REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

MONTECEDRO, INC.

June 30, 2020 and 2019

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Report of Independent Auditors

To the Board of Directors
MonteCedro, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of MonteCedro, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MonteCedro, Inc. as of June 30, 2020 and 2019, 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.

Moss Adams LLP

Irvine, California
October 26, 2020

ASSETS

	June 30, 2020	June 30, 2019
CURRENT ASSETS		
Cash and cash equivalents	$ 889,061	$ 1,878,047
Investments, short-term	9,784,872	7,669,242
Accounts receivable, net	282,611	314,298
Inventories	103,961	67,721
Prepaid expenses and other current assets	286,041	87,046
Assets limited as to use, required for current liabilities	748,561	735,580
Total current assets	12,095,107	10,751,934
PROPERTY AND EQUIPMENT, NET	141,430,217	145,047,485
OTHER ASSETS		
Investments, long-term	28,560,471	25,125,765
Assets limited as to use, net of current portion	3,357,562	3,302,002
Other assets	82,614	86,746
Interest in related parties' net assets	136,596	141,751
Total other assets	32,137,243	28,656,264
Total assets	$ 185,662,567	$ 184,455,683

LIABILITIES AND NET ASSETS

	June 30, 2020	June 30, 2019
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 510,979	$ 445,692
Accrued compensation, payroll taxes, and benefits	489,477	375,391
Interest payable	283,685	272,588
Entrance fee refunds upon reoccupancy payable	4,394,369	2,409,675
Other current liabilities	292,635	246,937
Deferred revenue	307,524	353,117
Due to related parties	88,752	79,952
Current portion of long-term debt	1,136,528	1,107,698
Total current liabilities	7,503,949	5,291,050
Liability for refundable and repayable entrance fees	114,289,148	112,610,426
Deferred revenue from entrance fees	9,270,597	9,827,088
Long-term debt, net of current maturities	44,604,618	44,559,441
Obligation to provide future services and the use of facilities	-	2,271,207
Deposits	245,000	180,000
Total liabilities	175,913,312	174,739,212
NET ASSETS		
Without donor restriction	9,644,090	9,605,733
With donor restriction	105,165	110,738
Total net assets	9,749,255	9,716,471
Total liabilities and net assets	$ 185,662,567	$ 184,455,683

See accompanying notes.

MonteCedro, Inc.
Statements of Operations

	Years Ended June 30, 2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and gains		
Resident care fees, net	$ 14,173,531	$ 13,175,339
Ancillary services	759,368	611,295
Amortization of entrance fees	1,827,012	2,339,565
Service revenue	1,672,010	947,018
Investment return, net	1,037,851	1,594,089
Miscellaneous income	121,879	132,835
Total revenues and gains without donor restrictions	19,591,651	18,800,141
OPERATING EXPENSES		
Administrative services	3,815,488	3,145,637
Nursing services	3,400,484	2,511,421
Dining services	2,875,738	2,448,778
Environmental services	2,371,305	2,132,089
Interest expense and other financing costs	1,995,252	1,778,259
Residential services	1,001,005	881,338
Covid-19 direct expenses (Note 14)	659,679	-
Other	353,202	323,949
Amortization of deferred costs	87,057	87,057
Total operating expenses before depreciation	16,559,210	13,308,528
OPERATING INCOME BEFORE DEPRECIATION	3,032,441	5,491,613
Depreciation	5,151,743	5,042,887
Total operating (loss) income	(2,119,302)	448,726
OTHER INCOME (EXPENSE)		
Change in obligation to provide future services and the use of facilities	2,271,207	8,770,793
Loss on disposal of property and equipment	(8,015)	-
Total other income, net	2,263,192	8,770,793
Excess of revenue over expenses	$ 143,890	$ 9,219,519

See accompanying notes.

	Years Ended June 30, 2020	Years Ended June 30, 2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Excess of revenue over expenses	$ 143,890	$ 9,219,519
Change in interest in related parties' net assets	61,728	69,657
Transfer of net assets to related parties, net	(167,261)	(2,124,748)
Total change in net assets without donor restriction	38,357	7,164,428
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Change in interest in related parties' net assets	(22,179)	22,677
Transfer of net assets from related parties, net	16,606	11,580
Total change in net assets with donor restriction	(5,573)	34,257
CHANGE IN NET ASSETS	32,784	7,198,685
NET ASSETS, beginning of year, as previously reported	9,716,471	9,851,270
Cumulative effect of change in accounting principle	-	(7,333,484)
NET ASSETS, beginning of year, as adjusted	9,716,471	2,517,786
NET ASSETS, end of year	$ 9,749,255	$ 9,716,471

See accompanying notes.

