CALIFORNIA FRIENDS HOMES

dba ROWNTREE GARDENS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

WITH

INDEPENDENT AUDITOR'S REPORT

kdp

Certified Public Accountants, LLP

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CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS

Year Ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Friends Homes
dba Rowntree Gardens
Stanton, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of California Friends Homes, dba Rowntree Gardens (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of California Friends Homes, dba Rowntree Gardens as of December 31, 2021, 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.

Basis for Opinion

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

Recurring Operating Losses

As discussed in Note 15 to the financial statements, the Organization has 1) experienced recurring annual losses from operations which were exacerbated by COVID-19, and 2) is currently operating under a conditional (restrictive) authority from its oversite agency which has restricted its ability to sell continuing care retirement community contracts to prospective residents. Management's evaluation of these conditions and events and management's plans to mitigate these matters are also described in Note 15 to the financial statements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Mark E. Damon CPA, Managing Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
June 8, 2022

CALIFORNIA FRIENDS HOMES
STATEMENT OF FINANCIAL POSITION
December 31, 2021

Assets:		
Current assets:		
Cash and cash equivalents	$	1,219,384
Assets held on behalf of residents		33,303
Accounts receivable, net		917,393
Prepaids		266,718
Supplies inventory		258,854
Total current assets		2,695,652
Property and equipment, net		6,979,870
Other assets:		
Capital investments		2,389,219
Assets limited as to use		663,326
Total other assets		3,052,545
Total assets	$	12,728,067
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable and accrued expenses	$	968,683
Accrued payroll		511,451
Compensated absences		789,635
Assets held on behalf of residents		33,303
Deferred revenue		102,920
Line of credit		365,000
Current portion of debt obligations		67,047
Total current liabilities		2,838,039
Long-term debt, net of current portion		1,879,550
Deferred revenue from entrance fees		2,714,467
Total liabilities		7,432,056
Net assets:		
Without donor restrictions		5,238,011
With donor restrictions		58,000
Total net assets		5,296,011
Total liabilities and net assets	$	12,728,067

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Resident service fees	$ 9,947,927	$ -	$ 9,947,927
Health center revenue	6,583,423	-	6,583,423
Federal stimulus and relief grants	283,530	-	283,530
Home care revenue	482,714	-	482,714
Entrance fees earned	980,183	-	980,183
Contributions	44,774	47,557	92,331
Other	231,025	-	231,025
	18,553,576	47,557	18,601,133
Net assets released from restriction	40,296	(40,296)	-
Total revenue and support	18,593,872	7,261	18,601,133
Expenses:			
Program services:			
Dietary services	3,845,328	-	3,845,328
Facility services and utilities	2,862,474	-	2,862,474
Health and social services	10,035,904	-	10,035,904
General and administrative:			
Administrative and marketing	3,913,160	-	3,913,160
Total expenses	20,656,867	-	20,656,867
Operating income (loss)	(2,062,995)	7,261	(2,055,734)
Other Gains/(Loss):			
Unrealized change in value of capital investments	333,894	-	333,894
Related party contribution	798,000	-	798,000
Gain on sale of capital assets	1,295,653	-	1,295,653
Total other income/(loss)	2,427,547	-	2,427,547
Change in net assets (loss)	364,552	7,261	371,813
Net assets, beginning of year	4,873,459	50,739	4,924,198
Net assets, end of year	$ 5,238,011	$ 58,000	$ 5,296,011

