CALIFORNIA FRIENDS HOMES

dba ROWNTREE GARDENS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

WITH

INDEPENDENT AUDITOR'S REPORT

kdp

Certified Public Accountants, LLP

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CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS

Year Ended December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Friends Homes
dba Rowntree Gardens

Report on the Financial Statements

We have audited the accompanying financial statements of California Friends Homes, dba Rowntree Gardens (a California non-profit corporation), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Friends Homes, dba Rowntree Gardens as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 15 to the financial statements, the entity has suffered recurring annual losses from operations which were exacerbated by COVID-19 in 2020, and is currently operating under conditional (restrictive) authority from its oversite agency. Note 15 to the financial statements also states that substantial doubt exists about the entity's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plan regarding these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Mark E. Damon CPA, Managing Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
June 11, 2021

CALIFORNIA FRIENDS HOMES
STATEMENT OF FINANCIAL POSITION
December 31, 2020

Assets:		
Current assets:		
Cash and cash equivalents	$	1,463,723
Assets held on behalf of residents		30,925
Accounts receivable, net		952,453
Prepaids		261,850
Supplies inventory		221,510
Total current assets		2,930,461
Property and equipment, net		7,741,086
Other assets:		
Capital investments		2,055,325
Assets limited as to use		299,000
Note receivable (partial entrance fee)		169,500
Total other assets		2,523,825
Total assets	$	13,195,372
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable and accrued expenses		751,507
Accrued payroll		408,936
Compensated absences		677,922
Assets held on behalf of residents		30,925
Deferred revenue		284,112
Current portion of debt obligations		435,388
Total current liabilities		2,588,790
Long-term debt, net of current portion		2,371,134
Deferred revenue from entrance fees		3,311,250
Total liabilities		8,271,174
Net assets:		
Without donor restrictions		4,873,459
With donor restrictions		50,739
Total net assets		4,924,198
Total liabilities and net assets	$	13,195,372

CALIFORNIA FRIENDS HOMES
STATEMENT OF ACTIVITIES
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Resident service fees	$ 10,159,632	$ -	$ 10,159,632
Health center revenue	5,753,080	-	5,753,080
Federal stimulus and relief grants	2,976,345	-	2,976,345
Home care revenue	706,570	-	706,570
Entrance fees earned	877,700	-	877,700
Contributions	-	97,132	97,132
Other	184,343	-	184,343
	20,657,670	97,132	20,754,802
Net assets released from restriction	104,420	(104,420)	-
Total revenue and support	20,762,090	(7,288)	20,754,802
Expenses:			
Program services:			
Dietary services	3,775,069	-	3,775,069
Facility services and utilities	2,734,529	-	2,734,529
Health and social services	10,356,280	-	10,356,280
General and administrative:			
Administrative and marketing	3,835,140	-	3,835,140
Total expenses	20,701,018	-	20,701,018
Operating income (loss)	61,072	(7,288)	53,784
Other Gains/(Loss):			
Unrealized change in value of capital investments	302,931	-	302,931
Related party contribution	1,047,070		1,047,070
Total other income/(loss)	1,350,001	-	1,350,001
Change in net assets (loss)	1,411,073	(7,288)	1,403,785
Net assets, beginning of year	3,462,386	58,027	3,520,413
Net assets, end of year	$ 4,873,459	$ 50,739	$ 4,924,198

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

	Program Services		
Expense:	**Dietary Services**	**Facility Services and Utilities**	**Health and Social Services**
Employee expenses	$ 2,218,098	$ 1,187,181	$ 7,832,534
Payroll taxes	131,946	70,499	499,904
Legal fees	-	-	-
Accounting / audit fees	-	-	-
Advertising & promotion	-	-	-
Office expense	2,617	8,241	2,587
Information technology	-	-	-
Occupancy expense	-	970,538	21,740
Travel expense	1,770	-	1,000
Interest expense	-	-	-
Depreciation	156,887	113,644	428,834
Insurance expense	-	-	-
Activities expense	-	-	36,304
Bad debt expense	-	-	112,276
Bank service charges	-	-	-
Contract services	68,138	261,503	110,756
Education & training	70	3,088	3,583
Licensing & memberships	1,451	5,509	69,061
Repairs & maintenance	34,096	110,547	-
Therapy expense	-	-	726,118
Uniforms expense	3,166	3,779	-
Dietary expense & supplies	1,142,017	-	-
Small equipment and tools	14,813	-	17,979
Medical expense & supplies	-	-	493,604
Total	$ 3,775,069	$ 2,734,529	$ 10,356,280

CALIFORNIA FRIENDS HOMES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020 (continued)