MonteCedro, Inc.
Statements of Cash Flows

	Years Ended June 30, 2020	2019
OPERATING ACTIVITIES		
Cash received		
Resident care fees	$ 15,046,683	$ 13,792,084
Entrance fees	9,305,080	15,574,306
Investment income	1,037,851	996,486
Service revenue	1,672,010	947,018
Other	121,879	59,150
Transfers from related parties	-	80,658
Cash disbursed		
Cash paid to employees and suppliers	(14,578,218)	(11,983,256)
Interest	(2,166,825)	(2,182,776)
Net cash provided by operating activities	10,438,460	17,283,670
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,534,475)	(1,348,328)
Purchase of investments	(4,418,993)	(4,500,000)
Investment income reinvested	(1,099,185)	(854,096)
Net cash used in investing activities	(7,052,653)	(6,702,424)
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	1,095,818	-
Payment of long-term debt	(925,000)	-
Refunds of entrance fees	(4,371,143)	(9,643,830)
Transfer to related party	(167,261)	(4,395,523)
Distributions from related parties	61,334	35,536
Net cash used in financing activities	(4,306,252)	(14,003,817)
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	(920,445)	(3,422,571)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, beginning of year	5,915,629	9,338,200
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, end of year	$ 4,995,184	$ 5,915,629

See accompanying notes.

	Years Ended June 30, 2020	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 32,784	$ 7,198,685
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Amortization of entrance fees	(1,827,012)	(2,339,565)
Amortization of premium	(183,868)	(404,517)
Amortization of financing costs	87,057	87,057
Depreciation expense	5,151,743	5,042,887
Realized and unrealized gains on investments, net	(32,158)	(715,358)
Change in obligation to provide future services and the use of facilities	(2,271,207)	(8,770,793)
Interest in related parties' net assets	172,416	2,020,839
(Increase) decrease in		
Accounts receivable	31,687	(53,391)
Inventories	(36,240)	5,375
Prepaid expenses and other current assets	(198,995)	27,202
Other assets	4,132	(63,635)
Increase (decrease) in		
Accounts payable and accrued expenses	65,287	(51,752)
Accrued compensation, payroll taxes, and benefits	114,086	69,513
Other current liabilities	45,698	(406,859)
Deferred revenue	(45,593)	(56,984)
Due to related parties	(52,534)	80,660
Deposits from residents	65,000	40,000
Deferred revenue from entrance fees and liability for refundable and repayable entrance fees	9,305,080	15,574,306
Total adjustments	10,405,676	10,084,985
Net cash provided by operating activities	$ 10,438,460	$ 17,283,670
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Repayment of note payable to ECSF satisfied through grant to ECS	$ -	$ 2,421,987

Note 1 – Organization and Nature of Activities

MonteCedro, Inc. (“MCINC”) operates housing specially designed for older adults, with arrangements for residents’ health care and financial security, and otherwise to promote the interest and serve the needs of older adults, provided that such activities are consistent with its exempt purposes. MCINC operates a Life Plan Community in Altadena, California (“MonteCedro”) consisting of residential and assisted living. MCINC is organized as a nonprofit corporation under the general nonprofit corporation laws of the state of California. MonteCedro opened December 16, 2015.

MCINC is an affiliate organization of Episcopal Communities & Services for Seniors (“ECS”). ECS owns and operates Life Plan Communities known as The Canterbury in Rancho Palos Verdes, California, and The Covington in Aliso Viejo, California, which provide residential, assisted living, and skilled nursing facilities.

ECS also owns and operates:

- ECS Management, LLC (ECSLLC) – ECSLLC was created to provide administrative, programmatic, and other forms of support to ECS and any of its subsidiaries and affiliated organizations.

- Episcopal Communities & Services Foundation (ECSF) (formerly Sophie Miller Foundation (SMF)) – ECSF is a supporting organization created to enhance the fundraising efforts of ECS and to oversee the investment and distribution of its restricted and unrestricted donor funds. On July 8, 2019, the name of SMF was changed to Episcopal Communities & Services Foundation.

