



*Report of Independent Auditors and Consolidated Financial
Statements with Supplementary Information*

Sequoia Living, Inc.

December 31, 2020 and 2019



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Report of Independent Auditors

To the Board of Directors
Sequoia Living, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Sequoia Living, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of Western Park Apartments, L.P., a controlled partnership, which statements reflect total assets of \$27,393,804 and \$26,623,576, respectively, as of December 31, 2020 and 2019, and total revenues of \$5,040,703 and \$3,645,756, respectively, for the years then ended. We also did not audit the financial statements of Town Park Towers, L.P., another controlled partnership, which statements reflect total assets of \$28,612,200 and \$29,229,888, respectively, as of December 31, 2020 and 2019, and total revenues of \$4,300,532 and \$4,240,254, respectively, for the years then ended. We also did not audit the financial statements of Eastern Park Apartments, L.P., another controlled partnership, which statements reflected total assets of \$42,215,429 as of December 31, 2020, and total revenues of \$6,244,550 for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Western Park Apartments, L.P., Town Park Towers, L.P. and Eastern Park Apartments, L.P., is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sequoia Living, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statement information beginning on page 40 is presented for purposes additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLA

San Francisco, California
April 30, 2021

Consolidated Financial Statements

Sequoia Living, Inc.
Consolidated Balance Sheets
December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,761	\$ 19,704
Marketable securities	117,406	98,335
Accounts, notes and interest receivable	4,194	3,186
Pledges receivable, net of allowance, current	519	831
Limited use assets, current	24,217	35,967
Investments designated for refundable deposits, current	6,620	15,587
Prepaid expenses and other assets	2,745	2,582
Total current assets	161,462	176,192
Investments contractually limited for replacement reserves on properties financed by HUD	25,719	25,290
Investments held in trust	15,444	15,817
Investments, other	3,102	3,066
Trust contributions receivable	1,295	1,214
Pledges receivable, noncurrent	177	73
Limited use assets, noncurrent	73,725	76,631
Property and equipment, net	395,549	316,201
Total assets	<u>\$ 676,473</u>	<u>\$ 614,484</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 22,456	\$ 28,474
Payroll and related taxes payable	7,766	6,585
Line of credit - unsecured	2,000	2,000
Current portion of long-term debt, net	1,849	1,759
Accrued interest payable	4,841	4,620
Refundable deposits	7,683	16,649
Entrance fees paid in advance	637	324
Total current liabilities	47,232	60,411
Long-term debt, net, less current portion	332,086	314,023
Liability on refundable contracts	52,191	14,576
Liability for payments to trust beneficiaries	6,688	7,039
Pension liability	20,448	12,907
Unamortized entrance fees	139,427	126,509
Other long-term liabilities	5,146	5,216
Total liabilities	603,218	540,681
NET ASSETS		
Net assets without donor restrictions		
Controlling interest	3,269	5,023
Noncontrolling interest	35,400	36,101
Total net assets without donor restrictions	38,669	41,124
Net assets with donor restrictions	34,586	32,679
Total net assets	73,255	73,803
Total liabilities and net assets	<u>\$ 676,473</u>	<u>\$ 614,484</u>

Sequoia Living, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
OPERATING REVENUES, INCOME, GAINS, AND SUPPORT, NET		
Operating revenues, income and gains, net		
Resident fees	\$ 73,726	\$ 70,097
Amortization of entrance fees	17,984	17,656
Fees for services and other income	16,005	18,313
Investment income, including realized and unrealized gains and losses on investments	14,135	13,719
Administrative service fees	143	141
	121,993	119,926
Support		
Contributions	2,882	330
Net assets released from restrictions	1,357	1,638
	4,239	1,968
Total operating revenues, income, gains, and support, net	126,232	121,894
EXPENSES		
Compensation and benefits	60,944	57,846
Purchased services	7,525	6,503
Medical services	2,764	3,131
Supplies	7,955	7,294
Repairs and maintenance	5,447	5,296
Utilities	5,387	5,320
Professional fees	4,647	5,009
Depreciation	13,864	13,189
Interest	6,878	4,531
Other operating	4,400	3,380
	119,811	111,499
Excess of operating revenues, income, gains and support, net, over expenses	\$ 6,421	\$ 10,395

Sequoia Living, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Excess of operating revenues, income, gains, and support, net, over expenses	\$ 6,421	\$ 10,395
Change in additional minimum pension liability	(8,383)	(983)
Contributed capital	-	5,129
Other	<u>(493)</u>	<u>1,713</u>
Changes in net assets without donor restrictions	<u>(2,455)</u>	<u>16,254</u>
Net assets with donor restrictions:		
Contributions	1,160	2,479
Investment income	1,463	1,168
Change in value of split-interest agreements	(43)	1,076
Unrealized gains from investments	684	2,139
Net assets released from restrictions	<u>(1,357)</u>	<u>(1,638)</u>
Changes in net assets with donor restrictions	<u>1,907</u>	<u>5,224</u>
Change in net assets	(548)	21,478
Net assets:		
Beginning of year	<u>73,803</u>	<u>52,325</u>
End of year	<u>\$ 73,255</u>	<u>\$ 73,803</u>

Sequoia Living, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Amounts in Thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from entrance fees	\$ 32,449	\$ 21,129
Cash received from resident fees	74,015	72,084
Cash received from services and other income	16,171	17,861
Cash received from contributions	4,330	2,177
Investment income	7,289	8,080
Interest paid, net of amount capitalized	(6,006)	(4,528)
Refunds of entrance fees paid	(1,452)	(1,308)
Cash paid to employees and suppliers	(85,998)	(94,167)
Cash contribution to defined benefit plan	(2,800)	(2,200)
	<u>37,998</u>	<u>19,128</u>
Cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	6,880	9,624
Sale of investments	(22)	-
Purchase of investments	(18,429)	(9,474)
Purchase of property and equipment	(107,419)	(79,224)
	<u>(118,990)</u>	<u>(79,074)</u>
Cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt and notes payable	(1,759)	(2,374)
Issuance of debt	17,545	37,659
Proceeds from endowment contributions	3	11
Proceeds from contributions held in trust	123	137
Payments to trust beneficiaries	(978)	(859)
Proceeds from refundable deposits	2,299	3,775
Proceeds from refundable entrance fees	33,737	-
Proceeds from limited partner equity	-	5,129
Refunds of refundable deposits	(6,269)	(3,953)
Refunds of refundable entrance fees	(1,224)	(994)
Investment income from marketable securities held in trust	358	528
	<u>43,835</u>	<u>39,059</u>
Cash provided by financing activities		
Net decrease in cash, cash equivalents and restricted cash	(37,157)	(20,887)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	<u>167,271</u>	<u>188,158</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of year	<u>\$ 130,114</u>	<u>\$ 167,271</u>
Noncash transactions		
Changes in fixed asset additions included in accounts payable	<u>\$ (12,028)</u>	<u>\$ 25,297</u>

Sequoia Living, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands)

NOTE 1 – CORPORATE PURPOSE AND STRUCTURE

Corporate purpose – Sequoia Living, Inc. (“Sequoia Living”), based on its historic mission, provides for the well-being of older persons who are in need of housing, healthcare, food, wellness and other related programs and services through the following communities and programs:

- Three continuing care retirement communities which provide housing, health care, and other services to approximately 1,000 residents. Confidential financial support is also provided to residents who outlive their financial resources.
- Three residential housing communities which receive federal support, provide affordable housing to approximately 600 residents with low and moderate income.
- A portfolio of Community Services programs that promote the health and wellbeing of low-income seniors who live independently and in senior communities.

Corporate structure – Sequoia Living is a nonprofit corporation principally organized to provide facilities and other means of care for elderly persons. Board membership consists only of those elected as Directors and only during their period of service as such Directors. The Board of Directors governs the operations of Sequoia Living.

The consolidated financial statements of Sequoia Living also include the activities and balances of the following affiliates and subsidiaries discussed below.

Sequoia Living presently operates continuing care facilities for the care of elderly persons at three locations: The Sequoias-San Francisco (“Sequoias-SF”), the Sequoias-Portola Valley (“Sequoias-PV”) and the Sequoias-Tamalpais (“TAM”), which was previously known as Tamalpais-Ross Valley Homes. It also operates residential housing facilities for elderly persons at four locations: Western Park Apartments (“WPA”), Eastern Park Apartments (“EPA”), Town Park Towers (“TPT”), and the Woods. All facilities are located in Northern California.

Sequoia Living owns and operates Sequoias-SF and Sequoias-PV. Sequoia Living was affiliated with Tamalpais-Ross Valley Homes in Greenbrae, Marin County, California, and was the sole corporate member of Ross Valley Homes until May 19, 2020, when Ross Valley Homes was merged into Sequoia Living.

Sequoia Living solely owned and operated EPA as a low-to-moderate income rental housing facility in accordance with the provisions of Section 202 of the National Housing Act, until December 19, 2019, at which point, Eastern Park Apartments, L.P. (EPA L.P.) was formed as a limited partnership to acquire, rehabilitate, own, and operate EPA. EPA L.P. is controlled by the partnership general partner, Sequoia Living EPA LLC. Sequoia Living is the sole member of Sequoia Living EPA LLC. During 2020 and 2019, the facility received approximately 78% and 86%, respectively, of its rental revenue from the U.S. Department of Housing and Urban Development (“HUD”).

