West Valley Nursing Homes, Inc.
dba The Terraces at Summitview
(formerly known as Living Care Retirement Community)

Financial Statements

December 31, 2022

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Independent Auditors' Report

To the Board of Directors of
West Valley Nursing Homes, Inc.
dba The Terraces at Summitview
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Opinion

We have audited the financial statements of West Valley Nursing Homes, Inc. dba The Terraces at Summitview (formerly known as Living Care Retirement Community) (the Corporation), which comprise the balance sheet as of December 31, 2022, and the related statements of operations and changes in net assets and cash flows for the year 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 the Corporation as of December 31, 2022, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 GAAP, 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 the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 the Corporation'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 the Corporation'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.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
April 27, 2023

West Valley Nursing Homes, Inc.
dba The Terraces at Summitview
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Balance Sheet
December 31, 2022
(In Thousands)

Assets		
Current Assets		
Cash and cash equivalents	$	545
Current portion of investments		6,670
Current portion of restricted investments		246
Resident accounts receivable, less allowance for uncollectible accounts of $448 at December 31, 2022		751
Other accounts receivable		56
Prepaid expenses and other assets		381
Total current assets		8,649
Restricted Cash		8
Investments		1,582
Restricted Investments		217
Land, Buildings and Equipment, Net		17,303
Other Noncurrent Assets		401
Total assets	$	28,160
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$	633
Payable to affiliates		1,231
Deposits		50
Accrued interest		6
Current portion of long-term debt		6,670
Total current liabilities		8,590
Other Liabilities		91
Total liabilities		8,681
Net Assets		
Net assets without donor restrictions		19,262
Net assets with donor restrictions		217
Total net assets		19,479
Total liabilities and net assets	$	28,160

See notes to financial statements

West Valley Nursing Homes, Inc.
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Statement of Operations and Changes in Net Assets
Year Ended December 31, 2022
(In Thousands)

Changes in Net Assets Without Donor Restrictions	
Operating revenues:	
Residential living	$ 4,438
Assisted living	2,468
Health center	6,852
Other operating revenue	706
Net assets released from restrictions	7
Total operating revenues	14,471
Operating expenses:	
Salaries and wages	7,435
Employee benefits	1,752
Supplies	1,468
Ancillary services	568
Repairs and maintenance	84
Marketing and advertising	129
Purchased services	985
Management fees	301
Utilities	606
Travel and related	31
Rentals and leases	6
Insurance	245
Other operating expenses	571
Total operating expenses	14,181
Income before other operating income (expense)	289
Other operating income (expense):	
Investment income, net	71
Change in unrealized losses on investments, net	(687)
Depreciation and amortization	(1,153)
Mortgage interest	(183)
Nonrecurring operating expenses	(212)
Loss from operations and changes in net assets without donor restrictions	(1,875)
Changes in Net Assets With Donor Restrictions	
Investment income	3
Change in unrealized losses on investments with donor restrictions, net	(51)
Restricted contributions	5
Net assets released from restrictions	(7)
Change in net assets with donor restrictions	(50)
Change in net assets	(1,925)
Net Assets, Beginning	21,404
Net Assets, Ending	$ 19,479

See notes to financial statements

West Valley Nursing Homes, Inc.
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Statement of Cash Flows
Year Ended December 31, 2022
(In Thousands)

Cash Flows From Operating Activities		
Cash received for resident services	$	13,280
Cash received from bequests and trust maturities		9
Cash received from other operating activities		515
Cash earnings realized from investments		71
Cash paid for employee salaries		(7,271)
Cash paid for employee benefits		(1,751)
Cash paid for temporary labor		(338)
Cash paid to vendors		(4,755)
Cash paid for interest		(196)
Net cash used in operating activities		(436)
Cash Flows From Investing Activities		
Acquisition of land, buildings and equipment, net		(566)
Net sales of restricted investments		18
Net sales of unrestricted investments		286
Net cash used in investing activities		(262)
Cash Flows From Financing Activities		
Cash received from inter-company transactions		1,227
Cash received from restricted gifts and donations		5
Cash paid for other trust activity, net		(4)
Payments on notes and bonds payable		(645)
Net cash provided by financing activities		583
Decrease in cash, cash equivalents and restricted cash		(115)
Cash, Cash Equivalents and Restricted Cash, Beginning		919
Cash, Cash Equivalents and Restricted Cash, Ending	$	804
Reconciliation of Cash, Cash Equivalents and Restricted Cash to Balance Sheet		
Cash and cash equivalents	$	545
Restricted cash		8
Restricted cash included in restricted investments		251
Total cash, cash equivalents and restricted cash	$	804