- Creative Housing & Services, LLC (CHS LLC) – CHS LLC is a single-member LLC with ECS as its sole member. CHS LLC provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities.

- Creative Housing & Services (CHS), a California nonprofit corporation, which provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities. On October 17, 2018, CHS entered into an asset transfer agreement with Creative Housing & Services (“CHS LLC”). CHS transferred substantially all of its assets relating to programs and activities that support the management of affordable housing facilities.

- Artful Home Care, LLC (Artful LLC), a nonprofit LLC, is organized to develop and operate home care services for older adults and promote the interests and serve the needs of older adults.

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). The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed. Based on the existence or absence of donor-imposed restrictions, MCINC classifies resources into two categories: without donor restrictions and with donor restrictions.

Net assets without donor restriction – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of MCINC. These net assets may be used at the discretion of MCINC's management and board of directors.

Net assets with donor restriction – Represent contributions that are limited in use by MCINC 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.

Expiration of donor-imposed restrictions – Net assets are released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service or expenditures exceed the amount of the gift.

Cash and cash equivalents – For purposes of reporting cash flows, MCINC considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. MCINC maintains its cash in bank deposit accounts, which may exceed federally insured limits. MCINC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. As of June 30, 2020, cash balances held at one bank exceeded federally insured limits by approximately $633,000.

Assets limited as to use – Assets limited as to use consist of cash, cash equivalents, and investments that are limited by the 2014 bond indenture for the development of the MonteCedro facility, debt service, and wait list deposits. Amounts required for payment of current liabilities are classified as current assets.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Net investment return (including realized and unrealized gains and losses on investments, interest, dividends, and investment expenses) is included in changes in net assets without donor restrictions unless the income (loss) is restricted by donor or law.

Note 2 – Summary of Significant Accounting Policies (continued)

Inventories – Inventories as of June 30, 2020 and 2019, primarily consist of dining supplies and are reflected in the statements of financial position at cost, which does not exceed market value.

Property and equipment – The costs of property and equipment are depreciated using the straight-line method over their estimated useful lives. Costs of additions, renewals, and betterments are capitalized, while maintenance and repairs are expensed when incurred. Acquisitions of $1,500 or more with a useful life greater than one year are capitalized. Donated fixed assets are recorded at their fair value at the date of donation. Construction in progress consists of costs incurred on construction projects that have not been completed. Interest cost incurred during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets, net of investment income on unspent proceeds of tax-exempt borrowings restricted for use in construction.

Depreciation begins when related assets are placed in service. Estimated useful lives are as follows:

Land improvements	5–25 years
Buildings and improvements	5–40 years
Furnishings and equipment (including capitalized computer hardware and software)	3–20 years

Capitalized financing costs – Capitalized financing costs represent costs incurred in obtaining long-term financing and are amortized over the respective terms of the related obligations using the interest method. Such costs are presented as a component of long-term debt in accordance with Accounting Standards Codification (ASC) Topic 835. Amortization expense is included as a component of interest expense.

Impairment of long-lived assets – MCINC reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. MCINC considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. MCINC has determined that no long-lived assets are impaired as of June 30, 2020.

Interest in related parties' net assets – MCINC recognizes its rights to assets held by a recipient organization. Such rights are recognized as an asset, unless the donor has explicitly granted the recipient organization variance power, which is the unilateral power to redirect the use of the assets. Those rights represent an interest in the net assets of the recipient organization. MCINC accounts for its interest in the net assets of related parties in a manner similar to the equity method. Changes in interest are included in the change in net assets. Transfers of assets between the related parties and MCINC are recognized as increases or decreases in the interest.