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

In 2019, EPA began undergoing a significant rehabilitation which is expected to be completed in June 2022. The financing was funded by a construction disbursement loan (see Note 9). EPA L.P. participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. It also continues to operate in accordance with the provisions of Section 202 of the National Housing Act. Various loans, regulatory and other agreements dictate the maximum income levels of new tenants and provide rent and other restrictions through 2076. The limited partner will receive 99.99% of tax credits for 10 years and 99.99% of the taxable operating income (losses) of EPA L.P. for 15 years (which also marks the end of the compliance period). In exchange, the limited partners will be required to provide capital contributions totaling \$51.3 million that will be used to repay a portion of the construction loan, which has a maximum drawdown amount of \$84.8 million. After the compliance period, Sequoia Living will have an option (expiring one year thereafter) to purchase the rehabilitated building, which if exercised, will cause EPA L.P. to cease to exist. The purchase price will be the greater of the outstanding debt and taxes of EPA L.P. or the then fair market value of EPA L.P.

Sequoia Living solely owned and operated WPA and TPT as low-to-moderate income rental housing facilities operated in accordance with the provisions of Section 236 of the National Housing Act. Western Park Apartments, L.P. (WPA L.P.) and Town Park Apartments, L.P. (TPT L.P.) were formed in 2013 and 2015, respectively, as limited partnerships to acquire, rehabilitate, own, and operate WPA and TPT. WPA L.P. and TPT L.P. are controlled by the respective partnerships' general partners, Sequoia Living WPA LLC and Sequoia Living TPT LLC. Sequoia Living is the sole member of Sequoia Living WPA LLC and Sequoia Living TPT LLC.

WPA underwent a significant rehabilitation in 2014. The permanent financing was funded by a Citibank loan (see Note 9). WPA L.P. participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. It also continues to operate in accordance with the provisions of Section 236 of the National Housing Act. Various loans, regulatory and other agreements dictate the maximum income levels of new tenants and provide rent and other restrictions through 2068. The limited partners will receive 99.99% of tax credits for 10 years and 99.99% of the taxable operating income (losses) of WPA L.P. for 15 years (which also marks the end of the compliance period). In exchange, the limited partners were required to provide capital contributions of \$15.1 million that were used to repay a portion of the \$28.8 million construction loan. After the compliance period, Sequoia Living will have an option (expiring 18 months thereafter) to purchase the rehabilitated building, which if exercised, will cause WPA L.P. to cease to exist. The purchase price will be the greater of the outstanding debt and taxes of WPA L.P. or the then fair market value of WPA L.P.

TPT underwent a significant rehabilitation in 2016-2017. The permanent financing was funded by a Citibank loan (see Note 9). TPT L.P. participates in the low-income housing tax credit program under Section 42 of the Internal Revenue Code as modified by the State of California. It is also expected to continue to operate in accordance with the provisions of Sections 236 of the National Housing Act. Various loans, regulatory and other agreements dictate the maximum income levels of new tenants and provide rent and other restrictions through 2070. The limited partner will receive 99.99% of tax credits for 10 years and 99.99% of the taxable operating income (losses) of TPT L.P. for 15 years (which also marks the end of the compliance period). In exchange, the limited partner is required to provide capital contributions of \$23.0 million that will be used to repay a portion of the \$40.0 million construction loan. In 2017, the limited partners made \$23.0 million in capital contributions. After the compliance period, Sequoia Living will have an option (expiring 18 months thereafter) to purchase the rehabilitated building, which if exercised, will cause TPT L.P. to cease to exist. The purchase price will be the greater of the outstanding debt and taxes of TPT L.P. or the then fair market value of TPT L.P.

Sequoia Living, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands)

For financial reporting purposes, the balance sheets, statements of operations, statements of changes in net assets, and statements of cash flows of EPA L.P., WPA L.P. and TPT L.P. are consolidated with Sequoia Living. The limited partner interests in EPA L.P., WPA L.P. and TPT L.P. are reported as noncontrolling interests in the net assets section of the consolidated balance sheets.

Sequoia Living also owns the Woods, a manufactured home park for seniors located on 37 acres near Mendocino, California. The Woods has 109 home sites.

Sequoia Living is the sole corporate member of Senior Services for Northern California (“SSNC”). SSNC is a supporting organization of Sequoia Living. Trustees of SSNC are charged with receiving, disbursing and accounting for all current gifts, deferred gift-investments and bequests of money and property given for the benefit of Sequoia Living, its programs, facilities, managed properties, and community outreach.

Sequoia Living and SSNC are exempt from income and franchise taxes under Sections 501(c)(3) and 23701(d) of the respective federal and state revenue codes.

Sequoia Living formed a for profit company, NCP Senior Ventures, LLC, a California limited liability company (“NSV”), in 2008. Sequoia Living, as its sole member, signed an operating agreement with NSV on the same date. The purpose of NSV is to engage in the business of the acquisition, investment, development, ownership, management, operation and sale of real estate. For financial reporting purposes, NSV’s balance sheets, statements of operations, statements of changes in net assets and statements of cash flows are consolidated with Sequoia Living.

NSV began managing Kokoro Assisted Living, a 54-unit residential housing facility located in San Francisco, California, in 2009. The management fee received for this service is included in fees for services and other income.

Sequoia Living formed Viamonte Senior Living 1 (“VSL”) to develop, construct, own, and operate a continuing care retirement community in Walnut Creek, California on a nonprofit, nondenominational basis. Under a consulting agreement, Sequoia Living provides development and management services to VSL. The land for the project was purchased by VSL in 2017. VSL’s total contributed capital for the continuing care retirement community is \$25.2 million. 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 9). The bonds are designated as (a) “California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018A (VSL Project)” for \$45.2 million; (b) “California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-1 (VSL Project – Entrance Fee Redemption)” for \$80.0 million; (c) “California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-2” for \$39.0 million (VSL Project – Entrance Fee Redemption); and (d) “California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018B-3 (VSL Project – Entrance Fee Redemption)” for \$23.0 million. The Series 2018B-1, Series 2018B-2, and Series 2018B-3 bonds will mature on July 1, 2025, 2026 and 2027, respectively. VSL 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. VSL opened in November 2020 and consists of 174 independent living units, with an additional 7 assisted living units and 10 memory care units expected to open in June 2021. The facility was constructed to allow the delivery of assisted living services to independent living units. Stabilized occupancy is anticipated to be achieved in 2023.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

Sequoia Living is affiliated with San Francisco Senior Center ("SFSC"), a not-for-profit corporation that operates two senior centers in San Francisco and delivers services to help seniors stay engaged in the community.

NOTE 2 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and include Sequoia Living, EPA L.P., WPA L.P., TPT L.P., NSV, TAM, VSL and SSNC. All significant inter-entity amounts have been eliminated in consolidation. SSNC and VSL prepare separate stand-alone financial statements in conformity with accounting principles generally accepted in the United States of America. For purposes of presentation of SSNC's and VSL's balance sheets, statement of operations and changes in net assets, and statement of cash flows in these consolidated financial statements, conforming reclassifications have been made to SSNC's and VSL's revenue and expenses and inter-entity receivables and payables consistent with categories in the consolidated financial statements. Certain expense classifications were also reclassified on the 2019 statement of operations in order to conform with the 2020 presentation.

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

Net assets without donor restrictions – Net assets 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 represent contributions that are limited in use by Sequoia Living in accordance with donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions for which restrictions are satisfied in the same period as received are recorded as contributions revenue without donor restrictions.

Performance indicator – "Excess of operating revenues, income, gains and support, net, over expenses" as reflected in the accompanying consolidated statements of operations is the performance indicator. The performance indicator excludes receipt of contributions with donor restrictions, unrealized change in values of investments for debt securities, changes in additional minimum pension liability, contributed capital, change in the value of split-interest agreements and transfer of net assets.

Sequoia Living, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands)

Fair value of financial instruments – The Financial Accounting Standards Board (“FASB”) statement on fair value measurements establishes a framework for measuring fair value in conformity with generally accepted accounting principles and expands disclosures about fair value measurements. This authoritative guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, this authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs such as quoted prices in active markets;

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;
and

Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The carrying values reported on the consolidated balance sheets for current financial assets and liabilities approximate fair value. Investments, investments held in trust, liability for trust beneficiaries and trust contributions receivable are carried at fair value. See Note 10 for discussion of fair value of Sequoia Living’s financial assets and liabilities.

Cash and cash equivalents – Cash and 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.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

The following table provides a reconciliation of the cash, cash equivalents and restricted cash balances within the consolidated balance sheets that sums to the total of the same amounts shown in the consolidated statements of cash flows:

	2020	2019
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	\$ 5,761	\$ 19,704
Refundable deposits	6,620	15,587
Investments contractually limited for replacement reserves on properties financed by HUD	25,719	25,290
Cash and cash equivalents in assets limited as to use	92,014	106,690
 Total cash, cash equivalents and restricted cash on the consolidated statements of cash flows	 \$ 130,114	 \$ 167,271

Limited use assets – Limited use assets as of December 31, 2020 and 2019, consist of cash, money market funds, and other investments whose use is held for capital projects and debt service reserve funds held with a trustee in accordance with indenture requirements. Amounts required to pay current liabilities are classified as current. 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 the executed continuing care contract or deposit agreement. These funds are held in cash and cash equivalents.

Marketable securities and investments held in trust – Equity and debt securities are carried at fair value with realized and unrealized gains and losses included in the consolidated statements of operations and the consolidated statements of changes in net assets. Realized gains or losses on the sale of investments represent the difference between cost, on a first-in first-out basis, and the related market price at the sale date. A decline in the fair value of an investment in debt securities that is other than temporary is accounted for as a realized loss, whereby the cost basis of the security is written down to fair value. Cash and cash equivalents, which consist of deposits and money market funds are carried at cost, which approximates fair value because of the short-term nature of these investments.