See notes to financial statements

1. Business Corporation and Nature of Operations

West Valley Nursing Homes, Inc. (dba The Terraces at Summitview) (formerly known as Living Care Retirement Community) (the Corporation) is a Washington nonprofit tax-exempt corporation providing housing, health care and supportive services for seniors in Washington through its Life Plan Community (LPC), The Terraces at Summitview. The LPC is located on a ten-acre campus in Yakima, Washington and consists of 194 residential living apartments located in 5 buildings, 39 assisted living apartments, and a 60-bed health center licensed for Medicaid and Medicare.

Parent Corporation

In conjunction with an affiliation effective in February 2022, HumanGood Cornerstone (a Member of HumanGood), a California nonprofit public benefit tax-exempt corporation, became the sole member and exercises its direction and control through the appointment of the Board of Directors of the Corporation. Additionally, HumanGood Cornerstone is the sole member and exercises its direction and control through the appointment of the Boards of Directors of HumanGood Arizona, Inc. (dba Terraces of Phoenix), HumanGood Washington (dba Judson Park), HumanGood Nevada (dba Las Ventanas), HumanGood Idaho (dba Terraces of Boise), HumanGood Properties, HumanGood East, and Human Good Affordable Housing. HumanGood Arizona, Inc. and HumanGood Washington together constitute an obligated group (HumanGood National Obligated Group).

HumanGood is a California nonprofit public benefit tax-exempt corporation providing housing, health care and supportive services for seniors through its LPCs and affordable housing communities. HumanGood is the sole member of HumanGood Cornerstone, HumanGood Fresno (dba Terraces at San Joaquin Gardens), HumanGood SoCal (SoCal) and HumanGood NorCal (NorCal). NorCal is the sole member of HumanGood Foundation West and SoCal is the sole member of HumanGood Foundation South. HumanGood Fresno, HumanGood SoCal and HumanGood NorCal together constitute an obligated group (HumanGood California Obligated Group or COG).

HumanGood and HumanGood Cornerstone's boards are composed of the same seven directors.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Corporation were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with 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 reported amounts of revenues and expenses during the reported periods. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable and fair value of investments. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions and overnight investments considered to be cash equivalents. For purposes of the statements of cash flows, cash, cash equivalents and restricted cash include investments purchased with an initial maturity of three months or less.

Restricted Cash

Restricted cash consists of funds held in resident trust accounts at December 31, 2022.

Investments

Investments include certain cash equivalents held by investment managers, mutual funds, fixed income and equity securities. Investments are measured at fair value in the accompanying balance sheet.

Investment income or loss (including interest, dividends and fees), realized gains and losses and unrealized gains and losses on investments are included in loss from operations and changes in net assets without donor restrictions. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Corporation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair value reported is subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported could change materially in the near term.

Restricted Investments

Certain investments are restricted as assets held in trust. These include assets held by a trustee in accordance with the indenture relating to a debt agreement and assets set aside in accordance with various trust agreements with third parties, including donors. Assets held in trust as well as assets managed with donor restrictions are classified as restricted investments in the accompanying balance sheet.

Resident Accounts Receivable

The Corporation assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable (outstanding balances over 150 days are fully reserved) and anticipated collection of the consideration. Accounts are written off through bad debt expense when the Corporation has exhausted all collection efforts and accounts are deemed uncollectible.

Other Noncurrent Assets

Other noncurrent assets are primarily comprised of capitalized contract acquisition costs and a note receivable from a third party, collateralized by land and buildings owned by the third party.

Land, Buildings and Equipment, Net

Land, buildings and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges and other related costs capitalized during construction. Maintenance and repair costs are charged to operations when incurred.

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

Asset Impairment

The Corporation periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No asset impairment was recorded during the year ended December 31, 2022.

Net Assets

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 available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor-restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. 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. All revenues restricted by donors as to either timing or purpose of the related expenditures are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and are included in net assets released from restrictions in the accompanying statement of operations and changes in net assets. There were no assets with donor-imposed restrictions that were perpetual in nature as of December 31, 2022.