Note 2 – Summary of Significant Accounting Policies (continued)

Obligation to provide future services and the use of the facilities – MCINC is required to calculate the present value of the estimated net cost of future services to be provided to current continuing care residents, and, to the extent this amount exceeds the balance of unamortized deferred revenue, monthly maintenance fees and other contractually committed revenue, a liability would be recorded for the obligation to provide future services. MCINC used a 5% discount rate as of June 30, 2020 and 2019. The change in the obligation during a year would be reported as a change in obligation to provide future services in the statements of operations. No such liability was necessary as of June 30, 2020. As of June 30, 2019, the estimated amounts received or to be received from current continuing care residents did not exceed the estimated costs of providing future services and use of facilities to those residents. Obligations to provide future services and the use of facilities totaled approximately $2,271,000 as of June 30, 2019. MCINC recognized a reduction in the obligation of approximately $2,271,000 and $8,771,000 for the years ended June 30, 2020 and 2019, respectively. For the year ended June 30, 2020, the reduction in the obligation was primarily due to an increase in the present value of future cash flows as the MonteCedro reaches stabilized occupancy. For the year ended June 30, 2019, the reduction was primarily due to the write off of costs of acquiring initial continuing care contracts.

The California Health and Safety Code Section 1790 mandates a statutory reserve and a liquid asset requirement. The mandates were met for the years ended June 30, 2020 and 2019.

Fair value of financial instruments – MCINC's financial statements include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, obligation to provide future services and the use of facilities, and long-term debt. MCINC believes that the carrying amounts of current assets and liabilities in the statements of financial position approximate the fair values of these financial instruments due to the relatively short period of time between origination of the instruments and their expected realization. The fair values of investments and assets limited as to use are disclosed in Note 7.

Revenue recognition – On July 1, 2018, MCINC adopted ASC 606 applying the modified retrospective method. The adoption of ASC 606 did not have an impact on the measurement nor on the recognition of revenue, but resulted in the recognition of a cumulative effect of change in accounting principle of approximately $7,333,000 as of July 1, 2018, relating to the write off of unamortized marketing costs that do not meet the criteria for capitalization under this update.

Resident care fees and ancillary services revenue – Resident care fees and ancillary service revenue are reported at the amount that reflects the consideration to which MCINC expects to be entitled to in exchange for the services provided. Under MCINC's resident services agreement, MCINC provides senior living services to residents for a stated monthly fee. MCINC recognizes revenue for senior living services under the residential services agreement for independent living and assisted living in accordance with the provision of ASC 840, *Leases (ASC 840)*.

Note 2 – Summary of Significant Accounting Policies (continued)

Resident services – Resident services revenue is primarily derived from providing accommodations and services to residents under a continuing care contract for residential care, assisted living, and memory care. MonteCedro has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time. Therefore, service fees are billed monthly and are recognized as performance obligations are provided. The transaction price is based on standard charges for goods and services provided.

Revenue from nonrefundable entrance fees received is recognized on a straight-line basis over the actuarially-based estimated life of each resident, which approximates the period of time the goods and services under the agreements are expected to be transferred to residents.

MCINC disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as affected by payors and economic factors.

Resident revenues consist of the following for the year ended June 30, 2020:

	Residential Care	Assisted Living/ Memory Care	Total
Private pay	$ 14,364,469	$ 2,240,440	$ 16,604,909

Resident revenues consist of the following for the year ended June 30, 2019:

	Residential Care	Assisted Living/ Memory Care	Total
Private pay	$ 12,734,466	$ 1,999,186	$ 14,733,652

Amortization of entrance fees – As of June 30, 2020 and 2019, approximately $118,684,000 and $115,020,000 was contractually refundable or repayable, respectively. These balances represent the amounts due to residents, if all were to cancel their contracts as of June 30, 2020 and 2019, based on MCINC's refund and repayment policy. The contractually refundable or repayable amount is included in deferred revenue from entrance fees and liability for refundable and repayable entrance fees in the accompanying statements of financial position. See Note 6 for changes in the deferred entrance fee revenue for the years ended June 30, 2020 and 2019. The performance obligation is satisfied upon termination of the residency agreement.

Entrance fees and financial arrangements – MCINC offers payment options under a care and residence agreement (75% or 90% Reoccupancy Benefit Options), which requires payment of (1) an entrance fee upon admission ranging from $421,000 to $1,665,000, and (2) a monthly care fee.

Note 2 – Summary of Significant Accounting Policies (continued)

The entrance fee is refundable or repayable if the resident leaves MCINC as follows:

1. During the first 90 days, the entrance fee paid by the resident is refunded in full.

2. If the resident's tenancy terminates subsequent to the first 90 days, the resident will receive a reoccupancy benefit equal to 75% or 90% (depending on the contract) of the paid entrance fees within 14 calendar days after the resident's accommodation unit is re-let to a new continuing care resident who has executed a care and residence agreement and paid the then-applicable entrance fee for the same unit in full.