Property and equipment, net – Property and equipment are recorded at cost. Depreciation is based on straight-line method at rates based on the estimated useful lives of the various classes of property using the following schedule:

	Years
Buildings	60
Building equipment	20
Building and land improvement	10
Equipment, furniture, and furnishings	4 to 10

Interest costs incurred on borrowed funds, less investment income earned on certain unspent borrowed proceeds during the period of construction of long-lived assets, are capitalized and amortized over the related assets' estimated useful lives. Repairs and maintenance expenditures are expensed as incurred.

Sequoia Living, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands)

Several of the buildings owned and operated by Sequoia Living contain asbestos for which Sequoia Living will incur additional expense to remove when those buildings are retired or when renovations are undertaken in an area of the buildings that contains such material. Certain of these costs are not expected to be incurred until the building itself is retired as the material is in areas that will not be impacted by renovation activity. The cost to remove materials in areas of the buildings that will be impacted by renovation activity is estimated to be incurred over the next 40 years.

Asset retirement obligations are estimated at fair value based upon discounted cash flows using the probability-weighted future cash flows for the associated retirement costs and a credit-adjusted risk-free discount rate. Liabilities associated with asset retirement obligations are estimated at fair value based on discount rates ranging from 4.6% to 5.0%, and inflation rates of 3.0% and 3.5%.

Asset retirement obligations recorded are subject to various assumptions and determinations, such as determining whether an obligation exists to remove assets, estimating the fair value of the costs of removal and estimating when final removal will occur. Changes that may arise over time regarding these assumptions and determinations will change such amounts recorded for asset retirement obligations. In 2011, Sequoia Living started removing materials in apartments as they became available for new residents. Sequoia Living will continue to do so in future years. Asset retirement obligations are included in other long-term liabilities.

Investments held in trust and liability for payments to trust beneficiaries – Investments held in trust represent charitable remainder trusts and other deferred funds in which the donor, or stated beneficiary, has a life interest in the trust income and for which SSNC is trustee and remainderman. Trust assets are carried at fair value remeasured on a recurring basis. The related liabilities for payments to trust beneficiaries are estimated at fair value at the time the related trust assets are received based on the present value of estimated future payments over the expected life of income beneficiaries using an appropriate credit risk-adjusted rate determined at the inception of each agreement. The liabilities are adjusted during the terms of the agreements for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. As of December 31, 2020, the valuation technique utilizes published actuarial life expectancies ranging from 2.4 to 16.2 years, and discount rates ranging from 1.6% to 6.8%. As of December 31, 2019, the valuation technique utilizes published actuarial life expectancies ranging from 2.5 to 14.4 years, and discount rates ranging from 1.6% to 6.8%.

Pledges receivable – Pledges receivable are recorded initially at fair value and consist of unconditional promises to give that are expected to be collected in future years. Such receivables are recognized at fair value based on the present value of their estimated cash flows using the discount rate technique. Subsequent to the initial recording, pledges are recorded at net realizable value. The discounts on these amounts are computed using rates applicable in the years in which those promises are received. As of December 31, 2020, the valuation technique utilizes published actuarial life expectancies ranging from 0 to 5.1 years, and discount rates ranging from 1.6% to 9.4%. As of December 31, 2019, the valuation technique utilizes published actuarial life expectancies ranging from 0 to 5.5 years, and discount rates ranging from 1.6% to 9.4%. Pledges receivable are reviewed for collectability and reserves for uncollectible amounts are established when needed. Conditional promises to give are not included as support until the conditions are substantially met.

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Trust contributions receivable – Trust contributions receivable consist of gifts made to SSNC through split-interest agreements in which SSNC is a remainderman or has a perpetual income interest as beneficiary and for which there is an external trustee. These assets are carried at fair value based upon the present value of amounts anticipated to be received, using discount rates commensurate with the expected term to receipt of the assets. The change in the fair value of trust contributions receivable is reflected in the change in value of split-interest agreements for net assets with donor restrictions in the consolidated statements of changes in net assets. As of December 31, 2020, the valuation technique utilizes published actuarial life expectancies ranging from 3.4 to 10.2 years, and discount rates ranging from 4.4% to 4.8%. As of December 31, 2019, the valuation technique utilizes published actuarial life expectancies ranging from 3.7 to 10.8 years, and discount rates ranging from 4.4% to 4.8%.

Continuing care contracts – Sequoia Living has entered continuing care contracts with the residents of its continuing care facilities. Under the provision of these contracts, residents are required to pay an entrance fee and periodic monthly fees (resident fees) for services and the use of facilities. The resident fees are subject to adjustment for changes in operating costs or other economic reasons. Sequoia Living is obligated to provide long-term care.

Sequoia Living provides three types of continuing care contracts to its residents: fully amortizable, fee for service continuing care, and fee for service continuing care - repayment option. 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 using the 1979 Life Expectancies tables from Health and Safety Code for single residents and an actuarially prepared joint life expectancy table for married residents.

Under the fully amortizable and fee for service continuing care contracts, Sequoia Living is contractually obligated to refund to a vacating resident the entrance fee received less an amount equal to 1.5% of the entrance fee for each month of residency. No refund is made after 5-1/2 years of occupancy. In the event of death or involuntary termination, Sequoia Living is obligated to refund a portion of the entrance fee determined as follows (based on the time transpired since the initial date of resident occupancy):

Fewer than 90 days	90%
More than 90, less than one year	75%
More than one year, less than two years	50%
More than two years, less than three years	25%
More than three years	0%

Under the fee for service continuing care - repayment options of 90% or 75%, residents pay a higher entrance fee, 90% or 75% of which will be refunded when the unit is resold. The “refundable deposit” portion of the entrance fee subject to repayment is recorded as a liability and the remaining 10% or 25% is recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. The period of amortization is adjusted annually using the 1979 Life Expectancies tables from Health and Safety Code for single residents and an actuarially prepared joint life expectancy table for married residents.

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Future service obligation – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. Sequoia Living has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required as of December 31, 2020 and 2019. The discount rate used to calculate the obligation to provide future services is 4.5% and 5.5% for 2020 and 2019, respectively.

Revenue recognition – Sequoia Living accounts for a majority of its revenue recognition under Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”).

Sequoia Living has elected the lessor practical expedient Accounting Standards Update (“ASU”) 2018-11, *Leases, Targeted Improvements* (“ASU 2018- 11”) within ASC 842, *Leases*, and recognizes, measures, presents, and discloses the revenue for services under their senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts. Sequoia Living has determined that the services included under their independent living, assisted living, memory care and skilled nursing residency agreements have the same timing and pattern of transfer. Sequoia Living has estimated that the nonlease component of such residency agreements are the predominant component of the contract and therefore recognizes resident fees revenue under ASC 606. Sequoia Living recognizes resident fees for its three residential housing facilities as operating leases under ASC 842.

Those activities that are accounted for outside the scope of ASC 606 include funds received by Sequoia Living which are voluntary and unconditional un-reciprocal transfers as well as investment income including realized gains and losses on investments.

Resident fees – Under the provision of continuing care contracts, residents are required to pay periodic monthly fees (resident fees) for services and the use of facilities. Resident fee revenue is reported at the amount that reflects the consideration Sequoia Living expects to receive in exchange for the services provided. Performance obligations are determined based on the nature of the services provided. Resident fee revenue is recognized monthly as services are provided and performance obligations are satisfied.

The following table shows resident fees revenue by line of service:

	2020	2019
Resident fees by line of service		
Independent living	\$ 49,551	\$ 47,739
Assisted living	3,452	3,389
Memory care	1,568	1,428
Skilling nursing	3,547	3,437
Affordable housing rents	14,660	13,132
Residential facility rents	948	972
	\$ 73,726	\$ 70,097

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Amortization of entrance fees revenue – Under the provision of continuing care contracts, residents are required to pay an entrance fee which are one-time payments made by residents of the continuing care facilities that, in addition to resident fees, provide for living accommodations. The performance obligation for nonrefundable entrance fees is that Sequoia Living is standing ready to provide a service such that the resident can continue to live in the CCRC and access the appropriate level of care based on his or her needs. This decision is at the discretion of the resident and is dependent on the resident's health and life span, along with his or her decision to continue to reside at the respective facility. Management has determined that these are a series of distinct services that are considered one performance obligation which is satisfied over time. Therefore, the nonrefundable portion of the entrance fee is recorded as an unamortized entrance fee when received and amortized using the straight-line method over the estimated remaining life expectancy of the resident. As of December 31, 2020 and 2019, Sequoia Living had \$139.4 million and \$126.5 million in unamortized entrance fees to be recognized as the performance obligations are satisfied. See Note 15 for changes in the unamortized entrance fees for the years ended December 31, 2020 and 2019. The performance obligation is satisfied upon termination of the residency agreement.

Fees for services and other revenue – Under the provision of fee for service continuing care contracts, residents are required to pay an entrance fee, as well as additional fees for some services that are not covered by fee for service continuing care contracts. Additionally, Sequoia Living enters into separate contracts to provide outpatient services. Each service provided under these contracts is capable of being distinct, and thus, the services are considered individual and separate performance obligations which are satisfied as services are provided and revenue is recognized as services are provided.

Sequoia Living determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments, or explicit price concessions, provided to a third party. Sequoia Living determines its estimates of contractual adjustments based on contractual agreements and historical experience.

Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain health care services are paid at prospectively determined rates per discharge based on clinical, diagnostic or other factors. Certain services are paid based on a cost-reimbursement methodology subject to certain limits. Physical services are paid based upon 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 discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Sequoia Living's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon Sequoia Living.

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Settlements with third-party payors for retroactive 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 Sequoia Living's historic settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Sequoia Living estimates the transaction price for patients with deductibles and coinsurance 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 determined on a resident by resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to health services revenue in the period of the change. 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. Bad debt expense for the years ended December 31, 2020 and 2019 was not significant.

Contributions – Contributions, which may include unconditional promises to give (pledges), are recognized at fair value as revenues in the period received or unconditionally pledged. Donated securities, real property and contributions in kind are recorded at fair value at the date of contribution. Contributions are derived primarily from donors in Northern California. Contributions of trust interests in which SSNC serves as the trustee are recognized at fair value in the period of receipt. Fair value is determined based upon the difference between the fair value of the assets received and the fair value of the estimated liability to beneficiaries. Contributions of trust interests in which the assets are invested and administered by outside trustees are recorded at fair value when notice of the interest is received.

Charity care – Sequoia Living provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Because Sequoia Living does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue.

Donated services – Significant amounts of time from a number of people have been donated to Sequoia Living. The accompanying consolidated financial statements do not reflect the value of those donated services, as no reliable basis exists for reasonably determining the amounts involved.

Investment income – Investment income includes interest and dividend income earned on investments, net realized gains and losses on sales of investments, other than temporary realized losses on available for sale securities, unrealized gains and losses on trading securities and related investment counseling fees. Investment counseling fees were \$0.2 million for both years ended December 31, 2020 and 2019.

Marketing and advertising expenses – The cost of advertising, promotion and marketing programs are charged to expense in the year incurred. For the years ended December 31, 2020 and 2019, Sequoia Living incurred marketing and advertising costs of \$1.4 million and \$2.6 million, respectively.

Administrative service fees – SSNC manages its split-interest agreements internally and assesses a fee of 1% of trust assets per year.

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Change in value of split-interest agreements – Changes in the value of split-interest agreements are the result of the following transactions and events related to SSNC's deferred gifts:

- Accretion of the discounts on previously received deferred gifts.
- Revaluations of expected future benefits to be received, net of income earned and market changes on deferred gift assets.
- Revaluations of expected future payments to beneficiaries, net of payments made, based on changes in life expectancy and other actuarial assumptions.

Workers' compensation plan – Sequoia Living is self-insured for workers' compensation. Claims are accrued under the plan as the incidents that give rise to them occur. Unpaid claims accruals, including estimates of incurred but not reported claims, are based on the estimated ultimate cost of settlement, including claim settlement expenses, in accordance with Sequoia Living's past experience. The workers' compensation reserve liability is \$3.0 million and \$2.8 million as of December 31, 2020 and 2019, respectively, and included in payroll and related taxes payable in the accompanying consolidated balance sheets.

Concentration of credit risk – Financial instruments potentially subjecting Sequoia Living to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation insurance thresholds and cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the financial statements. The risk associated with the investments is mitigated through diversification.

Concentration of credit risk results from Sequoia Living granting credit without collateral to its residents and patients, most of whom are local residents and insured under third-party payor agreements.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include unamortized entrance fees, estimated future service obligations, pension liability, fair values of investments, useful lives of fixed assets, pledges and contributions receivable and the liability for payments to trust beneficiaries. Actual results may differ from those estimates.

Recent pronouncements – In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology for credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Sequoia Living will be required to use a forward-looking expected credit loss model for accounts receivable and other financial instruments. The adoption of ASU 2016-13 is effective for Sequoia Living beginning January 1, 2023. The adoption of ASU 2016-13 is not expected to have a material impact on Sequoia Living's consolidated financial statements.

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In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements* (“ASU 2018-13”) which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Management adopted ASU 2018-03 for the year ended December 31, 2020 and determined that the adoption did not have a material impact on Sequoia Living’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* (“ASC 2018-14”). The amendments in this update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant including an explanation of the reasons for significant gains and losses related to changes in the benefit obligation. The new standard requires the amendments to be applied on a retrospective basis. The adoption of ASU 2018-14 is effective for Sequoia Living beginning January 1, 2022. The adoption of ASU 2018-14 is not expected to have a material impact on Sequoia Living’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)* (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The adoption of ASU 2018-15 is effective for Sequoia Living beginning January 1, 2021. The adoption of ASU 2018-15 is not expected to have a material impact on Sequoia Living’s consolidated financial statements.

NOTE 3 – INVESTMENT SECURITIES

The composition of investment securities is set forth in the following table. The majority of these securities are held with four investment firms:

	2020	2019
	<u> </u>	<u> </u>
Money market funds	\$ 4,876	\$ 5,386
U.S. government securities	1,587	954
Common stock	14,888	12,761
Corporate fixed income securities	2,461	2,241
Equity mutual funds	57,170	46,081
Fixed income mutual funds	<u>36,424</u>	<u>30,912</u>
Total marketable securities	117,406	98,335
Investment in real estate fund	<u>3,102</u>	<u>3,066</u>
Total investment securities	<u><u>\$ 120,508</u></u>	<u><u>\$ 101,401</u></u>

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Operating investment income is comprised of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 3,569	\$ 2,938
Net realized gains on sales of investments	2,064	1,476
Unrealized gains on equity securities	<u>8,502</u>	<u>9,305</u>
	<u>\$ 14,135</u>	<u>\$ 13,719</u>

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net as of December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 16,238	\$ 16,064
Land and building improvements	77,479	74,234
Building and building equipment	390,876	222,578
Equipment and furniture	<u>50,215</u>	<u>42,437</u>
	534,808	355,313
Less: Accumulated depreciation	<u>(188,918)</u>	<u>(175,075)</u>
	345,890	180,238
Construction in progress	<u>49,659</u>	<u>135,963</u>
Total property, plant and equipment, net	<u>\$ 395,549</u>	<u>\$ 316,201</u>

Total depreciation expense for the years ended December 31, 2020 and 2019, is \$13.9 million and \$13.2 million, respectively.

VSL has entered into a contract with Cahill Construction of \$131.2 million for the development of the Viamonte facility, of which \$0.2 million has been committed and yet to be spent as of December 31, 2020. The following disclosure is made pursuant to Section 1790(a)(3) of the California Health & Safety Code: no reserves are being accumulated for identified projects or contingencies.

EPA L.P. has entered a contract with Branagh Inc. of approximately \$40.0 million for the rehabilitation of the EPA facility, of which approximately \$27.4 million has been committed and yet to be spent as of December 31, 2020.

Capitalized interest expense for the years ended December 31, 2020 and 2019, was \$4.3 million and \$5.2 million, respectively, comprised of \$6.3 million and \$7.5 million of interest expense, net of \$2.0 million and \$2.3 million of investment income, respectively.

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NOTE 5 – INVESTMENTS HELD IN TRUST

Investments held in trust as of December 31 are summarized below. The majority of these investments are held with one investment firm:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ -	\$ 388
Fixed income mutual funds	5,257	5,167
Equity mutual funds	10,170	10,246
Corporate and government bonds	17	16
	<u>\$ 15,444</u>	<u>\$ 15,817</u>

NOTE 6 – PLEDGES RECEIVABLE, NET

Pledges receivable, net, were due as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Current portion	\$ 546	\$ 875
Less: allowance	(27)	(44)
Total current portion	<u>\$ 519</u>	<u>\$ 831</u>
Greater than one year to five years	\$ 222	\$ 180
Greater than five years to twenty years	25	25
	247	205
Less: allowance	(12)	(10)
Less: unamortized discount	(58)	(122)
Total noncurrent portion	<u>\$ 177</u>	<u>\$ 73</u>

NOTE 7 – INVESTMENTS CONTRACTUALLY LIMITED FOR REPLACEMENT, DEVELOPMENT DEPOSIT, AND NET OPERATING INCOME RESERVE

Investments contractually limited for replacement – In connection with long-term debt agreements for Sequoia Living’s residential housing facilities, HUD requires monthly deposits to a replacement account. Replacement accounts are held by Sequoia Living for TPT L.P., EPA L.P. and WPA L.P.

The investments for replacement are spent on improvements or repairs of structural elements and mechanical equipment of the facilities. Disbursements from the replacement accounts may be made upon receiving consent in writing from HUD.

Equity reserves – EPA L.P. was required to establish a deposit account for an initial amount of \$2 million for cash reserves. In addition, a deposit account was established for capital contribution of \$12 million upon occurrence of the loan conversion.

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Outside reserves – Sequoia Living was required to set aside funds in the amount of \$6 million for so long as the partnership continues in existence or based on the account terms of the reserve pledge agreement.

Net operating income reserve – Commencing on January 1, 2016 and continuing the first day of each month thereafter until the earlier of the conversion date or the date upon which the balance in the reserve reaches \$568, TPT L.P. was required to deposit no less than \$36 each month into the reserve. The reserve was held by Citibank until the conversion date. At conversion of the construction loan to permanent financing, Citibank applied amounts held in the reserve to principal, interest, and any other amounts due under the terms of the loan agreement. At the conversion date of October 24, 2017, the net operating income reserve was fully withdrawn to pay down the construction loan.

Earnings attributable to these investments accrue to the facility. As of December 31, 2020 and 2019, the investments consist of cash and certificates of deposit in the amount of \$25.7 million and \$25.2 million, respectively.

