Report of Independent Auditors and
Financial Statements

# Viamonte Senior Living 1, Inc.

December 31, 2024 and 2023

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MOSSADAMS

# 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, 2024 and 2023, and the related statements of operations and changes in net deficit, 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, 2024 and 2023, 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.

Moss Adams LLP

San Francisco, California
April 29, 2025

# Financial Statements

# Viamonte Senior Living 1, Inc.
## Balance Sheets
## December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 29,785,674 | $ 30,682,983 |
| Accounts and notes receivable | 2,940,044 | 580,643 |
| Investments designated for refundable deposits | - | 760,920 |
| Prepaid expenses and other assets | 9,398 | 6,791 |
| Limited use assets, current portion | 1,187,647 | 1,021,688 |
| Total current assets | 33,922,763 | 33,053,025 |
| PROPERTY AND EQUIPMENT, net | 173,594,302 | 176,125,687 |
| LIMITED USE ASSETS, noncurrent portion | 6,279,364 | 6,355,448 |
| Total assets | $ 213,796,429 | $ 215,534,160 |
| **LIABILITIES AND NET DEFICIT** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 931,522 | $ 449,079 |
| Refundable deposits | 1,477,058 | 1,200,060 |
| Unamortized entrance fees, current portion | - | 1,222,089 |
| Refunds due residents | 758,020 | - |
| Accrued interest payable | 940,813 | 967,563 |
| Long-term debt - net, current portion | 1,125,000 | 1,070,000 |
| Due to related party | 722,904 | 4,439,841 |
| Total current liabilities | 5,955,317 | 9,348,632 |
| OTHER LIABILITIES | | |
| Long-term debt – net, less current portion | 43,003,336 | 44,168,451 |
| Liability on refundable contracts | 124,603,516 | 121,944,073 |
| Unamortized entrance fees, less current portion | 42,476,921 | 44,595,483 |
| Total other liabilities | 210,083,773 | 210,708,007 |
| Total liabilities | 216,039,090 | 220,056,639 |
| NET DEFICIT | | |
| Net deficit without donor restrictions | (27,442,661) | (29,722,479) |
| Contributed net assets | 25,200,000 | 25,200,000 |
| Total net deficit | (2,242,661) | (4,522,479) |
| Total liabilities and net deficit | $ 213,796,429 | $ 215,534,160 |

See accompanying notes.

# Viamonte Senior Living 1, Inc.
## Statements of Operations and Changes in Net Deficit
## Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Operating revenues, income, and gains, net | | |
| Resident fees | $ 14,008,076 | $ 11,644,204 |
| Amortization of entrance fees | 5,714,038 | 5,280,595 |
| Fees for services and other income | 859,905 | 1,033,350 |
| Investment income | 1,775,153 | 2,800,442 |
| Total operating revenues, income, and gains, net | 22,357,172 | 20,758,591 |
| Expenses | | |
| Compensation and benefits | 5,924,291 | 5,052,691 |
| Purchased services | 4,174,280 | 4,521,472 |
| Depreciation | 3,364,369 | 3,346,049 |
| Other | 2,321,876 | 1,702,349 |
| Interest | 1,868,260 | 3,321,509 |
| Utilities | 1,367,538 | 1,169,285 |
| Repairs and maintenance | 891,141 | 785,121 |
| Professional fees | 328,263 | 291,674 |
| Supplies | 268,463 | 265,700 |
| Total expenses | 20,508,481 | 20,455,850 |
| Excess of operating revenues, income, and gains, net, over expenses | 1,848,691 | 302,741 |
| Other income | | |
| Grants transferred for programs and facilities | 171,088 | 2,510 |
| Other | 260,039 | 42,920 |
| Total other income | 431,127 | 45,430 |
| CHANGES IN NET DEFICIT WITHOUT DONOR RESTRICTIONS | 2,279,818 | 348,171 |
| NET DEFICIT, beginning of year | (4,522,479) | (4,870,650) |
| NET DEFICIT, end of year | $ (2,242,661) | $ (4,522,479) |

See accompanying notes.

