Report of Independent Auditors and
Financial Statements

Viamonte Senior Living 1, Inc.

December 31, 2021 and 2020

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Viamonte Senior Living 1, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Viamonte Senior Living 1, Inc. ("VSL"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Viamonte Senior Living 1, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information included in the Annual Report

Management is responsible for the other information included in the California Department of Social Services Annual Report. The other information comprises the Forms 1-1, 1-2, and 7-1, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Moss Adams LLP

San Francisco, California
April 29, 2022

Financial Statements

Viamonte Senior Living 1, Inc.
Balance Sheets
December 31, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,287,008	$ 585,385
Accounts, notes, and interest receivable	-	313,169
Investments designated for refundable deposits	3,220,451	6,620,932
Limited use assets, current portion	24,428,052	33,026,212
Total current assets	28,935,511	40,545,698
PROPERTY AND EQUIPMENT, net	182,760,847	184,520,498
LIMITED USE ASSETS, noncurrent portion	30,414,034	57,726,158
Total assets	$ 242,110,392	$ 282,792,354
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 394,377	$ 11,724,212
Refundable deposits	3,219,866	6,620,347
Accrued interest payable	2,272,562	3,097,563
Entrance fee deposits received in advance	1,330,600	-
Due to related party	7,822,478	5,889,290
Total current liabilities	15,039,883	27,331,412
OTHER LIABILITIES		
Long-term debt, net	131,745,761	185,618,967
Liability on refundable contracts	64,727,114	37,551,897
Unamortized entrance fees	29,520,062	17,981,068
Total other liabilities	225,992,937	241,151,932
Total liabilities	241,032,820	268,483,344
NET ASSETS		
Net deficit without donor restrictions	(24,122,428)	(10,890,990)
Contributed net assets	25,200,000	25,200,000
Total net assets without donor restrictions	1,077,572	14,309,010
Total liabilities and net assets	$ 242,110,392	$ 282,792,354

 See accompanying notes.

	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Operating revenues, income, and gains, net:		
Resident fees	$ 5,001,532	$ 171,382
Amortization of entrance fees	2,225,409	94,186
Fees for service and other income	280,038	7,777
Investment income, including realized and unrealized gains and losses on investments	40,923	402,590
Total operating revenues, income, and gains, net	7,547,902	675,935
Expenses		
Interest	6,771,918	1,251,045
Depreciation	3,294,495	547,429
Compensation and benefits	3,228,320	1,095,750
Purchased services	2,686,396	126,203
Professional fees	1,899,432	613,868
Other	1,036,240	842,679
Repairs and maintenance	955,333	10,742
Utilities	595,086	
Supplies	393,150	188,493
Total expenses	20,860,370	4,676,209
Deficiency of operating revenues, income, and gains, and support, net, over expenses	(13,312,468)	(4,000,274)
Other income		
Grants transferred for programs and facilities	21,547	-
Other	59,483	-
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(13,231,438)	(4,000,274)
NET ASSETS, beginning of year	14,309,010	18,309,284
NET ASSETS, end of year	$ 1,077,572	$ 14,309,010

Viamonte Senior Living 1, Inc.
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from investment income	$ 46,314	$ 2,361,917
Cash paid to suppliers	(10,739,865)	(2,874,809)
Interest paid, net of amount capitalized	(6,470,125)	-
Cash received from entrance fees	15,372,485	18,075,254
Cash paid for entrance fee refunds	(1,608,082)	-
Cash received from resident fees	5,314,701	258,213
Cash received for grants and support	21,547	
Other receipts from operations	1,610,638	7,777
Cash receipts from related party	1,933,188	4,106,662
Cash provided by operating activities	5,480,801	21,935,014
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	5,929,391	-
Purchase of investments	-	(21,800)
Cash used for purchase of property and equipment	(12,864,679)	(73,852,564)
Cash used in investing activities	(6,935,288)	(73,874,364)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of refundable deposits paid	(1,812,061)	(6,269,583)
Proceeds from refundable deposits	1,886,240	2,004,480
Refunds of refundable entrance fees	(3,051,598)	-
Payments on note payable	(55,000,000)	-
Proceeds from refundable entrance fees	26,752,155	32,450,417
Cash (used in) provided by financing activities	(31,225,264)	28,185,314
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(32,679,751)	(23,754,036)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	92,029,296	115,783,332
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 59,349,545	$ 92,029,296
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Purchase of property and equipment, accrued but not paid	$ 394,377	$ 11,754,413

See accompanying notes.

