# CALIFORNIA FRIENDS HOMES
## dba ROWNTREE GARDENS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022
WITH
INDEPENDENT AUDITOR'S REPORT

Certified Public Accountants, LLP
audit | tax | advisory | valuation | wealth

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## dba ROWNTREE GARDENS

## December 31, 2022


# INDEPENDENT AUDITORS REPORT

kdp Certified Public Accountants, LLP
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**INDEPENDENT AUDITOR'S REPORT**

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

***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, 2022, 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, 2022, 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.

***Emphasis of Matter***

As discussed in Note 15 to the financial statements, the Organization has 1) experienced recurring annual losses from operations (excluding federal relief grants), and 2) is currently operating under a suspended certificate of 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
April 28, 2023


# FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS

# CALIFORNIA FRIENDS HOMES
# STATEMENT OF FINANCIAL POSITION
# DECEMBER 31, 2022

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 346,458 |
| Restricted collateral reserve account | | 300,000 |
| Assets held on behalf of residents | | 30,365 |
| Accounts receivable, net | | 1,109,464 |
| Employee retention credit receivable | | 3,425,233 |
| Prepaids | | 207,442 |
| Supplies inventory | | 234,705 |
| Total current assets | | 5,653,667 |
| Other assets: | | |
| Property and equipment, net | | 6,851,291 |
| Operating lease right of use asset, net | | 129,062 |
| Capital investments | | 1,832,985 |
| Assets limited as to use | | 346,840 |
| Total other assets | | 9,160,178 |
| Total assets | $ | 14,813,845 |
| **Liabilities and Net Assets:** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ | 828,303 |
| Accrued payroll | | 660,552 |
| Accrued advisory fee employee retention credit (ERC) | | 684,694 |
| Compensated absences | | 727,927 |
| Assets held on behalf of residents | | 30,365 |
| Deferred revenue | | 95,525 |
| Line of credit | | 1,062,169 |
| Current portion of leases payable | | 58,893 |
| Current portion of debt obligations, net of debt issuance costs | | 53,095 |
| Total current liabilities | | 4,201,523 |
| Leases payable, net of current portion | | 70,169 |
| Long-term debt, net of current portion and debt issuance costs | | 2,686,836 |
| Deferred revenue from entrance fees | | 1,526,690 |
| Total liabilities | | 8,485,218 |
| Net assets: | | |
| Without donor restrictions | | 6,230,125 |
| With donor restrictions | | 98,502 |
| Total net assets | | 6,328,627 |
| Total liabilities and net assets | $ | 14,813,845 |

See notes to financial statements

# CALIFORNIA FRIENDS HOMES
# STATEMENT OF ACTIVITIES
# YEAR ENDED DECEMBER 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenues:** | | | |
| Resident service fees | $ 11,242,739 | $ - | $ 11,242,739 |
| Health center revenue | 7,108,550 | - | 7,108,550 |
| Federal stimulus and relief grants | 3,858,853 | - | 3,858,853 |
| Entrance fees earned | 1,187,777 | - | 1,187,777 |
| Contributions | - | 40,502 | 40,502 |
| Other | 341,456 | - | 341,456 |
| | 23,739,375 | 40,502 | 23,779,877 |
| Net assets released from restriction | - | - | - |
| Total revenue and support | 23,739,375 | 40,502 | 23,779,877 |
| **Expenses:** | | | |
| Program services: | | | |
| Dietary services | 4,276,386 | - | 4,276,386 |
| Facility services and utilities | 3,467,437 | - | 3,467,437 |
| Health and social services | 10,592,233 | - | 10,592,233 |
| General and administrative: | | | |
| Administrative and marketing | 3,865,723 | - | 3,865,723 |
| Advisory fee ERC | 764,411 | - | 764,411 |
| Total expenses | 22,966,190 | - | 22,966,190 |
| Operating income (loss) | 773,185 | 40,502 | 813,687 |
| **Other Gains/(Loss):** | | | |
| Unrealized change in value of capital investments | 156,409 | - | 156,409 |
| Loss on loan extinguishment | (15,500) | - | (15,500) |
| Related party contribution | 78,020 | - | 78,020 |
| Total other income/(loss) | 218,929 | - | 218,929 |
| Change in net assets (loss) | 992,114 | 40,502 | 1,032,616 |
| Net assets, beginning of year | 5,238,011 | 58,000 | 5,296,011 |
| Net assets, end of year | $ 6,230,125 | $ 98,502 | $ 6,328,627 |