# Viamonte Senior Living 1, Inc.
## Statements of Cash Flows
## Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from investment income | $ 1,775,153 | $ 2,800,442 |
| Cash paid to suppliers | (14,671,572) | (13,724,167) |
| Interest paid | (1,935,125) | (3,820,624) |
| Cash received from entrance fees | 2,987,384 | 12,509,150 |
| Cash paid for entrance fee refunds | (613,997) | (367,222) |
| Cash received from resident fees | 14,572,981 | 11,063,561 |
| Cash received for grants and support | 171,088 | 2,510 |
| Other receipts from operations | 859,905 | 1,033,350 |
| Cash payments to related party | (3,716,937) | (2,777,981) |
| Net cash (used in) provided by operating activities | (571,120) | 6,719,019 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of property and equipment | - | 95,678 |
| Cash used for purchase of property and equipment | (832,984) | - |
| Net cash (used in) provided by investing activities | (832,984) | 95,678 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Refunds of refundable deposits paid | (775,862) | (1,177,870) |
| Proceeds from refundable deposits | 1,598,260 | 1,091,560 |
| Refunds of refundable entrance fees | (5,408,870) | (3,271,075) |
| Payments on long-term debt, net | (1,070,000) | (62,000,000) |
| Proceeds from refundable entrance fees | 5,492,222 | 30,338,810 |
| Net cash used in financing activities | (164,250) | (35,018,575) |
| NET CHANGES IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | (1,568,354) | (28,203,878) |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year | 38,821,039 | 67,024,917 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year | $ 37,252,685 | $ 38,821,039 |

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. The facility achieved 97% and 93% occupancy during the years ended December 31, 2024 and 2023, respectively.

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. VSL has paid off the Series 2018B-2 and Series 2018B-3 bonds during the year ended December 31, 2023 with limited use assets and entrance fee proceeds. The Series 2018A bonds will mature on July 1, 2047. VSL anticipates redeeming the Series 2018A, (which is 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 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 accounting principles generally accepted 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 2024 or 2023.

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

| | 2024 | 2023 |
|---|---|---|
| Reconciliation of cash, cash equivalents, and restricted cash | | |
| Cash and cash equivalents | $ 29,785,674 | $30,682,983 |
| Refundable deposits | - | 760,920 |
| Cash and cash equivalents in limited use assets | 7,467,011 | 7,377,136 |
| Total cash, cash equivalents, and restricted cash on the statements of cash flows | $ 37,252,685 | $ 38,821,039 |

**Limited use assets** – Limited use assets at December 31, 2024 and 2023, consist of cash and money market funds 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 2018A bonds when certain entrance fee proceed thresholds are met. 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 and notes receivable** – Accounts and notes receivable represent amounts due from current residents for monthly care fees, as well as prospective residents for deposits. As of December 31, 2024 and 2023, all accounts were deemed collectible. At each balance sheet date, the Company also recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company.

**Property and equipment, net** – Property and equipment, net are recorded at cost. Depreciation is based on the 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 has 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, 2024 and 2023, 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, 2024 and 2023, accumulated amortization was $1.1 million and $0.9 million, respectively. For the years ended December 31, 2024 and 2023, amortization expense was $0.2 million and $0.3 million, 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, 2024 and 2023, accumulated amortization was $1.2 million and $1.0 million, respectively. For the years ended December 31, 2024 and 2023, amortization expense was $0.2 million for each year.

**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 the 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 days, 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.

The refundable deposit of the entrance fee and any waitlist deposits 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, 2024, no escrow deposits from prospective residents had been received, compared with $0.8 million received during the year ended December 31, 2023. 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, 2024 and 2023. The discount rate used to calculate the obligation to provide future services is 5.0% and 4.5% for the years ended December 31, 2024 and 2023, respectively.

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

Investment income 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 over time.

