combination.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described in Note 1 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 special-purpose financial statements and the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the fair values of interest rate swap and cap assets and liabilities; allowances for contractual and uncollectible accounts receivable; fair values of notes receivable; fair values of investments; future service benefit obligations; rebatable entrance fees due; entrance fees subject to refund; entrance fees non-refundable; liabilities for self-insured workers' compensation; liabilities for pension and retirement plans; and valuation of split-interest agreements. 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.

Resident Accounts Receivable

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

Investments

Investments include certain cash equivalents held by investment managers, mutual funds, commodities and structure products, equity securities, corporate debt, U.S. government securities, alternative investments, and certain cash equivalents and securities held by trustees for capital project expenditures and debt service, and are stated at fair value.

Certain investments are restricted as assets held in trust. These include assets held by trustees in accordance with the indentures relating to debt agreements and assets set aside in accordance with various trust agreements with third parties, including donors. Assets held in trust as well as assets managed for certain HGCOG affiliates are classified as restricted investments. Other investments of $103,681,000 as of December 31, 2018 are designated by the board of directors for future capital projects or to advance major corporate initiatives along with Foundation West board-designated funds and are included in designated investments in the accompanying special-purpose combined balance sheet.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the special-purpose combined statement of operations and changes in net assets according to donor restrictions. Realized gains and losses for mutual funds are computed using the average cost method. Historical cost, on the specific identification method, is utilized to compute the realized gains and losses for all other securities. Upon determination that the cost of securities is other-than-temporarily impaired, adjustments are made to revalue the securities to current value. Any adjustments required by this policy for unrestricted assets are charged to investment loss, and restricted assets are charged to the appropriate net assets category. Unrealized gains and losses are recorded in other changes in net assets with and without donor restrictions (see Note 4).

Investments in Las Ventanas Bonds

Investments include holdings in three tranches of the Las Ventanas Series 2012 bonds (see HumanGood Nevada Subsection). These investments are recorded at fair market value as of December 31, 2018, in the accompanying special-purpose combined balance sheet. Changes in fair market value are included in unrealized gains on investments in Las Ventanas bonds in the special-purpose combined statement of operations and changes in net assets. Investment income is included in the special-purpose combined statement of operations and changes in net assets.

Subordinated Notes Receivable

Subordinated notes receivable as of December 31, 2018 include the interest bearing subordinated note from Boise for $2,000,000, the non-interest bearing amounts due under the subordinated liquidity support agreement with Boise for $1,000,000, the $4,315,000 note receivable from Terraces of Phoenix, and the notes related to the BDG purchase and the HGAH assets and liability transfers from NorCal. All subordinated notes receivable are further described in the HumanGood Cornerstone Related Enterprises Subsection.

Land, Building, and Equipment

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

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

Asset Impairment

HGCOG 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 impairment was recorded during the year ended December 31, 2018.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. HGCOG's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Revocable trusts and obligations under annuity agreements are classified as Level 2 in the fair value hierarchy. Investments in Las Ventanas' bonds are classified as Level 3 in the fair value hierarchy. See Note 4 for fair value hierarchy disclosures.

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. These unamortized amounts are presented in the special-purpose combined balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization is included as a component of interest expense. Unamortized deferred debt issuance costs amounted to $7,415,000 at December 31, 2018. Accumulated amortization of deferred debt issuance costs was $3,349,000 at December 31, 2018. Amortization expense was $483,000 for the year ended December 31, 2018.

Donor-Related Obligations

HGCOG has recorded certain obligations related to donations received as follows:

Revocable Trusts

Revocable trusts are trust agreements that are revocable by trustors at any time, with specific terms for each agreement. Consequently, a liability is reflected in other liabilities in the accompanying special-purpose combined balance sheet equal to those related trust assets in restricted investments in the accompanying special-purpose combined balance sheet.

Obligations Under Annuity Agreements

In conjunction with certain giving arrangements, Foundation West and Foundation South are required to pay a certain sum of money to the donor or a designated beneficiary, and, consequently, a liability is reflected in obligations under annuity agreements in the accompanying special-purpose combined balance sheet. These types of arrangements are summarized as follows:

Gift Annuities Fund

As consideration for gifts made to Foundation West and Foundation South, the foundations enter into agreements to pay fixed annual payments to the donors or their beneficiaries for life. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. The annual computation of the temporarily restricted amount of the gift is based upon the 2000 Group Annuity Mortality Table, with an interest assumption at 5% per annum. Assets in excess of liabilities, if any, related to these annuities are available for the use of the Foundation with the approval of the California Department of Insurance.

Annuity Trusts

Annuity trusts are trust agreements that provide for a fixed annual payment of not less than 6% of the initial value of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed to charity. The annual payment never varies, regardless of trust income or the appreciation or depreciation in the value of trust assets.

Unitrusts

Unitrusts are trust agreements that are similar to annuity trusts, except that the annual payout generally is a fixed percentage, of not less than 6%, of the value of the trust assets valued annually. In general, the unitrust beneficiary payment amounts rise and fall in proportion to the value of trust assets. In certain cases, the payout from unitrusts may be tied to trust income.

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 obligation for residents indicated a liability was not considered necessary as of December 31, 2018. The discount rate used to calculate the obligation to provide future service is 7%.

Types of Entrance Fees

The Care and Residence Agreements between HGCOG and the residents provide for the payment of an entrance fee. Entrance fees received by HGCOG 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 non-refundable. 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), new development, 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% for each month of residency for 44 months after an initial reduction to the original fee, under certain circumstances. For a majority of contracts, upon the move out of a resident, the unamortized balance of the entrance fee becomes the property of the HGCOG and is included in income.

As of December 31, 2018, HGCOG had non-refundable entrance fees of $173,739,000 related to entrance fees received that will be recognized as revenue in future years. Additionally, as of December 31, 2018, HGCOG had entrance fees subject to refund of $90,735,000 which will be recognized as revenue in future years unless refunded.

HGCOG has offered contract options whereby 50% to 100% of the entrance fee is rebatable at death of or termination of the contract and subsequent reoccupancy of their apartment. As of December 31, 2018, $175,158,000 of the entrance fees related to these types of contracts are contractually rebatable and are included in rebatable entrance fees due in the accompanying special-purpose combined balance sheet.

Actual refunds and rebates of entrance fees were $20,194,000 for the year ended December 31, 2018. Based on historical experience, management expects to pay refunds in future years of approximately $19,913,000 per year.

Interest Rate Swaps and Caps

HGCOG uses interest rate swaps and caps as part of its overall debt management policy. HGCOG accounts for interest rate swaps and caps in accordance with the 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 in the special-purpose combined balance sheet (see Note 7).

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

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

Net Assets with Donor Restrictions

Net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Also included in net assets with donor restrictions are assets held in trust under life annuity gifts. The assets are valued at fair value in accordance with the requirements of the specific trust agreements. Foundation West and Foundation South are required to pay a certain portion of the annual income from these assets to the donor or a designated beneficiary for the life of the donor or the beneficiary. Such amounts have been estimated and are reflected as obligations under annuity agreements in the accompanying special-purpose combined balance sheet. The remaining assets will revert to the foundations at the donor or beneficiary's death. The portion of assets received in excess of that required to meet the annuity's obligations has been recognized as a contribution at the time received.

Assets received from external trusts that are controlled by third-party trustees are recognized at the present value of the estimated future distributions to be received by HGCOG over the term of the agreement.

Endowment Funds

Foundation South's endowment funds consist of approximately 17 individual donor-restricted funds established primarily for benevolence and are recorded in net assets with donor restrictions in the accompanying combined special purpose balance sheet.

Foundation South has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Foundation South classifies net assets with donor restrictions of the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The investment earnings of the donor-restricted endowment funds are classified as temporarily restricted until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The changes in endowment net assets with donor restriction for the year ended December 31, 2018, are as follows (in thousands):

Endowment net assets, December 31, 2017	$ 7,711
Contributions	187
Net investment returns	81
Disbursements	(279)
Endowment net assets, December 31, 2018	$ 7,700

The endowment net assets with donor restriction were comprised of the following as of December 31, 2018 (in thousands):

Endowment gains with donor restrictions	$	2,256
Endowment funds held in perpetuity, the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA		5,444
Total	$	7,700

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires Foundation South to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2018.

Foundation South has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. Foundation South expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, Foundation South relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Foundation South targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Net Resident Service Revenues

Net resident service revenues are reported at the amount that reflects the consideration HGCOG 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 HGCOG'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. Entrance fees collected from residents in advance are recognized as deferred revenue from entrance fees until performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying special-purpose combined balance sheet. HGCOG recognized amortization income of $41,164,000 in 2018. HGCOG applies the practical expedient in ASC 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 special-purpose combined balance sheet.

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 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 accompanying special-purpose combined statement of operations and changes in net assets.

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. HGCOG 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.