Under the 75% or 90% Reoccupancy Benefit contract agreements, MCINC amortizes 25% or 10% of the entrance fee over the resident's expected life, respectively. A liability is recognized (liability for refundable and repayable entrance fees) for the remaining 75% or 90%.

Income taxes – MCINC is organized as a nonprofit corporation under the general nonprofit corporation laws of the state of California and is exempt from federal income taxation under IRC section 501(c)(3). MCINC is classified as a supporting organization under IRC section 509(a)(3). Nonprofit organizations are generally not liable for taxes on income; therefore, no provision is made for such taxes in the financial statements, in accordance with U.S. GAAP.

MCINC considers many factors when evaluating and estimating its tax positions and benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. MCINC evaluates its uncertain tax positions using the provisions in conformity with U.S. GAAP. These standards require management to perform an evaluation of all income tax positions taken, or expected to be taken in the course of preparing MCINC's tax returns. Management believes the tax positions taken more likely than not will be sustained under examination by the applicable tax authorities. Examples of tax positions include the tax-exempt status of MCINC and various positions related to the potential sources of unrelated business taxable income. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the taxing authorities will not challenge MCINC's tax returns, or that MCINC will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, MCINC's tax returns remain open for three years for federal tax examination and four years for state tax examination.

Excess of revenue over expenses – Excess of revenue over expenses represents the performance indicator. Changes in net assets without donor restrictions that are excluded from excess of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for purposes of acquiring such assets), and transfer of net assets to/from related parties.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

Recent accounting standards – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606)* and *Leases (Topic 842),* which deferred the effective date of ASU 2016-02 by one year for certain entities, including MCINC. As a result of ASU 2020-05, the adoption of ASU 2016-02 is effective for MCINC for the year ending June 30, 2021. Management is currently evaluating the impact of the provisions of this update on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230),* which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. MCINC adopted ASU 2016-18 retrospectively, effective July 1, 2019.

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported within the accompanying statements of financial position to the accompanying statements of cash flows as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	$ 889,061	$ 1,878,047
Restricted cash and cash equivalents, included in assets limited as to use	4,106,123	4,037,582
Cash and cash equivalents and restricted cash and cash equivalents as reported in statements of cash flows	$ 4,995,184	$ 5,915,629

For the year ended June 30, 2019, cash and cash equivalents and restricted cash and cash equivalents, beginning of year, has been retrospectively adjusted to include $4,037,582 of restricted cash and cash equivalents included in assets limited as to use.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which provides guidance on eight specific cash flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2016-15 effective July 1, 2019, did not have a material impact on MCINC's financial statements or related disclosures.

Note 2 – Summary of Significant Accounting Policies (continued)

Going concern – In connection with the preparation of the financial statements for the year ended June 30, 2020, management conducts an evaluation as to whether there were conditions and events, considered in the aggregate, which raised substantial doubt as to MCINC's ability to continue as a going concern within one year after the date the financial statements were issued.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. MCINC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. MCINC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are issued. Management evaluated subsequent events through October 26, 2020, the issuance date of MCINC's financial statements.

Note 3 – Assets Limited as to Use

Assets limited as to use comprise the following as of June 30, 2020 and 2019:

	2020	2019
Series 2014 bonds		
Capitalized principal funds	$ 541,861	$ 540,504
Capitalized interest funds	206,700	195,076
Debt service reserve funds	3,112,562	3,122,002
Total debt service funds	3,861,123	3,857,582
Wait list deposits	245,000	180,000
	4,106,123	4,037,582
Less: amounts required for payment of current liabilities	(748,561)	(735,580)
	$ 3,357,562	$ 3,302,002

Note 4 – Property and Equipment

As of June 30, 2020 and 2019, property and equipment consists of the following:

	2020	2019
Land	$ 17,289,427	$ 17,289,427
Land improvements	2,489,796	2,478,391
Buildings and improvements	137,599,439	137,506,988
Furnishings and equipment	5,133,864	4,969,843
Capitalized computer hardware and software	268,679	254,424
Construction in progress	1,256,363	6,935
	164,037,568	162,506,008
Less: accumulated depreciation	(22,607,351)	(17,458,523)
Total	$ 141,430,217	$ 145,047,485

Note 5 – Investments

Investments in marketable securities are stated at their fair market value. As of June 30, 2020 and 2019, investments comprise the following:

	2020	2019
Investments	$ 38,345,343	$ 32,795,007
Less: investments, short-term	9,784,872	7,669,242
Total investments, long-term	$ 28,560,471	$ 25,125,765

MCINC's investment policy makes available only a portion of the MCINC's total investment return, consisting of dividends and interest, net realized and unrealized gains and losses, and principal for the support of current operations and development; the remainder is retained to support operations of future years and to offset potential market declines.