NOTE 1 – CORPORATE PURPOSE AND STRUCTURE

Corporate purpose – Viamonte Senior Living 1, Inc. (“VSL”) was formed in 2016 to develop and operate a Continuing Care Retirement Community in Walnut Creek, California to provide housing and services to older persons.

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

VSL is governed by a Board of Directors consisting of 4 to 6 members. Directors are appointed by Sequoia Living and at least 4 Directors must also be members of the Sequoia Living Board. Sequoia Living provides development and management services to VSL. In 2017, Sequoia Living contributed $22.9 million in predevelopment costs to VSL consisting of $6.17 million of property and equipment, $0.76 million of deferred cost, and $16 million of cash. In 2018, the remaining cash contribution of $2.27 million was made. These contributed predevelopment costs are disclosed as “contributed net assets” on the balance sheets. In addition to management fees, Sequoia Living may receive incentive payments if VSL’s financial performance exceeds agreed upon net operating margin targets.

The new facility (“Viamonte”) opened in November 2020 and consists of 174 independent living units, with an additional 7 assisted living units and 10 memory care units opened during 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.

The projected cost of the project was budgeted at $220 million and was materially completed resulting in a Certificate of Occupancy on November 5, 2020. VSL issued tax exempt revenue bonds insured by Cal Mortgage in the amount of $191.4 million including bond premium of $4.2 million to cover construction, funded interest, and reserve requirements. The permanent financing closed on May 24, 2018 with revenue bonds insured by the State of California, through its Cal Mortgage Loan Program (see Note 6). The bonds are designated as (a) “California Statewide Communities Development Authority Insured Revenue Bonds, Series 2018A (VSL Project)” for $45.2 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 (VSL Project – Entrance Fee Redemption)” for $39.0 million; 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, and Series 2018B-3 bonds (which are subject to optional redemption on or after January 1, 2021) in full from initial entrance fees prior to the stated maturities. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). 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 VSL 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. VSL did not have any net assets with donor restrictions in 2021 or 2020.

Performance indicator – "Excess of operating revenues, income, gains and support, net, over expenses" as reflected in the accompanying statements of operations and changes in net assets is the performance indicator.

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

	2021	2020
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 1,287,008	$ 585,385
Refundable deposits	3,220,451	6,620,932
Cash and cash equivalents in limited use assets	54,842,086	84,822,979
Total cash, cash equivalents and restricted cash on the statements of cash flows	$ 59,349,545	$ 92,029,296

Limited use assets – Limited use assets at December 31, 2021 and 2020, consist of cash, money market funds, and U.S. government securities whose use is held for capital projects, working capital, 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 and to pay down the Series 2018B-1, 2018B-2, and 2018B-3 bonds when certain entrance fee proceed thresholds are met, for which VSL has set aside $24.9 million and $37.2 million as of December 31, 2021 and 2020, respectively. An additional $18.0 million is reserved as of both December 31, 2021 and 2020 to cover working capital needs until VSL reaches stabilized occupancy. For limited use assets, net carrying value approximates fair value at period end.

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

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

Accounts, notes, and interest receivable – Accounts, notes, and interest receivable represent amounts due from prospective residents for deposits. As of December 31, 2021 and 2020, all accounts were deemed collectible.

Property and equipment, net – Property and equipment, net 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:

Buildings	60 years
Building equipment	20 years
Building and land improvement	10 years
Equipment, furniture, and furnishings	4–10 years

VSL evaluates whether events and circumstances have occurred that indicate whether the carrying value of long-lived assets have been impaired. In the event that VSL determines that impairment has occurred, a write-down to estimated fair value would be recorded. Measurement is based on those assets' estimated fair values as compared to the carrying value. No events have occurred during the years ended December 31, 2021 and 2020, that would indicate an impairment of value.

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

Deferred financing costs – Costs associated with the issuance of bonds are amortized over the term of the respective bonds using the effective interest method. As of December 31, 2021 and 2020, accumulated amortization was $6.6 million and $5.1 million, respectively. For the years ended December 31, 2021 and 2020, amortization expense was $1.5 million and $1.8 million, respectively, of which $0 and $1.5 million was capitalized as part of construction in progress as a component of property and equipment, net in the accompanying balance sheets, and $1.5 million and $0.3 million recorded as interest expense for the years ended December 31, 2021 and 2020, respectively. Deferred financing costs are included as a component of long-term debt, net in the accompanying balance sheets.