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and HGCOG'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, 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 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. HGCOG 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. HGCOG 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

HGCOG provides services to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Because HGCOG does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenues. For the year ended December 31, 2018, the cost of benevolence amounted to $1,858,000. Additionally, HGCOG utilized reductions to the rebatable portion of certain residents' entry fees to satisfy unpaid monthly service fees. The total amount of these reductions was $76,000 for the year ended December 31, 2018.

Contractual Allowances

A portion of HGCOG's revenue is subject to discounts under contracts with third-party payors. These discounts are reported as contractual allowances and were $12,986,000 for the year ended December 31, 2018.

Performance Indicator

Income from operations as reflected in the accompanying special-purpose combined statement of operations and changes in net assets is the performance indicator. Income from operations includes all changes in unrestricted net assets other than primarily noncash changes in unrealized gains and losses on investments, equity transfers and change in pension benefit liabilities.

Workers' Compensation Plan

HGCOG is partially self-insured for the first $500,000 of each workers' compensation claim under an occurrence form insurance policy for the year ended December 31, 2018. Claims are accrued under the plan as the incidents that give rise to them occur. The estimate of incurred but not reported claims is based on actuarial projections of the ultimate cost of settlement, including claim settlement expenses, using HGCOG's historical claim payment experience. The estimated liability is continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the estimates. While the ultimate payments of self-insured workers' compensation claims are dependent upon future developments, management is of the opinion that the recorded liability is adequate (see Note 9). Any related insurance recovery receivables are recorded in other receivables in the accompanying special-purpose combined balance sheet.

Professional Liability Insurance

HGCOG has secured claims-made policies for malpractice and general liability insurance with self-insured retentions of $100,000 for each claim as of December 31, 2018. HGCOG has accrued a liability of $2,804,000 as its best estimate of the cost of known claims incurred prior to December 31, 2018. In addition, HGCOG has accrued a liability of $2,585,000 as of December 31, 2018 as its best estimate of the cost of claims incurred but not yet reported. These liabilities are included in accounts payable and accrued expenses in the accompanying special-purpose combined balance sheet. Related insurance recovery receivables of $760,000 as of December 31, 2018 are recorded under other receivables in the accompanying special-purpose combined balance sheet.

Tax-Exempt Status

HGCOG is comprised of several California nonprofit corporations 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.

HGCOG assesses uncertain tax positions in accordance with the provisions of the FASB ASC Topic 740-10, *Income Taxes*. HGCOG recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. HGCOG recognizes interest and penalties related to income tax matters in operating expenses. As of December 31, 2018, and for the year ended December 31, 2018, there were no such uncertain tax positions.

New Accounting Pronouncements

In 2018, HGCOG adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing a cumulative effect of the adoption change as an adjustment to beginning net assets without donor restrictions. As a result, there was a decrease of $12,666,000 in deferred marketing costs and net assets without donor restrictions as of January 1, 2018.

In 2018, HGCOG adopted the FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. HGCOG has adjusted the presentation of these special-purpose combined financial statements accordingly.

The new standard is addressed in the following aspects of the special-purpose combined financial statements:

- The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions;
- Investment expenses are included in investment income, net
- The special-purpose combined financial statements include a disclosure about liquidity and availability of resources at December 31, 2018. (Note 3).
- The functional expense disclosure for 2018 includes expenses reported both by nature and function (Note 11).

During November 2016, the FASB issued ASU 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 the 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. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. HGCOG is currently assessing the impact ASU 2016-18 will have on its special-purpose combined financial statements.

In 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* ASU No. 2016-01: a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheets; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for annual periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Early adoption is permitted as of fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. HGCOG early adopted the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. HGCOG is currently assessing the impact the remaining provisions of ASU 2016-01 will have on its special-purpose combined financial statements.

3. Liquidity and Availability of Resources

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

Cash and cash equivalents	$	34,418
Accounts receivable and entrance fee receivables		12,418
Investments		177,274
Total	$	224,110

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

HGCOG has other assets held by trustee under trust indenture, assets reserved for future gift annuity payments, and donor-restricted purposes. Additionally, certain other board-designated assets are designed for long-term purposes and an operating reserve. These investments, which are more fully described in Note 4 are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As part of the HGCOG's liquidity management plan, cash in excess of daily requirements is 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, Investments and Restricted 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 nets 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 special-purpose combined financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- Cash and Cash Equivalents - The carrying amount approximates fair value.
- Mutual Funds - Mutual funds registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted market prices, which represent the net asset value of shares, and are categorized as Level 1.

- Equities, ETFs and CEFs - Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange and are categorized as Level 1.

- Corporate Debt (domestic and foreign) - 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.

- Government Securities (U.S. and foreign) - 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. To the extent that these inputs are observable and timely, values are categorized as Level 2.

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

- Investments in Las Ventanas Bonds - The fair value is estimated by a third party using a small sample of sales comparables of other non-related CCRC fixed rate bonds. Due to a lack of available Level 1 and Level 2 inputs, the investments have been classified as Level 3.

- Interest Rate Swap and Cap Agreements - The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified as Level 2.

The following table presents the fair value measurements of financial instruments recognized in the accompanying special-purpose combined balance sheet measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall as of December 31, 2018 (in thousands):

	Level 1	Level 2	Level 3	Fair Value
Investments:				
Cash and cash equivalents	$ 33,610	$ -	$ -	$ 33,610
Mutual funds	73,831	-	-	73,831
Equities	51,735	-	-	51,735
ETFs and CEFs	37,064	-	-	37,064
Domestic corporate debt	-	62,737	-	62,737
Foreign corporate debt	-	866	-	866
U.S. government securities	-	68,357	-	68,357
Municipal bonds	-	15,738	-	15,738
Foreign government securities	-	1,147	-	1,147
Investments in Las Ventanas bonds	-	-	4,606	4,606
Total	$ 196,240	$ 148,845	$ 4,606	$ 349,691
Interest rate cap	$ -	$ 246	$ -	$ 246

There were no significant transfers between Levels 1, 2, and 3 in the current fiscal year.

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying special-purpose combined financial statements using significant unobservable (Level 3) inputs (in thousands):

Balance, December 31, 2017	$	5,788
Purchases, issuances, and settlements		(1,909)
Decrease in unrealized loss on investments in Las Ventanas bonds		727
Balance, December 31, 2018	$	4,606

Investments held as of December 31, 2018 were comprised of the following (at fair value) (in thousands):

Investments:		
Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements	$	30,641
Undrawn funds held for CCRC construction projects		2,987
Investments held in trust under revocable trust, gift annuity, annuity trust, or unitrust agreements		30,502
Total restricted investments		64,130
Investments in Las Ventanas bonds		4,606
Investments, unrestricted		177,274
Investments, designated		103,681
Total investments	$	349,691

Investment Return

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

Total dividend, interest and other investment income, net of expense	$	10,208
Total net realized gain on investments		9,490
Net unrealized loss on investments without donor restriction		(24,044)
Unrealized gain on investments in Las Ventanas bonds		727
Net unrealized loss on investments with donor restriction		(4,922)
Total	$	(8,541)

Investment income is net of investment expenses of $907,000 for the year ended December 31, 2018.

The following table shows the gross unrealized losses and fair value of the vast majority of unrestricted and designated investments as well as Foundation West and Foundation South's restricted investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018 (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	$ 18,172	$ (207)	$ 68,204	$ (2,279)	$ 86,376	$ (2,486)
Equity	68,195	(5,142)	51,378	(6,560)	119,573	(11,702)
Total temporarily impaired investments	$ 86,367	$ (5,349)	$ 119,582	$ (8,839)	$ 205,949	$ (14,188)

The fair value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of an other-than-temporary impairment under management's policy. HGCOG follows a policy of evaluating securities for impairment that considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment income (loss) and a new cost basis in the investment is established.

The unrealized losses on these unrestricted investments represent approximately 4.6% of HGCOG's portfolio as of December 31, 2018. Gross unrealized gains on unrestricted investments as of December 31, 2018, were approximately $11,293,000 or 3.7% of HGCOG's portfolio as of December 31, 2018.

5. Land, Buildings, and Equipment

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

Land	$ 19,674
Land improvements	15,864
Buildings and improvements	734,768
Furnishings, equipment and automotive	75,550
Total	845,856
Accumulated depreciation	(377,325)
Total	468,531
Construction in progress	21,726
Total	$ 490,257

Depreciation expense for the year ended December 31, 2018, was $38,994,000.