NOTE 8 – LIMITED USE ASSETS

Limited use assets as of December 31 are held for two entities, Sequoia Living and VSL, respectively. The composition of limited use assets as of December 31, 2020 and 2019, for Sequoia Living and VSL, consisted solely of cash and cash equivalents, with the exception of \$5.9 million in U.S. government securities held at the end of both years at VSL. All limited use assets as classified as level 1 securities.

	2020	2019
California Health Facilities Financing Authority		
<i>Revenue Bond Series 2015</i>		
Project fund	\$ 447	\$ 417
Principal and interest fund	1,346	2,021
Debt service reserve fund	4,040	4,040
Revenue fund	727	324
	6,560	6,802
<i>Revenue Bond Series 2018</i>		
Project fund	26,324	91,980
Principal and interest fund	3,302	7,908
Debt service reserve fund	5,929	5,908
	35,555	105,796
Investments held by trustee in accordance with construction loan agreement	600	-
Investments held by trustee for working capital	18,000	-
Investments held by trustee for repayment of revenue bonds	37,227	-
	97,942	112,598
Less: current portion	(23,465)	(35,967)
Total revenue bonds, noncurrent	\$ 74,477	\$ 76,631

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NOTE 9 – LONG-TERM DEBT, NET AND LINE OF CREDIT

Long-term debt, net for Sequoia Living comprises the following as of December 31:

	<u>2020</u>	<u>2019</u>
Sequoia Living		
California Health Facilities Financing Authority		
Revenue Bond Series 2015, Serial Bonds Payable through 2031 to 2044 in annual principal installments with interest ranging from 2-5%, collateralized by a first deed of trust on the gross revenues of Sequoia Living	\$ 57,070	\$ 58,340
VSL		
California Health Facilities Financing Authority		
Revenue Bond Series 2018, Series Bonds Payable, collateralized by a first deed of trust on the gross revenues of VSL		
Series 2018A interest at 3.5-5% maturing in 2047	45,230	45,230
Series 2018B-1 interest at 3% maturing in 2025	80,000	80,000
Series 2018B-2 interest 3% maturing in 2026	39,000	39,000
Series 2018B-3 interest 3% maturing in 2027	23,000	23,000
Eastern Park Apartments L.P.		
Construction disbursement loan, due in full in 2022 including interest at 3.17%, collateralized by a first deed of trust on EPA L.P. real estate	55,205	37,659
Western Park Apartments L.P.		
Citibank permanent loan, in monthly installments of \$86 payable through 2045 including interest at 5.81%, collateralized by a first deed of trust on WPA L.P. real estate	14,598	14,778
Town Park Towers L.P.		
Payable through 2051 in monthly installments including interest at 4.41% collateralized by first deed of trust	22,088	22,398
	<u>336,191</u>	<u>320,405</u>
Plus: unamortized bond premium	8,868	9,641
Less: unamortized deferred financing costs	<u>(11,027)</u>	<u>(14,264)</u>
	334,032	315,782
Less: current portion	<u>(1,849)</u>	<u>(1,759)</u>
Total long-term debt, net, less current portion	<u>\$ 332,183</u>	<u>\$ 314,023</u>

As of December 31, 2020, all VSL debt is long-term. The first scheduled principal payments on VSL long-term debt occur in 2024.

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Scheduled principal payments on long-term debt are as follows:

Year Ending December 31,

2021	\$	1,849
2022		57,145
2023		2,037
2024		3,211
2025		83,371
Thereafter		188,578
		<hr/>
	\$	336,191
		<hr/>

California Health Facilities Financing Authority requires a project fund for major capital improvements at Sequoia Living facilities. The remaining total project fund for use from the Revenue Bond Series 2015 has a balance of \$0.4 million and the total project fund for the Revenue Bond Series 2018 has a balance of \$26.3 million as of December 31, 2020.

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

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

As of December 31, 2020, management believes Sequoia Living was in compliance with all debt covenants. VSL is required to comply with certain debt covenants beginning in the year ending December 31, 2021. Sequoia Living's debt incurred in connection with its residential housing facilities includes covenants which require that these facilities be operated to provide housing for seniors whose income levels do not exceed certain thresholds. Rent increases are subject to approval and are limited to maintain affordability.

The most restrictive covenants of these loans are associated with compliance with the low-income housing tax credit ("LIHTC") program under section 42 of the Internal Revenue Code as modified by the State of California and the provisions of section 202 of the National Housing Act. As of December 31, 2020, management believes Sequoia Living was in compliance with these debt covenants.

On December 19, 2019, Sequoia Living sold EPA's land, building and improvements to EPA L.P. for the purchase price of \$86 million. Since the parties involved in the purchase transaction are affiliates under common control of Sequoia Living, management has recorded the transfer of assets at carrying value with no recognition of gains and losses. In addition, intercompany receivables and payables between these affiliates have been eliminated upon consolidation.

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(Amounts in Thousands)

EPA L.P. was formed to rehabilitate and operate the EPA property in compliance with the LIHTC program under the provisions of Section 42 of the Internal Revenue Code. The City of San Francisco tax-exempt bonds of \$60 million Series J and \$24.8 million Series K are collateral to the qualifying financing under the LIHTC program to then finance the acquisition and renovation of EPA L.P. J.P. Morgan Chase Bank funded a loan on behalf of the City of San Francisco (tax exempt bond issuer and governmental lender) in the amounts of \$55.2 million and \$37.7 million as of December 31, 2020 and 2019, respectively. EPA L.P. entered into an agreement with J.P. Morgan Chase Bank to borrow up to the \$84.8 million to acquire EPA and fund renovations.

Funds are released periodically as renovations proceed and paid invoices are submitted to J.P. Morgan Chase Bank for reimbursement. As of December 31, 2020, EPA L.P. has borrowed \$55.2 million against the loan agreement. Renovations are expected to be completed in 2022. Interest on the construction loan is based on a fixed rate of 3.17% until December 19, 2022. The Series J Bond matures in July 1, 2039 sponsored by Fannie Mae ("FNMA") as collateral intended for the permanent financing of EPA L.P.

Lines of credit – Sequoia Living has lines of credit in the amount of \$6.0 million in both 2020 and 2019 with a bank, of which \$4.0 million is collateralized by a gross revenue pledge and \$2.0 million is unsecured. The lines of credit renew annually each July. As of both December 31, 2020 and 2019, Sequoia Living had an outstanding balance on these lines of credit of \$2.0 million.

Sequoia Living has stand-by letters of credit totaling approximately \$3.0 million to collateralize its obligations under a high deductible workers' compensation program as of both December 31, 2020 and 2019 from the same bank that issued the lines of credit described above. No amounts were outstanding as of December 31, 2020 or 2019. The stand-by letters of credit restrict the availability of the lines of credit in that the total amount available at any one time from the letters of credit and lines of credit cannot exceed \$6.0 million.

Sequoia Living is required to provide written notification to the bank of any material adverse change in its financial condition or operation. There were no such changes in 2020 or 2019.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
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NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and liabilities that are measured on a recurring basis are as follows as of December 31, 2020 and 2019:

	2020				NAV as Practical Expedient
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-observable Inputs (Level 3)	
Assets measured at fair value on a recurring basis (1)					
Marketable securities (2)					
Money market funds	\$ 4,876	\$ 4,876	\$ -	\$ -	\$ -
U.S. government securities	1,587	1,587	-	-	-
Corporate fixed income securities	2,461	2,461	-	-	-
Common stock	14,888	14,888	-	-	-
Equity mutual funds	57,170	57,170	-	-	-
Fixed income mutual funds	36,424	36,424	-	-	-
Trust contributions receivable (3)	1,295	-	-	1,295	-
Investment in real estate fund (4)	3,102	-	-	-	3,102
Investment held in trust (2)					
Money market funds	-	-	-	-	-
Equity mutual funds	10,170	10,170	-	-	-
Fixed income mutual funds	5,257	5,257	-	-	-
Corporate fixed income securities	17	17	-	-	-
	<u>\$ 137,247</u>	<u>\$ 132,850</u>	<u>\$ -</u>	<u>\$ 1,295</u>	<u>\$ 3,102</u>
Liabilities measured at fair value on a recurring basis (5)					
Liability for payments to trust beneficiaries	<u>\$ 6,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,688</u>	<u>\$ -</u>

Sequoia Living, Inc.
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	2019				
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-observable Inputs (Level 3)	NAV as Practical Expedient
Assets measured at fair value on a recurring basis (1)					
Marketable securities (2)					
Money market funds	\$ 5,386	\$ 5,386	\$ -	\$ -	\$ -
U.S. government securities	954	954	-	-	-
Corporate fixed income securities	2,241	2,241	-	-	-
Common stock	12,761	12,761	-	-	-
Equity mutual funds	42,180	42,180	-	-	-
Fixed income mutual funds	34,813	34,813	-	-	-
Trust contributions receivable (3)	1,214	-	-	1,214	-
Investment in real estate fund (4)	3,066	-	-	-	3,066
Investment held in trust (2)					
Money market funds	388	388	-	-	-
Equity mutual funds	10,246	10,246	-	-	-
Fixed income mutual funds	5,167	5,167	-	-	-
Corporate fixed income securities	16	16	-	-	-
	<u>\$ 118,432</u>	<u>\$ 114,152</u>	<u>\$ -</u>	<u>\$ 1,214</u>	<u>\$ 3,066</u>
Liabilities measured at fair value on a recurring basis (5)					
Liability for payments to trust beneficiaries	<u>\$ 7,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,039</u>	<u>\$ -</u>

1. For cash and cash equivalents, limited use assets and investments designated for refundable deposits, the net carrying value approximates fair value at period end.
2. The fair values of marketable securities and investments held in trust which are included in the consolidated balance sheets are determined based on quoted market prices in active markets. The marketable securities consist of cash equivalents, U.S. government securities, common stocks, corporate fixed income securities, equity mutual funds, and fixed mutual funds as detailed in Note 3. The investments held in trust consist of cash equivalents, equity mutual funds, and fixed mutual funds at fair value with realized and unrealized gains and losses included in the consolidated statements of operations and changes in net assets.
3. The fair value of trust contributions receivable which is included in the consolidated balance sheets is determined using a present value calculation of expected future cash flows with assumptions for the risk-adjusted interest rate, inherent risk, mortality risk, and the expected term of cash flows using the discount rate adjustment technique.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
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4. This investment includes securities held in a limited partnership in which Net Asset Value (NAV) as a practical expedient has been used. This investment has not been classified in the fair value hierarchy, and the amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets. The NAV is based on the total value of the securities held in the limited partnership per the December 31 fund statement. The NAV of the limited partnership equals the total assets of the fund fewer total liabilities of the fund. Total assets of the fund primarily include real estate assets and real estate owned in joint ventures. The value of real estate assets is established by independent appraisals as of December 31. Real estate assets owned in joint ventures are carried at the Fund's ownership share before the impact of promote structures. Total liabilities of the fund primarily include mortgage notes payable and senior notes payable, both of which are carried by the Fund at fair value. Disclosure to and consent by the general partner is required for redemption, transfer or assignment of any of the investment.