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	Program Services					
Expense:	**Dietary Services**	**Facility Services and Utilities**	**Health and Social Services**	**Total Program Services**	**Administration**	**2021 Total**
Employee expenses	$ 2,309,301	$ 1,176,290	$ 7,314,283	$ 10,799,874	$ 1,806,519	$ 12,606,393
Payroll taxes	142,942	77,885	468,692	689,519	117,821	807,340
Legal fees	-	-	-	-	111,836	111,836
Accounting / audit fees	-	-	-	-	24,314	24,314
Advertising & promotion	-	-	-	-	97,899	97,899
Office expense	2,623	14,084	4,116	20,823	78,890	99,713
Information technology	-	-	-	-	137,801	137,801
Occupancy expense	-	979,894	59,339	1,039,233	-	1,039,233
Travel expense	1,513	-	1,475	2,988	3,037	6,025
Interest expense	-	-	-	-	146,047	146,047
Depreciation	159,247	118,544	412,088	689,880	127,513	817,393
Insurance expense	-	-	-	-	225,358	225,358
Activities expense	-	-	51,804	51,804	24,982	76,786
Bad debt expense	-	-	54,000	54,000	93,000	147,000
Bank service charges	-	-	-	-	99,876	99,876
Contract services	97,673	294,619	90,354	482,646	682,581	1,165,227
Education & training	139	4,343	6,710	11,192	16,094	27,286
Licensing & memberships	1,678	5,495	73,240	80,413	105,900	186,313
Repairs & maintenance	23,576	187,573	-	211,149	-	211,149
Therapy expense	-	-	941,586	941,586	-	941,586
Uniforms expense	8,986	3,747	-	12,733	-	12,733
Dietary expense & supplies	1,079,352	-	-	1,079,352	-	1,079,352
Small equipment and tools	18,298	-	21,898	40,196	13,692	53,888
Medical expense & supplies	-	-	536,319	536,319	-	536,319
Total	$ 3,845,328	$ 2,862,474	$ 10,035,904	$ 16,743,707	$ 3,913,160	$ 20,656,867

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2021

Cash Flows from Operating Activities:		
Cash received from customers	$	16,867,932
Entrance fees received from new residents, net of refunds paid		383,400
Other operating cash grants		514,555
Contributions received (including related party)		890,331
Cash paid to employees and suppliers		(19,304,673)
Interest paid		(145,609)
Net cash provided (used) by operating activities		(794,064)
Cash Flows from Investing Activities:		
Purchases of property and equipment		(464,279)
Assets held on behalf of residents		2,378
Note receivable (partial entrance fee)		169,500
Proceeds from sale of property, net of closing costs		1,703,755
Net cash provided (used) by investing activities		1,411,354
Cash Flows from Financing Activities:		
Payments on long-term debt		(529,925)
Payments on line of credit		(2,359,807)
Proceeds from line of credit		2,394,807
Net cash provided (used) by financing activities		(494,925)
Net increase (decrease) in cash and cash equivalents		122,365
Cash and cash equivalents, January 1, 2021		1,793,648
Cash and cash equivalents, December 31, 2021	$	1,916,013

Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities (Indirect Method):		
Increase (decrease) in net assets	$	371,813
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation		817,393
Entrance fees received from new residents		383,400
Entrance fees earned		(980,183)
Unrealized change in value of capital investment		(333,894)
Net loss (gain) on disposal of property and equipment		(1,295,653)
Net changes in:		
Accounts receivable, net		35,060
Prepaids		(4,868)
Supplies inventory		(37,344)
Accounts payable and accrued expenses		217,176
Accrued payroll		102,515
Deferred revenue		(181,192)
Compensated absences		111,713
Net cash provided (used) by operating activities	$	(794,064)

Supplemental Disclosure of Cash and Cash Equivalents Reported on the Statement of Financial Position:		
Unrestricted cash	$	1,219,384
Cash restricted under DSS ecrow agreement		663,326
Cash held on behalf of residents (restricted)		33,303
Total cash and cash equivalents	$	1,916,013

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, 2021.

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, 2021.

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. $2,500 in refunds were pending at December 31, 2021.

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 2021, 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, 2021.

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 -

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 2021.

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, 2021. 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, 2021 is as follows:

Third party payors, net	
Medicare	$ 2,414,527
Commercial	1,392,371
Total third party payors, net	3,806,898
Self pay, net	2,776,525
Health center revenue, net	$ 6,583,423

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 $59,339 for the year ended December 31, 2021.

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, 2021, 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, 2021 of $97,899.