6. Notes and Bonds Payable

A summary of HGCOG's notes and bonds payable as of December 31, 2018, is as follows (in thousands):

Secured

Bonds used to refinance existing debt and renovate existing retirement communities in California, all secured under a master trust indenture on HumanGood NorCal assets, gross revenue pledge, and Foundation guaranty:		
Series 2015 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated May 28, 2015). Serial certificates in the aggregate amount of $30,550 maturing annually through 2028 with annual principal payable commencing on October 1, 2016, in varying amounts ranging from $1,885 to $3,080 through 2028; interest at fixed rates ranging from 2.0% to 5.0%, payable semiannually on April 1 and October 1. Term bond in the amount of $21,530 with annual principal payments commencing on October 1, 2037, in varying amounts ranging from $345 to $4,780 through 2045; interest at the fixed rate of 5.0%, payable semiannually on April 1 and October 1.	$	46,310
Series 2010 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated February 16, 2010). Serial certificates, annual principal payable commencing on October 1, 2011, in varying amounts ranging from $690 to $1,045 through 2020, amounts ranging from $1,100 to $6,105 through 2030, and amounts ranging from $6,490 to $10,560 through 2039; interest at fixed rates ranging from 4.15% to 6.25%, payable semi-annually on April 1 and October 1.		100,130
Series 2012 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority and subsequently sold and delivered to PNC Bank. The loan matures on October 1, 2036; interest accrues at tax-exempt LIBOR plus 1.19%. PNC Bank has the option to tender the bonds to ABHOW for purchase upon the 5th, 10th, 15th, and 20th anniversary of issuance. Rate at December 31, 2018 was 1.96%.		16,595
Series 2013 Revenue Bonds issued by the California Statewide Communities Development Authority (dated February 1, 2013) to finance or reimburse ABHOW for the costs of acquiring, constructing, expanding, remodeling, renovating, furnishing, and equipping Terraces at Los Altos. Annual principal payable in varying amounts ranging from $420 to $1,350 through 2043; interest at fixed rates ranging from 2.1% to 5.0%.		20,000
Terraces of Los Altos Equipment Loan issued in February 2013 and maturing in February 2020. Monthly principal and interest payments in the amount of $38 began March 2013; interest at a fixed rate of 2.07%.		528
Piedmont Gardens Elevator Construction Loan issued in December 2016 and maturing in December 2023. Monthly principal and interest payments in the amount of $46 will begin upon completion of construction; interest at a fixed rate of 2.89%.		2,568

Bonds used to refinance existing debt and renovate existing retirement communities in California, all secured under a Master Trust Indenture on HumanGood SoCal assets and gross revenue pledge:	
SoCal Series 2009 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority in August 2009 and maturing in November 2041 to refund existing Series 1998 and 2006B bonds as well as to support additional construction projects. Annual principal payable in varying amounts ranging from $0 to $1,455 through 2019, and amounts ranging from $1,545 to $9,370 through 2041; interest at fixed rates ranging from 5.25% to 7.25%.	$ 67,980
SoCal Series 2015 tax-exempt Revenue bonds issued by the California Municipal Finance Authority in December 2015 and maturing in December 2036 to refund existing Series 2006 bonds as well as to support additional construction projects at White Sands and Westminster Gardens. Annual principal payable in varying amounts ranging from $0 to $970 through 2019, and amounts ranging from $990 to $5,130 through 2036; interest at variable rate of the current index, 65.1% of the one-month LIBOR, plus 1.5%, which was 1.65% at December 31, 2018.	45,215
Bonds used to refinance existing debt and renovate HumanGood Fresno in California, all secured under a loan agreement on HumanGood Fresno's assets and gross revenue pledge:	
Series 2012 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated September 26, 2012), Serial certificates, to fund redevelopment spending at TSJG, with annual principal payable commencing on April 1, 2014, in varying amounts depending on initial entrance fee collections through 2016; interest at fixed rates ranging from 4.00% to 6.00%, payable annually on October 1.	46,435
Total secured notes and bonds payable	345,761
Unsecured	
Note payable to individual bearing interest at 4.5%	1,400
Total secured and unsecured notes and bonds payable	347,161
Add: unamortized bond premium	4,521
Less: unamortized bond issuance costs, net	(7,415)
Less: unamortized bond discounts	(3,165)
	$ 341,102

Capitalized interest expense for the year ended December 31, 2018, was $82,000.

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

Years ending December 31:		
2019	$	7,919
2020		8,143
2021		8,649
2022		9,069
2023		9,496
Thereafter		303,885
Total	$	347,161

HGCOG maintains a standby letter of credit with a bank for workers' compensation as discussed in Note 9.

HumanGood NorCal, HumanGood SoCal, and HumanGood Fresno are subject to financial covenants on each obligated group's debt, which include debt service coverage ratios and minimum days of cash-on-hand requirements.

7. Interest Rate Caps

On June 20, 2012, HumanGood NorCal entered into a forward starting interest rate cap agreement with a counterparty to extend the management of interest rate risk on $19,000,000 of its now retired Series 2006 tax-exempt variable rate demand revenue bonds from December 1, 2015 to December 1, 2018.
The agreement established that when 70% of the one-month LIBOR rate exceeds 2.50%, NorCal was reimbursed for the excess by the counterparty to the transaction. With the refunding of the Series 2006 bonds with fixed rate obligations, the interest rate cap agreement was utilized to manage interest rate risk on the Series 2012 Revenue Bonds with PNC Bank. On December 1, 2018, this cap agreement matured.

On December 1, 2015, HumanGood SoCal entered into an interest rate cap agreement with a counterparty to extend the management of interest rate risk on $25,000,000 of its Series 2015 tax-exempt variable rate revenue bonds from December 1, 2015 to December 1, 2025. The agreement establishes that when 65.1% of the one-month LIBOR rate exceeds 2.50%, SoCal is reimbursed for the excess by the counterparty to the transaction.

For the year ended December 31, 2018, the aforementioned floating interest rates for the cap agreements failed to exceed the respective cap strike rates, and thus none of the cap agreements had an impact on interest expense.

A summary of the components of the various interest rate caps included in other liabilities as of and for the year ended December 31, 2018 is as follows (in thousands):

Fair value of caps, beginning of year	$	182
Increase in fair value of caps		64
Fair value of caps, end of year	$	246
Impact on special-purpose combined statement of operations and changes in net assets:		
Unrealized gain from mark-to-market of floating to fixed rate interest rate caps	$	172

8. Employee Benefit Plans

Defined Benefit Pension Plan

HumanGood SoCal has a defined benefit retirement plan (the "Plan") which, prior to being frozen, provided retirement benefits through a noncontributory defined benefit retirement plan for substantially all full-time SoCal employees. On October 22, 2009, the Board of Directors of SoCal froze the Plan, whereby effective October 31, 2009, further accrual of benefits ceased for participants in the Plan. SoCal has not taken action to terminate the Plan.

Prior to October 31, 2009, the benefits were based upon years of service and the employee's compensation during the years of employment. SoCal's funding policy, at a minimum, was to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts deemed to be appropriate.

The plan assets include separate investment accounts with underlying mutual funds invested in fixed-income and equity securities whose values are subject to fluctuations of the securities markets. Changes in these values attributable to the differences between actual and assumed returns on plan assets were deferred as unrecognized gains or losses and were included in the determination of the net pension expense over time.

A summary of the components of net periodic pension cost as of the date of the actuarial valuation for the year ended December 31, 2018, is as follows (in thousands):

Changes in projected benefit obligation:	
Projected benefit obligation, January 1	$ 40,065
Service cost	-
Interest cost	1,557
Benefits paid	(1,981)
Actuarial loss	(4,340)
Projected benefit obligation, December 31	35,301
Changes in plan assets:	
Fair value of plan assets, January 1	37,930
Actual return on plan assets	865
Employer contributions	1,000
Expenses	(96)
Benefits paid	(1,981)
Fair value of plan assets, December 31	37,718
Funded status	$ 2,417
Accumulated benefit obligation	$ (35,301)
Amounts overfunded recognized in the special-purpose combined balance sheet, netted in Retirement Liabilities	$ 2,417

Components of net periodic benefit cost:	
Interest cost	$ 1,557
Expected return on plan assets	(2,510)
Net loss amortization	1,292
Net benefit cost	$ 339
Net gain recognized in net assets without donor restrictions	$ 3,891
Amounts not yet reflected in periodic benefit costs and recognized in accumulated net assets without donor restrictions, net actuarial loss	$ 8,767
Total accumulated charge to net assets without donor restrictions	$ 8,767

Weighted-average assumptions used to determine benefit obligations as of December 31, 2018, are as follows:

Discount rate	4.26 %
Rate of compensation	N/A

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31, 2018, are as follows:

Discount rate	3.98 %
Expected long-term rate of return on plan assets	6.75 %
Rate of compensation	N/A

SoCal determines the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset class returns and advice from external actuarial firms, while incorporating specific asset class risk factors. For the year ended December 31, 2018, the expected long-term rate of return used in determining net periodic pension cost was 6.75%.