# CALIFORNIA FRIENDS HOMES
# STATEMENT OF FUNCTIONAL EXPENSES
# YEAR ENDED DECEMBER 31, 2022

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| **Expense:** | **Dietary Services** | **Facility Services and Utilities** | **Health and Social Services** | **Total Program Services** | **Administrative and Marketing** | **Advisory Fee ERC** | **2022 Total** |
| Employee expenses | $ 2,524,141 | $ 1,364,656 | $ 7,565,546 | $ 11,454,343 | $ 1,833,858 | $ - | $ 13,288,201 |
| Payroll taxes | 167,367 | 96,476 | 494,088 | 757,931 | 122,287 | - | 880,218 |
| Legal fees | - | - | - | - | 115,700 | - | 115,700 |
| Accounting / audit fees | - | - | - | - | 22,656 | - | 22,656 |
| Advertising & promotion | - | - | - | - | 162,044 | - | 162,044 |
| Advisory fee ERC | - | - | - | - | - | 764,411 | 764,411 |
| Office expense | 2,121 | 18,157 | 5,281 | 25,559 | 82,407 | - | 107,966 |
| Information technology | - | - | - | - | 89,371 | - | 89,371 |
| Occupancy expense | - | 1,128,713 | 65,280 | 1,193,993 | - | - | 1,193,993 |
| Travel expense | 1,793 | - | 4,492 | 6,285 | 8,706 | - | 14,991 |
| Interest expense | - | - | - | - | 146,302 | - | 146,302 |
| Depreciation | 161,649 | 131,042 | 396,916 | 689,607 | 127,463 | - | 817,070 |
| Insurance expense | - | - | - | - | 194,219 | - | 194,219 |
| Activities expense | - | - | 68,321 | 68,321 | 45,403 | - | 113,724 |
| Bad debt expense | - | - | - | - | - | - | - |
| Bank service charges | - | - | - | - | 116,863 | - | 116,863 |
| Contract services | 133,448 | 482,366 | 399,808 | 1,015,622 | 678,684 | - | 1,694,306 |
| Education & training | 706 | 4,878 | 11,204 | 16,788 | 27,999 | - | 44,787 |
| Licensing & memberships | - | 4,279 | 82,317 | 86,596 | 80,941 | - | 167,537 |
| Repairs & maintenance | 33,796 | 231,150 | - | 264,946 | 4,487 | - | 269,433 |
| Therapy expense | - | - | 909,207 | 909,207 | - | - | 909,207 |
| Uniforms expense | 3,101 | 5,720 | - | 8,821 | - | - | 8,821 |
| Dietary expense & supplies | 1,225,979 | - | - | 1,225,979 | - | - | 1,225,979 |
| Small equipment and tools | 22,285 | - | 14,617 | 36,902 | 6,333 | - | 43,235 |
| Medical expense & supplies | - | - | 575,156 | 575,156 | - | - | 575,156 |
| Total | $ 4,276,386 | $ 3,467,437 | $ 10,592,233 | $ 18,336,056 | $ 3,865,723 | $ 764,411 | $ 22,966,190 |

