Viamonte Senior Living 1, Inc.

Financial Statements

December 31, 2018 and 2017

Viamonte Senior Living 1, Inc.
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December 31, 2018 and 2017

Report of Independent Auditors

To the Board of Directors of
Sequoia Living, Inc.

We have audited the accompanying financial statements of Viamonte Senior Living 1 ("VSL"), which comprise the balance sheets as of December 31, 2018 and December 31, 2017, and the related statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Viamonte Senior Living 1, Inc. as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 2 to the financial statements, VSL has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2018. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

San Francisco, California
May 30, 2019

Viamonte Senior Living 1, Inc.
Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 57,503	$ 38,402
Receivable from related party	-	11,211,075
Accounts, notes and interest receivable	614,346	-
Limited use assets, current	88,548,657	-
Total current assets	89,220,506	11,249,477
Facilities, net of accumulated depreciation	49,508,435	10,354,791
	49,508,435	10,354,791
Other assets:		
Investments designated for refundable deposits	15,113,385	9,989,273
Limited use assets, noncurrent	72,035,324	-
Deferred cost	1,622,666	1,175,906
	88,771,375	11,165,179
Total assets	$ 227,500,316	$ 32,769,447
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 4,698,020	$ -
Refundable deposits	15,112,800	9,954,138
Accrued interest payable	3,097,563	34,549
Due to related party	758,305	-
Total current liabilities	23,666,688	9,988,687
Other liabilities:		
Long term debt	182,996,333	-
Total liabilities	206,663,021	9,988,687
Net assets:		
Net assets without donor restrictions	(4,362,705)	(146,457)
Contributed net assets	25,200,000	22,927,217
Total net assets without donor restrictions	20,837,295	22,780,760
Net assets with donor restrictions	-	-
Total net assets	20,837,295	22,780,760
Total liabilities and net assets	$ 227,500,316	$ 32,769,447

The accompanying notes are an integral part of these financial statements.

Viamonte Senior Living 1, Inc.
Statements of Operations and Changes in Net Assets
Year Ended December 31, 2018 and 2017

	2018	2017
Net Assets without donor restrictions		
Operating revenues, income and gains, net:		
Investment income including realized gains and losses on investments	$ 2,058,955	$ 426
Total operating revenues, income and gains, net	2,058,955	426
Expenses:		
Program Expenses		
Interest Expense	4,985,501	-
Other program services	712,336	185,473
	5,697,837	185,473
Program support expense		
Administration	650,000	-
Total expenses	6,347,837	185,473
Excess (deficit) of operating revenues, income and gains, net, over expenses	(4,288,882)	(185,047)
Other changes:		
Unrealized gains on investments	50,379	-
Other	22,255	38,430
Change in net assets without donor restriction before transfer	(4,216,248)	(146,617)
Transfer of net assets	2,272,783	22,927,217
Change in net assets without donor restrictions	(1,943,465)	22,780,600
Net assets, beginning of year	22,780,760	160
Net assets, end of year	$ 20,837,295	$ 22,780,760

The accompanying notes are an integral part of these financial statements.

Viamonte Senior Living 1, Inc.
Statements of Cash Flows
December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from investment income	$ 1,494,987	$ 426
Cash paid to suppliers	(1,809,098)	(184,245)
Cash used for deferred cost	-	(413,273)
Interest paid	(636,719)	
Cash received from application processing fees	22,258	37,201
Cash used in operating activities	(928,572)	(559,891)
Cash flows from investing activities		
Cash paid for pending land transfer	-	(11,211,075)
Purchase of investments funds from bond proceeds	(181,742,894)	-
Purchase of investments funds held for deposits	(7,692,407)	(11,722,811)
Sale of investments	21,158,913	-
Sale of investments held for refundable deposits	2,568,295	1,986,698
Cash used for purchase of property, equipment	(23,244,549)	(4,186,972)
Cash used in investing activities	(188,952,642)	(25,134,160)
Cash flows from financing activities		
Issuance of debt	191,365,162	-
Payment of debt issuance cost	(9,620,047)	-
Refunds of entrance fees paid	(2,568,295)	(1,986,698)
Proceeds from refundable deposits	7,482,920	11,682,962
Proceeds from related party	758,305	-
Proceeds from limited partner equity	2,272,783	15,996,766
Investment income from investments for refundable deposits	209,487	39,423
Cash provided by financing activities	189,900,315	25,732,453
Net increase in cash and cash equivalents	19,101	38,402
Beginning of year	38,402	-
End of year	$ 57,503	$ 38,402
Non cash transactions		
Transferred property and equipment	-	$ (6,167,819)
Transferred deferred cost	-	(762,633)
Change in fixed asset additions included in accounts payable	4,698,020	-
	$ 4,698,020	$ (6,930,452)

The accompanying notes are an integral part of these financial statements.