Net Resident Service Revenues

Net resident service revenues are primarily comprised of the following revenue streams:

Residential Living

Residential living revenues are primarily derived from providing housing and services to residents. The Corporation has elected the lessor practical expedient Accounting Standards Update (ASU) No. 2018-11, *Leases, Targeted Improvements* (ASU No. 2018-11) within Accounting Standards Codification (ASC) Topic 842 and recognizes, measures, presents and discloses the revenue for services under their senior living residency agreements based upon the predominant component, either the lease or nonlease component, of the contracts. The Corporation has determined that the services included under their residential living residency agreements have the same timing and pattern of transfer. The Corporation has determined that the lease component of such residency agreements, is the predominant component of the contract and therefore recognizes resident services under ASC 842. Therefore, residential living monthly fees are recognized on a month-to-month basis as residents have the right to terminate the contract at any time.

Assisted Living and Health Center Revenues

The Corporation has concluded that the nonlease components of their assisted living and health center residency agreements are the predominant components of the contract, and therefore recognizes these revenues under ASC Topic 606.

Net resident service revenues from assisted living and health center revenues are reported at the amount that reflects the consideration the Corporation expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Payment terms and conditions for the Corporation's resident contracts vary by contract type and payor source. Net resident service revenues from assisted living and health center revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service revenues for ancillary services are generally billed monthly in arrears.

Assisted Living

Assisted living revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. The Corporation 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 for each of these levels of care, which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized on a month-to-month basis as residents have the right to terminate the contract at any time.

Health Center

Health center revenues are primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. The Corporation has determined that health center services are considered one performance obligation, which are satisfied over time as services are provided. Therefore, health center revenues are recognized on a daily basis as services are rendered. Generally, the Corporation bills the patients for their private portion in advance at the beginning of the month and sends a final bill or reconciliation following discharge. Third party payors are billed at the end of the month for the service after it has been provided. Revenue is recognized in the month in which the performance obligations are satisfied.

Health center revenues, including daily service fees, ancillary and other service fees are reported at the estimated net realizable amounts from residents, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Corporation receives revenues for services under third-party payor programs, including Medicare, Medicaid and other third-party payors. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. A summary of the principal payment arrangements with major third-party payors is as follows:

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

Medicaid - Certain health care services are provided under a cost-related-based Medicaid program of the Washington State Department of Social and Health Services. Washington rates are facility specific, which change semi-annually based on resident acuity levels and are adjusted annually for cost of living increases.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence with the payor and the Corporation's historical 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, as new information becomes available), or as years are settled or no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price, were not significant in 2022.

Benevolence

The Corporation provides services under their benevolence policy to residents who meet certain criteria without charge or at amounts less than its established rates. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenues. For the year ended December 31, 2022, benevolence recorded was $7,000.

Contractual Allowances

A portion of the Corporation's health center revenue is subject to explicit price concessions (contractual allowances) under contracts with third-party payors. These price concessions were $1,493,000 for the year ended December 31, 2022.

Tax-Exempt Status

West Valley Nursing Homes is a Washington nonprofit tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and has been granted tax-exempt status by the Internal Revenue Service and the Washington State Department of Revenue.

The Corporation assesses uncertain tax positions in accordance with the provisions of Financial Accounting Standards Board (FASB) ASC Topic 740-10, *Income Taxes*. The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2022, there were no such uncertain tax positions.

Performance Indicator

Loss from operations as reflected in the accompanying statement of operations and changes in net assets is the performance indicator. Loss from operations includes all changes in net assets other than changes in net assets with donor restrictions.

3. Liquidity and Availability of Resources

As of December 31, 2022, the Corporation has financial assets available for utilization within one year of the balance sheet date, which consist of the following (in thousands):

Cash and cash equivalents	$	545
Investments		8,252
Resident accounts receivable		751
Other accounts receivable		56
Total	$	9,604

The Corporation's investments are available for utilization within one year in the normal course of operations. Accordingly, these assets have been included above.

As part of the Corporation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. These funds may be drawn upon, if necessary, to meet unexpected liquidity needs.

4. Investments, Restricted Investments and Fair Value Measurements

The composition of investments and restricted investments is set forth in the following table (in thousands):

Investments:		
Cash and cash equivalents	$	808
Mutual funds		2,976
Equity securities		115
Certificates of deposit		4,222
Exchange-traded funds		131
Total investments		8,252
Restricted investments:		
Cash and cash equivalents		251
Mutual funds		190
Equity securities		15
Exchange-traded funds		7
Total restricted investments		463
Total investments and restricted investments	$	8,715

Investment Return

Investment return for the year ended December 31, 2022 is as follows (in thousands):

Dividend, interest and other investment income, net of expenses	$	74
Total investment income, net	$	74
Change in unrealized losses on investments, net	$	(738)

Investment income is net of investment expenses of $39,000 for the year ended December 31, 2022.