Total Program Services	Administration and Marketing	2019 Total
$ 11,237,813	$ 1,966,811	$ 13,204,624
702,349	116,410	818,759
-	151,229	151,229
-	59,812	59,812
-	122,622	122,622
13,445	167,737	181,182
-	64,948	64,948
992,278	-	992,278
2,770	311	3,081
-	143,279	143,279
699,365	129,266	828,631
-	228,303	228,303
36,304	32,328	68,632
112,276	18,000	130,276
-	36,515	36,515
440,397	475,958	916,355
6,741	13,047	19,788
76,021	102,295	178,316
144,643	-	144,643
726,118	-	726,118
6,945	-	6,945
1,142,017	-	1,142,017
32,792	6,269	39,061
493,604	-	493,604
$ 16,865,878	$ 3,835,140	$ 20,701,018

CALIFORNIA FRIENDS HOMES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

Cash Flows from Operating Activities:	
Cash received from customers	$ 16,547,395
Entrance fees received from new residents, net of refunds paid	356,550
Other operating cash grants	3,160,688
Contributions received (including related party)	1,144,202
Cash paid to employees and suppliers	(19,935,698)
Interest paid	(143,279)
Net cash provided (used) by operating activities	1,129,858
Cash Flows from Investing Activities:	
Purchases of property and equipment	(495,007)
Due from related party	184,374
Assets limited as to use	(299,000)
Net cash provided (used) by investing activities	(609,633)
Cash Flows from Financing Activities:	
Payments on long-term debt	(98,576)
Payments on line of credit	(1,569,000)
Proceeds from line of credit	1,899,000
Net cash provided (used) by financing activities	231,424
Net increase (decrease) in cash and cash equivalents	751,649
Cash and cash equivalents, January 1, 2020	712,074
Cash and cash equivalents, December 31, 2020	$ 1,463,723
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities (Indirect Method):	
Increase (decrease) in net assets	$ 1,403,785
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	828,631
Entrance fees received from new residents	356,550
Entrance fees earned	(877,700)
Unrealized change in value of capital investment	(302,931)
Accounts receivable, net	(9,682)
Prepaids	82,311
Supplies inventory	(53,538)
Accounts payable and accrued expenses	(410,193)
Accrued payroll	21,570
Deferred revenue	(62,205)
Compensated absences	153,260
Net cash provided (used) by operating activities	$ 1,129,858
Supplemental Disclosure of Non-Cash Financing Activities:	
Note receivable from resident	$ 169,500

See notes to financial statements

NOTE 1 – ORGANIZATION

California Friends Homes, dba Rowntree Gardens (formerly dba Quaker Gardens) Senior Living (the Corporation) was founded in 1962 as a California non-profit public benefit corporation for charitable purposes. The corporation was established to provide residential facilities, health and welfare programs, and various services and sponsor programs for the elderly and operates a continuing care retirement community in Stanton, California. The community consists of 65 (70 beds) independent units and 96 (105 beds) assisted living units, 58 skilled nursing facility units and 25 (50 beds) memory care units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). U.S. GAAP requires classification of non-profits net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. The assets, liabilities, revenues, expenses, and net assets of the Corporation are reported in the following categories:

> **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. These net assets may be used at the discretion of management and the board of directors.
>
> **Net assets with donor restrictions**: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation. or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Performance Indicator - “Unrestricted operating income/(loss)” as reflected in the accompanying statements of activities is the performance indicator. Unrestricted operating income/(loss) includes all changes in net assets without donor restrictions, excluding unrealized change in value of capital investments, restricted contributions, related party contributions, assets released from donor restrictions related to long-lived assets, extraordinary items, and investment returns restricted by donors or law.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues, expenses, gains and losses during the reporting period. Actual results could differ from those estimates.

Functional Expenses - The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among different services and supporting services benefited. Such allocations are determined by management on an equitable basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses (continued) -

The expenses that are allocated include the following:

Expense	Allocation Method
Other Salaries & Wages	Split
Pension Plan	Split
Other Employee Benefits	Split
Payroll Taxes	Split
Legal Fees	All general/admin
Accounting / Audit Fees	All general/admin
Advertising & Promotion	Split
Office Expense	Split
Information Technology	All general/admin
Occupancy Expense	All program
Travel Expense	Split
Interest Expense	All general/admin
Depreciation	Split
Insurance Expense	Split
Activities expense	All program
Bad Debt Expense	All program
Bank Service Charges	All general/admin
Board Expense	Split
Contract Services	Split
Education / Training	Split
Licensing, Memberships	Split
Repairs & Maintenance	Split
Therapy Expense	All program
Uniforms Expense	All program
Dietary Exp/Supplies	All program
Small Equipment and Tools	Split
Medical Exp/Supplies	All program
Incentives	All program

*Split = 84.4% Program, 15.60% General/Admin

Cash and Cash Equivalents - Cash and cash equivalents include cash and other commercial paper with maturities of three months or less at the date of acquisition.

