Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

Elder Care Alliance and Subordinate Corporations

June 30, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Elder Care Alliance and Subordinate Corporations

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Elder Care Alliance and Subordinate Corporations ("ECA"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Elder Care Alliance and Subordinate Corporation as of June 30, 2018, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Prior Period Financial Statements

The consolidated financial statements of Elder Care Alliance and Subordinate Corporation as of June 30, 2017, were audited by other auditors whose report dated October 25, 2017 expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, consolidating statements of activities and changes in net assets, and supplemental schedule of cash flows – Mercy Retirement and Care Center as of and for the years ended June 30, 2018 and 2017, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

San Francisco, California
October 26, 2018

Consolidated Financial Statements

Elder Care Alliance and Subordinate Corporation
Consolidated Statements of Financial Position (in thousands)
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	$ 6,075	$ 5,013
Patient and resident accounts receivable, net of allowance, 2018 - $179, 2017 - $269	1,396	1,647
Prepaid expenses and other	1,226	612
Other receivables	509	1,077
Total current assets	9,206	8,349
Investments	29,529	27,627
Assets Limited As To Use		
Internally designated	2	2
Held by mortgagee under loan agreement		
Reserve for replacements	1,276	1,089
Escrow deposits	1,047	895
Externally restricted by donor cash	-	678
Total assets limited as to use	2,325	2,664
Property and Equipment, Net	110,410	107,212
Other Assets		
Intangible assets, net	-	958
Other assets	326	328
Total other assets	326	1,286
Total assets	$ 151,796	$ 147,138

Consolidated Statements of Financial Position (continued – in thousands)

	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,407	$ 2,280
Accrued expenses and other	2,793	2,787
Current maturities of long-term debt	2,346	1,670
Total current liabilities	6,546	6,737
Long-Term Debt	102,883	105,151
Asset Retirement Obligations	764	702
Total liabilities	110,193	112,590
Net Assets		
Unrestricted	34,784	27,303
Temporarily restricted	3,172	3,598
Permanently restricted	3,647	3,647
Total net assets	41,603	34,548
Total liabilities and net assets	$ 151,796	$ 147,138

See accompanying notes.

Elder Care Alliance and Subordinate Corporation
Consolidated Statements of Activities and Changes in Net Assets (in thousands)
Year Ended June 30, 2018

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Net patient and resident service revenue	$ 48,213	$ -	$ -	$ 48,213
Contributions	1,492	764	-	2,256
Other revenue, net	305	-	-	305
Net assets released from restriction	1,374	(1,374)	-	-
Total revenues, gains, and other support	51,384	(610)	-	50,774
Expenses and Losses				
Salaries and benefits	24,279	-	-	24,279
Purchased services and other	9,736	-	-	9,736
Supplies	2,993	-	-	2,993
Depreciation and amortization	4,090	-	-	4,090
Interest and fees	4,404	-	-	4,404
Provision for uncollectible accounts	11	-	-	11
Loss on disposal of property and equipment	11	-	-	11
Management fees	-	-	-	-
Total expenses and losses	45,524	-	-	45,524
Operating Income (Loss)	5,860	(610)	-	5,250
Other Income (Expense)				
Investment return	1,621	184	-	1,805
Total other income	1,621	184	-	1,805
Excess (Deficiency) of Revenues over Expenses and Changes in Net Assets	7,481	(426)	-	7,055
Net Assets, Beginning of the Year	27,303	3,598	3,647	34,548
Net Assets, End of the Year	$ 34,784	$ 3,172	$ 3,647	$ 41,603

See accompanying notes.

Elder Care Alliance and Subordinate Corporation
Consolidated Statements of Activities and Changes in Net Assets
(continued – in thousands)
Year Ended June 30, 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support				
Net patient and resident service revenue	$ 43,279	$ -	$ -	$ 43,279
Contributions	499	691	-	1,190
Other revenue, net	537	-	-	537
Net assets released from restrictions for				
Operations	1,108	(1,108)	-	-
Charity	228	(228)	-	-
Total revenues, gains, and other support	45,651	(645)	-	45,006
Expenses and Losses				
Salaries and benefits	22,330	-	-	22,330
Purchased services and other	10,938	-	-	10,938
Supplies	2,846	-	-	2,846
Depreciation	3,600	-	-	3,600
Interest and fees	3,605	-	-	3,605
Provision for uncollectible accounts	198	-	-	198
Loss on disposal of property and equipment	19	-	-	19
Management fees	48	-	-	48
Total expenses and losses	43,584	-	-	43,584
Operating Income (Loss)	2,067	(645)	-	1,422
Other Income (Expense)				
Investment return	1,820	1,006	-	2,826
Inherent contribution	1,945	-	-	1,945
Losses from investment pool	-	-	-	-
Total other income	3,765	1,006	-	4,771
				-
				-
Excess (Deficiency) of Revenues over Expenses and Changes in Net Assets	5,832	361	-	6,193
Net Assets, Beginning of the Year	21,471	3,237	3,647	28,355
Net Assets, End of the Year	$ 27,303	$ 3,598	$ 3,647	$ 34,548

 See accompanying notes.

Elder Care Alliance and Subordinate Corporation
Consolidated Statements of Cash Flows (in thousands)
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 7,055	$ 6,193
Items not requiring (providing) operating cash flows		
Loss on disposal of property and equipment	11	19
Depreciation and amortization	3,132	3,248
Amortization of deferred financing costs	77	57
Amortization of intangible asset	958	319
Accretion of asset retirement obligations	62	32
Provision for uncollectible accounts	11	198
Realized and unrealized gains on investments, net	(1,621)	(2,120)
Restricted contributions and investment income	(948)	(1,697)
Inherent contribution from acquisition	-	(1,945)
Changes in		
Patient and resident accounts receivable	240	(747)
Prepaid expenses and other assets	(612)	190
Other receivables	568	(910)
Accounts payable	(1,022)	933
Accrued expenses and other	6	560
Net cash provided by operating activities	7,917	4,330
Cash Flows from Investing Activities		
Purchases of investments, and assets limited as to use	(10,099)	(2,807)
Sales of investments, and assets limited as to use	9,818	10,262
Deposits to reserves for replacement	(187)	(136)
Net deposits to escrow	(152)	(71)
Payments for business acquisition	-	(46,693)
Purchases of property and equipment	(6,192)	(2,985)
Net cash used in investing activities	(6,812)	(42,430)
Cash flows from Financing Activities		
Proceeds from restricted contributions and investment income	948	1,697
Payment of deferred financing costs	-	(226)
Proceeds from issuance of long-term debt	-	30,358
Principal payments of long-term debt	(1,669)	(5,023)
Net cash (used in) provided by financing activities	$ (721)	$ 26,806

See accompanying notes.