The Plan invests primarily in asset categories to permit conservative investments with minimal risk of loss of principal. The Plan invests in asset categories that provide diversification benefits and are easily measured. Maximum and minimum holding ranges for each of these asset categories are set by the investment committee and defined in an investment policy. The current target allocations for equity and fixed income are 20% and 80%, respectively for the year ended December 31, 2018. Actual asset allocation within these approved ranges is based on a variety of economic and market conditions and consideration of specific asset category risk. To assess the Plan's investment performance, a long-term asset allocation policy benchmark has been established. The Plan's assets are invested in separate accounts which are considered Level 2 securities and the asset allocation was in line with the target allocations as of December 31, 2018.

SoCal expects to contribute approximately $1,000,000 to the Plan during the year ending December 31, 2019. SoCal estimates that benefit payments will be paid over the next 10 years as follows (in thousands):

Years ending December 31:	
2019	$ 1,424
2020	1,541
2021	1,670
2022	1,757
2023	1,810
2024 - 2028	10,807
Total	$ 19,009

Actuarial losses of $650,000 related to the Plan are expected to be recognized as a component of the net periodic pension cost during the year ending December 31, 2019. Management has included the net periodic pension cost in SoCal's 2019 operating budget.

Supplemental Retirement Income Plan Agreements

Certain HumanGood NorCal management employees or retirees of NorCal participate in supplemental retirement income plans, and have individually entered into agreements with NorCal whereby the employees will be provided specific amounts of annual retirement income for the balance of their lifetime following retirement. During 2005, accrued benefits for active participants in the supplemental retirement income plan were transferred into a new non-qualified plan under IRC 457(f) that distributes a lump-sum payment at age 65. On October 2, 2015, the plan was frozen to new entrants. On December 1, 2017, the HumanGood Board of Directors elected to terminate the plan and, in 2018, final termination payouts of $2,143,000 were made. Subsequent to the termination and payout of the IRC 457(f) plan, the remaining NorCal frozen supplemental retirement income plan had a present value of future payments to participants of $1,467,000 as of December 31, 2018.

Assets available for benefits to this remaining pool of participants are subject to the claims of the NorCal's creditors. The assets are included in unrestricted investments and amounted to $3,825,000 as of December 31, 2018. Actual payments made to retirees under the remaining plan agreement were $196,000 for the year ended December 31, 2018, in addition to the aforementioned IRC 457(f) termination payment.

Defined Contribution Plan

Effective January 1, 1999, for HumanGood NorCal and Fresno, and May 16, 2010, for HumanGood SoCal, HGCOG also participates in a defined contribution retirement plan covering all eligible employees. HGCOG's contribution was a match of employee contributions up to 4% of eligible earnings in calendar year 2018. Annual expenses incurred under the Plan for the year ended December 31, 2018, were approximately $2,800,000.

9. Self-Insured Workers' Compensation Plan

HGCOG is partially self-insured for the first $500,000 of each workers' compensation claim under an occurrence form insurance policy for 2018. HGCOG has recorded a total liability for claims payable of $15,281,000, including an estimate of incurred but not reported claims as of December 31, 2018. The estimated insurance recovery receivables of $5,018,000 are recorded under other receivables in the accompanying special-purpose combined balance sheet as of December 31, 2018. As required by the insurer, HGCOG has obtained letters of credit for $2,311,000 in connection with this program, subject to annual renewal, with the next scheduled renewal date on September 30, 2019.

10. Resident Services and Patient Revenues

HGCOG 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 year ended December 31, 2018:

	Residential Living	Assisted Living	Health Center	Memory Support	Total
Private (contract)	$ 94,584	$ 20,645	$ 17,386	$ 8,484	$ 141,099
Private (non-contract)	5,625	11,067	12,284	4,463	33,439
Medicate (Part A)	-	-	33,160	-	33,160
Medicare (Part B)	-	-	1,550	-	1,550
Medicaid	-	-	13,562	-	13,562
Managed care	-	-	9,746	-	9,746
Total payers	$ 100,209	$ 31,712	$ 87,688	$ 12,947	232,556
Amortization of non-rebatable entrance fees					41,164
Total					$ 273,720

11. Functional Expenses

HGCOG 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. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function entirely to direct resident care. Expenses relating to providing these services are approximately as follows:

	2018		
	Residential services	General and Administrative	Total
Salaries and wages	$ 95,552	$ 28,736	$ 124,288
Employee benefits	21,265	7,552	28,817
Supplies	20,259	1,033	21,292
Ancillary services expense	13,756	-	13,756
Repair and maintenance	4,509	10	4,519
Marketing and advertising	17	3,239	3,256
Purchased services	9,270	6,480	15,750
Utilities	10,686	1,246	11,932
Travel and related	1,136	1,764	2,900
Leases and rents	886	933	1,819
Insurance	3,408	26	3,434
Other operating expense	3,985	3,798	7,783
Depreciation	38,994	-	38,994
Mortgage expense	19,095	-	19,095
Total expenses	$ 242,818	$ 54,817	$ 297,635

12. Transactions with Affiliates

HGCOG manages rental housing communities and CCRCs (see Note 1) under management agreements whereby HGCOG and its affiliates provide administrative and management services to all communities and sales management services to the CCRCs.

Management fees for providing these services for the year ended December 31, 2018, are included in other operating revenue earned by HGCOG in the accompanying special-purpose combined statement of operations and changes in net assets and are as follows (in thousands):

HumanGood CCRCs		
Terraces of Phoenix	$	1,539
Judson Park		1,851
Las Ventanas		1,047
Affordable Housing Communities		2,169
Total operating revenues	$	6,606

Interest and management fees due from affiliates in the accompanying combined balance sheet includes deferred management fees due from Las Ventanas in the amount of $2,412,000 as of December 31, 2018 as well as interest income receivable from Beacon Development Group in the amount of $423,000 as of December 31, 2018 related to the outstanding purchase note described further in Note 1.

Amounts due from affiliates for management fees and cost recoveries for other services such as dining, purchase cards, payroll, and insurance as of December 31, 2018, are included intercompany advances due in the accompanying special-purpose combined balance sheet, and are as follows (in thousands):

Due from HumanGood Affordable Housing and Affiliates	$	4,203
Due from HumanGood SoCal Affordable Housing Communities		2,739
Due from HumanGood Washington		3,173
Due from HumanGood Arizona		1,724
Due from HumanGood Idaho		126
Due from HumanGood Nevada		16
Due from HumanGood Cornerstone and certain affiliates		429
Total	$	12,410

Net equity transfers from SoCal Affordable Housing in the accompanying special-purpose combined statement of operations and changes in net assets includes non-cash contributions of $34,296,000 to SoCal from certain of its owned affordable housing communities and non-cash distributions of $6,464,000 related to the SoCal to HGAH asset and liability transfer further described in Note 1. Other interaffilate distributions and transfers in the accompanying special-purpose combined statement of operations and changes in net assets is primarily comprised of the following: cash distributions of $3,480,000 from NorCal and SoCal to Cornerstone, cash distributions of $5,000,000 to HGAH and $1,000,000 to BDG to fund working capital, cash contributions of $2,230,000 from HumanGood Properties to NorCal, and a cash contribution of $3,600,000 from an affordable housing community to SoCal subsequent to its conversion to tax-credit financing.

13. Leases

HGCOG has entered into operating leases for premises and equipment. Rent expense was approximately $1,819,000 for the year ended December 31, 2018.

Future minimum annual lease payments under noncancellable operating leases are as follows (in thousands):

Years ending December:		
2019	$	1,247
2020		647
2021		386
2022		91
2023		-
Thereafter		-
Total	$	2,371

14. Commitments and Contingencies

HGCOG is party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances the resolution of these matters is not expected to have a material adverse effect on the financial position of HGCOG.

HGCOG is aware of the existence of asbestos in certain of its buildings. HGCOG has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, HGCOG will record an estimate of the costs of the required asbestos abatement.

On September 12, 2012, Las Ventanas closed on the restructuring of its indebtedness. As discussed in Note 1, NorCal provided an unfunded $2,000,000 debt service support agreement for the Las Ventanas Series A-1 bonds, with any resulting funded amounts triggering the issuance to NorCal of an equal amount of Las Ventanas Series B-4 bonds.

For all the tax-credit financed affordable housing communities in which HGAH serves as a General Partner (see Note 1), NorCal and HGAH, as co-guarantors, have issued on-going guarantees to cover operating deficits and guarantees to ensure compliance with certain on-going aspects of the Limited Partnership Agreement ("LPA"). NorCal periodically evaluates the potential exposure from these on-going guarantees. NorCal has not provided support under these guarantees in the past and based on the current evaluation, management believes they cumulatively do not constitute a material future financial risk exposure for HGCOG.

In addition to operating deficit and LPA guarantees, NorCal and HGAH, as co-guarantors, also issue, unconditional project completion guarantees for tax-credit financed affordable housing communities in which HGAH serves as a General Partner (see Note 1). NorCal has not provided support under these guarantees in the past and based on the current evaluation, management believes they cumulatively do not constitute a material future financial risk exposure for HGCOG.