Bond premium – The bond premium is netted with the related Series 2018 bonds and is amortized over the term of the bonds using the effective interest method. As of December 31, 2021 and 2020, accumulated amortization was $1.5 million and $1.1 million, respectively. For the years ended December 31, 2021 and 2020, amortization expense was $0.4 million and $0.4 million, respectively, of which $0 and $0.4 million was capitalized as part of construction in progress as a component of property and equipment in the accompanying balance sheets, respectively.

Continuing care contracts – VSL has entered into continuing care contracts with residents of Viamonte. Under the provisions of these contracts, residents are required to pay an entrance fee and periodic monthly fees (resident fees) for services and use of facilities. The resident fees are subject to adjustment for changes in operating costs or other economic reasons. Resident fees will also be increased for residents who move to a higher level of care. VSL is obligated to provide long-term care.

VSL provides two types of continuing care contracts to its residents: fully amortizable and repayment. Under the fully amortizable contract, entrance fees are one-time payments made by residents of the continuing care facility 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 table for married residents.

Under the fully amortizable contracts, VSL is contractually obligated to refund to a vacating resident the entrance fee received less an amount equal to 1.5% of the entrance for each month of residency. No refund is made after five and a half years of occupancy. In the event of death or involuntary termination, VSL 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%

Two versions of the repayment contracts are offered, one with 50% repayment and the other with 75% repayment. An 80% repayment contract option was offered originally for “Charter Members.” Under the repayment contracts, residents pay a higher entrance fee, 80%, 75%, or 50% 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 20%, 25%, or 50% 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 the Health and Safety Code for single residents and an actuarially prepared joint life expectancy table for married residents.

Since the start of construction, the base contract converted to 75% repayable and entrance fees will increase by approximately 5%. While under construction, the refundable deposit of the entrance fee and waitlist deposit are subject to full refundability until the resident moves in. Therefore, the full refundable deposit amount for residents who have not yet moved in is recorded as an asset and liability.

The resident contracts include a discount of 10% from the full private pay daily rate charged at Viamonte’s Assisted Living (“AL”) or Memory Care (“MC”) if there are no AL or MC residences available or the resident’s needs exceed the level of care that can be provided by Viamonte and the resident must receive care at an outside facility as determined by VSL.

As of December 31, 2021, $3.2 million in escrow deposits from prospective residents had been received, compared with $6.6 million at December 31, 2020. The deposits are fully refundable.

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. VSL 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, 2021 or 2020. The discount rate used to calculate the obligation to provide future services is 4.5%.

Revenue recognition – VSL accounts for revenue recognition under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606").

Investment income, including realized gains and losses on investments in the statements of operations, is accounted for outside the scope of ASC 606.

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 VSL 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. VSL has recorded approximately $5.0 million and $0 of resident fee related revenue for the years ended December 31, 2021 and 2020, respectively.

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

	2021	2020
Resident fees by line of service:		
Independent living	$ 4,891,247	$ 171,382
Assisted living	71,085	-
Memory care	39,200	-
	$ 5,001,532	$ 171,382

Amortization of entrance fees revenue – Under the provision of continuing care contracts, residents are required to pay an entrance fee, which is a one-time payment made by residents of the continuing care facility that, in addition to resident fees, provide for living accommodations. The performance obligation for nonrefundable entrance fees is that VSL 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 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, 2021 and 2020, VSL had $29.5 million and $18.0 million, respectively, in unamortized entrance fees to be recognized as the performance obligations are satisfied. See Note 8 for changes in the unamortized entrance fees for the years ended December 31, 2021 and 2020. The performance obligation is satisfied upon termination of the residency agreement.

Fees for services and other income – 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, VSL 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.

VSL determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to a third party. VSL 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 methodologies 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 VSL'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 VSL.

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 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 VSL'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 2021 or 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. VSL 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, 2021 and 2020 was not significant.

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

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

Concentration of credit risk – Financial instruments potentially subjecting VSL 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.

Novel coronavirus ("COVID-19") pandemic – In March 2020, the World Health Organization declared 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. The duration and intensity of the pandemic is uncertain but may influence resident decisions and may also negatively impact operating results.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, and losses during the reporting period. Significant estimates include unamortized entrance fees, estimated future service obligations, fair values of investments, and useful lives of fixed assets. Actual results may differ from those estimates.