Elder Care Alliance and Subordinate Corporation
Consolidated Statements of Cash Flows (continued – in thousands)
Years Ended June 30, 2018 and 2017

	2018	2017
Increase (Decrease) in Cash	$ 384	$ (11,294)
Cash, Beginning of Year	5,693	16,987
Cash, End of Year	6,077	5,693
Reconciliation of Cash to Statements of Financial Position		
Cash	6,075	5,013
Cash in assets limited as to use		
Internally designated	2	2
Externally restricted	-	678
Total cash	$ 6,077	$ 5,693
Supplemental Cash-Flow Information		
Interest paid	$ 4,214	$ 3,444
Property and equipment acquisitions included in accounts payable	$ 149	$ 303

On December 30, 2016, ECA acquired Elder Care Alliance of San Mateo. In conjunction with the acquisition, assets were acquired and liabilities were assumed as follows:

	2017
Consideration paid	$ (46,358)
Current assets	4
property and equipment	47,190
Intangible assets - resident relationships	1,277
Other liabilities	(168)
Inherent contribution	$ 1,945

See accompanying notes.

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Elder Care Alliance (“ECA-Corporate”) is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Sisters of Mercy of the Americas - West Midwest Communities (the "Sisters of Mercy").

ECA-Corporate was established with the support and leadership of Dignity Health. The shared vision of Dignity Health, ECA-Corporate and its cosponsors, the Lutheran Synod, and the Sisters of Mercy, was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of the burgeoning population of elderly people who seek support and assistance with activities of daily living in a noninstitutional environment.

On May 15, 1997, two separate nonprofit corporations, Mercy Retirement and Care Center (“MRCC”) and Salem Lutheran Home Association of the Bay Cities, Inc. (“SLH”), entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of both MRCC and SLH. ECA-Corporate provides supportive housing, skilled nursing, rehabilitation, and social services principally to the aged through these subordinate corporations. MRCC and SLH retain their individual identities, assets and liabilities and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

MRCC is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 107 units licensed as residential care, including a 22-unit dementia care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care " concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life.

Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

SLH is a California nonprofit public benefit corporation. In August 2013, after an extensive strategic planning process, ECA-Corporate decided to discontinue the operations of SLH after finding it infeasible to renovate the aging campus. ECA-Corporate sold the senior living operations including certain assets and liabilities of SLH on July 1, 2014.

On December 30, 2016, ECA-Corporate acquired a 135-unit independent living facility in San Mateo, California (Note 14). There were no continuing operating activities related to SLH after the sale discussed in the previous paragraph, so in December 2016, the SLH articles of incorporation were amended to legally change the name of the organization from SLH to Elder Care Alliance of San Mateo (“VSM”). VSM is doing business as the "Villa at San Mateo."

The following entities are California nonprofit public benefit corporations organized for the purpose of developing residential care facilities for the elderly (“RCFE”) to provide residences and assistance with daily living needs for elderly persons and generate its revenues primarily from residential care fees.

They are subordinate corporations to ECA-Corporate and operate under a common management team through ECA-Corporate:

Elder Care Alliance of Camarillo ("AVC"), doing business under the name of "AlmaVia of Camarillo", operates an 85-unit RCFE with 25 units designated for dementia care in Camarillo, California.

Elder Care Alliance of San Francisco ("AVSF"), doing business under the name of "Alma Via of San Francisco", operates a 135-unit RCFE with 41 units designated for dementia care in San Francisco, California.

Elder Care Alliance of San Rafael ("AVSR"), doing business under the name "Alma Via of San Rafael", operates a 137-unit RCFE with 22 units designated for dementia care in San Rafael, California.

Elder Care Alliance of San Mateo ("VSM"), doing business under the name "Villa at San Mateo", operates a 135-unit independent living community in San Mateo, California.

Hereinafter, ECA-Corporate and its subordinate corporations are referred to collectively as "ECA."

Basis of consolidation – The accompanying consolidated financial statements include the accounts of ECA-Corporate and its subordinate corporations: MRCC, SLH, AVC, AVSF, AVUC, AVSR and VSM. All significant transactions and accounts between the entities have been eliminated.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash – For purposes of the statement of cash flows, ECA considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents. Cash consisted of demand at June 30, 2018 and 2017.

Patient and resident accounts receivable – As part of its mission to serve the community, ECA provides care to residents even though they may participate in programs that do not pay full charges, or they may lack adequate insurance or private means. ECA manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Accounts receivable are stated at net realizable value from third-party payers, residents, and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Other receivables – VSM was managed by an outside party from the time of acquisition on December 30, 2016, through June 30, 2017. Under the terms of the management agreement, the outside party collected revenues and paid expenses to maintain the facility and transferred the net cash due to ECA subsequent to year end when the management contract was terminated. A receivable of $4 and $643 related to the operations of VSM is recorded in other receivables at June 30, 2018 and 2017, respectively, on the consolidated statements of financial position.

Notes to Consolidated Financial Statements (in thousands)

Investments and investment return – Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value and are classified as "available for sale" securities. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes: dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities and changes in net assets as unrestricted, temporarily or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets limited as to use – Assets limited as to use include: assets internally designated by the Board of Directors for payment of workers' compensation claims, over which the Board retains control and may at its discretion, subsequently use for other purposes; assets held in escrow for payment of property taxes, property insurance, mortgage insurance premium, occupancy stabilization, debt service and reserves for replacements pursuant to the loan agreements; and assets restricted by donors.

Property and equipment – Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. ECA capitalizes property and equipment with a cost of greater than $1,000. Costs of maintenance and repairs are charged to expense as incurred.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Buildings and improvements	15 – 40 years
Furniture and equipment	3 – 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets, unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived asset impairment – ECA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flow is expected to result from the use, and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Intangible assets – ECA acquired signed leases with existing residents of VSM as part of the acquisition described in Note 14. ECA performed an assessment to determine the fair value of these leases at the acquisition date. The recognized intangible asset was recorded at $1,277 and is being amortized over two years, which is the estimated time ECA would have spent filling VSM to the occupancy level at acquisition if the signed leases had not been acquired. Amortization expense of $958 and $319 was recorded for the year ended June 30, 2018 and 2017, respectively.

Professional liability insurance – ECA recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in Note 9.