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 HGCOG, if any, are not presently determinable.

15. Concentrations of Credit Risk

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

HGCOG maintains cash accounts, which, at times, may exceed federally insured limits.
HGCOG 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.

16. Health and Safety Code Section 1790(a)(3) Disclosure

The following disclosure is made pursuant to section 1790(a)(3) of the California Health and Safety Code. HGCOG has identified certain corporate initiatives and contingencies listed below to which unrestricted assets may be exposed; and, therefore, have designated reserves as a safeguard against such contingencies. Although not restricted in accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, the designations are as follows (in thousands):

Designated for Claims	$ 2,500
Designated for Endowment	44,600
Designated for Retirement	3,800
Designated for Innovation	13,500
Designated for Capital Projects	33,600
Designated for Foundation	6,200
Designated for Growth and Liability Reduction	5,600
Total designations	$ 109,800

17. Subsequent Events

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

On April 22, 2019, management filed a voluntary public disclosure notification through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access site reaffirming its intent to refinance the HGCOG NorCal Series 2010 and SoCal Series 2009 bonds during 2019, as well as disclosing its intent to potentially borrow up to $30 million of new money, and that, in conjunction with this refinancing, management is planning to bring together NorCal, SoCal, and TSJG under a single master trust indenture.

HGCOG has evaluated subsequent events through April 30, 2019, which is the date the special-purpose combined financial statements were issued.

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)
Special-Purpose Combining Balance Sheet Schedule
(In Thousands)
December 31, 2018

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood Foundation South	Combined Foundations	Eliminations	HGCOG
Assets										
Cash and Cash Equivalents	$ 21,439	$ 4,281	$ 7,815	$ -	$ 33,535	$ 421	$ 462	$ 883	$ -	$ 34,418
Resident Accounts Receivable, Net	7,280	3,671	906	-	11,857	-	-	-	-	11,857
Other Receivables	3,274	3,695	366	-	7,335	639	15	654	-	7,989
Restricted Cash	-	5,054	-	-	5,054	-	-	-	-	5,054
Investments	70,615	84,432	12,055	-	167,102	-	10,172	10,172	-	177,274
Designated Investments	45,241	13,936	-	-	59,177	44,504	-	44,504	-	103,681
Investments in Las Ventanas Bonds	4,606	-	-	-	4,606	-	-	-	-	4,606
Restricted Investments	22,954	6,211	4,463	-	33,628	11,169	19,333	30,502	-	64,130
Subordinated Notes Receivable, Net	41,672	-	-	(29,775)	11,897	-	-	-	-	11,897
Prepaid Expenses, Deposits and Other Assets	6,699	2,539	4	-	9,242	-	-	-	-	9,242
Land, Building, and Equipment, Net	234,220	172,275	83,762	-	490,257	-	-	-	-	490,257
Interest and Management Fees Due from Affiliates	11,075	-	-	(8,240)	2,835	-	-	-	-	2,835
Intercompany Advances Due	10,200	2,462	(292)	-	12,370	62	(22)	40	-	12,410
Total assets	$ 479,275	$ 298,556	$ 109,079	$ (38,015)	$ 848,895	$ 56,795	$ 29,960	$ 86,755	$ -	$ 935,650

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

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

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood Foundation South	Combined Foundations	Eliminations	HGCOG
Liabilities and Net Assets										
Accounts Payable and Accrued Expenses	$ 20,240	$ 9,425	$ 7,094	$ (5,376)	$ 31,383	$ 21	$ 35	$ 56	$ -	$ 31,439
Deposits	2,348	810	196	-	3,354	-	-	-	-	3,354
Accrued Interest	2,445	845	3,429	(2,864)	3,855	-	-	-	-	3,855
Notes and Bonds Payable, Net	186,183	109,698	74,996	(29,775)	341,102	-	-	-	-	341,102
Rebatable Entrance Fees Due	87,610	53,366	34,182	-	175,158	-	-	-	-	175,158
Entrance Fees Subject to Refund	42,868	39,895	7,972	-	90,735	-	-	-	-	90,735
Entrance Fees Non-refundable	106,364	53,075	14,300	-	173,739	-	-	-	-	173,739
Revocable Trusts	-	-	-	-	-	289	-	289	-	289
Obligations Under Annuity Agreements	-	-	-	-	-	1,844	1,660	3,504	-	3,504
Retirement Liabilities	2,028	(1,965)	-	-	63	-	-	-	-	63
Workers' Compensation Liability	6,794	8,487	-	-	15,281	-	-	-	-	15,281
Other Liabilities	12,127	567	29	(8,240)	4,483	1	-	1	-	4,484
Total liabilities	469,007	274,203	142,198	(46,255)	839,153	2,155	1,695	3,850	-	843,003
Net Assets										
Without Donor Restrictions	10,268	24,353	(33,119)	8,240	9,742	44,638	10,178	54,816	-	64,558
With Donor Restrictions	-	-	-	-	-	10,002	18,087	28,089	-	28,089
Total net assets (deficit)	10,268	24,353	(33,119)	8,240	9,742	54,640	28,265	82,905	-	92,647
Total liabilities and net assets (deficit)	$ 479,275	$ 298,556	$ 109,079	$ (38,015)	$ 848,895	$ 56,795	$ 29,960	$ 86,755	$ -	$ 935,650

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule
(In Thousands)
December 31, 2018

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood Foundation South	Combined Foundations	Eliminations	HGCOG
Operating Revenues										
Residential living	$ 51,547	$ 38,625	$ 10,037	$ -	$ 100,209	$ -	$ -	$ -	$ -	$ 100,209
Assisted living	15,372	12,650	3,690	-	31,712	-	-	-	-	31,712
Health center	54,772	25,129	7,787	-	87,688	-	-	-	-	87,688
Memory support	8,233	2,800	1,914	-	12,947	-	-	-	-	12,947
Other residential services	1,623	103	186	-	1,912	-	-	-	-	1,912
Amortization of entrance fees	21,980	15,718	3,466	-	41,164	-	-	-	-	41,164
Other operating revenue	7,838	4,447	522	(973)	11,834	-	-	-	-	11,834
Affordable housing fees	-	1,677	-	-	1,677	-	-	-	-	1,677
Net assets released from restrictions	-	-	-	-	-	2,285	1,675	3,960	-	3,960
Unrestricted contribuions	-	-	-	-	-	2,110	-	2,110	-	2,110
Foundation community benefit	825	358	178	-	1,361	-	-	-	(1,361)	-
									-	
Total operating revenues	162,190	101,507	27,780	(973)	290,504	4,395	1,675	6,070	(1,361)	295,213
Operating Expenses										
Salaries and wages	69,885	44,681	9,007	-	123,573	467	248	715	-	124,288
Employee benefits	15,859	10,691	2,128	-	28,678	72	67	139	-	28,817
Supplies	11,059	7,875	2,355	-	21,289	3	-	3	-	21,292
Ancillary services	9,302	2,797	1,657	-	13,756	-	-	-	-	13,756
Repairs and maintenance	2,737	1,311	467	-	4,515	4	-	4	-	4,519
Marketing and advertising	1,567	1,118	563	-	3,248	7	1	8	-	3,256
Purchased services	7,048	7,719	903	-	15,670	65	15	80	-	15,750
Corporate allocations	-	-	1,946	(1,946)	-	-	-	-	-	-
Utilities	5,776	4,768	1,384	-	11,928	2	2	4	-	11,932
Travel and related	1,752	999	104	-	2,855	32	13	45	-	2,900
Leases and rents	1,318	399	77	-	1,794	25	-	25	-	1,819
Insurance	1,465	1,668	275	-	3,408	26	-	26	-	3,434
Foundation community distribution	-	-	-	-	-	1,003	358	1,361	(1,361)	-
Other operating expenses	1,692	2,581	400	-	4,673	2,139	971	3,110	-	7,783
Total operating expenses	129,460	86,607	21,266	(1,946)	235,387	3,845	1,675	5,520	(1,361)	239,546
Income Before Other Operating Income (Expense)	32,730	14,900	6,514	973	55,117	550	-	550	-	55,667
Other Operating Income (Expense)										
Realized gains (losses) on investments, net	318	317	(50)	-	585	5,041	1,169	6,210	-	6,795
Investment income, net	3,355	4,331	252	-	7,938	1,105	300	1,405	-	9,343
Mortgage interest	(9,897)	(6,389)	(4,142)	1,333	(19,095)	-	-	-	-	(19,095)
Depreciation	(18,982)	(15,422)	(4,590)	-	(38,994)	-	-	-	-	(38,994)
Loss on disposal of fixed assets	(73)	(308)	-	-	(381)	-	-	-	-	(381)
Income (loss) from operations	7,451	(2,571)	(2,016)	2,306	5,170	6,696	1,469	8,165	-	13,335
Other Changes in Net Assets Without Donor Restrictions										
Change in unrealized gains (losses) on investments, net	(5,730)	(6,802)	73	-	(12,459)	(9,635)	(1,950)	(11,585)	-	(24,044)
Unrealized gains on investment in Las Ventanas bonds	727	-	-	-	727	-	-	-	-	727
Change in minimum pension liability	-	3,891	-	-	3,891	-	-	-	-	3,891
Net equity transfers from SoCal Affordable Housing	-	27,831	-	-	27,831	-	-	-	-	27,831
Other interaffiliate distributions and equity transfers	(4,255)	(1,390)	27	-	(5,618)	1,635	(577)	1,058	-	(4,560)
Unrealized gains on interest rate caps	56	116	-	-	172	-	-	-	-	172
Change in net assets without donor restrictions	(1,751)	21,075	(1,916)	2,306	19,714	(1,304)	(1,058)	(2,362)	-	17,352