Fair value of financial instruments – VSL's financial instruments consist of accounts, notes, and interest receivable, limited use assets, refundable deposits, and accounts payable. It is management's opinion that VSL is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise indicated, the fair value of all reported assets and liabilities that represented financial instruments approximate their carrying values. VSL's policy is to recognize transfers in and transfers out of Level 1 and 2 as of the end of the reporting period. Please see Note 5 for fair value hierarchy disclosures.

New accounting pronouncements – In June 2016, the Financial Accounting Standards Board ("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. VSL 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 VSL beginning January 1, 2023. The adoption of ASU 2016-13 is not expected to have a material impact on VSL's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)* ("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 VSL beginning January 1, 2021. The adoption of ASU 2018-15 did not have a material impact on VSL's financial statements.

Reclassifications – Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation.

NOTE 3 – TAX STATUS

VSL has been granted an exemption from federal income tax under the Internal Revenue Code, Section 501(c)(3). This Internal Revenue Code section provides for taxation of certain unrelated business income. Management believes that VSL has had no significant unrelated business income to date. VSL is exempt from state income tax under similar provisions of the Franchise Tax Board of the State of California. At both December 31, 2021 and 2020, there were no such uncertain tax positions.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net at December 31, 2021 and 2020, consist of the following:

	2021	2020
Building and fixtures	$ 170,403,613	$ 169,585,319
Land	11,211,075	11,211,075
Furniture and equipment	4,416,537	4,179,768
Land improvements	571,546	91,765
	186,602,771	185,067,927
Less: accumulated depreciation	(3,841,924)	(547,429)
Total property and equipment, net	$ 182,760,847	$ 184,520,498

Capitalized interest expense for the years ended December 31, 2021 and 2020 was approximately $0 million and $4.3 million, respectively. Depreciation expense of approximately $3.3 million and $0.5 million was recorded for the years ended December 31, 2021 and 2020, respectively.

NOTE 5 – FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement* (“ASC 820”), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers’ needs.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the balance sheets at December 31, 2021 and 2020, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Limited use assets – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment and other investments and are valued at the closing price reported in the active market in which the individual security is traded. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, discounted cash flows, or net asset values.

The fair values of limited use assets are as follows as of December 31, 2021 and 2020:

	December 31, 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at fair market value:				
Money market funds	$ 54,842,086	$ 54,842,086	$ -	$ -
Total assets at fair market value	$ 54,842,086	$ 54,842,086	$ -	$ -

	December 31, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at fair market value:				
Money market funds	$ 84,822,979	$ 84,822,979	$ -	$ -
U.S. government securities	5,929,391	5,929,391	-	-
Total assets at fair market value	$ 90,752,370	$ 90,752,370	$ -	$ -

VSL's Board of Directors meets with management and the investment advisors to review the strategy and ongoing performance of all investments, including analyzing changes in fair value measurements from period to period.

Limited use assets at December 31 are held by trustees for the development and construction of the facility, as well as to repay the Series 2018B-1, 2018B-2, and 2018B-3 bonds, in accordance with the Master Trust Indenture.

	2021	2020
California Health Facilities Financing Authority		
Revenue Bond Series 2018:		
Project fund	$ 413	$ 26,324,030
Principal and interest fund	6,031,875	3,302,000
Debt service reserve fund	5,924,000	5,929,391
	11,956,288	35,555,421
Investments held by trustee for working capital	18,001,800	18,000,000
Investments held by trustee for repayment of revenue bonds	24,883,998	37,196,949
	54,842,086	90,752,370
Less: current portion	(24,428,052)	(33,026,212)
Total noncurrent portion	$ 30,414,034	$ 57,726,158

The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects and to pay down the Series 2018B-1, 2018B-2, and 2018B-3 bonds when certain entrance fee proceed thresholds are met, for which VSL has set aside approximately $24.9 million and $37.2 milliion as of December 31, 2021 and 2020, respectively. An additional $18.0 million is reserved to cover working capital needs until VSL reaches stabilized occupancy.