Workers' compensation insurance – ECA is insured for workers' compensation claims under a fully-insured policy. There is no deductible under this policy, as all claims are handled by the carrier from the first dollar. Prior to the enactment of the fully-insured policy on July 1, 2014, ECA was insured for workers' compensation claims under a loss sensitive policy with a $250,000 deductible for each claim. Claims incurred under the former policy continue to be processed and the accrual for these costs includes the unpaid portion of claims that have been reported and estimates of amounts for claims that have been incurred but not reported and is included in accrued expenses in the statement of financial position. Any related insurance recovery receivables are recorded under prepaid expenses and other current assets in the statement of financial position. Management recognizes an estimated liability based upon the historical claims experience within stop-loss coverage limits.

Asset retirement obligations – Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. As of June 30, 2018 and 2017, MRCC recognized $764 and $702, respectively, of conditional asset retirement obligations included in the statements of financial position. Accretion expense totaled $62 and $33 for the years ended June 30, 2018 and 2017, respectively.

Obligation to provide future services – MRCC provides a continuing care concept and services primarily on a fee-for-service basis. MRCC has one contract with no entrance fee. MRCC fees are not limited to stated or cost-of-living increases. MRCC sets resident rates to fully absorb their ongoing operating costs. Management's estimate of the liability for "future service obligation" represents the excess of net care expenses over resident service revenue. The obligations were zero for both June 30, 2018 and 2017.

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

> **Unrestricted net assets** – Net assets that are not subject to donor-imposed restrictions. Certain net assets have been designated by the board for specific use in future periods. In addition, MRCC has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion, and improvement of property and equipment or for repayment of long-term debt. The funds may be redesignated for other uses as appropriate.
>
> **Temporarily restricted net assets** – Temporarily restricted net assets are those whose use by ECA has been limited by donors to a specific time period or purpose.
>
> **Permanently restricted net assets** – Permanently restricted net assets have been restricted by donors to be maintained by ECA in perpetuity. Generally, the donors of these assets permit ECA to use all or part of the income earned on related investments for general or specific purposes.

Net patient and resident service revenue and monthly fees – ECA has agreements with third-party payers that provide for payments to ECA at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges, and per diem payments. Net revenues from Medicare and Medi-Cal programs were approximately $2,754 and $2.279, respectively, for the year ended June 30, 2018, and approximately $3,063 and $2,218, respectively, for the year ended June 30, 2017. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable care – Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Excess (deficiency) of revenues over expenses – The consolidated financial statements of activities and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice include unrealized gains and losses on investments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income taxes – ECA-Corporate and its subordinate corporations are each exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the state in which they operate.

Reclassifications – Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

New accounting pronouncements – In May 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance moves revenue recognition towards one principles-based revenue standard to be applied across all industries. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact ASU No. 2014-09 will have on the ECA’s future financial statements.

Notes to Consolidated Financial Statements (in thousands)

In January 2016, FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Liabilities* ("ASU 2016-01"), to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The guidance is effective for annual reporting periods beginning after December 15, 2017. Management is currently evaluating the impact ASU No. 2016-01 will have on ECA's future financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements as assets and liabilities on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact ASU No. 2016-02 will have on ECA's future financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance requires the change in presentation and disclosure to provide more relevant information about resources and the changes in those resources, including qualitative and quantitative requirements to net asset classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cash flows. The guidance is effective for annual reporting periods beginning after December 15, 2017. Management is currently evaluating the impact ASU No. 2016-14 will have on ECA's future financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance assists in evaluating whether contributions should be accounted for as nonreciprocal or as exchange transactions and determining whether a contribution is conditional. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact ASU No. 2018-08 will have on ECA's future financial statements.

NOTE 2 – CONCENTRATION OF CREDIT RISK

ECA grants credit without collateral to its patients and residents. The mix of receivables from patients, residents and third-party payers at June 30, 2018 and 2017, was:

	2018	2017
Medicare	24%	35%
Medi-Cal	34%	33%
Other third-party payers	26%	11%
Self pay	16%	21%
	100%	100%

Financial instruments, which could potentially subject ECA to significant concentrations of credit risk, consist primarily of investments in marketable securities. ECA, primarily through external money managers, has significant investments in marketable securities, which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

Notes to Consolidated Financial Statements (in thousands)

Financial instruments potentially subjecting ECA to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insurance thresholds. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past.

NOTE 3 – INVESTMENTS AND INVESTMENT RETURN

Composition of investments and assets limited as to use at June 30, 2018 and 2017, are summarized in the following table:

	2018	2017
Equities	$ 15,373	$ 14,220
Fixed income securities		
U.S. agencies and treasuries	2,352	2,317
Corporate debt securities	4,016	3,352
Mortgage-backed securities	1,543	1,640
Mutual funds	3,668	3,512
Cash and cash equivalents		
Money market mutual funds	55	531
Cash	487	680
Other investments	2	15
Certificates of deposit	2,031	2,015
Interest receivable	4	24
Replacment reserve and escrow deposits held by mortgagee under loan agreement	2,323	1,985
	$ 31,854	$ 30,291

These investments are included on the consolidated statements of financial position as follows:

	2018	2017
Investments	$ 29,529	$ 27,627
Assets limited as to use, internally designated	2	2
Assets limited as to use, held by mortgagee under loan agreement		
Reserve for replacements	1,276	1,089
Escrow deposits	1,047	895
Assets limited as to use, externally restricted by donor	-	678
	$ 31,854	$ 30,291

Notes to Consolidated Financial Statements (in thousands)

Total investment return is comprised of the following:

	2018		2017	
Investment return				
Realized and unrealized gains	$	1,172	$	2,120
Interest and dividend income		633		706
	$	1,805	$	2,826

Total investment return is reflected in the consolidating statements of activities and changes in net asssets as follows:

	2018		2017	
Unrestricted net assets				
Investment return	$	1,041	$	1,820
Temporarily restricted net assets				
Investment return		764		1,006
	$	1,805	$	2,826

NOTE 4 – PROPERTY AND EQUIPMENT

	2018		2017	
Land	$	31,478	$	31,478
Land lease		9,748		9,748
Land improvements		1,141		1,138
Buildings and leasehold improvements, building improvements, and building service equipment		95,826		92,303
Equipment		10,148		11,214
Construction in progress		7,785		3,728
		156,126		149,609
Less accumulated depreciation		45,716		42,397
Total property and equipment	$	110,410	$	107,212