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, 2021 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, 2021 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 escrow 100% of Type A contract entrance fees and 50% of Type B contract entrance fees, pursuant to HSC section 1793.17. Effective May 18, 2021, the Corporation was required to escrow 100% of both Type A and Type B contract entrance fees. On August 11, 2021, the Corporation voluntarily agreed to cease offering Type A and Type B contracts. Total escrowed entrance fees limited to use at December 31, 2021 was $663,326.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Corporation's financial assets at December 31, 2021:

Financial assets at year end:	
Cash and cash equivalents	$ 1,219,384
Receivables, net	917,393
Total financial assets	2,136,777
Less amounts not available to be used within one year:	
Net assets with donor restrictions	58,000
Financial assets available to meet general expenditures over the next twelve months	$ 2,078,777

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 2021 statement of activities, 60 days of general operating expenses approximates $3,261,283. 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, 2021, the Corporation had 38 days of cash and cash equivalents to meet general operating expenses.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021 consisted of the following:

Resident monthly fees	$ 66,896
Health care	975,497
Subtotal accounts receivable	1,042,393
Less allowance for doubtful accounts	(125,000)
Total accounts receivable, net	$ 917,393

NOTE 4 – ACCOUNTS RECEIVABLE (continued)

Health care accounts receivable, gross by payor mix, consisted of the following at December 31, 2021:

Self pay	32%
Medicare	51%
HMO	17%

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 consisted of the following:

Land	$ 1,039,386
Land improvements	1,313,857
Building	17,538,507
Furniture and equipment	4,908,945
Automobiles	288,453
Total	25,089,148
Less accumulated depreciation	(18,109,278)
	$ 6,979,870

On October 6, 2021, the Corporation sold real property known as 12170 Leafwood Street, Stanton California for a sales price of $885,000. On October 29, 2021, the Corporation sold real property known as 12210 Leafwood Street, Stanton California for a sales price of $926,000.

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 (Arch) 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.

Subsequent to December 31, 2021, effective January 1, 2022, the Corporation entered into an amendment to shareholders agreement and a deed release and variation whereas the Corporation, Alt RE, and Arch entered into a commutation and release agreement which terminates and extinguishes the reinsurance agreement as it relates to the Corporations share of the reinsurance agreement rights and obligations. As a result of the amendment, the Corporation was irrevocably and unconditionally released and discharged from any and all losses, liabilities, obligations, and claims associated to the shareholder agreement in

NOTE 6 – CAPITAL INVESTMENTS (continued)

Historic Captive Insurance Company (Workers Compensation) (continued):

exchange for an unconditionally release of its rights, title and interest in and to the property and affairs attributed to Alt RE. Subsequent to December 31, 2021, on April 14, 2022, the Corporation received $532,359 of its $580,598 liquidating distribution with the remaining portion to be paid shortly thereafter.

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, 2021 the Corporation's estimated capital investment in Alternative RE Holdings Limited; was $580,598 (based upon the liquidated value noted in the previous paragraph). The Corporation recognized $93,545 in unrealized change in value of the capital investment for the year ending December 31, 2021.

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

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.

The Corporations estimated capital investment at December 31, 2021 was $1,372,062 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 $672,596 at December 31, 2021. The Corporation recognized $240,349 in unrealized change in value of the capital investment (increase to the undistributed subscriber savings account) for the year ending December 31, 2021.

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, 2021. In addition to the Corporations cost, the investee held $793,321 in undistributed earnings (subscriber savings account attributed to the Corporation) at December 31, 2021. 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 $90,294 for the year ended December 31, 2021. The future minimum lease payments for these leases are as follows:

Year Ending December 31,		
2022	$	98,292
2023		81,442
2024		57,792
2025		31,992
2026		7,998
	$	277,516

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 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. Effective December 2, 2021, the Corporation entered Amendment #1 to the MLA with the Bank. As part of the amendment, the Corporation was required to provide for additional monthly and quarterly operational reporting.

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

NOTE 8 – DEBT OBLIGATIONS (continued)

prepayment penalties. At December 31, 2021, $1,962,097 was outstanding associated with this obligation. In addition, the amount charged to interest associated with this obligation was $99,106 for the year ending December 31, 2021.