Assets held on behalf of residents - Assets held on behalf of residents include cash deposits held in the Corporation’s name. These monies are distributed to residents when necessary or in the case of death.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable - Accounts receivable primarily represent amounts due from residents for living accommodations, services, and amounts due from third parties. Receivables for which a third-party payor is responsible for paying are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual fee adjustments or discounts provided to third-party payors.

Receivables due directly from the residents are carried at the original charge for the service provided, less amounts covered by third-party payors and less an estimated allowance for uncollectible receivables. Management determines the allowance for contractual adjustments, discounts, and uncollectible accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Resident receivables are written off as adjustments to service revenue when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of service revenue adjustment account when received. The Corporation determines when an account is past due based on payor classification. The Corporation does not charge interest on past due accounts

Supplies Inventory - The accounting method used to record inventory is the FIFO (First In First Out) method. Inventory is valued at the lower of cost or net realizable value at December 31, 2020.

Property and Equipment - Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value as of the date of contribution. Maintenance, repairs, and minor replacements are charged to expense when incurred. Replacements and betterments with a cost of $1,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 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 the Statement of Activities for the period.

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. No impairment losses were present for the year ended December 31, 2020.

Refundable Fees - The Corporation requires each applicant for independent living and assisted living to pay a $1,175 application fee; and each applicant for memory care and skilled nursing care pay a $495 application fee. This fee will be refunded if no move-in occurs. Should the resident move out within the first three months, the fee is subject to a pro-rated refund.

Deferred Revenue from Entrance Fees - Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over the estimated remaining actuarial life expectancy of the resident. The Corporation has two different non-refundable continuing care contracts, a Lifecare (Type A) contract and a Modified (Type B) contract. California law requires a 90 day cancellation period during which the resident is entitled to a refund of the amounts subject to a fee to process the cancelation. As part of a conditioned authority noted in Note 15 to the financial statements, on March 24, 2020, the cancellation period was extended to one year as required by the California Department of Social Services. After the cancelation period, residents are entitled to refunds of their entrance fee reduced by 1.67% for each month of residency should they withdraw within the first 60 months. There is no refund of the entrance fee in the event of death. No refunds were pending at December 31, 2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Obligation to Provide Future Services - The Corporation annually analyzes the present value of the new cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities to be provided exceeds the balance of deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5.5% for 2020, based on the expected long-term rate of return on government obligations. The Corporation evaluates this annually, and a liability was not deemed to exist at December 31, 2020.

General Liability Policy - The Corporation has secured claims-made policies for general liability insurance with self-insured retentions of $1,000,000 per claim and $3,000,000 aggregate per policy period. The Corporation has also secured excess general and professional liability insurance with limits of $5,000,000 aggregate per policy period. The Corporation has not accrued a liability associated with, or claims incurred but not yet reported as amounts could not be estimated and are considered by management to be immaterial. These liabilities would be included in accounts payable and accrued expenses in the accompanying statement of financial position.

Long Term Debt and Debt Issuance Costs - Debt issuance costs are deferred and amortized as interest expense over the life of the loan. Loans payable are reported net of the applicable costs.

Contributions - Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a 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 and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Revenue Recognition - On January 1, 2019, the Corporation adopted Accounting Standards codification Topic 606, Revenue from Contracts with Customers (“ASC 606:”) applying the modified retrospective method. The adoption of ASC 606 did not have a material impact on the measurement nor on the recognition of revenue.

Service Fees Revenue:

Service fees revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled to in exchange for the services provided. Under the Corporation’s continuing care agreements, the Corporation provides senior living services to residents for a stated monthly fee. The Corporation recognizes revenue for senior living services under the continuing care agreement for independent living, assisted living, and memory care services in accordance with the provisions of ASC 606.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued) -

Health Center Revenue:

Health center revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled to in exchange for providing care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others, and includes variable consideration for retroactive adjustments due to settlement of audits, reviews and investigations. Generally, the Corporation bills patients and third-party payors at the beginning of each month for the prior month and sends the final bill or reconciliation at the time of discharge. Revenue is recognized in the month in which performance obligations are satisfied.