5. The fair value of the liability for payments to trust beneficiaries that is included in the consolidated balance sheets is determined using a present value calculation of expected future cash flows with assumptions for the risk-adjusted interest rate, inherent risk, mortality risk, and the expected term of cash flows using the discount rate adjustment technique.

There were no transfers of assets or liabilities between Level 1 and Level 2 during the years ended December 31, 2020 and 2019.

NOTE 11 – PENSION PLAN

Sequoia Living sponsors a noncontributory defined benefit pension plan covering employees who work 1,000 hours or more. The benefits are generally based on an employee's average salary in the last five years of employment and years of service. Sequoia Living funds the pension plan in accordance with the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Contributions to the plan are determined under the projected unit credit cost method and are made each year in an amount at least equal to the minimum requirements of ERISA.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

A reconciliation of the plan's benefit obligations, fair value of assets, funded status, and amount recognized in the consolidated balance sheets is as follows as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 86,340	\$ 72,437
Service cost	3,155	2,514
Interest cost	2,639	2,967
Actuarial loss	17,270	11,035
Benefits paid	<u>(2,970)</u>	<u>(2,613)</u>
Benefit obligation at measurement date	<u>106,434</u>	<u>86,340</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 73,433	\$ 60,705
Actual return on plan assets	12,723	13,141
Employer contribution	2,800	2,200
Benefits paid	<u>(2,970)</u>	<u>(2,613)</u>
Fair value of plan assets at measurement date	<u>85,986</u>	<u>73,433</u>
Funded status at measurement date	<u>\$ (20,448)</u>	<u>\$ (12,907)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	<u>\$ 20,448</u>	<u>\$ 12,907</u>
Amounts recognized in net assets without donor restrictions consist of:		
Unrecognized net actuarial loss	<u>\$ 25,233</u>	<u>\$ 16,850</u>
Amounts recognized in net assets without donor restrictions at measurement date	<u>\$ 25,233</u>	<u>\$ 16,850</u>
Accumulated benefit obligation	<u>\$ 97,354</u>	<u>\$ 79,536</u>

Net periodic pension cost for 2020 and 2019 was determined by an independent actuary and is calculated using a prescribed attribution method, based on acceptable actuarial assumptions, which are adjusted periodically to reflect actual experience. Sequoia Living uses a December 31 measurement date for the above defined benefit plan.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
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The components of net periodic benefit cost included as part of other program services in the consolidated statements of operations and are as follows for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Service cost	\$ 3,155	\$ 2,514
Interest cost	2,639	2,967
Expected return on plan assets	(5,116)	(4,222)
Amortization of net loss	<u>1,279</u>	<u>1,133</u>
Net periodic benefit cost	<u>\$ 1,957</u>	<u>\$ 2,392</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial loss	\$ 9,662	\$ 2,116
Amortization of net loss	<u>(1,279)</u>	<u>(1,133)</u>
Amounts recognized in net assets without donor restrictions at measurement date	<u>8,383</u>	<u>983</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions at measurement date	<u>\$ 10,340</u>	<u>\$ 3,375</u>

The net actuarial losses and prior service costs expected to be amortized from net assets without donor restrictions into net period benefit cost during the year ending December 31, 2021, are \$1.8 million and \$0, respectively.

Estimated future benefit payments are as follows:

2021	\$ 3,637
2022	3,835
2023	4,080
2024	4,257
2025	4,602
2026 to 2030	25,745

Sequoia Living expects to contribute \$3.3 million to its pension plan in 2021.

Plan assets are invested with an appointed custodian. The contract with the custodian allows for investments in equity, money market, mutual fund and real estate investments. Under the direction of Sequoia Living plan assets are invested with the objective of achieving a long-term rate of return of 7.00%. This is achieved through investment in a mix of equity and fixed income investments, with targeted allocations of 70% equity instruments and 30% fixed income instruments. Over time, equity investments are expected to return 8.00%, while fixed income investments are expected to return 4.67%. This produces an expected composite long-term return on investment of 7.00%.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
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Plan assets as of December 31, 2020 and 2019, were invested as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 306	\$ 663
Common stocks	14,035	9,874
Equity mutual funds	49,624	42,274
Fixed income mutual funds	<u>22,021</u>	<u>20,622</u>
	<u>\$ 85,986</u>	<u>\$ 73,433</u>

Equity mutual funds held in the plan assets invest in common stocks of companies based either inside or outside the United States, including some small-capitalization companies. The primary objective is to provide growth of capital. Fixed income mutual funds held in the plan assets primarily invest in a diversified portfolio of high-quality bonds and other fixed income securities of varying maturities.

For 2020 and 2019, plan assets are stated at fair value using Level 1 inputs within the fair value hierarchy. Cash equivalents and mutual funds are valued at quoted market prices on an exchange and active markets. Common stocks are valued at the last sale price on the last business day of the plan year, as quoted on a recognized exchange or an industry standard pricing service.

Effective July 1, 2012, Sequoia Living changed the formula used to calculate Defined Benefit Pension Plan benefits in order to allow for more stable expenses while maintaining a competitive retirement benefits program for its employees. Sequoia Living also started contributing 2.5% of compensation to eligible employees each pay period, as part of its new 403(b) plan.

Effective January 1, 2016, Sequoia Living adopted a spot rate approach for determining plan obligations and net pension cost. Under this approach, the individual spot rates on the yield curve are applied to each year's cash flow in measuring the obligations, service cost and interest cost.

Weighted average discount rate assumptions are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate - benefit obligation	2.53%	3.45%
Discount rate - service cost	3.66%	4.50%
Discount rate - interest cost	3.06%	4.10%

Sequoia Living also sponsors a defined contribution tax-sheltered annuity plan for substantially all its full-time employees. The Tax-Sheltered Annuity Plan was amended effective January 1, 2012, consistent with guidance under Treasury Regulation Section 1.403(b)-10 to delete Section 7.01(b) of the plan, which provided that a complete discontinuance of contributions under the plan would constitute termination of the plan. Consistent with IRS guidance, the plan is considered a frozen plan, and all provisions remain in effect until Sequoia Living determines to take further action, except that new contributions will not be made to the plan. Effective as of the first payroll date on or after January 1, 2012, consistent with amendments to the plan, contributions to the plan were discontinued and contributions began being made to a new 403(b) plan. The new 403(b) plan permits contributions which can be matched at the discretion of Sequoia Living. Total employer contributions were \$0.9 million and \$0.8 million for the years ended December 31, 2020 and 2019, respectively.

Sequoia Living, Inc.
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NOTE 12 – ENDOWMENTS

SSNC's endowment consists of donor-restricted funds established for a variety of purposes. The purpose restrictions consist of financial assistance, meal subsidies, improvements to the quality of life to residents of certain Sequoia Living facilities and maintenance of a resident garden. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of SSNC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, Sequoia Living classifies as donor-restricted endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and the appropriation of all investment income on the endowment funds for expenditure.

The net asset composition for donor restricted endowment funds by type of fund as of December 31 is as follows:

	<u>2020</u>	<u>2019</u>
Tomorrow Fund	\$ 12,045	\$ 11,771
Other	649	744
	<u>\$ 12,694</u>	<u>\$ 12,515</u>

Changes in endowment net assets for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Endowment net assets with donor restrictions, January 1	\$ 12,515	\$ 11,294
Investment return		
Investment income	319	328
Net appreciation (realized and unrealized)	(22)	921
Total investment return	297	1,249
Contributions	3	11
Appropriation of endowment assets for expenditure	(121)	(39)
Endowment net assets with donor restrictions, December 31	<u>\$ 12,694</u>	<u>\$ 12,515</u>

The amounts contributed to SSNC endowment funds have been retained permanently by explicit donor stipulation and the fair values of the original gifts have been preserved in accordance with UPMIFA. SSNC does not hold term endowment funds or perpetual endowment funds subject to time restrictions.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires SSNC to retain as a fund of perpetual duration. SSNC had no deficiencies of this nature in its endowment funds, as of December 31, 2020 or 2019.