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule
(In Thousands)
December 31, 2018

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood Foundation South	Combined Foundations	Eliminations	HGCOG
Net Assets With Donor Restrictions										
Dividend and interest income	$ -	$ -	$ -	$ -	$ -	$ 298	$ 567	$ 865	$ -	$ 865
Unrealized gains on investments with donor restriction, net	-	-	-	-	-	(1,155)	(3,767)	(4,922)	-	(4,922)
Restricted equity contributions	-	-	-	-	-	-	1,240	1,240	-	1,240
Contributions	-	-	-	-	-	3,435	1,205	4,640	-	4,640
Net assets released from restrictions for benevolence	-	-	-	-	-	-	(358)	(358)	-	(358)
Contractual payments to beneficiaries	-	-	-	-	-	(426)	(381)	(807)	-	(807)
Realized losses on investments, net	-	-	-	-	-	450	2,245	2,695	-	2,695
Contractual liability adjustments	-	-	-	-	-	73	186	259	-	259
Net assets released from restrictions for special project funds	-	-	-	-	-	(2,285)	(1,317)	(3,602)	-	(3,602)
Change in net assets with donor restrictions	-	-	-	-	-	390	(380)	10	-	10
Change in net assets	(1,751)	21,075	(1,916)	2,306	19,714	(914)	(1,438)	(2,352)	-	17,362
Net Assets (Deficit), Beginning of Year	18,745	3,278	(25,263)	5,934	2,694	55,554	29,703	85,257	-	87,951
Accounting Pronouncement	(6,726)	-	(5,940)	-	(12,666)	-	-	-	-	(12,666)
Beginning Net Assets As Adjusted for Adoption of Accounting Pronouncement	12,019	3,278	(31,203)	5,934	(9,972)	55,554	29,703	85,257	-	75,285
Net Assets (Deficit), End of Year	$ 10,268	$ 24,353	$ (33,119)	$ 8,240	$ 9,742	$ 54,640	$ 28,265	$ 82,905	$ -	$ 92,647

HumanGood California Obligated Group & Foundation Affiliates (Members of HumanGood)
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Special-Purpose Combining Statement of Cash Flows Schedule
(In Thousands)
December 31, 2018

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood South	Combined Foundations	Eliminations	HGCOG
Cash Flows from Operating Activities										
Cash received for resident services	$ 130,030	$ 78,786	$ 23,727	$ -	$ 232,543	$ -	$ -	$ -	$ -	$ 232,543
Cash received from non-rebatable entrance fees from reoccupancy	29,775	20,782	6,784	-	57,341	-	-	-	-	57,341
Cash received from other operating activities	9,993	6,148	703	(973)	15,871	(11)	-	(11)	(1,356)	14,504
Cash received from bequests and trust maturities	-	-	-	-	-	2,110	-	2,110	-	2,110
Cash earnings realized from investments	3,674	4,477	202	-	8,353	6,146	1,469	7,615	-	15,968
Cash paid for employee salaries	(62,134)	(43,095)	(8,591)	-	(113,820)	(458)	(232)	(690)	-	(114,510)
Cash paid for employee benefits	(17,744)	(11,786)	(2,098)	-	(31,628)	(72)	(67)	(139)	-	(31,767)
Cash paid for temporary labor	(6,647)	(4,030)	(485)	-	(11,162)	-	-	-	-	(11,162)
Cash paid to vendors	(41,682)	(34,515)	(8,770)	973	(83,994)	(1,106)	304	(802)	1,356	(83,440)
Cash paid for interest, net of amounts capitalized	(9,343)	(6,213)	(2,740)	-	(18,296)	-	-	-	-	(18,296)
Net cash provided by operating activities	35,922	10,554	8,732	-	55,208	6,609	1,474	8,083	-	63,291
Cash Flows from Investing Activities										
Acquisition of land, buildings, and equipment,	(19,715)	(15,045)	(1,510)	-	(36,270)	-	-	-	-	(36,270)
Increase in restricted cash	1,915	(5,054)	-	-	(3,139)	-	-	-	-	(3,139)
Purchase of unrestricted investments	(81,126)	(34,404)	(3,925)	-	(119,455)	(45,165)	(10,428)	(55,593)	-	(175,048)
Proceeds from sale of unrestricted investments	34,889	42,258	3,702	-	80,849	36,750	10,819	47,569	-	128,418
Purchase of restricted investments	(11,055)	(430)	(2,857)	-	(14,342)	(17,080)	(24,616)	(41,696)	-	(56,038)
Proceeds from sale of restricted investments	34,108	339	2,858	-	37,305	15,901	20,724	36,625	-	73,930
Cash received from intercompany and interaffiliate transactions	16,664	711	80	-	17,455	(519)	(181)	(700)	-	16,755
Net cash used in investing activities	(24,320)	(11,625)	(1,652)	-	(37,597)	(10,113)	(3,682)	(13,795)	-	(51,392)
Cash Flows from Financing Activities										
Cash received from initial entrance fees and deposits	3,172	-	-	-	3,172	-	-	-	-	3,172
Proceeds from rebatable entrance fees	5,989	7,211	1,320	-	14,520	-	-	-	-	14,520
Refunds of deposits and refundable entrance fees	(8,310)	(6,465)	(5,419)	-	(20,194)	-	-	-	-	(20,194)
Principal payments on notes and bonds payable	(4,664)	(2,300)	(640)	-	(7,604)	-	-	-	-	(7,604)
Cash paid from other trust activity	-	-	-	-	-	(2,028)	799	(1,229)	-	(1,229)
Interaffilate cash distributions	(4,255)	(1,443)	27	-	(5,671)	1,635	664	2,299	-	(3,372)
Cash received from restricted contributions	-	-	-	-	-	3,401	1,205	4,606	-	4,606
Net cash provided by (used in) financing activities	(8,068)	(2,997)	(4,712)	-	(15,777)	3,008	2,668	5,676	-	(10,101)
(Increase) Decrease in cash and cash equivalents	3,534	(4,068)	2,368	-	1,834	(496)	460	(36)	-	1,798
Cash and Cash Equivalents, Beginning of Year	17,905	8,349	5,447	-	31,701	917	2	919	-	32,620
Cash and Cash Equivalents, End of Year	$ 21,439	$ 4,281	$ 7,815	$ -	$ 33,535	$ 421	$ 462	$ 883	$ -	$ 34,418

HumanGood California Obligated Group & Foundation Affiliates (Members of HumanGood)
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Special-Purpose Combining Statement of Cash Flows Schedule
(In Thousands)
December 31, 2018

	HumanGood NorCal	HumanGood SoCal	HumanGood Fresno	Eliminations	Subtotal	HumanGood Foundation West	HumanGood South	Combined Foundations	Eliminations	HGCOG
Cash Flows from Operating Activities										
Change in net assets	$ (1,751)	$ 21,075	$ (1,916)	$ 2,306	$ 19,714	$ (914)	$ (1,438)	$ (2,352)	$ -	$ 17,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:										
Amortization of entrance fees	(21,980)	(15,718)	(3,466)	-	(41,164)	-	-	-	-	(41,164)
Proceeds from non-rebatable entrance fees from reoccupancy	29,775	20,782	6,784	-	57,341	-	-	-	-	57,341
Depreciation	18,982	15,422	4,590	-	38,994	-	-	-	-	38,994
Unrealized gains on investments, net	5,730	6,802	(73)	-	12,459	9,635	1,950	11,585	-	24,044
Unrealized gains on investments with donor restriction, net	-	-	-	-	-	1,155	3,767	4,922	-	4,922
Unrealized gains on investments in Las Ventanas bonds	(727)	-	-	-	(727)	-	-	-	-	(727)
Gain from change in unrecognized pension obligations	-	(3,891)	-	-	(3,891)	-	-	-	-	(3,891)
Unrealized gains on interest rate caps	(56)	(116)	-	-	(172)	-	-	-	-	(172)
Net equity transfers from SoCal Affordable Housing	-	(27,831)	-	-	(27,831)	-	-	-	-	(27,831)
Other interaffiliate distributions and equity transfers	4,255	1,390	(27)	-	5,618	(1,635)	577	(1,058)	-	4,560
Change in accounts receivable from residents and others	1,633	6,323	130	-	8,086	15	29	44	-	8,130
Change in prepaid expenses, deposits, and other assets	5,992	3,775	86	-	9,853	5	11	16	-	9,869
Other changes in operating assets and liabilities, net	(5,931)	(17,459)	2,624	(2,306)	(23,072)	(1,652)	(3,422)	(5,074)	-	(28,146)
Net cash provided by operating activities	$ 35,922	$ 10,554	$ 8,732	$ -	$ 55,208	$ 6,609	$ 1,474	$ 8,083	$ -	$ 63,291