Land lease includes a capitalized land lease of approximately $4.1 million for AVSF for the first 30 years' base rent prepaid as required by the ground lease agreement with the Roman Catholic Archbishop of San Francisco as more fully described in Note 10. The land lease was amended on October 1, 2011, due to the U.S. Department of Housing and Urban Development ("HUD") refinancing. The lease now expires March 2075 and has no options to extend the term of the lease. The amendment required AVSF to prepay approximately $4,005 for an additional 43 years' base rent. The land lease will be amortized over the remaining lease term using the straight-line method. The land lease has accumulated amortization of $1,963 and $1,855 at June 30, 2018 and 2017, respectively, and a net land lease balance of $6,143 and $6,243 at June 30, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements (in thousands)

Land lease also includes property that was purchased by AVSR from the Lutheran Synod in the form of a promissory note for $1,650, for the purpose of constructing the AVSR facility. The promissory note with the Lutheran Synod was paid in full through HUD-insured financing obtained in March 2010 (see Note 5). The existing ground lease with the Lutheran Synod was amended due to the refinancing. The original land lease gave the Lutheran Synod the right to repurchase the property for one dollar, 10 years after full payment of the AVSR bonds, not to exceed 60 years. Therefore, the land lease was being amortized ratably over 40 years. The amended ground lease gives the Lutheran Synod the right to repurchase the property for one dollar, 10 years after full payment of the HUD insured loan, not to exceed 60 years. The land lease is now being amortized ratably over 45 years, resulting in accumulated amortization of $461 and $425 at June 30, 2018 and 2017, respectively, and a net land lease balance at June 30, 2018 and 2017, of $1,189 and $1,225, respectively.

At June 30, 2018, ECA's construction in progress balance of $7,785 was composed primarily of renovations at MRCC and smaller projects at other campuses. The projects currently in progress are expected to be completed between 2018 and 2019 with $11,082 additional costs to complete.

As described in Note 5, portions of the above property and equipment were pledged as collateral on ECA's long-term debt.

NOTE 5 – LONG-TERM DEBT

	2018	2017
ECA-Corporate note payable ("A")	$ 1,519	$ 1,630
AVC promissory note payable ("B")	11,097	11,334
AVSF promissory note payable ("C")	34,442	35,119
AVSR promissory note payable ("D")	29,607	30,251
VSM promissory note payable ("E")	30,358	30,358
	107,023	108,692
Less: unamortized debt issuance costs	(1,794)	(1,871)
Less: current maturities	(2,346)	(1,670)
	$ 102,883	$ 105,151

(A) ECA-Corporate entered into a $2,000 note payable with a financial institution in March 2012 to purchase the land for AVC. The note allows ECA-Corporate to select the interest rate from three separate options. Based upon ECA-Corporate's interest election, the note bears interest at the greater of 2.5% or the LIBOR interest rate plus 2.0%. At June 30, 2018, the interest rate was 4.0%. The note has monthly interest payments through March 2013, monthly principal payments of approximately $9 plus interest due starting in April 2014, with the entire balance of principal and interest due on March 1, 2019. The note is secured by $2,240 of investments held by ECA-Corporate.

(B) AVC – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act, in the original amount of $12,416. The mortgage matures in June 2047, payable in monthly installments of approximately $48 including interest at 3.0%, secured by a first lien on the AVC property. Under the terms of the note, AVC is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject to restrict ions on acquisition, use and disposition of the mortgaged property and revenues derived therefrom.

Notes to Consolidated Financial Statements (in thousands)

(C) AVSF – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act, in the original amount of $38,485. The mortgage matures in November 2046, payable in monthly installments of approximately $162 including interest at 3.65%, secured by a first lien on the AVSF property. Under the terms of the note, AVSF is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. The lender required a five-year debt service escrow which is covered by an irrevocable standby letter of credit with a financial institution in the amount of $975 which is subject to automatic annual extensions with a final expiration of October 31, 2018. The lender requires the debt service escrows to continue to be maintained until minimum debt service coverage ratios are met. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived therefrom.

(D) AVSR – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act. The mortgage is payable in monthly installments of approximately $144, including interest at 3.6% through April 1, 2045, and is secured by a first lien on the AVSR property. Under the terms of the mortgage, AVSR is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject, under the terms of the mortgage, to restrictions on acquisition, use and disposition of the mortgaged property, and revenues derived therefrom.

(E) VSM entered into a $30,358 mortgage with a commercial entity in December 2016. The note bears interest at a fixed rate of 4.69%. The note requires monthly interest-only payments from February 2017, through January 2019, and monthly principal and interest payments of approximately $157 starting in February 2019 until the mortgage is fully paid in January 2027. The note is guaranteed by ECA-Corporate and secured by the mortgaged property.

In May 1997, ECA entered into a credit enhancement agreement with Dignity Health, which expired on June 30, 2005. Under the agreement, Dignity Health provided ECA with a guaranty for certain loan agreements entered into by ECA, made loans to ECA and assisted ECA in obtaining financing through third parties. This agreement required ECA to maintain a defined debt coverage ratio of at least 1.1 and meet other restrictive covenants, the most restrictive of which include limitations on the acquisition and disposition of property and limitations on additional indebtedness. While the agreement has expired, its provisions remained applicable to those loans subject to the credit enhancement agreement. In October 2016, the last remaining loan subject to this agreement was paid in full.

Unamortized debt issuance costs of $1,794 and $1,871, at June 30, 2018 and 2017, respectively, are related to the outstanding long-term debt of ECA. The costs are amortized to interest expense over the term of the related debt.

Aggregate annual maturities of long-term debt at June 30, 2018, were:

2019	$ 2,346
2020	3,357
2021	3,417
2022	3,478
2023	3,543
Thereafter	90,882
	$ 107,023

Notes to Consolidated Financial Statements (in thousands)

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of donor restricted contributions and grants at June 30, 2018 and 2017, for the following purposes:

	2018	2017
Equipment and expansion	$ 225	$ 573
Charity and other	2,947	3,025
	$ 3,172	$ 3,598

During the years ended June 30, 2018 and 2017, $1,375 and $1,336, respectively, of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

Permanently restricted net assets consist of endowments that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people.