The Corporation determines the transaction price based on standard charges for goods and services provided, adjusted by contractual agreements with third parties. These agreements with third-party payors may provide for payments at amounts less than established charges. A summary of the payment arrangements with third-party payors follows:

> Medicare: Skilled services are paid at prospectively determined rates per day based on Medicare-defined diagnostic assessments. Non-skilled services are paid based on cost reimbursement methodologies or established fee schedules.
>
> Secondary Insurance: Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per day, primary coverage rates, and co-pays and deductibles covered under primary insurance.

Settlements with third-party payors for retroactive revenue adjustments due to audits, review, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2020.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation estimates the transaction price for residents with deductibles and coinsurance and from those who do not have insurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments were not considered material for the years ended December 31, 2020. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued) -

Health Center Revenue (continued):

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors (Medicare, Medicaid, commercial insurance, etc.).

The composition of health center revenue by primary payors for the years ended December 31, 2020 is as follows:

Third party payors, net	
Medicare	$ 2,460,281
Commercial	235,858
Total third party payors, net	2,696,139
Self pay, net	3,056,941
Health center revenue, net	$ 5,753,080

Charity Care - As part of its charitable mission, the Corporation provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Total charges for charity care services amounted to $21,740 for the year ended December 31, 2020.

Tax-Exempt Status - The Corporation has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying statements of activities.

The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2020, there were no such uncertain tax positions.

Advertising - The Corporation expenses advertising costs as incurred. The Corporation incurred advertising costs for the year ended December 31, 2020 of $123,248.

Concentrations of Credit Risk - The Corporation maintains cash balances in several financial institutions located in California. These balances may subject the Corporation to concentrations of risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2020 cash balances exceeded amounts insured by the FDIC. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk (continued) - Concentration of credit risk results from the Corporation granting credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables at December 31, 2020 from residents and third-party payors, is listed at Note 4.

Assets Limited as to Use – On March 24, 2020, the Corporation received a Condition on its Certificate of Authority from the California Department of Social Services (DSS). As a result of the Condition, among other provisions, the Corporation was required (effective March 24, 2020) to: a) Escrow 100% of Type A contract entrance fees and 50% of Type B contract entrance fees, pursuant to HSC section 1793.17. Total escrowed entrance fees limited to use at December 31, 2020 was $299,000.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Corporation's financial assets at December 31, 2020:

Financial assets at year end:	
Cash and cash equivalents	$ 1,463,723
Receivables, net	952,453
Total financial assets	2,416,176
Less amounts not available to be used within one year:	
Net assets with donor restrictions	50,739
Financial assets available to meet general expenditures over the next twelve months	$ 2,365,437

The Corporation's goal is generally to maintain cash and cash equivalents available to meet 60 days of general operating expenses (excludes depreciation). Utilizing the 2020 statement of activities, 60 days of general operating expenses approximates $3,266,694. As part of its liquidity plan, the Corporation is currently working toward rebalancing operations to flex with occupancy. Rebalancing operations is intended to reduce general operating expenses and increase financial assets available to meet general expenditures. At December 31, 2020, the Corporation had 43 days of cash and cash equivalents to meet general operating expenses.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2020 consisted of the following:

Resident monthly fees	$ 100,810
Health care	928,793
Subtotal accounts receivable	1,029,603
Less allowance for doubtful accounts	(77,150)
Total accounts receivable, net	$ 952,453

NOTE 4 – ACCOUNTS RECEIVABLE (continued)

Health care accounts receivable, gross by payor mix, consisted of the following at December 31, 2020:

Self Pay	10%
Medicare	50%
HMO	40%

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 consisted of the following:

Land	$ 1,039,386
Land improvements	1,313,857
Building	17,838,452
Furniture and equipment	4,874,900
Automobiles	284,553
Total	25,351,148
Less accumulated depreciation	(17,610,062)
	$ 7,741,086

NOTE 6 – CAPITAL INVESTMENTS

The Corporation has made three investments in which they are participants: Historic Captive Insurance Company (workers compensation), Active Captive Insurance Company (workers compensation) and a Risk Retention Group.

Historic Captive Insurance Company (Workers Compensation): The Corporation is a shareholder with one other unaffiliated retirement communities in Alternative RE Holdings Limited; Cell 16L, a Bermuda holding company (Alt RE). The Corporation has a 50% ownership in the captive insurance company. There is a separate indemnification agreement where profits and losses are allocated based upon the percentage of participation and profitability of each facility. Arch Insurance Group maintains a re-insurance contract with Alt RE to be reimbursed for individual worker's compensation losses for the first $350,000 per claim. There is a separate re-insurance policy purchased by Cell 16L of Alt RE for individual losses in excess of $350,000 and an aggregate loss limit that includes the two facilities. Both shareholders of the captive insurance company elected to transition to different programs in 2015. As a result, the captive insurance company has been winding down operations and closing all open years.