1. Corporate Purpose and Structure

Corporate Purpose

Viamonte Senior Living 1 ("VSL") was formed in 2016 to develop and operate a Continuing Care Retirement Community in Walnut Creek, California which will provide housing and services to older persons.

Corporate Structure

VSL is a nonprofit corporation principally organized to provide facilities and other means of care for elderly persons. VSL was formed by Sequoia Living, Inc. ("Sequoia Living"), formerly known as Northern California Presbyterian Homes and Services, Inc. which is the sole corporate member of VSL.

VSL is governed by a Board of Directors consisting of 4 to 6 members. Directors are appointed by Sequoia Living and at least 4 Directors must also be members of the Sequoia Living Board. Sequoia Living provides development and management services to VSL. Sequoia Living contributed $25.2 million in predevelopment costs to VSL. These contributed predevelopment costs are disclosed as 'Contributed net assets' on the Balance Sheet and as 'Transfer of net assets' on the Statement of Operations in 2017 and 2018. In 2017, Sequoia Living contributed $22.9 million in predevelopment costs to VSL consisting of $6.17 million of property and equipment, $.76 million of deferred cost, and $16 million of cash. In 2018, the remaining cash contribution of $2.27 million was made. In addition to management fees, Sequoia Living may receive incentive payments if VSL's financial performance exceeds agreed upon net operating margin targets.

The new facility (Viamonte) will consist of 174 independent living units, 6 assisted living units and 10 memory care units. The facility is being constructed to allow the delivery of assisted living services to independent living units.

The projected cost of the project is budgeted at $220 million and is expected to be completed in July 2020. VSL issued tax exempt revenue bonds insured by Cal Mortgage in the amount of $191.4 million including bond premium to cover construction, funded interest and reserve requirements. The permanent financing closed on May 24, 2018 with revenue bonds insured by the State of California, through its Cal Mortgage Loan Program (see Note 6). The bonds are designated as (a) "California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018A (VSL Project)" for $45.23 million; (b) "California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-1 (VSL Project – Entrance Fee Redemption)" for $80 million; (c) "California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-2" for $39 million (VSL Project – Entrance Fee Redemption)"; (d) "California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-3 (VSL Project – Entrance Fee Redemption)" for $23 million. The Series 2018B-1, Series 2018B-2, and Series 2018B-3 bonds will mature on July 1, 2025, 2026 and 2027, respectively. The corporation anticipates redeeming the Series 2018B-1, Series 2018B-2, Series B-3 bonds (which are subject to optional redemption on or after January 1, 2021) in full from initial entrance fees by October 1, 2021, October 1, 2022 and July 1, 2023, respectively. The actual timing of the extraordinary redemption of the Series 2018B bonds, may differ from the assumed timing because of timing differences in the receipt of initial entrance fees.

2. Summary of Significant Accounting Policies

Recent Pronouncements
The Financial Accounting Standards Board ("FASB") Codification ("ASC") is the sole source of authoritative non-governmental U.S. generally accepted accounting principles.

On January 1, 2018, VSL adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and its related amendments using the modified retrospective transition method, which did not require the restatement of prior periods. The adoption did not result in a material change in the organization's accounting or have a material effect on the organization's financial position since the facility for operation is under construction.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, an update to the ASC regarding presentation of financial statements of not-for-profit organizations. This guidance is effective for fiscal years beginning after December 15, 2017. The existing three category classification of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) will be replaced. Temporarily restricted and permanently restricted is classified into a single category called "net assets with donor restrictions." The standard requires VSL to reclassify its net assets thus into two categories: net assets without donor imposed restrictions and net assets with donor imposed restrictions. This guidance also removed the requirement to disclose the reconciliation to the indirect method in the statement of cash flows for entities that present the direct method in the statement of cash flows and requires additional disclosures regarding the classification of expenses and the liquidity and availability of funds. VSL has adopted ASU 2016-14 and the changes in classification within the statement of cash flows were applied retrospectively to all periods presented.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The guidance is effective for not-for-profit entities for annual periods beginning after December 15, 2018. VSL has evaluated the standard and has concluded that this standard will not have on its financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash. The guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for not-for-profit entities for annual periods beginning after December 15, 2018. VSL is evaluating the impact this standard may have on its financial statements and disclosures.