NOTE 7 – ENDOWMENTS

ECA’s endowment consists of approximately eight individual funds established to support ECA’s nonprofit mission. The endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECA's governing body has interpreted the State of California Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ECA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ECA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund

2. Purposes of ECA and the fund

3. General economic conditions

4. Possible effect of inflation and deflation

5. Expected total return from investment income and appreciation or depreciation of investments

6. Other resources of ECA

Notes to Consolidated Financial Statements (in thousands)

7. Investment policies of ECA

The composition of net assets for the endowment fund at June 30, 2018 and 2017, was:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 2,981	$ 3,647	$ 6,628

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 3,157	$ 3,647	$ 6,804

Changes in endowment net assets for the years ended June 30, 2018 and 2017, were:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 3,157	$ 3,647	$ 6,804
Investment return			
Investment gain	112	-	112
Net appreciation	184	-	184
Total investment return	296	-	296
Appropriation of endowment assets for expenditure	(472)	-	(472)
Endowment net assets, end of year	$ 2,981	$ 3,647	$ 6,628

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,520	$ 3,647	$ 6,167
Investment return			
Investment gain	183	-	183
Net appreciation	682	-	682
Total investment return	865	-	865
Appropriation of endowment assets for expenditure	(228)	-	(228)
Endowment net assets, end of year	$ 3,157	$ 3,647	$ 6,804

Notes to Consolidated Financial Statements (in thousands)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2018 and 2017, respectively.

ECA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds ECA must hold in perpetuity or for donor-specified periods. Under ECA's policies, endowment assets are invested in a manner that is intended to produce results that exceed the average return of the Barclays Capital Aggregate Index for fixed-income investments and the average return of the Russell 3000 Index for equities while assuming an investment grade level of investment risk. ECA expects its endowment funds to provide an average rate of return of approximately 5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, ECA relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividend s and interest) and capital appreciation (both realized and unrealized). ECA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

ECA has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of resident assistance estimated to be provided as approved in the annual budget. In establishing this policy, ECA considered the long-term expected return on its endowment. This is consistent with ECA's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

NOTE 8 – FUNCTIONAL EXPENSES

ECA provides residential and healthcare services to residents. Expenses related to providing these residents, services are as follows:

	2018	2017
Residential and health care services	$ 36,741	$ 34,611
General and administrative	8,783	8,973
	$ 45,524	$ 43,584

NOTE 9 – PROFESSIONAL AND WORKERS' COMPENSATION LIABILITY CLAIMS

ECA purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue reported and unreported incidents, if any, occurring during the year by estimating the probable ultimate costs of the incidents. Based upon ECA' s claim experience, no such accrual is required. It is reasonably possible that this estimate could change materially in the near term.

ECA is insured for workers' compensation claims under a fully-insured policy. There is no deductible under this policy, as all claims are handled by the carrier from the first dollar. Prior to the enactment of the fully-insured policy on July 1, 2014, ECA was insured for workers' compensation claims under a claims-made policy with a $250,000 deductible for each claim. Claims incurred under the former policy continue to be processed and the accrual for these costs includes the unpaid portion of claims that have been reported and estimates of amounts for claims that have been incurred but not reported and is included in accrued expenses in the statement of financial position. Management recognizes an estimated liability based upon the historical claims experience within stop-loss coverage limits. Workers' compensation claims liabilities were $339 and $566 at June 30, 2018 and 2017, respectively. No insurance recovery receivables were recorded at June 30, 2018 and 2017.

NOTE 10 – GROUND LEASE

AVSF holds a ground lease with the Roman Catholic Archbishop of San Francisco, which was amended in October 2011 in connection with the long-term debt refinancing (see Note 5 (D)). The ground lease expiration date was extended to March 31, 2075, and AVSF has no options to extend the term of this lease. In the original lease, AVSF was required to prepay the first 30 years' base rent in the amount of $4,092 in July 2002. The amendment required AVSF to prepay an additional 43 years of base rent of $4,005, which was paid with a term loan by ECA-Corporate (see Note 5 (A)). The rent prepayments were capitalized as a land lease (see Note 4). Six months prior to the end of the AVSF ground lease term, the lessor will determine whether it will accept the premises in their existing condition or require that ECA demolish the improvements and return the land to its original condition.

NOTE 11 – RETIREMENT PLANS

ECA has a defined contribution plan and incentive plan which cover all employees. Employees are eligible for participation in the defined contribution plan at the date of hire and ECA matches the employee contribution, after the completion of one year of service, up to a maximum of 6.0% of the employee's salary. In addition, employees are eligible for the incentive plan after the completion of one year of service where ECA contributes a discretionary amount of the employee's salary (for fiscal year 2018 and 2017, ECA contributed between 0.5% - 1.0% and 0.5% - 1.5% of an employee's salary, respectively). During the years ended June 30, 2018 and 2017, ECA contributed $244 and $373, respectively, to the plans.

NOTE 12 – CONTINUING CARE RESERVE REQUIREMENT

The State of California Health and Safety Code (the "Code") requires continuing care retirement communities to report on the adequacy of certain reserve requirements. MRCC met both the statutory and liquid reserve requirements at June 30, 2018 and 2017, and was exempt from the refund reserve requirement at June 30, 2018 and 2017.

In accordance with section 1790(a)(3) of the Code as of June 30, 2018, the amounts accumulated for projects designated to meet the needs of the MRCC residents are accumulated in construction progress (Note 4), and there are no amounts maintained for contingencies.

Notes to Consolidated Financial Statements (in thousands)

NOTE 13 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 active 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.

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.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. ECA does not hold securities classified as Level 3.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 2018 and 2017.

	2018			
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 15,373	$ 15,373	$ -	$ -
Fixed income securities				
U.S. agencies and treasuries	$ 2,352	$ 2,352	$ -	$ -
Corporate debt securities	$ 4,016	$ -	$ 4,016	$ -
Mortgage-backed securities	$ 1,543	$ 1,543	$ -	$ -
Mutual funds	$ 3,668	$ 3,668	$ -	$ -
Money market mutual funds	$ 55	$ 55	$ -	$ -
Certificates of deposit	$ 2,031	$ 2,031	$ -	
Other investments	$ 2	$ 2	$ -	$ -

Notes to Consolidated Financial Statements (in thousands)

	2017							
	Fair Value		Level 1		Level 2		Level 3	
Equities	$	14,220	$	14,220	$	-	$	-
Fixed income securities								
U.S. agencies and treasuries	$	2,223	$	2,223	$	-	$	-
U.S. Government Remics/CMOs	$	94	$	-	$	94	$	-
Corporate debt securities	$	2,843	$	-	$	2,843	$	-
Mortgage-backed securities	$	1,640	$	-	$	1,640	$	-
Foreign and Municipal bonds	$	-	$	-	$	509		
Mutual funds	$	3,512	$	3,512	$	-	$	-
Money market mutual funds	$	531	$	531	$	-	$	-
Certificates of deposit	$	2,015	$	-	$	2,015	$	-
Other investments	$	15			$	15	$	-

NOTE 14 – ACQUISITION

On December 30, 2016, ECA acquired the real and intangible property of SF El Camino 12-8, LLC, (d/b/a "The Villa at San Mateo" (VSM)) a for-profit company that owned and managed a 135-unit independent living community in San Mateo, California. As a result of the acquisition, ECA expanded its service area to include several counties adjacent to those it currently serves and expanded its service lines to offer independent living accommodations. The acquisition was accomplished through payment of consideration totaling $46,358 by ECA.