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Supplemental Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule
December 31, 2018

	Terraces at Los Altos	Grand Lake Gardens	Piedmont Gardens	Plymouth Village	Valle Verde	Rosewood	Terraces of Los Gatos	NorCal Home Office	Eliminations	HumanGood NorCal
Operating Revenues										
Residential living	$ 6,475	$ 3,532	$ 7,942	$ 6,708	$ 12,508	$ 3,929	$ 10,453	$ -	$ -	$ 51,547
Assisted living	2,466	-	3,719	1,930	2,056	1,898	3,303	-	-	15,372
Health center	6,763	-	11,415	4,293	9,717	10,494	12,090	-	-	54,772
Memory support	1,770	-	1,242	425	1,715	1,258	1,823	-	-	8,233
Other residential services	105	111	629	106	356	178	138	-	-	1,623
Amortization of entrance fees	3,145	433	2,746	2,395	7,562	598	5,101	-	-	21,980
Other operating revenue	213	159	319	240	997	297	399	15,945	(10,731)	7,838
Affordable housing fees	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-
Unrestricted contributions	-	-	-	-	-	-	-	-	-	-
Foundation community benefit	66	27	143	177	300	92	20	-	-	825
										-
Total operating revenues	21,003	4,262	28,155	16,274	35,211	18,744	33,327	15,945	(10,731)	162,190
										-
Operating Expenses										-
Salaries and wages	8,152	1,846	12,364	6,650	11,227	7,716	10,771	11,159	-	69,885
Employee benefits	1,687	387	3,033	1,408	2,651	1,857	2,346	2,490	-	15,859
Supplies	1,287	496	1,937	1,253	2,517	1,437	1,874	258	-	11,059
Ancillary services	1,255	-	1,435	719	1,106	2,595	2,192	-	-	9,302
Repairs and maintenance	384	14	516	450	509	261	601	2	-	2,737
Marketing and advertising	310	129	202	345	225	222	115	19	-	1,567
Purchased services	648	328	1,097	656	839	825	1,319	1,336	-	7,048
Corporate allocations	1,416	316	2,255	1,230	2,081	1,501	1,932	-	(10,731)	-
Utilities	845	400	981	707	1,168	514	890	271	-	5,776
Travel and related	93	46	73	88	240	83	148	981	-	1,752
Leases and rents	73	32	225	126	113	80	40	629	-	1,318
Insurance	132	43	295	202	281	229	243	40	-	1,465
Foundation community distribution	-	-	-	-	-	-	-	-	-	-
Other operating expenses	400	94	562	372	432	370	388	(926)	-	1,692
Total operating expenses	16,682	4,131	24,975	14,206	23,389	17,690	22,859	16,259	(10,731)	129,460
										-
Income (loss) before other operating income (expense)	4,321	131	3,180	2,068	11,822	1,054	10,468	(314)	-	32,730
Other Operating Income (Expense)										
Realized gains (losses) on investments, net	(37)	-	-	-	-	-	-	355	-	318
Investment income, net	279	-	-	-	-	-	-	3,076	-	3,355
Mortgage interest	(2,392)	(207)	(626)	(395)	(1,220)	(592)	(2,082)	(2,383)	-	(9,897)
Depreciation	(3,729)	(759)	(1,839)	(2,364)	(4,936)	(1,320)	(3,678)	(357)	-	(18,982)
Gains (losses) on disposal of fixed assets	(21)	-	(42)	8	-	-	(6)	(12)	-	(73)
(Loss) income from operations	(1,579)	(835)	673	(683)	5,666	(858)	4,702	365	-	7,451
Other Changes in Net Assets Without Donor Restrictions										
Change in unrealized gains (losses) on investments, net	(50)	-	-	-	-	-	-	(5,680)	-	(5,730)
Unrealized gains on investment in Las Ventanas bonds	-	-	-	-	-	-	-	727	-	727
Change in minimum pension liability	-	-	-	-	-	-	-	-	-	-
Net equity transfers from SoCal Affordable Housing	-	-	-	-	-	-	-	-	-	-
Other interaffiliate distributions and equity transfers	-	-	-	-	-	-	-	(4,255)	-	(4,255)
Unrealized gains on interest rate caps	-	-	-	-	-	-	-	56	-	56
										-
Change in net assets without donor restrictions	(1,629)	(835)	673	(683)	5,666	(858)	4,702	(8,787)	-	(1,751)
Net Assets With Donor Restrictions										
Dividend and interest income	-	-	-	-	-	-	-	-	-	-
Unrealized gains on investments with donor restriction, net	-	-	-	-	-	-	-	-	-	-
Restricted equity contributions	-	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions for benevolence	-	-	-	-	-	-	-	-	-	-
Contractual payments to beneficiaries	-	-	-	-	-	-	-	-	-	-
Realized losses on investments, net	-	-	-	-	-	-	-	-	-	-
Contractual liability adjustments	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions for special project funds	-	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	-	-	-	-	-	-	-	-	-	-
Change in net assets	(1,629)	(835)	673	(683)	5,666	(858)	4,702	(8,787)	-	(1,751)
Net Assets (Deficit), Beginning of Year	7,298	(8,800)	34,971	6,388	47,736	(18,363)	35,641	(86,126)	-	18,745
Adjustment for Adoption of Accounting Pronouncement	(5,603)	-	-	-	(1,123)	-	-	-	-	(6,726)
Beginning Net Assets as Adjusted for Adoption of Accounting Pronouncement	1,695	(8,800)	34,971	6,388	46,613	(18,363)	35,641	(86,126)	-	12,019
Net Assets (Deficit), End of Year	$ 66	$ (9,635)	$ 35,644	$ 5,705	$ 52,279	$ (19,221)	$ 40,343	$ (94,913)	$ -	$ 10,268

HumanGood California Obligated Group & Foundation Affiliates
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Supplemental Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule
December 31, 2018