Basis of Presentation
VSL's financial statements are prepared on the accrual basis of accounting and are presented in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Under these principles, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of VSL and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions
Net assets that are not subject to donor-imposed restrictions are classified as net assets without donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or otherwise limited by contractual arrangements with outside parties. Net assets without donor restrictions also include net assets contributed by Sequoia Living. There are no Board designated net assets without donor restrictions.

Net Assets with Donor Restrictions
Net assets that are subject to donor-imposed restrictions are classified as net assets with donor restrictions. Net assets with donor restrictions include permanent endowment funds and net assets

with donor restrictions that can be fulfilled either by actions of VSL pursuant to those restrictions and/or that expire by the passage of time. Net assets with donor restrictions consist of charitable remainder trusts, other life income funds, and permanent endowment funds.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled, and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. VSL did not have any net assets with donor restrictions in 2017 or 2018.

Cash and Cash Equivalents
Cash equivalents, which consist of deposits and money market funds, include money market funds purchased with a maturity, at purchase date, of three months or less, with the exception of cash and cash equivalents held as investments or whose use is limited or designated.

Deferred Cost
Deferred cost represents unamortized direct sales and promotional costs incurred to obtain a contract with initial residents. These deferred direct sales and promotional costs are expected to be recovered from future contract revenues and will be amortized using a straight-line method over the estimated lives of the initial residents when the units are placed in service.

Property and Equipment
Property and equipment are recorded at cost. Property and equipment consist of $38,297,360 in construction in progress. Depreciation on these amounts will commence at the time the related assets are placed into service.

Limited Use Assets
Limited use assets include bond proceeds held for capital projects and debt service reserve funds held with a trustee in accordance with indenture requirements. The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects. For Limited use assets, net carrying value approximates fair value at period end.

Investments Designated for Refundable Deposits
Investments designated for refundable deposits are subject to repayment based on executed continuing care contract or deposit agreement. These funds are held in cash and cash equivalents.

For Investments designated for refundable deposits, net carrying value approximates fair value at period end.

Continuing Care Contracts
VSL plans to enter into continuing care contracts with residents of Viamonte. Under the provisions of these contracts, residents will be asked to pay an entrance fee and periodic monthly fees for services and use of facilities. The resident fees will be subject to adjustment for changes in operating costs or other economic reasons. Resident fees will also be increased for residents who move to a higher level of care.

Two types of resident contracts will be offered to residents, fully amortizable and repayment. Under the fully amortizable contract, entrance fees are one-time payments made by residents of the continuing care facilities that, in addition to monthly care fees, provide for living accommodations and are recorded as deferred revenue when received and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. The period of amortization is adjusted annually. Two versions of the repayment contracts will be offered, one with 50% repayment and the other with 75% repayment. Pricing is expected to range from $110,000 to $1,265,000 in

2020 dollars for residents that reserve prior to construction (“Charter Members”). Since the start of construction the base contract converted to 75% repayable and entrance fees will increase by approximately 5%. While under construction, the refundable deposit of the entrance fee and waitlist deposit are subject to full refundability until the resident moves in. Therefore, for VSL full refundable deposit amount is recorded as an asset and liability.

The resident contract will include a discount upon permanent transfer to Assisted Living (“AL”) or Memory Care (“MC”). This defined healthcare benefit is currently envisioned to consist of a 10% discount off of market rate AL and MC monthly fees.

As of December 31, 2018, $15.1 million in escrow deposits from prospective residents had been received. The deposits are fully refundable.

Revenue Recognition
On January 1, 2018, VSL adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and its related amendments using the modified retrospective transition method, which did not require the restatement of prior periods. The adoption did not result in a material change in the organization’s accounting or have a material effect on the organization’s financial position, including the measurement of revenue, the timing of revenue recognition and the recognition of contract assets, liabilities and related costs.

Investment income including realized gains and losses on investments in the Statement of Operations is accounted for outside the scope of ASC 606. After the Viamonte facility is operational, Revenue from contracts with customers will be presented in “Total operating revenues, income, and gains, net” on the Statement of Operations along with some activity that is accounted for outside the scope of ASC 606.

Investment Income
Investment income includes interest and dividend income earned on investments, net realized gains and losses on sales of investments.