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 was scheduled to be due on November 21, 2021 (maturity date). Effective December 3, 2021, the Corporation entered into a Change in Terms Agreement with the Bank which extended the maturity date of Note B to November 19, 2022. 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, 2021, 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). Effective December 3, 2021, the Corporation entered into a Change in Terms Agreement with the Bank which extended the maturity date of Note C to November 19, 2022. 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, 2021, $365,000 was outstanding associated with this obligation. In addition, the amount charged to interest associated with this obligation was $38,129 for the year ending December 31, 2021.

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 provided 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 (scheduled to mature on November 19, 2029). The note contained no prepayment penalties. On October 29, 2021, in conjunction with the sale of 12210 Leafwood Street, Stanton California (collateral to the loan), the Bank exercised its right to utilize a portion of the proceeds from the sale to settle the total amount outstanding associated with the Note D obligation. On October 29, 2021, $422,385 was paid to settle amounts owed associated with Note D. No amounts were outstanding at December 31, 2021. Interest charged associated with this historic obligation was $8,812 for the year ending December 31, 2021.

NOTE 8 – DEBT OBLIGATIONS (continued)

Maturities of long-term debt are shown as follows:

Year Ending December 31,	
2022	67,047
2023	70,873
2024	74,916
2025	79,186
2026	83,697
Thereafter	1,570,878
Total	$ 1,946,597

NOTE 9 – 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, 2021, the Corporation received $798,000 in contributions 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, 2021, the Corporation paid $190,608 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 $62,920 to this Board Member.

NOTE 10 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

Approximately 37% of health center revenue for the year ended December 31, 2021, 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 11 – 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 $109,767 for the year ended December 31, 2021.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Net assets with specific purpose donor restrictions were available for the following purposes at December 31, 2021:

Chapel maintenance		
Activities fund		1,367
Faith fund		40,106
Van fund		5,302
General chapel		11,225
Net assets with donor restrictions	$	58,000

NOTE 13 – 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 14 – EMPLOYEE RETENTION CREDIT

The Employee Retention Credit (ERC) was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020. It was intended to help organizations retain their workforces and avoid layoffs during the coronavirus pandemic. It provides a per employee credit to eligible business based on a percentage of qualified wages and health insurance benefits paid to employees. It works as a refundable payroll tax credit claimed quarterly, and it can provide reductions to payroll taxes or cash refunds. Two tests for eligibility exists; a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a “significant” decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared to the same quarters in 2019. The CARES Act did not allow businesses that received Paycheck Protection Program (PPP) loans (which the Corporation received in 2020) to also claim the ER, but the Consolidated Appropriations Act, 2021, which was enacted at the end of 2020, retroactively removed the limitation so entities that had applied for or received PPP loans could still get the ERC.

During 2021, the Corporation applied for the ERC for both 2020 and 2021. It is the Corporation’s policy to account for the recovery of amounts previously paid in 2020 and expensed as a loss recovery. As such,

NOTE 14 – EMPLOYEE RETENTION CREDIT (continued)

the loss recovery is only recognized when the claim is probable. It is the Corporations policy to account for amounts claimed during 2021 as a conditional grant that has; 1) barriers that must be overcome (eligibility requirements, qualified wages, and constructive receipt) and 2) a right of return if conditions were not met (if determined to be ineligible by governing agency).

On November 18, 2021, the Corporation applied for a $653,261 credit associated with 2020 activity utilizing the IRS Form 941-X (loss recovery). As of December 31, 2021, the Corporation had not received the credit from the Federal Government. As a result, the Corporation did not recognize the associated credit during the year ended December 31, 2021 as the constructive receipt of such credit and the approval from the Federal Government are material factors when considering the probability for recognition. Subsequent to December 31, 2021, on April 29, 2022, the Corporation received $398,584 associated with the 2nd and 4th quarter amended 2020 filings (of which included accrued interest). The 3rd quarter $271,481 ERC is still pending approval from the Federal Government.

On November 18, 2021, the Corporation applied for a $3,151,989 credit associated with 2021 activity (conditional grant). As of December 31, 2021, the Corporation had not received the credit from the Federal Government. As a result, the Corporation did not recognize the associated credit during the year ended December 31, 2021 as the constructive receipt of such credit and approval from the Federal Government are material factors when considering the conditions for recognition.