The Corporation accounts for this investment utilizing the equity method as management has determined the Corporation has significant influence over operating and financial policies of the investee. At December 31, 2020 the Corporation's estimated capital investment in Alternative RE Holdings Limited; was $487,053. The Corporation recognized $167,227 in unrealized change in value of the capital investment for the year ending December 31, 2020.

Active Captive Insurance Company (Workers Compensation): On November 16, 2015, the Corporation entered into a Subscriber Agreement with Peach Church Workers Safety Program IC (the Protected Cell), a reciprocal insurer established as an incorporated protected cell of Green Mountain Sponsored Captive Insurance Company (GMSC). As part of the Subscriber Agreement, the Corporation agreed to pay certain surplus, collateral, premiums, and administrative program management fees. In exchange for such payments, the Corporations liability is limited to the such payments (which can be variable in nature). Payment obligations are determined by the Subscribers' Advisory Committee (the Corporation is a voting

NOTE 6 – CAPITAL INVESTMENTS (continued)

member on this committee). On November 20, 2015, the Corporation entered into a Participation Agreement with GMSC and the Protected Cell. The Participation Agreement further clarifies capital, collateral, reserves, and distributions. As of December 31, after the first full year of operation, and annually thereafter, a calculation will be made to determine excess surplus in the Protected Cell. The amount of excess surplus, if any, will be based on the capital requirements and actuarily determined loss and loss adjustment expense reserves. As a result of this calculation, the Protected Cell may make a distribution in an amount not to exceed the excess surplus. The Corporation accounts for this investment utilizing the equity method of accounting as management has determined the Corporation has significant influence over operating and financial policies of the investee.

Active Captive Insurance Company (Workers Compensation) (continued): The Corporations estimated capital investment at December 31, 2020 was $1,131,713 which consists of a paid in surplus of $699,466 (paid in surplus made prior to January 1, 2019) and an undistributed subscriber savings account of $432,247 at December 31, 2020. The Corporation recognized $135,704 in unrealized change in value of the capital investment (increase to the undistributed subscriber savings account) for the year ending December 31, 2020.

Risk Retention Group: The Corporation invested in a traditional risk retention group which converted to a reciprocal mutual insurance exchange. It was formed under the Federal Liability Risk Retention Act to insure various affiliated members (subscribers) of a group of faith-based retirement corporations. The Corporation accounts for this investment utilizing the cost method as it does not have significant influence over operating and financial policies of the investee. The Corporations capital cost associated with this investment was $436,559 at December 31, 2020. In addition to the Corporations cost, the investee held $793,321 in undistributed earnings (subscriber savings account attributed to the Corporation) at December 31, 2020. The Corporation will recognize these undistributed earnings upon receiving distributions from the investee, consistent with the cost method of accounting for investments. The Corporation documents authorize the return of the charter capital account of a discontinued or withdrawing subscriber within seven years without interest as long as it doesn’t cause substantial harm to the group’s asset position.

NOTE 7 – OPERATING LEASES

The Corporation has operating leases associated with office equipment. Lease expenses associated with the operating leases was $36,602 for the year ended December 31, 2020. The future minimum lease payments for these leases are as follows:

Year Ending December 31,	
2021	$ 66,300
2022	66,300
2023	49,450
2024	25,800
	$ 207,850

NOTE 8 – DEBT OBLIGATIONS

On November 19, 2019, the Corporation entered into a Master Loan Agreement (MLA), Deed of Trust, Assignment of All Rents, Commercial Security Agreement, and several Promissory Notes with Farmers & Merchants Bank. The Corporation entered into the Business loan Agreement for the purpose of refinancing its previous commitments with the Bank. The Bank agreed to make advances in aggregate up to $4,135,000 (commitment amount) to the Corporation pursuant to the Master Loan Agreement up to November 19, 2029 (Banks commitment expiration date). Each advance shall be evidenced by a note with the first note identified therein as Note A and each subsequent note serially identified as Note B, Note C, and Note D. To secure the total obligation, the Corporation granted a Deed of Trust in favor of the Bank on real property known as 12151 Dale Ave., Stanton, CA 90680, 12241 Dale St., Garden Grove, CA 92841, 12251 Dale St., Garden Grove, CA, 12271 Dale St., Garden Grove, CA 92841, 12281 Dale St., Garden Grove, CA 92841, 12210 Leafwood St., Stanton, CA 90680, and 12170 Leafwood St., Stanton, CA 90680.

