Report of Independent Auditors and Consolidated Financial Statements with Supplementary Information

Elder Care Alliance and Subordinate Corporations

June 30, 2019 and 2018

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 statements of financial position as of June 30, 2019 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Corporations as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ECA adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Matters

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 information, and supplemental schedule of cash flows – Mercy Retirement and Care Center as of and for the years ended June 30, 2019 and 2018, 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 25, 2019

Consolidated Financial Statements

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Financial Position
June 30, 2019 and 2018 (in thousands)

	2019	2018
ASSETS		
Current Assets		
Cash	$ 9,563	$ 6,075
Patient and resident accounts receivable, net of allowance, 2019 : $480, 2018 : $179	1,753	1,396
Prepaid expenses and other	1,218	1,226
Other receivables	537	509
Total current assets	13,071	9,206
Investments	17,590	21,761
Assets Limited As To Use		
Internally designated	167	167
Held by mortgagee under loan agreement:		
Reserve for replacements	1,413	1,276
Escrow deposits	893	1,047
Externally restricted by security agreements	975	975
Externally restricted by donor	5,537	6,628
Total assets limited as to use	8,985	10,093
Property and Equipment, Net	113,780	110,410
Other Assets	313	326
Total assets	$ 153,739	$ 151,796

See accompanying notes.

June 30, 2019 and 2018 (in thousands)

	2019	2018
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 1,702	$ 1,407
Accrued expenses and other	3,012	2,793
Current maturities of long-term debt	2,136	2,346
Total current liabilities	6,850	6,546
Long-term Debt	99,519	102,883
Asset Retirement Obligations	810	764
Total liabilities	107,179	110,193
Net Assets		
Without donor restrictions	39,206	34,784
With donor restrictions	7,354	6,819
Total net assets	46,560	41,603
Total liabilities and net assets	$ 153,739	$ 151,796

Elder Care Alliance and Subordinate Corporations
Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2019 (in thousands)

	2019		
	Net assets without donor restrictions	Net assets with donor restrictions	Total
Revenues, Gains, and Other Support			
Net patient and resident service revenue	$ 49,748	$ -	$ 49,748
Contributions	160	2,222	2,382
Other revenue, net	78	-	78
Net assets released from restriction	2,227	(2,227)	-
Total revenues, gains, and other support	52,213	(5)	52,208
Expenses and Losses			
Salaries and benefits	26,432	-	26,432
Purchased services and other	9,567	-	9,567
Supplies	3,221	-	3,221
Depreciation and amortization	4,124	-	4,124
Interest and fees	4,264	-	4,264
Provision for uncollectible accounts	340	-	340
Total expenses and losses	47,948	-	47,948
Operating Income (Loss)	4,265	(5)	4,260
Other Income			
Investment return, net of investment expense	157	540	697
Total other income	157	540	697
Excess of Revenues over Expenses and Changes in Net Assets	4,422	535	4,957
Net Assets, Beginning of the Year	34,784	6,819	41,603
Net Assets, End of the Year	$ 39,206	$ 7,354	$ 46,560

See accompanying notes.

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

	2018		
	Net assets without donor restrictions	Net assets with donor restrictions	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
Total expenses and losses	45,524	-	45,524
Operating Income (Loss)	5,860	(610)	5,250
Other Income			
Investment return, net of investment expense	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	7,245	34,548
Net Assets, End of the Year	$ 34,784	$ 6,819	$ 41,603

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018 (in thousands)