# CALIFORNIA FRIENDS HOMES
# STATEMENT OF CASH FLOWS
# YEAR ENDED DECEMBER 31, 2022

| | |
|---|---|
| **Cash Flows from Operating Activities:** | |
| Cash received from customers | $ 18,148,885 |
| Other operating cash grants | 433,620 |
| Other operating receipts | 341,456 |
| Contributions received (including related party) | 118,522 |
| Cash paid to employees and suppliers | (21,272,346) |
| Interest paid | (161,642) |
| Net cash provided (used) by operating activities | (2,391,505) |
| **Cash Flows from Investing Activities:** | |
| Purchases of property and equipment | (683,436) |
| Return of investment - capital investment | 712,643 |
| Net cash provided (used) by investing activities | 29,207 |
| **Cash Flows from Financing Activities:** | |
| Proceeds from long-term debt | 2,823,069 |
| Payments on long-term debt | (1,993,666) |
| Proceeds from line of credit | 2,225,702 |
| Payments on line of credit | (1,528,533) |
| Debt refinancing costs paid | (56,624) |
| Net cash provided (used) by financing activities | 1,469,948 |
| Net increase (decrease) in cash and cash equivalents | (892,350) |
| Cash and cash equivalents, January 1, 2022 | 1,916,013 |
| Cash and cash equivalents, December 31, 2022 | $ 1,023,663 |
| **Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities (Indirect Method):** | |
| Increase (decrease) in net assets | $ 1,032,616 |
| Adjustments to reconcile to net cash provided by operating activities: | |
| Depreciation | 817,070 |
| Entrance fees earned | (1,187,777) |
| Unrealized change in value of capital investment | (156,409) |
| Loss on loan extinguishment | 15,500 |
| Net changes in: | |
| Accounts receivable, net | (192,071) |
| Employee retention credit receivable | (3,425,233) |
| Prepaids | 59,276 |
| Supplies inventory | 24,149 |
| Accounts payable and accrued expenses | (140,380) |
| Accrued advisory fee employee retention credit (ERC) | 684,694 |
| Accrued payroll | 149,101 |
| Deferred revenue | (7,395) |
| Compensated absences | (61,708) |
| Refundable fees | (2,938) |
| Net cash provided (used) by operating activities | $ (2,391,505) |
| **Supplemental Disclosure of Noncash Investing and Financing Activities:** | |
| Recognition of right-of-use asset and lease liability upon adoption of ASC-842 | $ 188,775 |
| **Supplemental Disclosure of Cash and Cash Equivalents Reported on the Statement of Financial Position:** | |
| Unrestricted cash | $ 346,458 |
| Cash restricted under DSS ecrow agreement | 346,840 |
| Cash held on behalf of residents (restricted) | 30,365 |
| Restricted collateral reserve account | 300,000 |
| Total cash and cash equivalents | $ 1,023,663 |

## 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, 2022.

**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, 2022.

**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. On November 9, 2022, the Corporation received a complaint from the California Department of Social Services which formally suspended the ability of the Corporation to enter into continuing care contracts. There is no refund of the entrance fee in the event of death. There were no refunds pending at December 31, 2022.

**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 2022, 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, 2022.

**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 2022.

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, 2022. 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.

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.).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue Recognition (continued) -**

*Health Center Revenue (continued):*

The composition of health center revenue by primary payors for the year ended December 31, 2022 is as follows:

| | |
|---|---|
| Third party payors, net | |
| Medicare | $ 2,757,506 |
| Commercial | 1,430,767 |
| Total third party payors, net | 4,188,273 |
| Self pay, net | 2,920,277 |
| Health center revenue, net | $ 7,108,550 |

**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 $65,040 for the year ended December 31, 2022.

**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, 2022, 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, 2022 of $162,044.

**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, 2022 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.

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, 2022 from residents and third-party payors, is listed at Note 4.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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, 2022 was $346,840.

**Restricted Collateral Reserve Account** - 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. (BofSC). As part of the BLA, the Corporation was required to fund $300,000 to a restricted collateral reserve account (sufficient to cover debt service for approximately one year). The $300,000 is restricted and requires lender approval before disbursements can be made.

## NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Corporation’s financial assets at December 31, 2022:

| | |
|---|---|
| Financial assets at year end: | |
| Cash and cash equivalents | $ 346,458 |
| Receivables, net | 1,109,464 |
| Employee retention credit receivable | 3,425,233 |
| Total financial assets | 4,881,155 |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | 98,502 |
| Financial assets available to meet general expenditures over the next twelve months | $ 4,782,653 |

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 2022 statement of activities, 60 days of general operating expenses approximates $3,640,951. 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, 2022, the Corporation had 79 days of cash and cash equivalents to meet general operating expenses.

## NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2022 consisted of the following:

| | | |
|---|---|---|
| Resident monthly fees | $ | 218,973 |
| Subtotal accounts receivable | | 933,488 |
| FEMA grant receivable | | 57,003 |
| Less allowance for doubtful accounts | | (100,000) |
| Total accounts receivable, net | $ | 1,109,464 |

**NOTE 4 – ACCOUNTS RECEIVABLE (continued)**

Health care accounts receivable, gross by payor mix, consisted of the following at December 31, 2022:

| | |
|---|---|
| Self pay | 5% |
| Medicare | 41% |
| HMO | 54% |

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2022 consisted of the following:

| | |
|---|---|
| Land | $ 1,039,386 |
| Land improvements | 1,313,857 |
| Building | 18,095,519 |
| Furniture and equipment | 5,008,295 |
| Automobiles | 315,527 |
| Total | 25,772,584 |
| Less accumulated depreciation | (18,921,293) |
| | $ 6,851,291 |

**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 was a shareholder with one other unaffiliated retirement communities in Alternative RE Holdings Limited; Cell 16L, a Bermuda holding company (Alt RE). The Corporation had 50% ownership in the captive insurance company. Both shareholders of the captive insurance company elected to transition to different programs in 2015. 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. The Corporation recognized a loss of ($4,641) in unrealized change in value for this capital investment for the year ending December 31, 2022. The net remining investment value of $575,957 was received by the Corporation (liquidating distribution) during the year ending December 31, 2022. No further investments or obligations remain associated with this insurance captive at December 31, 2022.