In addition, the Corporation provided additional collateral described as fixtures and equipment. In addition, the total obligation is guaranteed by the California Friends Foundation (a related party).

In addition to certain financial covenants, the MLA and each Note contains and a subjective acceleration clause, which gives the Bank the right to accelerate repayment upon the Bank's determination of a material adverse change in the Corporation's financial position. Management has evaluated the likelihood of the Bank exercising the clause to be remote. As a result, the amounts owed are classified based upon the stated payment schedule.

Note A – On November 19, 2019, in conjunction with the MLA, the Corporation entered into Promissory Note A ($2,101,488) for the purpose of refinancing its 2014 Obligation. Note A provides for 60 monthly payments of principal and interest of $14,545 based upon a fixed rate of interest of 5.495% per annum (commencing on December 19, 2019). After the initial 60 month period (commencing on December 19, 2024), the Corporation shall be required to pay 59 consecutive principal and interest payments (using a 240 month amortization period) based upon a variable rate of interest based upon the Weekly Average 10-year Nominal Constant Maturity U.S. Treasury plus 2.50% (with a floor of 5.495%). The final payment of all then due principal and interest is due on November 19, 2029 (maturity date). The note contains no prepayment penalties. At December 31, 2020, $2,019,786 was outstanding associated with this obligation. In addition, the amount charged to interest associated with this obligation was $115,502 for the year ending December 31, 2020.

Note B – On November 19, 2019, in conjunction with the MLA, the Corporation entered into Promissory Note B ($1,100,000) for the purpose of providing operating liquidity support when considering reserve requirements required by the California Health and Safety Code section 1792. Note B is considered a line of credit which allows the Corporation to receive advances upon written request. Payments of interest are due monthly beginning December 19, 2019. All outstanding principal plus all accrued unpaid interest is due on November 21, 2021 (maturity date). Interest is based upon the U.S. Prime Rate plus 1.50% (with a floor of 6.25%). The note contains no prepayment penalties. The Corporation had yet to draw on this line of credit at December 31, 2020, as such, no amounts were outstanding.

Note C – On November 19, 2019, in conjunction with the MLA, the Corporation entered into Promissory Note C ($420,000) for the purpose of providing an operating line of credit. Note C is considered a line of credit which allows the Corporation to receive advances upon written request. Payments of interest are due monthly beginning December 19, 2019. All outstanding principal plus all accrued unpaid interest is due on November 21, 2021 (maturity date). Interest is based upon the U.S. Prime Rate plus 1.50% (with a floor of 6.25%). The note contains no prepayment penalties. At December 31, 2020, $330,000 was outstanding associated with this obligation. In addition, the amount charged to interest associated with this obligation was $3,465 for the year ending December 31, 2020.

NOTE 8 – DEBT OBLIGATIONS (continued)

Note D – On November 19, 2019, in conjunction with the MLA, the Corporation entered into Promissory Note D ($500,000) for the purpose of refinancing its historic line of credit obligation. Note D provides for 120 monthly payments of principal and interest of $5,321 (commencing on December 19, 2019) based upon a fixed rate of interest of 5.00% per annum (matures on November 19, 2029). The note contains no prepayment penalties. At December 31, 2020, $456,736 was outstanding associated with this obligation. In addition, the amount charged to interest associated with this obligation was $24,312 for the year ending December 31, 2020.

Maturities of long-term debt are shown as follows:

Year Ending December 31,		
2021		435,388
2022		111,158
2023		117,241
2024		123,656
2025		130,420
Thereafter		1,888,659
Total	$	2,806,522

NOTE 9 – PAYCHECK PROTECTION PROGRAM

The Paycheck Protection Program ("PPP"), which was established under the Coronavirus Aid, Relief and Economic Security Act ("the CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses. PPP Loans mature 24 months from the date of the first disbursement of proceeds and accrue interest at a fixed interest rate of 1% per annum. Additionally, recipients are permitted to prepay or partially prepay the PPP loans at any time with no prepayment penalties. Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted, forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations and ongoing rulemaking by the Small Business Administration (SBA), based on the use of loan proceeds for payroll costs and mortgage interest, rent or utility costs and the maintenance of employee and compensation levels. Additionally, recipients are permitted to prepay or partially prepay the PPP loans at any time with no prepayment penalties.

On April 28, 2020, the Company received PPP proceeds of $2,301,458 after submitting the necessary information to its bank (intermediary) and entering into a promissory note with Farmers & Merchants Bank and the SBA. The Company applied for forgiveness and provided all necessary supporting qualified expense information to its bank (intermediary) which in turn was submitted to SBA. The Company was notified of forgiveness on June 8, 2021 (subsequent to December 31, 2020).