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 4,957	$ 7,055
Items not requiring (providing) operating cash flows		
Loss on disposal of property and equipment	-	11
Depreciation and amortization	4,124	3,132
Amortization of intangible asset	-	958
Amortization of deferred financing costs	82	77
Accretion of asset retirement obligations	46	62
Provision for uncollectible accounts	340	11
Realized and unrealized gains on investments, net	(157)	(1,621)
Restricted contributions and investment return, net of investment expenses	(2,762)	(948)
Changes in		
Patient and resident accounts receivable	(697)	240
Prepaid expenses and other assets	21	(612)
Other receivables	(28)	568
Accounts payable	176	(1,022)
Accrued expenses and other	219	6
Net cash provided by operating activities	6,321	7,917
Cash Flows from Investing Activities		
Purchases of investments, and assets limited as to use	(4,438)	(10,099)
Sales of investments, and assets limited as to use	9,804	10,309
Deposits to reserves for replacement	(137)	(187)
Net deposits to escrow	154	(152)
Purchases of property and equipment	(7,375)	(6,192)
Net cash used in investing activities	(1,992)	(6,321)
Cash Flows from Financing Activities		
Proceeds from restricted contributions and investment income	2,762	948
Payment of deferred financing costs	(330)	-
Principal payments of long-term debt	(3,326)	(1,669)
Net cash used in financing activities	$ (894)	$ (721)

See accompanying notes.

Years Ended June 30, 2019 and 2018 (in thousands)

	2019	2018
Increase in Cash	$ 3,435	$ 875
Cash, Beginning of Year	6,568	5,693
Cash, End of Year	10,003	6,568
Reconciliation of Cash to Statements of Financial Position		
Cash	9,563	6,075
Cash in assets limited as to use		
Internally designated	2	2
Externally restricted by donor	438	491
Total cash	$ 10,003	$ 6,568
Supplemental Cash-flow Information		
Interest paid	$ 4,104	$ 4,214
Property and equipment acquisitions included in accounts payable	$ 119	$ 149

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, which merged with Catholic Health Initiatives in February 2019 to become Common Spirit. 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. 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 consolidated 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.

Patient and resident accounts receivable, net – 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 – Other receivables consists primarily of pledges received from donors.

Investments and investment return, net of investment expenses – 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. In accordance with Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU 2016-14”) investment return is net of investment manager expenses.

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 consolidated 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; assets restricted by security agreements for collateral pledged against standby letter of credit (See Note 5(C)); and assets restricted by donors.

Property and equipment, net – 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 to 40 years
Furniture and equipment	3 to 10 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions, 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 net assets without donor restrictions 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, 2019 and 2018.

Intangible assets – ECA acquired signed leases with existing residents of VSM as part of the acquisition. ECA performed an assessment to determine the fair value of these leases at the acquisition date. The recognized intangible asset was recorded at $1,277,000 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 $0 and $958,000 was recorded for the year ended June 30, 2019 and 2018, respectively. As of June 30, 2018, intangible assets are fully amortized.

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 10.

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, 2019 and 2018, MRCC recognized $810,000 and $764,000, respectively, of conditional asset retirement obligations included in the consolidated statements of financial position. Accretion expense totaled $46,000 and $62,000 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018.

Net assets – On July 1, 2018, ECA adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changed the current net asset classification requirements and the information presented in consolidated financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update replaced the requirement to present three classes of net assets with two classes: net assets with donor restrictions, and net assets without donor restrictions. ECA has adjusted the presentation of these consolidated financial statements accordingly, including changes to the presentation of net asset classification, inclusion of information about liquidity and availability of resources, and inclusion of information provided about expenses.

In accordance with ASU 2016-14, ECA classified net assets as follows, as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions
Unrestricted	$ 34,784	$ -
Temporarily restricted	-	3,172
Permanently restricted	-	3,647
	$ 34,784	$ 6,819

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:

Net assets without donor restrictions represent resources available to support ECA's operations and donor restricted resources that have become available for use by ECA in accordance with the intention of the donor. 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.

Net assets with donor restrictions represent contributions that are limited in use by ECA in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of ECA according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from net assets with donor restrictions and recognized as net assets without donor restrictions. Net assets with donor restrictions are available primarily for resident assistance and certain aspects of operations. Net assets with donor restrictions also represent net assets subject to donor-imposed stipulations that they 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 $2,778,000 and $2,435,000, respectively, for the year ended June 30, 2019, and approximately $2,475,000 and $2,279,000, respectively, for the year ended June 30, 2018. 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.

Contributions – Gifts received with donor stipulations are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions of net assets without donor restrictions. 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 statements of activities and changes in net assets include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions, 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 prior year amounts were reclassified to conform to the current year presentation. There was no change in net assets or changes in net assets related to these reclassifications.