ECA incurred $464 of third-party acquisition-related costs in connection with this acquisition. These costs are included in purchased services and other expenses in the consolidated statements of activities and changes in net assets.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Fair Value of Consideration transferred		
Cash	$	46,358
Recognized Amounts of Identifiable Assets Acquired and liabilities assumed		
Current assets		4
Land		26,898
Building and improvements		20,292
Intangible assets - resident relationships		1,277
Current liabilities		(92)
Tenant security deposits		(76)
Total identifiable net assets		48,303
Inherent contribution	$	(1,945)

The weighted-average amortization period of acquired intangible assets is two years.

The acquisition resulted in an inherent contribution received of $1,945, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed. This amount has been included in inherent contribution in the consolidated statements of activities and changes in net assets. Inherent contribution resulted from seller's preference to transfer ownership to a not-for-profit entity with a mission to provide support and assistance to elderly people.

NOTE 15 – SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for net patient and resident service revenue adjustments – Estimates of allowances for adjustments included in net patient and resident service revenue are described in Note 1.

Professional liability claims – Estimates related to the accrual for professional liability claims are described in Notes 1 and 9.

Workers' compensation claims – Estimates related to the accrual for workers' compensation claims are described in Notes 1 and 9.

Investments – ECA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Asset retirement obligation – As discussed in Note 1, ECA has recorded a liability for its conditional asset retirement obligations related to asbestos removal at MRCC.

Current economic conditions – Due to the current regulatory environment, economic uncertainties and the growing pressures on the budgets of both the state and federal governments, it is possible that Medicare and Medi-Cal reimbursement could change in the near term, which could impact the financial results and cash flows of ECA. The value s of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in future adjustments.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Compliance – The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health-care providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. ECA is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on ECA's consolidated financial position.

Litigation – In the normal course of business, ECA is, from time to time, subject to allegations that may or do result in litigation. ECA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Industry – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that ECA is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. ECA 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 consolidated financial position, including the estimates inherent in the process of preparing the financial statements. ECA’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the statement of financial position date and before consolidated financial statements were available to be issued.

In August 2018, ECA-Corporate paid $1,519 to a financial institution as payment in full for note payable (A).

ECA has evaluated subsequent events through October 26, 2018, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Financial Position (in thousands)
June 30, 2018

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current Assets										
Cash	$ 212	$ 1,765	$ -	$ 936	$ 719	$ -	$ 2,227	$ 216	$ -	$ 6,075
Patient and resident accounts receivable, net	-	1,223	-	40	84	-	32	17	-	1,396
Due from related parties	20,949	-	-	-	-	-	-	-	(20,949)	-
Prepaid expenses and other	39	99	-	69	132	-	210	677	-	1,226
Other receivables	177	64	-	-	264	-	-	4	-	509
Total current assets	21,377	3,151	-	1,045	1,199	-	2,469	914	(20,949)	9,206
										-
Investments	8,784	19,420	-	-	-	-	1,325	-	-	29,529
Assets Limited As To Use										
Internally designated	2	-	-	-	-	-	-	-	-	2
Held by mortgagee under loan agreement										
Reserve for replacements	-	-	-	432	402	-	391	51	-	1,276
Escrow deposits	-	-	-	84	142	-	588	233	-	1,047
Externally restricted by donor-cash	-	-	-	-	-	-	-	-	-	-
Total assets limited as to use	2	-	-	516	544	-	979	284	-	2,325
Property and Equipment, Net	173	8,477	-	9,859	24,290	-	19,811	47,800	-	110,410
Other Assets										
Intangible assets, net	-	-	-	-	-	-	-	-	-	-
Related-party note receivable	6,206	-	-	-	-	-	-	-	(6,206)	-
Investment in affiliate	(867)	867								-
Other assets	325	-	-	1	-	-	-	-	-	326
Total other assets	5,664	867	-	1	-	-	-	-	(6,206)	326
Total assets	$ 36,000	$ 31,915	$ -	$ 11,421	$ 26,033	$ -	$ 24,584	$ 48,998	$ (27,155)	$ 151,796

Consolidating Statement of Financial Position (continued – in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current Liabilities										
Accounts payable	$ 160	$ 549	$ -	$ 70	$ 258	$ -	$ 117	$ 253	$ -	$ 1,407
Accrued expenses and other	768	726	-	250	401	-	390	258	-	2,793
Current maturities of long-term debt	111	-	-	244	704	-	667	620	-	2,346
Due to related parties	-	1,769	-	616	868	-	606	17,479	(21,338)	-
Total current liabilities	1,039	3,044	-	1,180	2,231	-	1,780	18,610	(21,338)	6,546
Related-Party Note Payable	-	-	-	1,935	3,882	-	-	-	(5,817)	-
Long-Term Debt	1,407	-	-	10,459	32,674	-	28,808	29,535	-	102,883
Asset Retirement Obligations	-	764	-	-	-	-	-	-	-	764
Total liabilities	2,446	3,808	-	13,574	38,787	-	30,588	48,145	(27,155)	110,193
Net Assets										
Unrestricted	32,327	23,395	-	(2,160)	(12,761)	-	(6,870)	853	-	34,784
Temporarily restricted	525	1,767	-	7	7	-	866	-	-	3,172
Permanently restricted	702	2,945	-	-	-	-	-	-	-	3,647
Total net assets	33,554	28,107	-	(2,153)	(12,754)	-	(6,004)	853	-	41,603
Total liabilities and net assets	$ 36,000	$ 31,915	$ -	$ 11,421	$ 26,033	$ -	$ 24,584	$ 48,998	$ (27,155)	$ 151,796