Note 5 – Investments (continued)

The following schedule summarizes investment return and its classification in the statements of operations and changes in net assets for the year ended June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Interest and dividend income	$ 1,099,185	$ -	$ 1,099,185
Realized gains, net	216,675	-	216,675
Unrealized losses, net	(184,517)	-	(184,517)
	1,131,343	-	1,131,343
External investment expense	93,492	-	93,492
Investment return, net	$ 1,037,851	$ -	$ 1,037,851

The following schedule summarizes investment return and its classification in the statements of operations and changes in net assets for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Interest and dividend income	$ 996,486	$ -	$ 996,486
Realized losses, net	(916,724)	-	(916,724)
Unrealized gains, net	1,632,082	-	1,632,082
	1,711,844	-	1,711,844
External investment expense	117,755	-	117,755
Investment return, net	$ 1,594,089	$ -	$ 1,594,089

Note 6 – Deferred Revenue from Entrance Fees and Repayable Entrance Fees Liability

A summary of the changes in deferred revenue from entrance fees for the years ended June 30, is as follows:

	2020	2019
BALANCE, beginning of year	$ 9,827,088	$ 10,609,222
New fees received	1,270,521	1,557,431
Deletions (discharge)	(706,203)	(1,155,795)
Amortization of entrance fees	(1,120,809)	(1,183,770)
BALANCE, end of year	$ 9,270,597	$ 9,827,088

Note 6 – Deferred Revenue from Entrance Fees and Repayable Entrance Fees Liability (continued)

A summary of the changes in repayable entrance fees liability for the years ended June 30, is as follows:

	2020	2019
BALANCE, beginning of year	$ 115,020,101	$ 110,647,056
New fees received	8,034,559	14,016,875
Entrance fees refunded	(4,371,143)	(9,643,830)
BALANCE, end of year	$ 118,683,517	$ 115,020,101

Based on the past five years, actual refunds have averaged approximately $5,065,000 per year for the potentially refundable declining period. MCINC opened December 16, 2015, and did not have any refunds for the year ended June 30, 2016.

Note 7 – Fair Value Measurements

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under U.S. GAAP are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Note 7 – Fair Value Measurements (continued)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Level 1 Measurements

Cash and cash equivalents – Cash equivalents generally consist of actively traded money market funds that have daily quoted net asset values for identical assets that MCINC has the ability to access at the measurement date.

Mutual funds – Mutual funds in this category are comprised primarily of underlying stocks and other ownership interests in companies. Valuation is based on unadjusted quoted prices for identical assets in active markets that MCINC can access at the measurement date.

Equities and other securities – Equities and other securities include stocks and exchange-traded funds. Exchange-traded funds in this category are comprised primarily of underlying stocks and other ownership interests in companies. Valuation is based on unadjusted quoted prices for identical assets in active markets that MCINC can access at the measurement date.

Level 2 Measurements

Money market securities – The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.

Level 3 Measurements

MCINC did not have any instruments measured at Level 3 as of June 30, 2020 and 2019.

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts MCINC would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of June 30, 2020 and 2019. Current estimates of fair value may differ significantly from the amounts presented.