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 $14.0 million and $11.6 million of resident fee related revenue for the years ended December 31, 2024 and 2023, respectively.

| | 2024 | 2023 |
|---|---|---|
| Resident fees by line of service | | |
| Independent living | $ 12,748,522 | $ 10,826,938 |
| Assisted living | 652,890 | 387,385 |
| Memory care | 606,664 | 429,881 |
| | $ 14,008,076 | $ 11,644,204 |

**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, provides 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, 2024 and 2023, VSL had $42.5 million and $45.8 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, 2024 and 2023. 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 2024 or 2023.

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, 2024 and 2023, 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.

**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 Levels 1 and 2 as of the end of the reporting period. Please see Note 5 for fair value hierarchy disclosures.

**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, 2024 and 2023, there were no such uncertain tax positions.

**Note 4 – Property and Equipment, Net**

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

| | 2024 | 2023 |
|---|---|---|
| Building and fixtures | $ 171,433,024 | $ 170,380,109 |
| Land | 11,211,075 | 11,211,075 |
| Furniture and equipment | 4,537,618 | 4,777,387 |
| Land improvements | 302,220 | 282,382 |
| Property and equipment | 187,483,937 | 186,650,953 |
| Less accumulated depreciation | (13,889,635) | (10,525,266) |
| Property and equipment, net | $ 173,594,302 | $ 176,125,687 |

Depreciation expense of $3.4 million and $3.3 million, respectively, was recorded for the years ended December 31, 2024 and 2023.

**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, 2024 and 2023, 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, 2024 and 2023:

| | 2024 | | | |
|---|---|---|---|---|
| | 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 | $ 7,467,011 | $ 7,467,011 | $ - | $ - |
| Total assets at fair market value | $ 7,467,011 | $ 7,467,011 | $ - | $ - |

| | 2023 | | | |
|---|---|---|---|---|
| | 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 | $ 7,377,136 | $ 7,377,136 | $ - | $ - |
| Total assets at fair market value | $ 7,377,136 | $ 7,377,136 | $ - | $ - |

The VSL 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 2018A bond, in accordance with the Master Trust Indenture.

| | 2024 | 2023 |
|---|---|---|
| California Health Facilities Financing Authority | | |
| Revenue Bond Series 2018 | | |
| Project fund | $ 138,664 | $ 420,427 |
| Revenue fund | 213,791 | - |
| Principal and interest fund | 1,119,077 | 967,563 |
| Debt service reserve fund | 5,924,000 | 5,924,000 |
| | 7,395,532 | 7,311,990 |
| Investments held by trustee for working capital | 68,570 | 54,125 |
| Investments held by trustee for repayment of revenue bonds | 2,909 | 11,021 |
| | 7,467,011 | 7,377,136 |
| Less current portion | (1,187,647) | (1,021,688) |
| Total noncurrent portion | $ 6,279,364 | $ 6,355,448 |

The indenture terms require that the trustee control the expenditure of bond proceeds for capital projects and to pay down the Series 2018A bond when certain entrance fee proceed thresholds are met, for which VSL has set aside $3.0 thousand and $11.0 thousand as of December 31, 2024 and 2023, respectively. An additional $68.6 thousand and $54.1 thousand is reserved to cover working capital needs as of December 31, 2024 and 2023, respectively, for the continuing development of the facility.

**Note 6 – Long-Term Debt, Net**

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

| | 2024 | 2023 |
|---|---|---|
| California Health Facilities Financing Authority: | | |
| Revenue Bond Series 2018, Series Bonds Payable: | | |
| Series 2018A interest at 3.5–5% maturing in 2047 | $ 44,160,000 | $ 45,230,000 |
| Unamortized premium | 1,952,986 | 2,143,929 |
| Unamortized issuance costs | (1,984,650) | (2,135,478) |
| | 44,128,336 | 45,238,451 |
| Less current portion | (1,125,000) | (1,070,000) |
| Total long-term debt, net | $ 43,003,336 | $ 44,168,451 |

VSL has made $1.1 million and $62.0 million of principal payments on the revenue bonds in the years ended December 31, 2024 and 2023, respectively.