As the initial legal form of a PPP loan is debt, an entity may account for funds received as debt in accordance with ASC 470, Debt. However, an entity that expects to meet the PPP's eligibility and loan forgiveness criteria may elect to account for the proceeds as akin to a donor imposed conditional grant. A donor-imposed condition must have both: a) one or more barriers that must be overcome before a recipient is entitled to the assets transferred and b) a right of return to the contributor (SBA) for assets transferred.

NOTE 9 – PAYCHECK PROTECTION PROGRAM (continued)

A donor-imposed condition existed within the CARES Act and promissory note that requires all participants in the PPP program must overcome the barriers associated with the use of such proceeds. If such proceeds are not utilized in accordance with the PPP, they are required to be paid in accordance with the promissory note and terms associated with the CARES Act. The Corporation treated the proceeds as a conditional contribution in which all such conditions were met before December 31, 2020. As a result, the Corporation recognized $2,301,458 in federal stimulus revenue for the year ended December 31, 2020.

NOTE 10 – RELATED PARTY TRANSACTIONS

Friends Church Southwest Yearly Meeting (FCSYM) is the sole corporate member of California Friends Inc. (CFI), CFI is the sole corporate member of the Corporation. CFI is also the sole corporate member of California Friends Foundation, Inc. (CFF). For the year ended December 31, 2020, the Corporation received due from balance of $184,374 and an unrestricted contribution of $1,047,070 from CFF.

On February 28, 2013, the Boards of Directors of California Friends Inc. and the Corporation elected to retain the services of a current Board Member of the Corporation. The current Board Member is serving as the contract Chief Executive Officer for the Corporation. For the year ended December 31, 2020, the Corporation paid $158,840 to this Board Member for management and oversight services.

The Corporation elected to retain the services of a certain Board Member for a fee. For the year ended December 31, 2020, the Corporation paid $57,200 to this Board Member.

NOTE 11 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

Approximately 50% of health center revenue for the year ended December 31, 2020, was derived under federal third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, the changes in net assets, or cash flows of the Corporation.

NOTE 12 – RETIREMENT PLAN

On June 1, 2011 the Corporation adopted a new 403(b) matching retirement plan that covers employees who have reached the age of 21 and have completed 12 months of eligibility service. Employees who normally work fewer than 30 hours per week are not covered under the plan for purposes of receiving employer contributions. Contributions to the plan are based on a match of the employee's own contribution, which is discretionary, up to a maximum of 2.5% of employee's eligible compensation.

Total contributions charged to expense for the plan was $119,223 for the year ended December 31, 2020.

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Net assets with specific purpose donor restrictions were available for the following purposes at December 31, 2020:

Chapel maintenance		
Activities fund		1,367
Faith fund		33,879
Van fund		5,302
General chapel		10,191
Net assets with donor restrictions	$	50,739

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation – The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Asbestos Abatement – The Corporation is aware of the existence of asbestos in certain areas of its buildings. The Corporation 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, the Corporation will record an estimate of the costs of the required asbestos abatement.

Lifecare Agreement – The Corporation has agreed to enter into a Lifecare Agreement with a former member of executive management and his spouse. As part of this agreement, the entrance fee and all monthly fees (at all levels of care) will be waived. On January 16, 2012, the Lifecare Agreement was executed. The former executive has yet to move into the facility. The Corporation has not recorded a liability associated with this agreement as it is uncertain if the former member of management will occupy the facility.

NOTE 15 – GOING CONCERN

Principal conditions that raise substantial doubt about the Corporation's ability to continue as a going concern –

As of the date of these financial statements, the following conditions raised doubt about the entity's ability to continue as a going concern:

1) The Corporation has had recurring annual operating losses, excluding support from the related party foundation (CFF). The recurring operating losses have had an impact on the Corporations liquidity ratios and operating liquidity, when excluding CFF support. The Corporation was making positive progress on its turnaround efforts from June 2019 through March 2020 when the impact from government shutdowns (COVID-19 related) and certain California Department of Social Services (DSS) imposed restrictions (discussed below) negatively impacted the Corporations ability to operate in a normalized fashion. As a result, several key forecasted financial benchmarks were not obtained during 2020.