New accounting pronouncements – In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). 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 2014-09 will have on the ECA's future financial statements.

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, 2018. Management is currently evaluating the impact ASU 2016-01 will have on ECA's future consolidated financial statements.

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). This guidance enhances the statement of cash flow by streamlining the activities between cash and restricted cash as operating, investing, or financing, or as a combination of those activates. The guidance also highlights explanations of the change of cash, cash equivalents, restricted cash or restricted cash equivalents during the period. The guidance is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact ASU 2016-18 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* ("ASU 2018-08"). 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 2018-08 will have on ECA's future financial statements.

In June 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement ("*ASU 201813"). This guidance modifies disclosure requirements on the fair value of investments. The guidance is effective for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2018-13 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, 2019 and 2018, was:

	2019	2018
Medicare	20%	24%
Medi-Cal	23%	34%
Other third-party payers	21%	26%
Self pay	36%	16%
	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.

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, 2019 and 2018, are summarized in the following table (in thousands):

	2019	2018
Equities	$ 10,596	$ 15,373
Fixed income securities		
U.S. agencies and treasuries	1,637	2,352
Corporate debt securities	1,641	4,016
Mortgage-backed securities	958	1,543
Mutual funds	2,601	3,668
Cash and cash equivalents		
Money market mutual funds	4,366	55
Cash	437	489
Certificates of deposit	2,032	2,031
Interest receivable	1	4
Replacement reserve and escrow deposits held by mortgagee under loan agreement	2,306	2,323
	$ 26,575	$ 31,854

These investments are included on the consolidated statements of financial position as follows (in thousands):

	2019	2018
Investments	$ 17,590	$ 21,761
Assets limited as to use		
Internally designated	167	167
Held by mortgagee under loan agreement:		
Reserve for replacements	1,413	1,276
Escrow deposits	893	1,047
Externally restricted by security agreements	975	975
Externally restricted by donor	5,537	6,628
	$ 26,575	$ 31,854

Total investment return is comprised of the following (in thousands):

	2019	2018
Investment return, net		
Realized and unrealized gains	$ 229	$ 1,172
Interest and dividend income	592	808
Less investment manager expense	(124)	(175)
	$ 697	$ 1,805

Total investment return is reflected in the consolidated statements of activities and changes in net asssets as follows (in thousands):

	2019	2018
Net assets without donor restrictions		
Investment return, net of investment manager expenses	$ 157	$ 1,621
Net assets with donor restrictions		
Investment return, net of investment manager expenses	540	184
	$ 697	$ 1,805

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net included on the consolidated statements of financial position as follows (in thousands):

	2019	2018
Land	$ 31,478	$ 31,478
Land lease	9,748	9,748
Land improvements	1,152	1,141
Buildings and leasehold improvements, building improvements, and building service equipment	102,232	95,826
Equipment	10,613	10,148
Construction in progress	6,513	7,785
	161,736	156,126
Less accumulated depreciation	47,956	45,716
Total property and equipment, net	$ 113,780	$ 110,410

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 11. 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 $2,073,000 and $1,963,000 at June 30, 2019 and 2018, respectively, and a net land lease balance of $6,025,000 and $6,143,000 at June 30, 2019 and 2018, respectively.

Land lease also includes property that was purchased by AVSR from the Lutheran Synod in the form of a promissory note for $1,650,000, 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 $498,000 and $461,000 at June 30, 2019 and 2018, respectively, and a net land lease balance at June 30, 2019 and 2018, of $1,152,000 and $1,189,000, respectively.

At June 30, 2019, ECA's construction in progress balance of $6,513,000 was composed primarily of renovations at MRCC and smaller projects at other campuses. The projects currently in progress are expected to be completed through 2022 with $31,007,000 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

Long-term debt included on the consolidated statements of financial position as follows (in thousands):

	2019	2018
ECA-Corporate note payable ("A")	$ -	$ 1,519
AVC promissory note payable ("B")	10,853	11,097
AVSF promissory note payable ("C")	33,738	34,442
AVSR promissory note payable ("D")	28,939	29,607
VSM promissory note payable ("E")	30,167	30,358
MRCC promissory note payable ("F")	-	-
	103,697	107,023
Less: unamortized debt issuance costs	(2,042)	(1,794)
Less: current maturities	(2,136)	(2,346)
	$ 99,519	$ 102,883

(A) ECA-Corporate entered into a $2,000,000 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%. 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 $2,240,000 of investments held by ECA-Corporate. The loan was paid off entirely on August 1, 2018.