Fair Value Measurements

FASB ASC Topic 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. FASB ASC Topic 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 in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value (NAV) per share (or its equivalent) with the ability to redeem the investments in the near term.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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 financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

- Mutual funds - Mutual funds registered with the U.S. Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted market prices, which represent the NAV of shares, and are categorized as Level 1.

- Equities and exchange-traded funds - Equity securities and exchange-traded funds that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange and are categorized as Level 1.

The following table presents the fair value measurements of financial instruments recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2022 (in thousands):

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments and restricted investments:				
Mutual funds:				
Equity	$ 1,926	$ -	$ -	$ 1,926
Fixed income	1,240	-	-	1,240
Equity securities	130	-	-	130
Certificates of deposit	-	4,222	-	4,222
Exchange-traded funds	138	-	-	138
Total investments and restricted investments measured at fair value	$ 3,434	$ 4,222	$ -	7,656
Cash and cash equivalents				1,059
Total investments and restricted investments				$ 8,715

5. Land, Buildings and Equipment, Net

Land, buildings and equipment, net at cost at December 31, 2022 consists of the following (in thousands):

Land	$ 3,478
Land improvements	2,381
Buildings and improvements	24,364
Furnishings, equipment and automotive	5,063
Total	35,286
Accumulated depreciation	(18,098)
Total	17,188
Construction in progress	115
Total	$ 17,303

Depreciation expense for the year ended December 31, 2022 was $1,139,000. Fully depreciated assets of $2,638,000 were disposed of during the year ended December 31, 2022.

6. Bonds Payable

A summary of the Corporation's bonds payable at December 31 is as follows (in thousands):

Bonds payable to Washington State Housing Finance Commission, Variable Rate Demand Nonprofit Housing Revenue Bonds, Series 2000; due in varying principal installments ranging from $645,000 in 2022 to $1,005,000 in 2030, plus variable interest calculated weekly (3.80% as of December 31, 2022) not to exceed 10%, may be converted to a fixed rate during the term of the bonds; collateralized by substantially all of the Corporation's assets.	$	6,670
Less current portion		(6,670)
	$	-

Scheduled maturities of bonds payable are as follows:

Years ending December 31:		
2023	$	680
2024		720
2025		760
2026		805
2027		850
Thereafter		2,855
Total	$	6,670

The Series 2000 bonds are collateralized by an irrevocable letter of credit, which in turn is secured by certain assets of the Corporation. The letter of credit was issued by Wells Fargo, pursuant to a Reimbursement Agreement dated September 14, 2020. The letter of credit is for the amount outstanding as of December 31 of each year.

In the event the bonds cannot be successfully remarketed and the proceeds from the letter of credit are drawn upon to pay bondholders, the amounts advanced under the letter of credit are to be repaid by the Corporation to Wells Fargo, the bond trustee, by the earlier of (a) 12 months after the date of the remarketing draw, (b) the expiration date of the letter of credit, October 26, 2025, (c) the date on which the letter of credit is replaced by an alternate credit facility as provided in the bond agreement, or (d) the successful remarketing of the bonds for the purchase of which such remarketing draw was made.

Under the terms of the Reimbursement Agreement, the Corporation is subject to various restrictive covenants. The most significant covenants include the maintenance of a debt service coverage ratio of not less than 1.30 to 1.00, the maintenance of a debt to tangible net worth of not more than 2.00 to 1.00, and a minimum working capital of $2,500,000. At December 31, 2022, the Corporation was in breach of the debt service coverage ratio. Under the terms of the agreement, the bank may call the loan if the Corporation is in violation of any restrictive covenant. The bank has not waived the debt service coverage requirement at the time of issuance of the financial statements, and accordingly the entire amount of the bonds, $6,670,000, has been included in current liabilities.

7. Retirement Plan

The plan was created in accordance with the IRC Section 401(a). Under the terms of the plan, prior to 2004, the Organization made discretionary profit-sharing contributions that were allocated to the separate accounts of eligible participants. During 2004, the plan was amended to allow employee contributions, of which the first 3% of eligible compensation is subject to matching employer contributions of 100%. Participants are immediately vested in their own contributions and they become fully vested in employer contributions after three years of qualifying service. Related expense was approximately $85,000 for the year ended December 31, 2022.