NOTE 15 – GOING CONCERN (continued)

2) The government shutdowns and associated healthcare related restrictions added to the Corporations operating liquidity concerns. As a result, DSS formally communicated the following imposed operating restrictions and conditions to the Corporation. Such restrictions and conditions put further pressure on the Corporations ability to enact its turnaround efforts.
   a. On March 24, 2020, the Corporation received a Condition on Certificate of Authority. As a result of the Condition, among other provisions, the Corporation was required (effective March 24, 2020) to: a) Escrow 100% of Type A contract entrance fees and 50% of Type B contract entrance fees, pursuant to HSC section 1793.17, b) Change its cancellation period for all new Type A and Type B contracts to one year (previously 90 days) and c) Provide a financial plan that aligns with its most recent financial projections (i.e. how financial goals would be achieved).
   b. Subsequent to December 31, 2020, on March 18, 2021, the Corporation received a report in which DSS commissioned an outside consultant to perform a high-level financial review of the Corporation. DSS commissioned an outside consultant as a result of the Corporation not achieving certain forecasted financial benchmarks during 2020. The outside consultants report presented an analysis of his financial outlook for the Corporation. The consultant's report concludes managements financial projections "all though possible" may be unlikely to be achieved and further liquidity sources will be needed. Much of the consultant's report relied on data from 2020 that was heavily impacted by COVID-19 and the State of California as well as certain DSS imposed restrictions. The consultant's report provided five options in which DSS could pursue.
   c. In response to the outside consultant's report, subsequent to December 31, 2020, On May 18, 2021, the Corporation received a formal letter from DSS formalizing a request for a plan of corrective action. Included in the formal letter are the following requirements/recommendations; a) Require the Corporation increase the amount subject to escrow requirements for Type B contracts to 100% (previously 50%), b) Require additional disclosure to prospective residents to ensure the risks of contracting with the Corporation are fully disclosed, c) Recommend the Corporation cease entering into Type A contracts until operations are stabilized for a period of 12 consecutive months, d) Require the Corporation submit a corrective action plan that addresses how the Corporation will improve its performance and identify timelines for meeting such improvements by June 17, 2021, e) Require the Corporation to hire a management company (or consultant) with decision making authority by August 16, 2021 (the management company or consultant must be approved by DSS).

Management plans that are intended to mitigate the conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern –

Management has evaluated the conditions and events that raise doubt about the Corporations ability to continue as a going concern within one year after the date of these financial statements (the evaluation period). Management has determined that such conditions and events are significant in relation to the Corporations ability to continue as a going concern during the evaluation period. Prior to imposed DSS restrictions, Management's plans to mitigate such conditions and events included:

1) Anticipated increased occupancy in all levels of care. This assumption was based on the anticipated impact the COVID-19 vaccine would have on the industry and State level restrictions.
2) Anticipated improved staff to resident ratios further accelerated by normalized occupancy levels.
3) Normalized operating expenditure numbers. This assumption was based on the anticipated impact the COVID-19 vaccines would have on the industry and State level restrictions.
4) Anticipated additional liquidity associated with a distribution related to the Corporations investment in Alternative RE Holdings Limited.
5) Anticipated $845,200 in type A and B entrance fee sales.

NOTE 15 – GOING CONCERN (continued)

6) Anticipated $1,200,000 in liquidity associated with the sale of two idle pieces of real estate adjacent to the Corporations main campus. Such real estate is not vital to the Corporations ongoing operation.
7) Anticipated terming out the Corporations operating line of credit which is due on November 21, 2021. In addition, the Corporation anticipates negotiating an additional $420,000 operating line of credit.

The recent DSS imposed restriction (entrance fees and related) make it difficult to forecast and develop stable plans to mitigate the conditions and events. More specifically, the evaluation of whether it is *probable* that management's plans will be effectively implemented during the evaluation period was limited as such plans became variable upon the imposed restrictions and requirements of DSS. For management's plans to be considered *probable* of being effectively implemented, management (or others with the appropriate authority) must have approved the plan before the date the financial statements are issues. As a result, the mitigating effect of management's plans that are not probable (due to the restrictions placed on the facility by DSS) were not considered in evaluating whether substantial doubt is alleviated, as a result, such doubt has not been alleviated.

The ability of the Corporation to continue as a going concern and meet its obligations as they become due is dependent on the DSS imposed management company's (or consultant) plans to overcome the restrictions (most notably the inability to access entrance fee cash). Consequently, the financial statements do not include any adjustments that might be necessary if the Corporation is unable to continue as a going concern.

NOTE 16 – SUBSEQUENT EVENTS

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

The Corporation evaluated all events or transactions that occurred after December 31, 2020 up through June 11, 2021, the date the financial statements were available to be issued.

On May 18, 2021, the Corporation received a formal letter from DSS formalizing a request for a plan of corrective action. See Note 14.

On June 8, 2021, the Corporation was notified of full forgiveness on its PPP loan/grant. See Note 9.