	Royal Oaks	White Sands La Jolla	Windsor	Regents Point	Westminster Gardens	Redwood Terrace/ Elderlink	SoCal Home Office	Eliminations	HumanGood SoCal
Operating Revenues									
Residential living	$ 6,925	$ 9,823	$ 2,908	$ 10,237	$ 4,409	$ 4,323	$ -	$ -	$ 38,625
Assisted living	1,836	2,190	2,695	2,902	1,483	1,544	-	-	12,650
Health center	5,558	3,458	2,654	6,336	-	7,123	-	-	25,129
Memory support	-	893	-	469	665	773	-	-	2,800
Other residential services	10	38	-	55	-	-	-	-	103
Amortization of entrance fees	2,337	5,027	685	4,666	1,424	1,579	-	-	15,718
Other operating revenue	310	522	115	361	199	359	8,434	(5,853)	4,447
Affordable housing fees	-	-	-	-	-	-	1,677	-	1,677
Net assets released from restrictions	-	-	-	-	-	-	-	-	-
Unrestricted contributions	-	-	-	-	-	-	-	-	-
Foundation community benefit	36	55	19	56	57	135	-	-	358
Total operating revenues	17,012	22,006	9,076	25,082	8,237	15,836	10,111	(5,853)	101,507
Operating Expenses									
Salaries and wages	7,284	7,557	4,304	9,713	2,941	6,971	5,911	-	44,681
Employee benefits	1,748	1,823	1,018	2,259	627	1,809	1,407	-	10,691
Supplies	1,439	1,788	828	1,983	532	1,146	159	-	7,875
Ancillary services	267	64	174	649	13	1,630	-	-	2,797
Repairs and maintenance	446	324	170	168	101	76	26	-	1,311
Marketing and advertising	194	198	164	178	195	180	9	-	1,118
Purchased services	1,475	1,503	507	1,104	390	1,005	1,735	-	7,719
Corporate allocations	1,122	1,561	550	1,396	361	863	-	(5,853)	-
Utilities	870	1,175	403	936	312	862	210	-	4,768
Travel and related	107	73	69	90	44	166	450	-	999
Leases and rents	40	50	13	25	6	77	188	-	399
Insurance	214	456	109	260	218	165	246	-	1,668
Foundation community distribution	-	-	-	-	-	-	-	-	-
Other operating expenses	(246)	225	258	502	208	352	1,282	-	2,581
Total operating expenses	14,960	16,797	8,567	19,263	5,948	15,302	11,623	(5,853)	86,607
Income (loss) before other operating income (expense)	2,052	5,209	509	5,819	2,289	534	(1,512)	-	14,900
Other Operating Income (Expense)									
Realized gains (losses) on investments, net	120	240	51	335	25	-	(454)	-	317
Investment income, net	88	194	31	201	19	-	3,798	-	4,331
Mortgage interest	(1,600)	(3,231)	(118)	(1,158)	(282)	-	-	-	(6,389)
Depreciation	(2,339)	(5,375)	(704)	(2,870)	(1,322)	(1,927)	(885)	-	(15,422)
Gains (losses) on disposal of fixed assets	(14)	(131)	3	(44)	(66)	(60)	4	-	(308)
(Loss) income from operations	(1,693)	(3,094)	(228)	2,283	663	(1,453)	951	-	(2,571)
Other Changes in Net Assets Without Donor Restrictions									
Change in unrealized gains (losses) on investments, net	(57)	(113)	(24)	(158)	(12)	-	(6,438)	-	(6,802)
Unrealized gains on investment in Las Ventanas bonds	-	-	-	-	-	-	-	-	-
Change in minimum pension liability	-	-	-	-	-	-	3,891	-	3,891
Net equity transfers from SoCal Affordable Housing	-	-	-	-	-	-	27,831	-	27,831
Other interaffiliate distributions and equity transfers	7	168	-	44	83	2	(1,694)	-	(1,390)
Unrealized gains on interest rate caps	-	106	-	-	10	-	-	-	116
Change in net assets without donor restrictions	(1,743)	(2,933)	(252)	2,169	744	(1,451)	24,541	-	21,075
Net Assets With Donor Restrictions									
Dividend and interest income	-	-	-	-	-	-	-	-	-
Unrealized gains on investments with donor restriction, net	-	-	-	-	-	-	-	-	-
Restricted equity contributions	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-
Net assets released from restrictions for benevolence	-	-	-	-	-	-	-	-	-
Contractual payments to beneficiaries	-	-	-	-	-	-	-	-	-
Realized losses on investments, net	-	-	-	-	-	-	-	-	-
Contractual liability adjustments	-	-	-	-	-	-	-	-	-
Net assets released from restrictions for special project funds	-	-	-	-	-	-	-	-	-
Change in net assets with donor restrictions	-	-	-	-	-	-	-	-	-
Change in net assets	(1,743)	(2,933)	(252)	2,169	744	(1,451)	24,541	-	21,075
Net Assets (Deficit), Beginning of Year	(1,289)	(16,242)	342	34,464	5,690	(10,217)	(9,470)	-	3,278
Adjustment for Adoption of Accounting Pronouncement	-	-	-	-	-	-	-	-	-
Beginning Net Assets as Adjusted for Adoption of Accounting Pronouncement	(1,289)	(16,242)	342	34,464	5,690	(10,217)	(9,470)	-	3,278
Net Assets (Deficit), End of Year	$ (3,032)	$ (19,175)	$ 90	$ 36,633	$ 6,434	$ (11,668)	$ 15,071	$ -	$ 24,353

HumanGood California Obligated Group & Foundation Affiliates
(Members of HumanGood)

Supplemental Special-Purpose Combining Statement of Operations and Changes in Net Assets Schedule
December 31, 2018

	HumanGood Fresno	Eliminations	Subtotal	Foundation West	Foundation South	Combined Foundations	Eliminations	HGCOG
Operating Revenues								
Residential living	$ 10,037	$ -	$ 100,209	$ -	$ -	$ -	$ -	$ 100,209
Assisted living	3,690	-	31,712	-	-	-	-	31,712
Health center	7,787	-	87,688	-	-	-	-	87,688
Memory support	1,914	-	12,947	-	-	-	-	12,947
Other residential services	186	-	1,912	-	-	-	-	1,912
Amortization of entrance fees	3,466	-	41,164	-	-	-	-	41,164
Other operating revenue	522	(973)	11,834	-	-	-	-	11,834
Affordable housing fees	-	-	1,677	-	-	-	-	1,677
Net assets released from restrictions	-	-	-	2,285	1,675	3,960	-	3,960
Unrestricted contributions	-	-	-	2,110	-	2,110	-	2,110
Foundation community benefit	178	-	1,361	-	-	-	(1,361)	-
Total operating revenues	27,780	(973)	290,504	4,395	1,675	6,070	(1,361)	295,213
Operating Expenses								
Salaries and wages	9,007	-	123,573	467	248	715	-	124,288
Employee benefits	2,128	-	28,678	72	67	139	-	28,817
Supplies	2,355	-	21,289	3	-	3	-	21,292
Ancillary services	1,657	-	13,756	-	-	-	-	13,756
Repairs and maintenance	467	-	4,515	4	-	4	-	4,519
Marketing and advertising	563	-	3,248	7	1	8	-	3,256
Purchased services	903	-	15,670	65	15	80	-	15,750
Corporate allocations	1,946	(1,946)	-	-	-	-	-	-
Utilities	1,384	-	11,928	2	2	4	-	11,932
Travel and related	104	-	2,855	32	13	45	-	2,900
Leases and rents	77	-	1,794	25	-	25	-	1,819
Insurance	275	-	3,408	26	-	26	-	3,434
Foundation community distribution	-	-	-	1,003	358	1,361	(1,361)	-
Other operating expenses	400	-	4,673	2,139	971	3,110	-	7,783
Total operating expenses	21,266	(1,946)	235,387	3,845	1,675	5,520	(1,361)	239,546
Income before other operating income (expense)	6,514	973	55,117	550	-	550	-	55,667
Other Operating Income (Expense)								
Realized gains (losses) on investments, net	(50)	-	585	5,041	1,169	6,210	-	6,795
Investment income, net	252	-	7,938	1,105	300	1,405	-	9,343
Mortgage interest	(4,142)	1,333	(19,095)	-	-	-	-	(19,095)
Depreciation	(4,590)	-	(38,994)	-	-	-	-	(38,994)
Gains (losses) on disposal of fixed assets	-	-	(381)	-	-	-	-	(381)
(Loss) income from operations	(2,016)	2,306	5,170	6,696	1,469	8,165	-	13,335
Other Changes in Net Assets Without Donor Restrictions								
Change in unrealized gains (losses) on investments, net	73	-	(12,459)	(9,635)	(1,950)	(11,585)	-	(24,044)
Unrealized gains on investment in Las Ventanas bonds	-	-	727	-	-	-	-	727
Change in minimum pension liability	-	-	3,891	-	-	-	-	3,891
Net equity transfers from SoCal Affordable Housing	-	-	27,831	-	-	-	-	27,831
Other interaffiliate distributions and equity transfers	27	-	(5,618)	1,635	(577)	1,058	-	(4,560)
Unrealized gains on interest rate caps	-	-	172	-	-	-	-	172
								-
Change in net assets without donor restrictions	(1,916)	2,306	19,714	(1,304)	(1,058)	(2,362)	-	17,352
Net Assets With Donor Restrictions								
Dividend and interest income	-	-	-	298	567	865	-	865
Unrealized gains on investments with donor restriction, net	-	-	-	(1,155)	(3,767)	(4,922)	-	(4,922)
Restricted equity contributions	-	-	-	-	1,240	1,240	-	1,240
Contributions	-	-	-	3,435	1,205	4,640	-	4,640
Net assets released from restrictions for benevolence	-	-	-	-	(358)	(358)	-	(358)
Contractual payments to beneficiaries	-	-	-	(426)	(381)	(807)	-	(807)
Realized losses on investments, net	-	-	-	450	2,245	2,695	-	2,695
Contractual liability adjustments	-	-	-	73	186	259	-	259
Net assets released from restrictions for special project funds	-	-	-	(2,285)	(1,317)	(3,602)	-	(3,602)
Change in net assets with donor restrictions	-	-	-	390	(380)	10	-	10
Change in net assets	(1,916)	2,306	19,714	(914)	(1,438)	(2,352)	-	17,362
Net Assets (Deficit), Beginning of Year	(25,263)	5,934	2,694	55,554	29,703	85,257	-	87,951
Adjustment for Adoption of Accounting Pronouncement	(5,940)	-	(12,666)	-	-	-	-	(12,666)
Beginning Net Assets as Adjusted for Adoption of Accounting Pronouncement	(31,203)	5,934	(9,972)	55,554	29,703	85,257	-	75,285
Net Assets (Deficit), End of Year	$ (33,119)	$ 8,240	$ 9,742	$ 54,640	$ 28,265	$ 82,905	$ -	$ 92,647