Note 7 – Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, assets at fair value as of June 30, 2020:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
INVESTMENTS				
Money market funds	$ 4,981,633	$ -	$ 4,981,633	$ -
Mutual funds	6,941,570	6,941,570	-	-
Equities and other investments	26,422,140	9,953,213	16,468,927	-
Total investments	$ 38,345,343	$ 16,894,783	$ 21,450,560	$ -
ASSETS LIMITED AS TO USE				
Cash and cash equivalents	$ 4,106,123	$ 4,106,123	$ -	$ -
Total assets limited as to use	$ 4,106,123	$ 4,106,123	$ -	$ -

The following table sets forth by level, within the fair value hierarchy, assets at fair value as of June 30, 2019:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
INVESTMENTS				
Cash and cash equivalents	$ 2,086	$ 2,086	$ -	$ -
Money market funds	349,770	-	349,770	-
Mutual funds	19,844,800	19,844,800	-	-
Equities and other investments	12,598,351	12,598,351	-	-
Total investments	$ 32,795,007	$ 32,445,237	$ 349,770	$ -
ASSETS LIMITED AS TO USE				
Cash and cash equivalents	$ 4,037,582	$ 4,037,582	$ -	$ -
Total assets limited as to use	$ 4,037,582	$ 4,037,582	$ -	$ -

Note 8 – Long-Term Debt

In June 2014, MCINC issued Los Angeles County Regional Financing Authority Insured Revenue Bonds, Series 2014A, Series 2014B-1, Series 2014B-2, and Series 2014B-3, in the aggregate amount of approximately $140,305,000.

Note 8 – Long-Term Debt (continued)

In May 2020, MCINC was granted a loan under the Paycheck Protection Program (PPP Loan) offered by the Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), section 7(a) (36) of the Small Business Act for approximately $1,096,000. The loan bears interest at 1% with no payments due for the first six months. Monthly payments of principal and interest of approximately $62,000 begin in December 2020 and continue through maturity in May 2022, if required. The loan is subject to partial or full forgiveness if MCINC uses all proceeds for eligible purposes, maintains certain employment levels, and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance.

Long-term debt consists of the following as of June 30, 2020 and 2019:

	2020	2019
Series 2014A, interest rates from 3% to 5% per annum, with principal payments due annually from November 15, 2019 to November 15, 2044	$ 43,880,000	$ 44,805,000
Unamortized premium on Series 2014A bonds	2,847,448	3,031,316
Paycheck Protection Program loan	1,095,818	-
	47,823,266	47,836,316
Less: current portion (including current portion of unamortized premium of $181,528 and $182,698 at June 30, 2020 and 2019, respectively)	(1,136,528)	(1,107,698)
Less: capitalized financing costs, net of accumulated amortized costs of $6,096,366 and $6,009,309 at June 30, 2020 and 2019, respectively	(2,082,120)	(2,169,177)
	$ 44,604,618	$ 44,559,441

Aggregate maturities of long-term debt before unamortized premium of approximately $2,847,000, if PPP Loan is not forgiven, are as follows:

	Series 2014A	PPP Loan	Total
Years Ending June 30,			
2021	$ 955,000	$ 181,528	$ 1,136,528
2022	990,000	914,290	1,904,290
2023	1,040,000	-	1,040,000
2024	1,070,000	-	1,070,000
2025	1,115,000	-	1,115,000
Thereafter	38,710,000	-	38,710,000
	$ 43,880,000	$ 1,095,818	$ 44,975,818

The 2014 Series bonds are secured by certain assets of MCINC. ECSF is a guarantor on the bonds. The bond agreements contain certain covenants related to debt service coverage ratio, current ratio, and days’ cash on hand.

Note 9 – Related-Party Transactions

Due to related parties – Due to related parties consist primarily of funds to be distributed to related parties but not yet paid as of June 30, 2020 and 2019, as follows:

	2020	2019
Due from ECSF	$ 22,697	$ 5,055
Due (to)/from CHS LLC	(6,780)	439
Due to ECS	(36,830)	(60,599)
Due to ECSLLC	(67,839)	(24,847)
	$ (88,752)	$ (79,952)

ECSLLC provides administrative and programmatic services to MCINC. Total amounts paid to ECSLLC totaled approximately $1,016,000 and $832,000 for these services for the years ended June 30, 2020 and 2019, respectively.

Note payable, related party – The management fees charged to MCINC by ECS were paid via loan from the Mission Expansion Fund held by ECSF. As of June 30, 2018, ECSF held a note receivable totaling approximately $2,422,000 related to this loan. Due to the redemption of the Series 2014B bonds, positive operational cash flow, and compliance with debt covenants of MCINC, the loan was determined to be repayable to ECSF during 2019. The ECS and ECSF boards voted to designate the proceeds from the repayment of the note to the ECS Strategic Fund. As a result, the repayment of the note was made directly to ECS by MCINC in lieu of repayment to ECSF and concurrent transfer to ECS.