The revenue bonds are insured by the State of California, through its Cal Mortgage Loan Program and secured by gross revenues and an interest in real property and personal property of VSL. VSL is required to comply with certain debt covenants beginning in the year ended December 31, 2023. As of December 31, 2024, management believes VSL is in compliance with all debt covenants. Future principal payments on the bonds are as follows:

| Years Ending December 31, | |
|---|---|
| 2025 | $ 1,125,000 |
| 2026 | 1,180,000 |
| 2027 | 1,240,000 |
| 2028 | 1,300,000 |
| 2029 | 1,365,000 |
| Thereafter | 37,950,000 |
| | $ 44,160,000 |

### Note 7 – Functional Expense

The following reflects the expenditures made by VSL for the years ended December 31, 2024 and 2023, respectively:

| | Functional Expense 2024 | | | | |
|---|---|---|---|---|---|
| | Program Services | | | Supporting Services | |
| | Housing | Health Care | Other Program Services | Administration | Total |
| Compensation and benefits | $ 5,104,990 | $ 819,301 | $ - | $ - | $ 5,924,291 |
| Purchased services | 4,174,217 | 63 | - | - | 4,174,280 |
| Depreciation | 3,364,369 | - | - | - | 3,364,369 |
| Other | 772,692 | 740 | - | 1,548,444 | 2,321,876 |
| Interest | 1,868,260 | - | - | - | 1,868,260 |
| Utilities | 1,367,538 | - | - | - | 1,367,538 |
| Repairs and maintenance | 883,395 | 7,746 | - | - | 891,141 |
| Professional fees | 327,206 | 1,057 | - | - | 328,263 |
| Supplies | 244,456 | 24,007 | - | - | 268,463 |
| | $ 18,107,123 | $ 852,914 | $ - | $ 1,548,444 | $ 20,508,481 |

| | Functional Expense 2023 | | | | |
|---|---|---|---|---|---|
| | Program Services | | | Supporting Services | |
| | Housing | Health Care | Other Program Services | Administration | Total |
| Compensation and benefits | $ 4,392,982 | $ 659,709 | $ - | $ - | $ 5,052,691 |
| Purchased services | 4,521,363 | 109 | - | - | 4,521,472 |
| Depreciation | 3,346,049 | - | - | - | 3,346,049 |
| Other | 562,228 | 121 | - | 1,140,000 | 1,702,349 |
| Interest | 3,321,509 | - | - | - | 3,321,509 |
| Utilities | 1,169,285 | - | - | - | 1,169,285 |
| Repairs and maintenance | 785,121 | - | - | - | 785,121 |
| Professional fees | 291,674 | - | - | - | 291,674 |
| Supplies | 243,106 | 22,594 | - | - | 265,700 |
| | $ 18,633,317 | $ 682,533 | $ - | $ 1,140,000 | $ 20,455,850 |

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

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ 45,817,572 | $ 38,956,239 |
| New fees received | 2,987,384 | 12,509,150 |
| Entrance fees refunded | (613,997) | (367,222) |
| Amortization | (5,714,038) | (5,280,595) |
| Balance, end of year | $ 42,476,921 | $ 45,817,572 |

Entrance fees still within a potentially refundable declining period as of December 31, 2024 and 2023, were $5.3 million and $7.7 million, respectively. VSL has achieved stabilized occupancy and management expects to pay refunds in future years of $1.0 million per year.

### Note 9 – Liquidity and Availability of Financial Assets

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

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents | $ 29,785,674 | $ 30,682,983 |

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 $1.2 million and $1.0 million as of December 31, 2024 and 2023, respectively, are managed for current operating needs, which make up $0.9 million and $0.4 million of current liabilities, respectively. See working capital needs to be covered by limited use assets 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 $0.9 million and $5.7 million as of December 31, 2024 and 2023, respectively. VSL also pays Sequoia Living a management fee for these services, totaling $1.5 million and $1.1 million for the years ended December 31, 2024 and 2023, 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, 2025, which is the date the financial statements were issued.