**NOTE 6 – CAPITAL INVESTMENTS (continued)**

*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, 2022 was $1,396,426 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 $696,960 at December 31, 2022. The Corporation recognized $161,050 in unrealized change in value of the capital investment (increase to the undistributed subscriber savings account) for the year ending December 31, 2022. Additionally, the Corporation received $136,686 as a return of investment during the year ending December 31, 2022.

*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, 2022. In addition to the Corporations cost, the investee held $816,280 in undistributed earnings (subscriber savings account attributed to the Corporation) at December 31, 2022. 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 – LEASES**

On January 1, 2022, the Corporation adopted Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)," and related amendments, which requires most leases to be recognized on the balance sheet. The Corporation adopted the standard using the modified retrospective method and used the effective date as the date of initial adoption. Prior year financial statements were not restated under the new standard and, therefore, those amounts are not presented below.

**NOTE 7 – LEASES (continued)**

The Corporation leases two copiers from an unrelated party. The leases, which expire on November 30, 2023 and March 31, 2026, do not contain an option to renew. Both leases contain an end of agreement purchase option, in which the Corporation may elect a $1 purchase option or a Fair Market Value purchase option. The Corporation has designated the Fair Market Value purchase option, in which the equipment will be either a.) purchased "as is, where is" and "with all faults" at its fair market value or b.) de-installed and returned to lessor within 30 days of the end of the then applicable term.

The Corporation determines whether an agreement contains a lease at inception based on the Corporation's right to obtain substantially all of the economic benefits from the use of the identified asset and its right to direct the use of the identified asset. Lease liabilities represent the present value of future lease payments and the ROU assets represent the Corporation's right to use the underlying assets for the respective lease terms. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term.

As the Corporation's leases do not provide an implicit rate, the Corporation elected to use the risk-free rate commensurate with the lease term as the discount rate to calculate the present value of lease payments. The Corporation elected the short-term lease exemption for all leases that qualify and did not recognize a ROU asset and a lease liability for leases with an initial term of twelve months or less. Additionally, the company did not recognize a ROU asset and lease liability for leases with a calculated net present value of payments below its established threshold. The Corporation's lease agreements do not contain residual value guarantees or significant restrictions or covenants other than those customary in such arrangements. As of December 31, 2022, the Corporation did not have material leases that had been signed but not yet commenced.

The effect of the changes made to the Corporation's balance sheet as of January 1, 2022 for the adoption of the new lease standard was as follows:

| | Balance at December 31, 2021 | Adjustments due to ASC-842 | Balance at January 1, 2022 |
|---|---|---|---|
| **Assets:** | | | |
| Property and equipment, net | $ 6,979,870 | $ - | $ 6,979,870 |
| Operating lease right-of-use assets | - | 188,775 | 188,775 |
| **Liabilities:** | | | |
| Current portion of operating leases | - | 59,713 | 59,713 |
| Operating leases, net of current installments | - | 129,062 | 129,062 |

In accordance with the new lease standard requirements, the disclosure of the impact of adoption on the Corporation's balance sheet was as follows:

| | Balance at December 31, 2022 | Balance Excluding adoption of ASC-842 | Effect of Change |
|---|---|---|---|
| **Assets:** | | | |
| Property and equipment, net | $ 6,851,291 | $ 6,851,291 | $ - |
| Operating lease right-of-use assets | 129,062 | - | 129,062 |
| **Liabilities:** | | | |
| Current portion of operating leases | 58,893 | - | 58,893 |
| Operating leases, net of current installments | 70,169 | - | 70,169 |

**NOTE 7 – LEASES (continued)**

Operating lease costs consist of the following for the year ended December 31, 2022:

| | | |
|---|---|---|
| Operating lease costs | $ | 61,339 |
| Variable lease costs | | 9,541 |
| Total operating lease costs | | 70,880 |

Other information related to leases was as follows as of December 31, 2022:

| | |
|---|---|
| Weighted-average remaining lease term (years) | 3.5 |
| Weighted-average discount rate | 1.04% |

Future minimum lease payments under non-cancelable operating leases were as follows as of December 31, 2022:

| Year Ending December 31, | | |
|---|---|---|
| 2023 | $ | 58,893 |
| 2024 | | 31,992 |
| 2025 | | 31,992 |
| 2026 | | 7,998 |
| Total future minimum lease payments | | 130,875 |
| Less: Interest | | 1,813 |
| Total lease liabilities | $ | 129,062 |
| Current lease liability | $ | 58,893 |
| Long-term lease liability | | 70,169 |
| Total lease liabilities | $ | 129,062 |

**NOTE 8 – DEBT OBLIGATIONS**

**Farmers & Merchants Bank**

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 (F&M). 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 was to 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 F&M 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.