(B) AVC – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act, in the original amount of $12,416,000. 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.

(C) AVSF – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act, in the original amount of $38,485,000. 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 $975,000 which is subject to automatic annual extensions with a final expiration of October 31, 2020. 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. In accordance with the standby letter of credit agreement, ECA is required to pledge as collateral, $975,000 on behalf of AVSF, as security for the standby letter of credit. At June 30, 2019, no amount had been drawn on this letter of credit.

(D) AVSR – Held by a commercial entity, insured by HUD under Section 232 of the National Housing Act in the original amount of $32,878,000. The mortgage is payable in monthly installments of approximately $144,000, 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 $30,358,000 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 $157,000 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.

(F) MRCC entered into a $25,000,000 construction loan with BBVA Compass Bank on March 26, 2019. The construction loan converts to a permanent loan on March 25, 2022, extending the maturity date to March 25, 2032. The note will bear interest at an annual rate of 4.51% and will be amortized over 30 years.

Unamortized debt issuance costs of $2,042,000 and $1,794,000, at June 30, 2019 and 2018, 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, 2019, were (in thousands):

2020	$ 2,136
2021	2,218
2022	2,300
2023	2,393
2024	2,485
Thereafter	92,165
	$ 103,697

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of donor restricted contributions and grants at June 30, 2019 and 2018, for the following purposes (in thousands):

	2019	2018
Equipment and expansion	$ 1,241	$ 225
Charity and other	2,466	2,947
Endowment corpus	3,647	3,647
	$ 7,354	$ 6,819

During the years ended June 30, 2019 and 2018, $2,227,000 and $1,374,000, respectively, of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

Endowment corpus that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people and are included in charity and other.

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:

- Duration and preservation of the fund
- Purposes of ECA and the fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from investment income and appreciation or depreciation of investments
- Other resources of ECA
- Investment policies of ECA

The composition of net assets for the endowment fund at June 30, 2019 and 2018, was (in thousands):

	2019		
	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 1,890	$ 3,647	$ 5,537

	2018		
	Available for Release	Corpus	Total
Donor-restricted endowment funds	$ 2,981	$ 3,647	$ 6,628

Changes in endowment net assets for the years ended June 30, 2019 and 2018, were (in thousands):

	2019		
	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 2,981	$ 3,647	$ 6,628
Investment return, net			
Investment gain	281	-	281
Net appreciation	321	-	321
Less investment manager expense	(62)	-	(62)
Total investment return	540	-	540
Appropriation of endowment assets for expenditure	(1,631)	-	(1,631)
Endowment net assets, end of year	$ 1,890	$ 3,647	$ 5,537

	2018		
	Available for Release	Corpus	Total
Endowment net assets, beginning of year	$ 3,157	$ 3,647	$ 6,804
Investment return, net			
Investment gain	200	-	200
Net appreciation	184	-	184
Less investment manager expense	(88)	-	(88)
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

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, 2019 and 2018, 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 dividends 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 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2019 and 2018, comprise the following (in thousands):

	2019	2018
Cash	$ 9,563	$ 6,075
Resident accounts receivable, net of allowance	1,753	1,396
Investments	17,590	21,761
	$ 28,906	$ 29,232

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. ECA has a goal to maintain a current ratio greater than 1:1 in order to meet general expenditures, liabilities, and other obligations as they come due.