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Return objectives and risk parameters – SSNC has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the original gift value of the endowment assets. Endowment assets include those assets of donor-restricted funds that SSNC must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the Consumer Price Index by 3.25% annually, on average, while assuming a moderate level of investment risk. SSNC expects its endowment funds, over time, to provide an average rate of return of at least 6.25% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, SSNC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). SSNC targets a diversified asset allocation that places a greater emphasis on fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – SSNC has a policy of appropriating the endowment fund’s investment income for expenditure as the income is earned. In establishing this policy, SSNC considered the long-term expected return on its endowment. This is consistent with SSNC’s objective to maintain the original gift value of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment returns.

NOTE 13 – NET ASSETS

Sequoia Living’s net assets with donor restrictions include endowments and other donor-restricted funds established for a variety of purposes as described under endowments. The composition for net assets with donor restrictions is as follows:

	2020	2019
Tomorrow fund	\$ 17,484	\$ 16,494
Other funds	9,172	8,458
Planned gifts	7,930	7,727
Total net assets with donor restrictions	\$ 34,586	\$ 32,679

There are no Board designated net assets without donor restrictions.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

NOTE 14 – FUNCTIONAL EXPENSE

The following reflects the expenditures made by Sequoia Living net of amounts funded by grants and other donation support for the years ended December 31, 2020 and 2019:

	Functional Expense 2020				
	Program Services			Supporting Services	
	Housing	Health Care	Other Program Services	Management and General	Total
Compensation and benefits	\$ 26,047	\$ 23,845	\$ 3,169	\$ 7,883	\$ 60,944
Purchased services	5,478	888	652	507	7,525
Medical services	790	1,974	-	-	2,764
Supplies	5,940	1,237	557	221	7,955
Repairs and maintenance	4,230	518	204	495	5,447
Utilities	4,828	412	121	26	5,387
Professional fees	2,234	192	1,485	736	4,647
Depreciation	11,710	1,725	429	-	13,864
Interest	6,433	445	-	-	6,878
Other operating	1,425	435	645	1,895	4,400
	<u>\$ 69,115</u>	<u>\$ 31,671</u>	<u>\$ 7,262</u>	<u>\$ 11,763</u>	<u>\$ 119,811</u>
	Functional Expense 2019				
	Program Services			Supporting Services	
	Housing	Health Care	Other Program Services	Management and General	Total
Compensation and benefits	\$ 27,012	\$ 19,993	\$ 3,583	\$ 7,258	\$ 57,846
Purchased services	4,818	607	558	520	6,503
Medical services	884	2,247	-	-	3,131
Supplies	5,840	1,076	285	93	7,294
Repairs and maintenance	4,741	152	85	318	5,296
Utilities	5,114	66	112	28	5,320
Professional fees	3,404	102	503	1,000	5,009
Depreciation	10,971	1,838	380	-	13,189
Interest	4,145	28	358	-	4,531
Other operating	2,108	194	596	482	3,380
	<u>\$ 69,037</u>	<u>\$ 26,303</u>	<u>\$ 6,460</u>	<u>\$ 9,699</u>	<u>\$ 111,499</u>

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or support services. Programs include areas such as activities, transportation and wellness. The expenses are allocated based on location and related overhead costs while other expenses such as salaries and benefits are based on actual department categories.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

NOTE 15 – UNAMORTIZED ENTRANCE FEES

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 126,509	\$ 124,344
New fees received	32,449	21,129
Entrance fees refunded	(1,452)	(1,308)
Amortization	<u>(18,079)</u>	<u>(17,656)</u>
Balance, end of year	<u>\$ 139,427</u>	<u>\$ 126,509</u>

Entrance fees still within a potentially refundable declining period as of December 31, 2020 and 2019, were \$100.7 million and \$68.5 million, respectively. Based on the past five years, actual refunds have averaged \$2.3 million per year for the potentially refundable declining period. Upon achieving stabilized occupancy, VSL management expects to pay refunds in future years of approximately \$3.8 million per year.

NOTE 16 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,761	\$ 19,704
Marketable securities	117,406	98,335
Accounts, notes and interest receivable	4,194	3,186
Pledges receivable, net of allowance, current	<u>519</u>	<u>831</u>
	<u>\$ 127,880</u>	<u>\$ 122,056</u>

Sequoia Living's liquidity management policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, Sequoia Living has a line of credit of \$2 million. See Note 9 for more information on the line of credit as of December 31. Additionally, limited use assets, current of \$23.5 million and \$36.0 million as of December 31, 2020 and 2019, respectively, although not broadly used for general expenditures, are managed for project expenditures as described in Note 8, which make up \$13.2 million and \$25.3 million of current liabilities, respectively.

Sequoia Living, Inc.
Notes to Consolidated Financial Statements
(Amounts in Thousands)

NOTE 17 – NONCONTROLLING INTEREST

The change in noncontrolling interest in WPA L.P., TPT L.P. and EPA L.P. is shown below:

	<u>WPA L.P.</u>	<u>TPT L.P.</u>	<u>EPA L.P.</u>	<u>Total</u>
Noncontrolling interest at January 1, 2019	\$ 9,505	\$ 22,801	\$ -	\$ 32,306
Capital contributions	-	-	5,129.0	5,129
Net income (loss)	<u>(857)</u>	<u>(580)</u>	<u>103.0</u>	<u>(1,334)</u>
Attributed net loss	<u>(857)</u>	<u>(580)</u>	<u>5,232</u>	<u>(1,334)</u>
Noncontrolling interest at December 31, 2019	<u>\$ 8,648</u>	<u>\$ 22,221</u>	<u>\$ 5,232</u>	<u>\$ 36,101</u>
	<u>WPA L.P.</u>	<u>TPT L.P.</u>	<u>EPA L.P.</u>	<u>Total</u>
Noncontrolling interest at December 31, 2019	\$ 8,648	\$ 22,221	\$ 5,232	\$ 36,101
Capital contributions	-	-	-	-
Net income (loss)	<u>266</u>	<u>(837)</u>	<u>(130)</u>	<u>(701)</u>
Attributed net loss	<u>266</u>	<u>(837)</u>	<u>(130)</u>	<u>(701)</u>
Noncontrolling interest at December 31, 2020	<u>\$ 8,914</u>	<u>\$ 21,384</u>	<u>\$ 5,102</u>	<u>\$ 35,400</u>

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Sequoia Living is involved in certain routine matters of litigation related to its operations. Management does not expect any material impact on the consolidated financial position from any such matters; however, due to the inherent uncertainties in litigation, it is possible that amounts ultimately paid, if any, may exceed management's expectations.

As of December 31, 2020, Sequoia Living had a number of capital projects ongoing. Sequoia Living, EPA L.P. and VSL have entered various contracts in relation to these capital projects. The total remaining commitment as of December 31, 2020 is \$28.8 million.

Sequoia Living is a recipient of federal awards. These awards are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantors, if any, cannot be determined at this time, although Sequoia Living expects such amounts, if any, to be immaterial.

Sequoia Living, Inc.

Notes to Consolidated Financial Statements

(Amounts in Thousands)

Sequoia Living is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as significant repayments for patient services previously billed. Sequoia Living has implemented a voluntary corporate compliance program which includes guidance for all Sequoia Living employees' adherence to applicable laws and regulations. Management is not aware of any actions or potential actions as of December 31, 2020 and 2019.

COVID-19 pandemic – In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their patients and customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including Sequoia Living's operations.

On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities Act ("CARES Act"). The CARES Act included provisions for health care under the Provider Relief Fund. Throughout 2020, Sequoia Living received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services ("HHS") of approximately \$2.6 million. Sequoia Living was required to and did timely sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. For the year ended December 31, 2020, Sequoia Living has recognized approximately \$2.6 million of the Provider Relief Fund in contributions revenue without donor restrictions on its consolidated statement of operations.

Sequoia Living's management has been closely monitoring the impact of COVID-19 on Sequoia Living's operations, including the impact on its patients and employees. The duration and intensity of the pandemic is uncertain but may influence patient decisions, donor decisions, and may also negatively impact collections of the Sequoia Living's receivables.

NOTE 19 – SUBSEQUENT EVENTS

Sequoia Living has evaluated subsequent events through April 30, 2021, which is the date the consolidated financial statements were issued, and has identified the following subsequent event:

In February 2021, due to the expansion of a vendor contract that reduced the number of active participants in the noncontributory defined benefit pension plan, a plan curtailment occurred. As a result, Sequoia Living remeasured the benefit obligation as of February 28, 2021, noting a projected benefit obligation of \$98.6 million and plan assets of \$87.6 million, yielding an unfunded pension liability of \$11.0 million. The resulting curtailment gain, which reduced the projected benefit obligation and increased net assets without donor restrictions was \$1.7 million.