Consolidating Statement of Financial Position (continued – in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current Assets										
Cash	$ 953	$ 712	$ -	$ 321	$ 927	$ -	$ 2,081	$ 19	$ -	$ 5,013
Patient and resident accounts receivable, net	-	1,372	-	51	178	-	46	-	-	1,647
Due from related parties	6,752	-	17,687	-	-	31	-	-	(24,470)	-
Prepaid expenses and other	126	56	-	43	105	-	159	123	-	612
Other receivables	111	312	-	4	3	-	4	643	-	1,077
Total current assets	7,942	2,452	17,687	419	1,213	31	2,290	785	(24,470)	8,349
										-
Investments	9,375	17,021	-	-	-	-	1,231	-	-	27,627
Assets Limited As To Use										
Internally designated	2	-	-	-	-	-	-	-	-	2
Held by mortgagee under loan agreement										
Reserve for replacements	-	-	-	381	355	-	353	-	-	1,089
Escrow deposits	-	-	-	86	146	-	586	77	-	895
Externally restricted by donor-cash	-	678	-	-	-	-	-	-	-	678
Total assets limited as to use	2	678	-	467	501	-	939	77	-	2,664
Property and Equipment, Net	178	6,492	-	10,019	23,980	-	19,677	46,866	-	107,212
Other Assets										
Intangible assets, net	-	-	-	-	-	-	-	958	-	958
Investment in affiliates	(867)	867	-	-	-	-	-	-	-	-
Other assets	325	-	-	3	-	-	-	-	-	328
Total other assets	(542)	867	-	3	-	-	-	958	-	1,286
Total assets	$ 16,955	$ 27,510	$ 17,687	$ 10,908	$ 25,694	$ 31	$ 24,137	$ 48,686	$ (24,470)	$ 147,138

Consolidating Statement of Financial Position (continued – in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current liabilities										
Current maturities of long-term debt	$ 111	$ -	$ -	$ 237	$ 678	$ -	$ 644	$ -	$ -	$ 1,670
Accounts payable	171	977	-	148	356	2	353	273	-	2,280
Accrued expenses and other	992	613	-	188	398	-	335	261	-	2,787
Due to related party	-	397	-	2,306	4,264	-	422	17,081	(24,470)	-
Total current liabilities	1,274	1,987	-	2,879	5,696	2	1,754	17,615	(24,470)	6,737
Long-term debt	1,519	-	-	10,689	33,340	-	29,471	30,132	-	105,151
Asset retirement obligations	-	702	-	-	-	-	-	-	-	702
Total liabilities	2,793	2,689	-	13,568	39,036	2	31,225	47,747	(24,470)	112,590
Net assets										
Unrestricted	12,906	19,763	17,687	(2,668)	(13,352)	29	(8,001)	939	-	27,303
Temporarily restricted	554	2,113	-	8	10	-	913	-	-	3,598
Permanently restricted	702	2,945	-	-	-	-	-	-	-	3,647
Total net assets	14,162	24,821	17,687	(2,660)	(13,342)	29	(7,088)	939	-	34,548
Total liabilities and net assets	$ 16,955	$ 27,510	$ 17,687	$ 10,908	$ 25,694	$ 31	$ 24,137	$ 48,686	$ (24,470)	$ 147,138

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Activities Information (in thousands)
June 30, 2018

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Revenues, Gains, and Other Support										
Net patient and resident service revenue	$ 382	$ 16,393	$ -	$ 6,135	$ 9,948	$ -	$ 11,244	$ 4,111	$ -	$ 48,213
Contributions	70	1,354	-	1	67	-	-	-	-	1,492
Other revenue, net	3,063	-	-	-	292	-	-	-	(3,050)	305
Net assets released from restriction	65	1,092	-	11	30	-	176	-	-	1,374
Total revenues, gains, and other support	3,580	18,839	-	6,147	10,337	-	11,420	4,111	(3,050)	51,384
										-
Expenses and Losses										
Salaries and benefits	3,338	8,904	-	2,834	4,486	-	4,329	388	-	24,279
Purchased services and other	(323)	4,214	-	1,194	1,843	-	1,744	1,064	-	9,736
Supplies	21	1,456	-	378	512	-	614	12	-	2,993
Depreciation and amortization	94	728	-	425	835	-	822	1,186	-	4,090
Interest and fees	59	-	-	409	1,411	-	1,081	1,444	-	4,404
Provision for uncollectible accounts	-	6	-	-	4	-	1	-	-	11
Loss on disposal of property and equipment	-	-	-	-	11	-	-	-	-	11
Management fee	-	1,175	-	399	644	-	729	103	(3,050)	-
Intercompany expense	-	-	-	-	-	-	-	-	-	-
Total expenses and losses	3,189	16,483	-	5,639	9,746	-	9,320	4,197	(3,050)	45,524
Operating Income (Loss)	391	2,356	-	508	591	-	2,100	(86)	-	5,860
Other Income										
Investment return	445	1,176	-	-	-	-	-	-	-	1,621
Inherent contribution	-	-	-	-	-	-	-	-	-	-
Total other income	445	1,176	-	-	-	-	-	-	-	1,621
Excess (Deficiency) of Revenues Over Expenses	$ 836	$ 3,532	$ -	$ 508	$ 591	$ -	$ 2,100	$ (86)	$ -	$ 7,481

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Activities Information (continued – in thousands)
June 30, 2017

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Revenues, Gains, and Other Support										
Net patient and resident service revenue	$ 369	$ 15,321	$ -	$ 5,731	$ 10,075	$ -	$ 9,977	$ 1,806	$ -	$ 43,279
Contributions	42	339	8	20	90		-	-	-	499
Other revenue, net	-	390	-	1	7	-	25	114	-	537
Net assets released from restrictions for operations	-	895	-	-	4	-	209	-	-	1,108
Net assets released from restrictions for charity	-	228	-	-	-	-	-	-	-	228
Total revenues, gains, and other support	411	17,173	8	5,752	10,176	-	10,211	1,920	-	45,651
										-
Expenses and Losses										
Salaries and benefits	2,270	8,503	-	2,860	4,524	-	4,032	141	-	22,330
Purchased services and other	974	3,849	-	1,250	1,749		1,813	1,303	-	10,938
Supplies	16	1,229	-	447	554		583	17	-	2,846
Depreciation and amortization	147	744	-	415	788	-	818	688	-	3,600
Interest and fees	80	-	-	357	1,335	-	1,104	729	-	3,605
Loss on disposal of property and equipment	-	5	-	8	4		2	-	-	19
Provision for uncollectible accounts	-	159	-	1	38		-	-	-	198
Management fee	(2,833)	1,151	-	373	659		650	48	-	48
Intercompany expense	(154)	-	-	51	103	-	-	-	-	-
Total expenses and losses	500	15,640	-	5,762	9,754	-	9,002	2,926	-	43,584
Operating Income (Loss)	(89)	1,533	8	(10)	422	-	1,209	(1,006)	-	2,067
Other Income										
Investment return	454	1,364	2	-	-	-	-	-	-	1,820
Inherent contribution	-	-	-	-	-	-	-	1,945	-	1,945
Total other income	454	1,364	2	-	-	-	-	1,945	-	3,765
Excess (Deficiency) of Revenues Over Expenses	$ 365	$ 2,897	$ 10	$ (10)	$ 422	$ -	$ 1,209	$ 939	$ -	$ 5,832