Note 10 – Functional Expenses

The financial statements report certain expense categories that are attributable to more than one residential, health care, or support services function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest, and other occupancy costs, are allocated to a function based on a square footage or units of services basis.

Note 10 – Functional Expenses (continued)

Expenses related to providing these services for the year ended June 30, 2020, are as follows:

	Program Services	Support Services: General and Administrative	Support Services: Fundraising	Total
Salaries and wages	$ 4,777,551	$ 1,402,671	$ 29,157	$ 6,209,379
Employee benefits	1,717,757	503,848	155	2,221,760
Professional services	-	99,503	-	99,503
Supplies and other	4,974,488	971,771	-	5,946,259
Interest	1,966,032	29,220	-	1,995,252
Depreciation and amortization	5,162,078	76,722	-	5,238,800
	$ 18,597,906	$ 3,083,735	$ 29,312	$ 21,710,953

Expenses related to providing these services for the year ended June 30, 2019, are as follows:

	Program Services	Support Services: General and Administrative	Support Services: Fundraising	Total
Salaries and wages	$ 4,039,057	$ 1,212,587	$ 19,878	$ 5,271,522
Employee benefits	1,068,425	336,928	-	1,405,353
Professional services	-	58,894	-	58,894
Supplies and other	3,880,390	827,053	-	4,707,443
Interest	1,752,217	26,042	-	1,778,259
Depreciation and amortization	5,054,817	75,127	-	5,129,944
	$ 15,794,906	$ 2,536,631	$ 19,878	$ 18,351,415

Note 11 – Retirement Plans

ECS maintains a safe harbor 401(k) retirement plan for all employees of ECS, its related entities, and MCINC. The plan allows for employer non-elective contributions, including a mandatory 3% employer contribution. The plan also allows for discretionary match contributions, approved on an annual basis. Total plan contributions attributed to MCINC in connection with the 401(k) retirement plan for the years ended June 30, 2020 and 2019, were approximately $230,000 and $185,000, respectively.

ECS also maintains a 457(b) plan established for executives of ECS and its related entities who have completed six months of continuous service. The 457(b) plan allows for salary reduction contributions and employer discretionary contributions. Total 457(b) plan contributions attributed to MCINC were approximately $20,000 and $19,000 for the years ended June 30, 2020 and 2019, respectively.

Note 12 – Commitments and Contingencies

MCINC is subject to legal proceedings, which arise in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such matters will not have a material effect on the financial position of MCINC.

MCINC is also subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation. Government activity, with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding, and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient revenues. Management believes any actions that may result from investigations of noncompliance with laws and regulations will not have a material effect on MCINC's future financial position or results of operations.

Note 13 – Liquidity and Availability

MCINC structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of its liquidity management, MCINC invests cash in excess of its operating, capital expenditure, and debt service requirements in various investments according to its investment policy.

MCINC's financial assets available to meet general expenditures within one year of June 30, 2020, comprise the following:

Cash and cash equivalents	$ 889,061
Investments, short-term	9,784,872
Accounts receivable, net	282,611
	$ 10,956,544

Additionally, MCINC has assets limited as to use for debt service, deposits held in trust, refundable entrance fees, donor restriction, and various required reserves. These assets limited as to use, which are more fully described in Notes 2 and 3, are not available for general expenditure within the next year.

Note 14 – Risks and Uncertainties

On March 11, 2020, the World Health Organization officially declared COVID-19, the disease caused by the novel coronavirus, a pandemic. Management has been and continues to be focused on taking actions to address the challenges created by the COVID-19 pandemic including regular resident and staff testing.

Starting in March 2020, COVID-19 disrupted move-ins reducing entrance fees received and resident care fees modestly. MCINC's COVID-19 response also increased costs for supplies, staffing and precautionary efforts. In August 2020, management re-initiated move-ins with adapted precautionary protocols including new resident testing and initial 14-day isolation.

Note 14 – Risks and Uncertainties (continued)

Management's evaluation of and adaptations to the COVID-19 pandemic and related events is ongoing, including impacts on the economy and general population. MCINC cannot accurately estimate the impact on its operations and financial results, and the duration and intensity of the impact of the COVID-19 pandemic and resulting disruption to MCINC's operations is uncertain.