Supplementary Information (Unaudited)

Sequoia Living, Inc.
Consolidating Balance Sheet (Unaudited)
December 31, 2020
(Amounts in Thousands)

	2020				
	Sequoia Living	VSL	SSNC	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	\$ 3,403	\$ 585	\$ 1,773	\$ -	\$ 5,761
Marketable securities	88,304	-	29,102	-	117,406
Accounts, notes and interest receivable	9,831	315	-	(5,952)	4,194
Pledges receivable, net of allowance	-	-	519	-	519
Limited use assets, current	2,520	20,945	-	-	23,465
Investments designated for refundable deposits, current	-	6,620	-	-	6,620
Prepaid expenses and other assets	2,745	-	-	-	2,745
Total current assets	<u>106,803</u>	<u>28,465</u>	<u>31,394</u>	<u>(5,952)</u>	<u>160,710</u>
Investments contractually limited for replacement reserves on properties financed by HUD	25,719	-	-	-	25,719
Investments held in trust	-	-	15,444	-	15,444
Investments, other	3,102	-	-	-	3,102
Trust contributions receivable	-	-	1,295	-	1,295
Pledges receivable, noncurrent	-	-	177	-	177
Limited use assets, noncurrent	4,640	69,837	-	-	74,477
Property and equipment, net	211,029	184,520	-	-	395,549
Total assets	<u>\$ 351,293</u>	<u>\$ 282,822</u>	<u>\$ 48,310</u>	<u>\$ (5,952)</u>	<u>\$ 676,473</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 10,532	\$ 11,754	\$ 73	\$ -	\$ 22,359
Payroll and related taxes payable	7,766	-	-	-	7,766
Line of credit - unsecured	2,000	-	-	-	2,000
Current portion of long-term debt	1,849	-	-	-	1,849
Accrued interest payable	1,743	3,098	-	-	4,841
Refundable deposits	1,063	6,620	-	-	7,683
Entrance fees paid in advance	637	-	-	-	637
Due to (from) related party	-	5,889	63	(5,952)	-
Total current liabilities	<u>25,590</u>	<u>27,361</u>	<u>136</u>	<u>(5,952)</u>	<u>47,135</u>
Long-term debt, net, less current portion	146,564	185,619	-	-	332,183
Liability on refundable contracts	14,639	37,552	-	-	52,191
Liability for payments to trust beneficiaries	-	-	6,688	-	6,688
Pension liability	20,448	-	-	-	20,448
Unamortized entrance fees	121,446	17,981	-	-	139,427
Other long term liabilities	3,800	-	1,346	-	5,146
Total liabilities	<u>332,487</u>	<u>268,513</u>	<u>8,170</u>	<u>(5,952)</u>	<u>603,218</u>
Net assets					
Net assets (deficit) without donor restrictions					
Controlling interest	8,606	(10,891)	5,554	-	3,269
Noncontrolling interest	35,400	-	-	-	35,400
Contributed capital	(25,200)	25,200	-	-	-
Total net assets without donor restriction	<u>18,806</u>	<u>14,309</u>	<u>5,554</u>	<u>-</u>	<u>38,669</u>
Net assets with donor restrictions	-	-	34,586	-	34,586
Total net assets	<u>18,806</u>	<u>14,309</u>	<u>40,140</u>	<u>-</u>	<u>73,255</u>
Total liabilities and net assets	<u>\$ 351,293</u>	<u>\$ 282,822</u>	<u>\$ 48,310</u>	<u>\$ (5,952)</u>	<u>\$ 676,473</u>

Sequoia Living, Inc.
Consolidating Statement of Operations (Unaudited)
Year Ended December 31, 2020
(Amounts in Thousands)

	2020				Consolidated
	Sequoia Living	VSL	SSNC	Eliminations	
OPERATING REVENUES, INCOME, GAINS, AND SUPPORT, NET					
Operating revenues, income and gains, net					
Resident fees	\$ 73,555	\$ 171	\$ -	\$ -	\$ 73,726
Amortization of entrance fees	17,890	94	-	-	17,984
Fees for services and other income	15,996	9	143	-	16,148
Investment income, including realized and unrealized gains and losses on investments	12,901	403	831	-	14,135
	<u>120,342</u>	<u>677</u>	<u>974</u>	<u>-</u>	<u>121,993</u>
Support					
Contributions	2,644	-	238	-	2,882
Net assets released from restrictions	-	-	1,357	-	1,357
Total operating revenues, income, gains, and support, net	<u>122,986</u>	<u>677</u>	<u>2,569</u>	<u>-</u>	<u>126,232</u>
EXPENSES					
Compensation and Benefits	59,847	1,097	-	-	60,944
Purchased Services	7,399	126	-	-	7,525
Medical Services	2,764	-	-	-	2,764
Supplies	7,767	188	-	-	7,955
Repairs and Maintenance	5,436	11	-	-	5,447
Utilities	5,387	-	-	-	5,387
Professional Fees	4,033	614	-	-	4,647
Depreciation	13,317	547	-	-	13,864
Interest	5,627	1,251	-	-	6,878
Other Operating	3,558	842	-	-	4,400
Total expenses	<u>115,135</u>	<u>4,676</u>	<u>-</u>	<u>-</u>	<u>119,811</u>
Excess (deficiency) of operating revenues, income, gains, and support, net, over expenses	<u>\$ 7,851</u>	<u>\$ (3,999)</u>	<u>\$ 2,569</u>	<u>\$ -</u>	<u>\$ 6,421</u>

Sequoia Living, Inc.
Consolidating Statement of Changes in Net Assets (Unaudited)
Year Ended December 31, 2020
(Amounts in Thousands)

	2020				Consolidated
	Sequoia Living	VSL	SSNC	Eliminations	
NET ASSETS WITHOUT DONOR RESTRICTIONS					
Excess (deficiency) operating revenues, income, gains, and support, net, over expenses	\$ 7,851	\$ (3,999)	\$ 2,569	\$ -	\$ 6,421
Grants transferred for programs and facilities	2,404	-	(2,404)	-	-
Change in additional minimum pension liability	(8,383)	-	-	-	(8,383)
Contributed capital	-	-	-	-	-
Other	(493)	-	-	-	(493)
Change in net assets without donor restrictions	<u>1,379</u>	<u>(3,999)</u>	<u>165</u>	<u>-</u>	<u>(2,455)</u>
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	-	-	1,160	-	1,160
Investment income including net realized gains on investments	-	-	1,463	-	1,463
Change in value of split-interest agreements	-	-	(43)	-	(43)
Unrealized gains from investments held in trust	-	-	684	-	684
Net assets released from restrictions	-	-	(1,357)	-	(1,357)
Change in net assets with donor restrictions	<u>-</u>	<u>-</u>	<u>1,907</u>	<u>-</u>	<u>1,907</u>
Change in net assets	1,379	(3,999)	2,072	-	(548)
NET ASSETS					
Beginning of year	<u>17,427</u>	<u>18,308</u>	<u>38,068</u>	<u>-</u>	<u>73,803</u>
End of Year	<u>\$ 18,806</u>	<u>\$ 14,309</u>	<u>\$ 40,140</u>	<u>\$ -</u>	<u>\$ 73,255</u>

Sequoia Living, Inc.
Consolidating Statement of Cash Flows (Unaudited)
Year Ended December 31, 2020
(Amounts in Thousands)

	2020			
	Sequoia Living	VSL	SSNC	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from entrance fees	\$ 14,374	\$ 18,075	\$ -	\$ 32,449
Cash received from resident fees	73,757	258	-	74,015
Cash received from services and other income	16,163	8	-	16,171
Cash received from contributions	2,644	-	1,686	4,330
Cash received/paid for grants and support	2,452	-	(2,452)	-
Investment income	3,587	2,422	1,280	7,289
Interest paid, net of amount capitalized	(6,006)	-	-	(6,006)
Refunds of entrance fees paid	(1,452)	-	-	(1,452)
Cash paid to employees and suppliers	(83,123)	(2,875)	-	(85,998)
Cash receipts (payments by) related party	(4,107)	4,107	-	-
Cash contribution to defined benefit plan	(2,800)	-	-	(2,800)
Cash provided by operating activities	<u>15,489</u>	<u>21,995</u>	<u>514</u>	<u>37,998</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments	345	-	6,535	6,880
Sale of investments	-	(22)	-	(22)
Purchase of investments	(13,049)	-	(5,380)	(18,429)
Purchase of property and equipment	(33,536)	(73,883)	-	(107,419)
Cash (used in) provided by investing activities	<u>(46,240)</u>	<u>(73,905)</u>	<u>1,155</u>	<u>(118,990)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of long-term debt and notes payable	(1,759)	-	-	(1,759)
Issuance of debt	17,545	-	-	17,545
Proceeds from endowment contributions	-	-	3	3
Proceeds from contributions held in trust	-	-	123	123
Payments to trust beneficiaries	-	-	(978)	(978)
Proceeds from refundable deposits	294	2,005	-	2,299
Proceeds from refundable entrance fees	1,287	32,450	-	33,737
Refunds of refundable deposits	-	(6,269)	-	(6,269)
Refunds of refundable entrance fees	(1,224)	-	-	(1,224)
Investment income from marketable securities held in trust	-	-	358	358
Cash provided by (used in) financing activities	<u>16,143</u>	<u>28,186</u>	<u>(494)</u>	<u>43,835</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(14,608)	(23,724)	1,175	(37,157)
Beginning of year	50,890	115,783	598	167,271
End of year	<u>\$ 36,282</u>	<u>\$ 92,059</u>	<u>\$ 1,773</u>	<u>\$ 130,114</u>
NON CASH TRANSACTIONS				
Changes in fixed asset additions included in accounts payable	<u>\$ 1,545</u>	<u>\$ (13,573)</u>	<u>\$ -</u>	<u>\$ (12,028)</u>

Sequoia Living, Inc.
Notes to Consolidating Financial Statements (Unaudited)
(Amounts in Thousands)

Basis of presentation – The consolidating information is not a required part of the consolidated financial statements. The accompanying consolidating information was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The first column, Sequoia Living alone represents the parent entity without consolidation of its direct or indirect subsidiaries listed in the next columns. VSL and SSNC are described in Note 1 of the consolidated financial statements under Corporate Structure.

The consolidating information is prepared to clarify continuing disclosure as required by Municipal Securities Rulemaking Board (MSRB) through Electronic Municipal Market Access (EMMA) in connection with the issuance of revenue bonds described in Note 9 for Sequoia Living and VSL.