NOTE 9 – FUNCTIONAL EXPENSES

The expenses for providing residential and assisted living services activities of ECA that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among program services and supporting services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases. Expenses related to providing these services for the years ended June 30, 2019 and 2018, are as follows:

	2019						2018
	Residential Services	Assisted Living	Skilled Nursing	Fundraising	General and Administrative	Total	Total
Salaries and benefits	$ 6,072	$ 13,080	$ 3,665	$ 559	$ 3,056	$ 26,432	$ 24,279
Purchased services and other	5,092	2,196	1,437	51	791	9,567	9,736
Supplies	219	2,389	404	3	206	3,221	2,993
Depreciation	4,066	-	-	-	58	4,124	4,090
Interest and fees	-	-	2	-	4,262	4,264	4,404
Provision for uncollectible accounts	340	-	-	-	-	340	11
Loss on disposal of property		-	-	-	-	-	11
	$ 15,789	$ 17,665	$ 5,508	$ 613	$ 8,373	$ 47,948	$ 45,524

NOTE 10 – 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 consolidated 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 $339,000 and $321,000 at June 30, 2019 and 2018, included in accrued expense and other, respectively. No insurance recovery receivables were recorded at June 30, 2019 and 2018.

NOTE 11 – 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 (C)). 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 $4,092,000 in July 2002. The amendment required AVSF to prepay an additional 43 years of base rent of $4,005,000, 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 12 – 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 2019 and 2018, ECA contributed between 0.5% to 1.0% and 0.5% to 1.5% of an employee's salary, respectively). During the years ended June 30, 2019 and 2018, ECA contributed $237,000 and $262,000, included in salary and benefits on the statement of activities and changes in net assets, respectively, to the plans.

NOTE 13 – 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, 2019 and 2018, and was exempt from the refund reserve requirement at June 30, 2019 and 2018.

In accordance with section 1790(a)(3) of the Code as of June 30, 2019, 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.

NOTE 14 – 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, 2019.

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 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 30, 2019 and 2018 (in thousands).

	2019			
	Fair Value	Level 1	Level 2	Level 3
Equities	$ 10,596	$ 10,596	$ -	$ -
Fixed income securities				
U.S. agencies and treasuries	1,637	1,637	-	-
Corporate debt securities	1,641	-	1,641	-
Mortgage-backed securities	958	958	-	-
Mutual funds	2,601	2,601	-	-
Money market mutual funds	4,366	4,366	-	-
Certificates of deposit	2,032	2,032	-	-
Cash and cash equivalents	438	438	-	-
	$ 24,269	$ 22,628	$ 1,641	$ -
Investments	$ 17,590			
Assets limited as to use,				
Internally designated	167			
Externally restricted by security agreement	975			
Externally restricted by donor	5,537			
	$ 24,269			

	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	-	-
Cash and cash equivalents	493	493	-	-
	$ 29,531	$ 25,515	$ 4,016	$ -
Investments	$ 21,761			
Assets limited as to use,				
Internally designated	167			
Externally restricted by security agreement	975			
Externally restricted by donor	6,628			
	$ 29,531			

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 10.

Workers' compensation claims – Estimates related to the accrual for workers' compensation claims are described in Notes 1 and 10.

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.

Construction Loan Commitment – In accordance with a construction loan agreement, MRCC is required to commit $10,000,000 to the construction project prior to drawing on the construction loan. As of June 30, 2019, MRCC had spent $4,800,000 towards the required $10,000,000, and is committed to spend an additional $5,200,000.

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 consolidated statement of financial position date but before consolidated financial statements are available to be issued. ECA recognizes in the consolidated 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 consolidated 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 consolidated statement of financial position date and before consolidated financial statements were available to be issued.

ECA has evaluated subsequent events through October 25, 2019, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