NOTE 15 – GOING CONCERN

Principal conditions that raise 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. The recurring operating losses have had an impact on the Corporations liquidity ratios and operating liquidity. 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 (oversight agency) negatively impacted the Corporations ability to operate in a normalized fashion. As a result, several key forecasted financial benchmarks were not obtained during 2020 or 2021.
2) The state and local government shutdowns and associated healthcare related restrictions (COVID-19 related) negatively impacted the Corporations operating liquidity. In addition, DSS requested the Corporation to stop offering and selling Type A and Type B entrance fee contracts (in addition to escrowing certain entrance fee sales that occurred since March 24, 2020). Such restrictions and conditions negatively impact cash and put pressure future earnings.
3) Subsequent to December 31, 2021, DSS has provided formal escalating communications to the Corporation which further highlight key financial and liquidity concerns.

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) and believes the conditions and events to be significant. Management believes the following plans are probable to mitigate the conditions during the evaluation period.

NOTE 15 – GOING CONCERN (continued)

Management continues to focus on available resources which include federal COVID relief grants associated with the Paycheck Protection Program (2020), Provider Relief Funds (2020 and 2021), and the Employee Retention Credit discussed in Note 14 as a means of offsetting the adverse impacts of COVID-19 and DSS imposed restrictions. Such grants have and continue to provide for significant operating liquidity and sufficient resources to meet operational needs. In addition, management has evaluated its available asset pool and made the decision to sell two pieces of idle real estate adjoining the main campus during 2021 to provide for additional operating liquidity. As the federal COVID relief grants and the sale of real estate are temporary liquidity measures, management is focused on returning to operating profitability and continues in its discussions with DSS on the importance of being able to market and sell entrance fees as a significant factor to operating a profitable Continuing Care Retirement Community. Notwithstanding DSS's ultimate decision with regard to entrance fees, the Corporation is in the process of developing a contingent operational reorganization plan that excludes Type A and B contracts and includes month-to-month Type C contracts (and associated revised financial forecast). The Corporation will be looking at potential pricing models for month-to-month Type C contracts that could effectively compete with Type B contracts offered in the industry. Additional income sources are also being put in place which include, outpatient therapy, a private pay Geriatric Frailty Syndrome (GFS) program and a hospice house. This contingent operational reorganization effort is considerable and will take time and resources to develop. As a result, management also plans on utilizing the following sources of liquidity to provide a bridge to complete its operational turnaround:

- Subsequent to December 31, 2021, on June 8, 2022, the Corporation refinanced its existing debt obligations with Bank of Southern California, N.A. As part of the refinancing, the Corporation was advanced an additional $500,000 in operating liquidity to support operations. In addition, as part of the refinancing, four separate tax lots/homes (12281 Dale St., 12271 Dale St., 12251 Dale St., and 12241 Dale St.) no longer serve as collateral to any obligation and such lots/homes do not play a material role in the Corporations operations (mostly administrative). Pending operating results and pending cash receipts associated with the Employee Retention Credit, management is prepared to market and sell such property. such lots/homes are estimated to have a net value (after considering selling costs) of over $3,000,000 which is consistent with recent sales made by the Organization.
- Subsequent to December 31, 2021, on April 14, 2022, the Corporation received $532,359 of its $580,598 liquidating distribution associated with Alt. RE (see Note 6) with the remaining portion to be paid shortly thereafter.
- Subsequent to December 31, 2021, on April 29, 2022, the Corporation received $398,584 associated with the 2nd and 4th quarter amended 2020 filings (Employee Retention Credit). The 3rd quarter $271,481 ERC is still pending approval from the Federal Government. Upon receipt, the Corporation was required to pay a 20% fee to a third-party consulting firm that assisted with the ERC.
- The Corporation anticipates receiving an additional $3,423,470 ERC associated with amended 2020 and 2021 payroll tax fillings. Of the net proceeds received associated with the pending ERC, the Corporation is contractually bound to pay a 20% consulting fee to a third-party consultant.