Performance Indicator
The performance indicator reported in the statement of operations is captioned "Excess (deficit) of operating revenues, income, and gains, net, over expenses.” The items excluded from the performance indicator are unrealized gains and losses from investments and transfer of net assets.

3. Investments Designated for Refundable Deposits
The composition of investment securities is set forth in the following table. The investments are held in a single institution:

	2018	**2017**
Cash and cash equivalents	$ 15,113,385	$ 9,989,273
Total Cash and cash equivalents	$ 15,113,385	$ 9,989,273

4. Facilities

Facilities at December 31, 2018 and 2017 consist of the following:

	2018	2017
Land	$ 11,211,075	$ -
Construction in progress	38,297,360	10,354,791
	$ 49,508,435	$ 10,354,791

Property and equipment are recorded at cost. Property and equipment consist of $38,297,360 in construction in progress. Depreciation on these amounts will commence at the time the related assets are placed into service.

5. Limited Use Assets

Limited use assets at December 31 are held for the development and construction of the facility. The composition of limited use assets at December 31, 2018 consisted solely of cash and cash equivalents.

	2018
California Health Facilities Financing Authority	
Revenue Bond Series 2018	
Project fund	$ 140,823,194
Principal and interest fund	13,961,865
Debt service reserve fund	5,798,922
	160,583,981
Less: Current portion	(88,548,657)
	$ 72,035,324

6. Long Term Debt

Long-term debt comprises the following at December 31:

	2018
California Health Facilities Financing Authority	
Revenue Bond Series 2018, Series Bonds Payable	
Series 2018A interest at 3.5-5% maturing in 2047	$ 45,230,000
Series 2018B-1 interest at 3% maturing in 2025	80,000,000
Series 2018B-2 interest 3% maturing in 2026	39,000,000
Series 2018B-3 interest 3% maturing in 2027	23,000,000
	187,230,000
Unamortized Premium	3,879,052
Unamortized issuance costs	(8,112,719)
Total long-term debt	$ 182,996,333

As of December 31, 2018, all VSL debt is long term. First scheduled principal payments on long-term debt is in 2024.

California Health Facilities Financing Authority requires a project fund for major capital improvements. $140,823,194 remains as of December 31, 2018.

The revenue bonds are insured by the State of California, through its Cal Mortgage Loan Program. The agreement with Cal Mortgage includes a number of covenants including the following for 2018:

- Punctual payment
- Maintenance of records and filing of financial statements
- Payment of taxes
- Maintenance of exempt status
- Continuing disclosure

As of December 31, 2018, VSL was in compliance with all debt covenants.

7. Functional Expense

Viamonte is under construction as described in Note 1. Functional areas have not been formed as of December 31, 2018. Program and support expenses include interest expense as well as marketing and administrative expenses intended to increase and maintain resident applicants while the facility is under construction. Other program services include $712,336 for marketing and sales center expenses and administration of $650,000 for administrative support.

8. Liquidity and Availability of Financial Assets

VSL financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash and cash equivalents	$	57,503
Accounts, notes and interest receivable		614,346
	$	671,849

VSL's liquidity management has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, limited use assets, current of $88.5 million although not broadly used for general expenditures are managed for project expenditures as described in Note 5.

9. Commitments and Contingencies

VSL has entered into a contract with Cahill Construction of approximately $125 million for the development of the Viamonte facility of which $103.5 million have been committed as of December 31, 2018.

10. Related Party Transactions

VSL obtained a parcel of land in Walnut Creek from Senior Services for Northern California ("SSNC") on which the new Viamonte facility is being built.

SSNC borrowed $10 million from a third party in 2015 to purchase the land in Walnut Creek, California on behalf of Sequoia Living. Sequoia Living agreed to reimburse SSNC for any costs incurred by SSNC to acquire and hold the land including interest on the loan.

In 2017, VSL paid SSNC $11.2 million to acquire the land under a purchase and sale agreement with SSNC, Sequoia Living and VSL. Although SSNC received the payment in 2017, title to the land was not transferred to VSL, and settlement of the Receivable from related party did not occur until March 2018.

11. Subsequent Events

VSL has evaluated subsequent events through May 30, 2019, which is the date the financial statements were issued, and has identified the following subsequent event:

On February 6, 2019, amendments to the articles of incorporation of Northern California Presbyterian Homes and Services, Inc. took effect and the sole corporate member's corporation name was changed to Sequoia Living, Inc.