June 30, 2019 (in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current Assets								
Cash	$ 745	$ 2,280	$ 1,505	$ 1,673	$ 2,252	$ 1,108	$ -	$ 9,563
Patient and resident accounts receivable, net	-	1,563	27	97	89	(23)	-	1,753
Due from related parties	20,758	-	-	-	-	-	(20,758)	-
Prepaid expenses and other	243	96	111	126	200	442	-	1,218
Other receivables	112	408	3	8	3	3	-	537
Total current assets	21,858	4,347	1,646	1,904	2,544	1,530	(20,758)	13,071
Investments	5,191	11,824	-	-	575	-	-	17,590
Assets Limited As To Use								
Internally designated	167	-	-	-	-	-	-	167
Held by mortgagee under loan agreement	-	-	-	-	-	-	-	-
Reserve for replacements	-	-	483	450	429	51	-	1,413
Escrow deposits	-	-	81	139	554	119	-	893
Externally restricted by security agreements	975	-	-	-	-	-	-	975
Externally restricted by donor	1,222	3,487	-	-	828	-	-	5,537
Total assets limited as to use	2,364	3,487	564	589	1,811	170	-	8,985
Property and Equipment, Net	126	12,483	9,682	23,916	19,760	47,813	-	113,780
Other Assets								
Related-party note receivable	6,327	-	-	-	-	-	(6,327)	-
Other assets	313	-	-	-	-	-	-	313
Total other assets	6,640	-	-	-	-	-	(6,327)	313
Total assets	$ 36,179	$ 32,141	$ 11,892	$ 26,409	$ 24,690	$ 49,513	$ (27,085)	$ 153,739

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Financial Position (Continued – in thousands)
June 30, 2019

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Current Liabilities								
Accounts payable	$ 367	$ 653	$ 100	$ 263	$ 195	$ 124	$ -	$ 1,702
Accrued expenses and other	718	768	279	454	472	321	-	3,012
Current maturities of long-term debt	-	-	251	730	692	463	-	2,136
Due to related parties	-	1,691	608	1,046	740	17,183	(21,268)	-
Total current liabilities	1,085	3,112	1,238	2,493	2,099	18,091	(21,268)	6,850
Related party Note Payable	-	-	1,935	3,882	-	-	(5,817)	-
Long-term Debt	-	(330)	10,222	31,981	28,122	29,524	-	99,519
Asset Retirement Obligations	-	810	-	-	-	-	-	810
Total liabilities	1,085	3,592	13,395	38,356	30,221	47,615	(27,085)	107,179
Net Assets								
Without donor restrictions	33,785	23,426	(1,509)	(12,030)	(6,364)	1,898	-	39,206
With donor restrictions	1,309	5,123	6	83	833	-	-	7,354
Total net assets	35,094	28,549	(1,503)	(11,947)	(5,531)	1,898	-	46,560
Total liabilities and net assets	$ 36,179	$ 32,141	$ 11,892	$ 26,409	$ 24,690	$ 49,513	$ (27,085)	$ 153,739

June 30, 2018 (in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	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	6,422	14,881	-	-	458	-	-	21,761
Assets Limited As To Use								
Internally designated	167	-	-	-	-	-	-	167
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 security agreements	975	-	-	-	-	-	-	975
Externally restricted by donor	1,222	4,539	-	-	867	-	-	6,628
Total assets limited as to use	2,364	4,539	516	544	1,846	284	-	10,093
Property and Equipment, Net	173	8,477	9,859	24,290	19,811	47,800	-	110,410
Other Assets								
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

June 30, 2018 (in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	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								
Without donor restrictions	32,327	23,395	(2,160)	(12,761)	(6,870)	853	-	34,784
With donor restrictions	1,227	4,712	7	7	866	-	-	6,819
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

Elder Care Alliance and Subordinate Corporation
Consolidating Statement of Activities Information
June 30, 2019 (in thousands)

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of San Rafael	AlmaVia of San Mateo	Eliminations	Total Consolidated
Revenues, Gains, and Other Support								
Net patient and resident service revenue	$ 484	$ 16,132	$ 6,439	$ 11,187	$ 11,267	$ 4,239	$ -	$ 49,748
Contributions	1	41	6	112	-	-	-	160
Other revenue, net	3,247	-	-	-	-	-	(3,169)	78
Net assets released from restriction	291	1,486	15	288	147	-	-	2,227
Total revenues, gains, and other support	4,023	17,659	6,460	11,587	11,414	4,239	(3,169)	52,213
Expenses and Losses								
Salaries and benefits	3,576	9,325	2,983	5,465	4,602	481	-	26,432
Purchased services and other	(45)	4,377	1,180	1,831	1,989	235	-	9,567
Supplies	34	1,529	392	579	658	29	-	3,221
Depreciation and amortization	58	872	428	900	964	902	-	4,124
Interest and fees	14	-	405	1,346	1,058	1,441	-	4,264
Provision for uncollectible accounts	-	322	2	8	8	-	-	340
Management fee	-	1,185	419	727	732	106	(3,169)	-
Total expenses and losses	3,637	17,610	5,809	10,856	10,011	3,194	(3,169)	47,948
Operating Income	386	49	651	731	1,403	1,045	-	4,265
Other Income (Loss)								
Investment return, net of investment expenses	175	(18)	-	-	-	-	-	157
Total other income	175	(18)	-	-	-	-	-	157
Excess of Revenues Over Expenses	$ 561	$ 31	$ 651	$ 731	$ 1,403	$ 1,045	$ -	$ 4,422