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, 2021 up through June 8, 2022, the date the financial statements were available to be issued.

Subsequent Event 1 –

Subsequent to December 31, 2021, effective January 1, 2022, the Corporation entered into an amendment to shareholders agreement and a deed release and variation whereas the Corporation, Alt RE, and Arch entered into a commutation and release agreement which terminates and extinguishes the reinsurance agreement as it relates to the Corporations share of the reinsurance agreement rights and obligations. As a result of the amendment, the Corporation was irrevocably and unconditionally released and discharged from any and all losses, liabilities, obligations, and claims associated to the shareholder agreement in exchange for an unconditionally release of its rights, title and interest in and to the property and affairs attributed to Alt RE. Subsequent to December 31, 2021, on April 14, 2022, the Corporation received $532,359 of its $580,598 liquidating distribution with the remaining portion to be paid shortly thereafter.

Subsequent Event 2 –

Subsequent to December 31, 2021, on April 29, 2022, the Corporation received $398,584 associated with the 2nd and 4th quarter amended 2020 filings (Employee Retention Credit). Upon receipt, the Corporation was required to pay a 20% fee to a third-party consulting firm that assisted with the ERC.

Subsequent Event 3 –

Subsequent to December 31, 2021, On June 8, 2022, the Corporation entered into a Business Loan Agreement (BLA), Deed of Trust, Assignment of All Rents, Commercial Security Agreement, Assignment of Deposit Account, and Promissory Notes with the Bank of Southern California, N.A. The Corporation entered into the agreements for the purpose of refinancing its commitments with Farmers & Merchants Bank.

Promissory Note 1 – In conjunction with the BLA, the Bank agreed to make one advance of $2,800,000. Of the $2,800,000 advance, approximately $1,945,000 was utilized to payoff Farmers & Merchants Bank Note A, $500,000 was provided as cash operating liquidity, $300,000 was utilized to fund a Collateral Reserve Account (restricted account), while the balance was utilized to cover cost of issuance. The note provides for 59 monthly payments of principal and interest of $16,486 (commencing on July 5, 2022) and a final balloon payment of $2,499,173 on June 5, 2027 (maturity date). The note is based upon a fixed rate of interest of 5.00% per annum. The note contains certain prepayment fees that decline as the note approaches maturity (maximum prepayment fee is 5% of the outstanding principal in year one of the note).

NOTE 16 – SUBSEQUENT EVENTS (continued)

Subsequent Event 3 (continued) –

Promissory Note 2 – In conjunction with the BLA, the Bank agreed to provide up to $500,000 as an operating line of credit. An initial advance of $419,783 was utilized to payoff Farmers & Merchants Bank Note C. The note provides for one payment of outstanding principal plus all accrued unpaid interest on June 6, 2027 (maturity date). In addition, monthly payments of all accrued unpaid interest are due based upon the principal balance outstanding commencing on July 5, 2022. Interest on the note is subject to change from time to time and is based upon the Wall Street Journal Prime Rate plus 1% (with a floor of 4.25%).

Promissory Note 3 – In conjunction with the BLA, the Bank agreed to provide up to $1,100,000 as a standby line of credit. There was no initial advance associated with the standby line of credit. The note provides for one payment of outstanding principal plus all accrued unpaid interest on June 6, 2027 (maturity date). In addition, monthly payments of all accrued unpaid interest are due based upon the principal balance outstanding commencing on July 5, 2022. Interest on the note is subject to change from time to time and is based upon the Wall Street Journal Prime Rate plus 1% (with a floor of 4.25%). In addition, an annual fee of $5,000 will be charged associated with this standby line of credit.

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. In addition, the Corporation provided additional collateral described as a $300,000 collateral reserve account, assignment of leases and rents, inventory, chattel paper, accounts, equipment and general intangibles. The collateral reserve account is to remain a requirement of the loan until which time the Corporation annual year end debt service coverage ratio is 1.25 or greater. 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.

Subsequent Event 4 –

Subsequent to December 31, 2021, DSS has provided formal escalating communications to the Corporation which further highlight key financial and liquidity concerns. Management continues to work with DSS to enact its turnaround effort.