**NOTE 8 – DEBT OBLIGATIONS (continued)**

**Farmers & Merchants Bank (continued)**

This obligation including the Deed of Trust in favor was fully settled and paid as part of the refinancing with the Bank of Southern California, N.A. (BofSC) noted below. Details of the notes refinanced are noted below.

***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 provided 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 months of principal and interest, the Note was scheduled to become variable on December 19, 2024. This obligation was paid in full as part of the refinancing with BofSC noted below.

***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 was considered a line of credit which allowed the Corporation to receive advances upon written request. Payments of interest were due monthly beginning December 19, 2019. After a Change in Terms Agreement with F&M, the maturity date of Note B to was scheduled to be November 19, 2022. Interest was based upon the U.S. Prime Rate plus 1.50% (with a floor of 6.25%). This obligation was paid in full as part of the refinancing with BofSC noted below.

***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 was considered a line of credit which allows the Corporation to receive advances upon written request. Payments of interest were due monthly beginning December 19, 2019. After a Change in Terms Agreement with F&M, the maturity date of Note C was scheduled to be November 19, 2022. Interest was based upon the U.S. Prime Rate plus 1.50% (with a floor of 6.25%). This obligation was paid in full as part of the refinancing with (BofSC) noted below.

***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. Note D no longer exists after the refinancing with BofSC noted below.

**Bank of Southern California, N.A**

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. (BofSC). 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, BofSC 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 8 – DEBT OBLIGATIONS (continued)**

**Bank of Southern California, N.A (continued)**

Promissory Note 2 – In conjunction with the BLA, BofSC 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%). The Wall Street Prime Rate was 7.50% at December 31, 2022.

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%). The Wall Street Prime Rate was 7.50% at December 31, 2022. 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.

Maturities of long-term debt are shown as follows:

| Year Ending December 31, | Loan | Debt Issuance Cost |
|---|---|---|
| 2023 | $ 65,046 | $ (11,951) |
| 2024 | 68,324 | (11,682) |
| 2025 | 71,768 | (11,399) |
| 2026 | 75,386 | (11,102) |
| 2027 | 2,510,976 | (5,435) |
| Total | $ 2,791,500 | $ (51,569) |

## NOTE 9 – RELATED PARTY TRANSACTIONS

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, 2022, 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, 2022, the Corporation paid $68,640 to this Board Member.

## NOTE 10 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

Approximately 59% of health center revenue for the year ended December 31, 2022, 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 $114,417 for the year ended December 31, 2022.

## NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Net assets with specific purpose donor restrictions were available for the following purposes at December 31, 2022:

| | | |
|---|---|---|
| Chapel maintenance | $ | 41,057 |
| Activities fund | | 6,114 |
| Faith fund | | 40,106 |
| General chapel | | 11,225 |
| Net assets with donor restrictions | $ | 98,502 |

## 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.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

**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 ERC, 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, 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 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 $655,050 credit associated with 2020 activity utilizing the IRS Form 941-X (loss recovery). On April 29, 2022, the Corporation received $381,806 associated with the 2*nd* and 4*th* quarter amended 2020 filings and $16,779 of interest income associated with the amended filing. Subsequent to December 31, 2022, on April 24, 2023, the Corporation was notified by the U.S. Department of Treasury that it will receive $273,244 associated with the 3rd quarter amended 2020 filing and $28,791 of interest income associated with the amended filing within three weeks of the notice. As a result, the Corporation recognized $655,050 in federal stimulus grant income for the year ended December 31, 2022 as the barriers were removed upon receipt and notice of award by the governing agency. The Corporation recognized $16,779 of interest income associated with the grant in 2022 per the governing agency direction (i.e. received in 2022). The $28,791 of interest income associated to the 2023 receipt will be recognized in 2023 per the governing agency’s direction.