NOTE 6 – LONG-TERM DEBT, NET

Long-term debt, net comprises the following at December 31:

	2021	2020
California Health Facilities Financing Authority:		
Revenue Bond Series 2018, Series Bonds Payable:		
Series 2018A interest at 3.5–5% maturing in 2047	$ 45,230,000	$ 45,230,000
Series 2018B-1 interest 3% maturing in 2025	25,000,000	80,000,000
Series 2018B-2 interest 3% maturing in 2026	39,000,000	39,000,000
Series 2018B-3 interest 3% maturing in 2027	23,000,000	23,000,000
	132,230,000	187,230,000
Unamortized premium	2,588,054	2,991,116
Unamortized issuance costs	(3,072,293)	(4,602,149)
Total long-term debt, net	$ 131,745,761	$ 185,618,967

California Health Facilities Financing Authority requires a project fund for major capital improvements. Approximately $400 and $26 million remain as of December 31, 2021 and 2020, respectively. VSL has made $55 million of principal payments on the revenue bonds in the year ended December 31, 2021. There were no payments due in the year ended December 31, 2020.

The revenue bonds are insured by the State of California, through its Cal Mortgage Loan Program. VSL is required to comply with certain debt covenants beginning in the year ended December 31, 2021. As of December 31, 2021, management believes VSL is in compliance with all debt covenants.

Future principal payments on the bonds are as follows:

Years Ending December 31,	
2022	$ -
2023	-
2024	1,070,000
2025	26,125,000
2026	40,180,000
Thereafter	64,855,000
	$ 132,230,000

NOTE 7 – FUNCTIONAL EXPENSE

The following reflects the expenditures made by VSL for the years ended December 31, 2021 and 2020, respectively:

	Functional Expense 2021				
	Program Services			Supporting Services	
	Housing	Health Care	Other Program Services	Administration	Total
Interest	$ 6,771,918	$ -	$ -	$ -	$ 6,771,918
Depreciation	3,294,495	-	-	-	3,294,495
Compensation and benefits	3,051,444	176,000	-	876	3,228,320
Purchased services	2,671,314	-	7,000	8,082	2,686,396
Professional fees	1,899,432	-	-	-	1,899,432
Other	565,468	-	-	470,772	1,036,240
Repairs and maintenance	942,159	-	13,174	-	955,333
Utilities	595,086	-	-	-	595,086
Supplies	360,150	16,000	8,000	9,000	393,150
	$ 20,151,466	$ 192,000	$ 28,174	$ 488,730	$ 20,860,370

	Functional Expense 2020				
	Program Services			Supporting Services	
	Housing	Health Care	Other Program Services	Administration	Total
Interest	$ 1,251,045	$ -	$ -	$ -	$ 1,251,045
Depreciation	547,429	-	-	-	547,429
Compensation and benefits	1,093,428	-	2,322	-	1,095,750
Purchased services	126,203	-	-	-	126,203
Professional fees	613,868	-	-	-	613,868
Other	192,679	-	-	650,000	842,679
Repairs and maintenance	10,742	-	-	-	10,742
Supplies	188,493	-	-	-	188,493
	$ 4,023,887	$ -	$ 2,322	$ 650,000	$ 4,676,209

The 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 compensation and benefits are based on actual department categories.

NOTE 8 – UNAMORTIZED ENTRANCE FEES

	2021	2020
BALANCE, beginning of year	$ 17,981,068	$ -
New fees received	15,372,485	18,075,254
Entrance fees refunded	(1,608,082)	-
Amortization	(2,225,409)	(94,186)
BALANCE, end of year	$ 29,520,062	$ 17,981,068

Entrance fees still within a potentially refundable declining period as of December 31, 2021 and 2020 were $6.8 million and $3.5 million, respectively. Upon achieving stabilized occupancy, VSL management expects to pay refunds in future years of approximately $3.4 million per year.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIALASSETS

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

	2021	2020
Cash and cash equivalents	$ 1,287,008	$ 585,385
Accounts, notes, and interest receivable	-	313,169
	$ 1,287,008	$ 898,554

VSL's liquidity management has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, limited use assets, current of $24.4 million and $33.0 million as of December 31, 2021 and 2020, respectively, are managed for project expenditures, which make up $0.4 million and $11.7 million of current liabilities, respectively, as well as working capital needs, as described in Note 5.

NOTE 10 – RELATED-PARTY TRANSACTIONS

Sequoia Living provides financial support to VSL for general operating expenditures for which VSL will reimburse the costs once it has begun generating operating income. VSL has a payable due to Sequoia Living on the accompanying balance sheets of approximately $7.8 million and $5.9 million as of December 31, 2021 and 2020, respectively.

NOTE 11 – SUBSEQUENT EVENTS

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

VSL has evaluated subsequent events through April 29, 2022, which is the date the financial statements were issued.

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