8. Net Resident Service Revenue

The Corporation disaggregates revenues from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of their revenues and cash flows as affected by economic factors. Net resident service revenues consist of the following for the year ended December 31, 2022 (in thousands):

	Residential Living	Assisted Living	Health Center	Total
Private (noncontract)	$ 4,438	$ 2,468	$ 1,459	$ 8,365
Medicare (Part A)	-	-	1,794	1,794
Medicare (Part B)	-	-	63	63
Medicaid	-	-	3,314	3,314
Managed care	-	-	222	222
Total	$ 4,438	$ 2,468	$ 6,852	$ 13,758

9. Functional Expenses

The Corporation provides housing, healthcare and other related services to residents within its geographic location. Financial statements report certain expense categories that are attributable to more than one program service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses relating to providing these services are approximately as follows for the year ended December 31, 2022 (in thousands):

	Residential Services	General and Administrative	Total
Salaries and wages	$ 6,933	$ 502	$ 7,435
Employee benefits	1,634	118	1,752
Supplies	1,396	72	1,468
Chargeable ancillary services	568	-	568
Repairs and maintenance	84	-	84
Marketing and advertising	129	-	129
Purchased services	666	319	985
Management fees	-	301	301
Utilities	583	23	606
Travel and related	23	8	31
Leases and rents	6	-	6
Insurance	245	-	245
Other operating expenses	91	480	571
Mortgage interest	183	-	183
Depreciation and amortization	1,153	-	1,153
Nonrecurring operating expenses	212	-	212
Total expenses	$ 13,906	$ 1,823	$ 15,729

10. Transactions With Affiliates

Amounts payable to affiliates include management fees and cost recoveries for other services such as purchase cards, payroll, benefits and insurance payable to NorCal. The Corporation recognized management fee expenses of $301,000 during 2022. The Corporation owed NorCal $1,231,000 as of December 31, 2022, for recurring intercompany transactions and cost recoveries in the normal course of business. These balances are settled in the normal course of operations with no fixed repayment terms.

11. Insurance Programs

Workers' Compensation Plan

The Corporation participates in the State of Washington's fully insured workers' compensation program and receives safety program support from NorCal. The Corporation's expenses for these coverages are reflected as a component of the benefit burden applied to payroll. Amounts charged to the Corporation for its workers' compensation programs was $116,000 for the year ended December 31, 2022.

Professional Liability Insurance

The Corporation has professional liability insurance through a claims-made policy for the year ended December 31, 2022. Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheet. Any related insurance recovery receivables would be recorded under other receivables in the accompanying balance sheet. There are no amounts recorded at December 31, 2022 for these matters.

Health Insurance

The Corporation is self-insured for health insurance claims for eligible active employees with certain self-insured retention limits. The program is managed by COG and estimates of the liability for claims incurred but not reported are included in the combined balance sheets of COG and costs related thereto are allocated to the Corporation through intercompany transactions based on a percentage of payroll.

12. Commitments and Contingencies

Legal

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations and administrative directives of federal, state and local governments and agencies. Compliance with these laws, regulations and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of this matter on the Corporation, if any, are not presently determinable.

13. Concentrations of Credit Risk

The Corporation grants credit without collateral to their residents, some of whom are insured under third-party payor arrangements and substantially all of whom are Yakima County residents.

The Corporation maintains cash and cash equivalent accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash and cash equivalent accounts in excess of federally insured limits. Management believes they are not subject to any significant credit risk on their cash and cash equivalent accounts.

14. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Corporation 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. The Corporation'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 sheet date and before the financial statements are available to be issued.

On November 23, 2022, HumanGood NorCal entered into a purchase and sale agreement to acquire title and interest in the business and assets of a life plan community in the Pacific Northwest. At closing, HumanGood NorCal will assign all of its rights and obligations under the purchase and sale agreement to a newly formed LLC subsidiary of the Corporation. On such date, HumanGood NorCal will transfer to the LLC an amount equivalent to the purchase price in exchange for a senior secured promissory note in the same amount. The transaction is pending final regulatory approval and is anticipated to close in May 2023.

The Corporation has evaluated subsequent events through April 27, 2023, which is the date the financial statements were available to be issued.