Consolidating Statement of Activities Information (continued – in thousands)

	ECA - Corporate			Mercy Retirement and Care Center			Salem Lutheran Home Association of the Bay Cities, Inc.			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance											
July 1, 2017	$ 12,906	$ 554	$ 702	$ 19,763	$ 2,113	$ 2,945	$ 17,687	$ -	$ -	$ (2,668)	$ 8
Excess (deficiency) of revenues over expenses	836	-	-	3,532	-	-	-	-	-	508	-
Transfers from affiliate	18,585	-	-	100	-	-	(17,687)	-	-	-	-
Donor-restricted contributions	-	-	-	-	692	-	-	-	-	-	10
Investment return	-	36	-	-	54	-	-	-	-	-	-
Net assets released from restrictions	-	(65)	-	-	(1,092)	-	-	-	-	-	(11)
Balance, June 30, 2018	$ 32,327	$ 525	$ 702	$ 23,395	$ 1,767	$ 2,945	$ -	$ -	$ -	$ (2,160)	$ 7

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		AlmaVia of San Mateo		Total Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance											
July 1, 2017	$ (13,352)	$ 10	$ 29	$ -	$ (8,001)	$ 913	$ 939	$ -	$ 27,303	$ 3,598	$ 3,647
Excess (deficiency) of revenues over expenses	591	-	-	-	2,100	-	(86)	-	7,481	-	-
Transfers from affiliate	-	-	(29)	-	(969)	-	-	-	-	-	-
Donor-restricted contributions	-	27	-	-	-	35	-	-	-	764	-
Unrealized gain on investments	-	-	-	-	-	94	-	-	-	184	-
Net assets released from restrictions	-	(30)	-	-	-	(176)	-	-	-	(1,374)	-
Balance, June 30, 2018	$ (12,761)	$ 7	$ -	$ -	$ (6,870)	$ 866	$ 853	$ -	$ 34,784	$ 3,172	$ 3,647

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Activities Information (continued – in thousands)
June 30, 2017

	ECA - Corporate			Mercy Retirement and Care Center			Salem Lutheran Home			AlmaVia of Camarillo	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted
Balance											
July 1, 2016	$ 2,191	$ 64	$ -	$ 25,915	$ 1,578	$ 2,343	$ 17,677	$ 600	$ 1,304	$ (2,658)	$ 6
Excess (deficiency)											
of revenues over expenses	365	-	-	2,897	-	-	10	-	-	(10)	-
Transfers from affiliate	10,350	323	702	(9,049)	326	602	-	(649)	(1,304)	-	-
Donor-restricted											
contributions	-	-	-	-	687	-	-	-	-	-	2
Investment return	-	167	-	-	645	-	-	49	-	-	-
Net assets released											
from restrictions	-	-	-	-	(1,123)	-	-	-	-	-	-
Balance,											
June 30, 2017	$ 12,906	$ 554	$ 702	$ 19,763	$ 2,113	$ 2,945	$ 17,687	$ -	$ -	$ (2,668)	$ 8

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		AlmaVia of San Mateo		Total Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted
Balance											
July 1, 2016	$ (13,445)	$ 12	$ 29	$ -	$ (8,238)	$ 977	$ -	$ -	$ 21,471	$ 3,237	$ 3,647
Excess (deficiency)											
of revenues over expenses	422	-	-	-	1,209	-	939	-	5,832	-	-
Transfers from affiliate	(329)	-	-	-	(972)	-	-	-	-	-	-
Donor-restricted											
contributions	-	2	-	-	-	-	-	-	-	691	-
Investment return	-	-	-	-	-	145	-	-	-	1,006	-
Net assets released											
from restrictions	-	(4)	-	-	-	(209)	-	-	-	(1,336)	-
Balance,											
June 30, 2017	$ (13,352)	$ 10	$ 29	$ -	$ (8,001)	$ 913	$ 939	$ -	$ 27,303	$ 3,598	$ 3,647

Elder Care Alliance and Subordinate Corporation
Supplemental Schedule of Cash Flows – Mercy Retirement and Care Center (in thousands)
Year Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from noncontract residents	$ 16,542	$ 14,218
Cash received from residents		70
Contributions	2,046	1,026
Reimbursement for services to nonresidents	-	199
Cash received from other operating activities	248	390
Cash received from interest	340	412
Cash paid to related parties	1,372	(1,430)
Cash paid to suppliers and employees	(16,051)	(13,134)
Net cash provided by operating activities	4,497	1,751
Cash Flows from Investing Activities		
Purchases of investments	(7,053)	(1,720)
Sales of investments, and assets	5,544	817
Purchases of property and equipment	(2,713)	(1,606)
Net cash used in investing activities	(4,222)	(2,509)
Cash Flows from Financing Activities		
Transfer to affiliate	100	(8,447)
Net cash use din financing activities	100	(8,447)
Increase (Decrease) in Cash	375	(9,205)
Cash, Beginning of Year	1,390	10,595
Cash, End of Year	$ 1,765	$ 1,390
Reconciliation of Cash to Statements of Financial Position		
Cash	$ 1,765	$ 712
Cash in assets limited as to use	-	678
Total cash	$ 1,765	$ 1,390
Reconciliation of Changes in Net Assets to Net Cash provided by operating activities		
Change in net assets	$ 3,286	$ (5,015)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and accretion	790	744
Loss on disposal of property and equipment	-	5
Unrealized and realized gains on investments, net	(890)	(1,491)
Investment earnings on investments held by affiliate	-	(106)
Transfer to affiliate	(100)	8,121
Write off of deferred financing costs	-	75
Changes in certain current assets and liabilities		
Patient accounts receivable	149	(430)
Prepaid expenses and other receivables	205	(104)
Accounts payable	(428)	215
Accrued expenses and other	113	16
Net change in intercompany and investment in affiliate	1,372	(279)
Net cash provided by operating activities	$ 4,497	$ 1,751
Supplemental Cash-Flow Information		
Property and equipment acquisitions included in accounts payable	$ 22	$ 238
Investment earnings on investments held by affiliate	$ 208	$ 106

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