On November 18, 2021, the Corporation applied for a $3,151,989 credit associated with 2021 activity (conditional grant). On April 24, 2023, the Corporation was notified by the U.S. Department of Treasury that it will receive $3,151,989 associated with the 2021 activity and $267,355 of interested associated with the amended filing within three weeks of the notice. The Corporation treated the notice as a conditional contribution and recognized $3,151,989 in federal stimulus grant income for the year ended December 31, 2022 (subsequent event qualified for recognition in 2022). The $267,355 of interest income associated the 2023 receipt will be recognized in 2023 per the governing agency’s direction.

**NOTE 15 – GOING CONCERN**

*Principal Conditions that raise doubt about the Corporation's ability to continue as a Going Concern:*

1. The Corporation has had recurring annual cash operating losses (excluding federal relief grants). These losses had an impact on the Corporation's operating liquidity. The operating liquidity issues were caused by a combination of marketing shortfalls, and overemployment.
2. DSS requested the Corporation to cease offering Type A and Type B entrance fee contracts, since Spring of 2021. Additionally, DSS had requested the Corporation to escrow certain Entrance Fee sales for a year prior to the cessation request. These restrictions further impacted cash and earning negatively.
3. On November 9, 2022, DSS's request to cease offering Entrance Fee contracts became an order, as the Corporation's Certificate of Authority to enter into new Continuing Care contracts was suspended.

*Management actions and plans that were intended to mitigate the conditions or events that raise substantial doubt about the Corporation's ability to continue as a Going Concern:*

- In the 2018 – 2021 timeframe, Management acted to address the issues which were causing operating liquidity stress. Marketing shortfalls were addressed with a complete restructuring of the department in early 2019. From June of 2019 to March of 2020, the marketing restructuring provided significant momentum on the sales side leading toward a more neutral operational liquidity performance. The Corporation was then impacted negatively from the COVID-19 shutdowns (as with all providers). After COVID shutdowns finally ended, the new marketing team delivered strong results building census levels from pandemic lows. Overemployment was also addressed in 2019/2020. This was accomplished with a combination of layoffs and natural attrition. Management is presently negotiating with DSS (legal process) to release restrictions on providing Entrance Fee contracts, which represent over 50% of the senior market contracts in the U.S. These negotiations, if successful, will produce positive results in the second half of 2023 and beyond.
- Additionally, Management possesses more assets at its disposal to address operating liquidity, even while entrance fee sales are suspended. Federal Government grants will be paid out in early 2023, amounting to over $3 million in net funding (after paying associated advisory fees) for the Corporation. These grants are in the form of the ERC and FEMA COVID grants. Both sources of grants are being funded completely before the end of May 2023. Also, while Management is normally reticent to increase debt levels, the Corporation possesses real estate that has a recent appraised valuation of over $46 million in real property assets (2022 appraisal). The appraised value less the Corporations debt balance insignificant debt balance provide for significant leverage opportunities.

Between the significant cash infusion associated with the ERC and the valuation of the Corporation's real estate, management believes it has more than enough liquidity to reposition operations and to continue as a going concern for the next year.

## 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, 2022 up through April 28, 2023, the date the financial statements were available to be issued.

***Subsequent Event 1 –***

Subsequent to December 31, 2022, On March 21, 2023, the Corporation entered into a Loan and Security Agreement, Secured Note, Deed of Trust, and Limited Guaranty with BridgeCore Lending, Inc. The Corporation entered into the agreements for the purpose of providing additional operating liquidity while waiting on receipt of the ERC.

In conjunction with the Loan and Security Agreement, BridgeCore Lending, Inc. agreed to make one advance of $1,200,000. The note provides for 12 $10,500 monthly payments of interest and a final balloon payment on April 1, 2024 (maturity date). The note contains one option to extend the loan for 6 months (1% extension fee). The note is based upon a fixed rate of interest of 10.5% per annum. The note contains certain prepayment fees if the note is paid prior to 4 months outstanding.

The loan is secured by four separate tax lots/homes (12281 Dale St., 12271 Dale St., 12251 Dale St., and 12241 Dale St.). These are ancillary properties owned by the Corporation utilized for administrative activities.

***Subsequent Event 2 –***

Subsequent to December 31, 2022, on April 24, 2023, the Corporation was notified by the U.S. Department of Treasury that it will receive $3,425,233 in federal stimulus grant income and $296,146 of interest income associated with the ERC within three weeks of the notice (see Note 14). Upon receipt, the Corporation is required to pay a 20% fee to a third-party consulting firm that assisted the Corporation with the ERC.