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

	ECA - Corporate	Mercy Retirement and Care Center	AlmaVia of Camarillo	AlmaVia of San Francisco	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
Management fee	-	1,175	399	644	729	103	(3,050)	-
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, net of investment expenses	445	1,176	-	-	-	-	-	1,621
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)
June 30, 2019 (in thousands)

	ECA - Corporate		Mercy Retirement and Care Center		AlmaVia of Camarillo		AlmaVia of San Francisco	
	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions
Balance July 1, 2018	$ 32,327	$ 1,227	$ 23,395	$ 4,712	$ (2,160)	$ 7	$ (12,761)	$ 7
Excess of revenues over expenses	561	-	31	-	651	-	731	-
Transfers from affiliate	897	-	-	-	-	-	-	-
Donor-restricted contributions	-	256	-	1,553	-	14	-	364
Investment return, net of investment expenses	-	117	-	344	-	-	-	-
Net assets released from restrictions	-	(291)	-	(1,486)	-	(15)	-	(288)
Balance, June 30, 2019	$ 33,785	$ 1,309	$ 23,426	$ 5,123	$ (1,509)	$ 6	$ (12,030)	$ 83

	AlmaVia of San Rafael		Villa at San Mateo		Total Consolidated	
	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions
Balance July 1, 2018	$ (6,870)	$ 866	$ 853	$ -	$ 34,784	$ 6,819
Excess of revenues over expenses	1,403	-	1,045	-	4,422	-
Transfers from affiliate	(897)	-	-	-	-	-
Donor-restricted contributions	-	35	-	-	-	2,222
Investment return, net of investment expenses	-	79	-	-	-	540
Net assets released from restrictions	-	(147)	-	-	-	(2,227)
Balance, June 30, 2019	$ (6,364)	$ 833	$ 1,898	$ -	$ 39,206	$ 7,354

June 30, 2018 (in thousands)

	ECA - Corporate		Mercy Retirement and Care Center		Salem Lutheran Home Association of the Bay Cities, Inc.		AlmaVia of Camarillo	
	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions
Balance								
July 1, 2017	$ 12,906	$ 1,256	$ 19,763	$ 5,058	$ 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, net of investment expenses	-	36	-	54	-	-	-	-
Net assets released from restrictions	-	(65)	-	(1,092)	-	-	-	(11)
Balance, June 30, 2018	$ 32,327	$ 1,227	$ 23,395	$ 4,712	$ -	$ -	$ (2,160)	$ 7

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Villa at San Mateo		Total Consolidated	
	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions	Net assets without donor restrictions	Net assets with donor restrictions
Balance										
July 1, 2017	$ (13,352)	$ 10	$ 29	$ -	$ (8,001)	$ 913	$ 939	$ -	$ 27,303	$ 7,245
Excess (deficiency) of revenues over expenses	591	-	-	-	2,100	-	(86)	-	7,481	-
Transfers from affiliate	-	-	(29)	-	(969)	-	-	-	-	-
Donor-restricted contributions	-	27	-	-	-	35	-	-	-	764
Investment return, net of investment expenses	-	-	-	-	-	94	-	-	-	184
Net assets released from restrictions	-	(30)	-	-	-	(176)	-	-	-	(1,374)
Balance, June 30, 2018	$ (12,761)	$ 7	$ -	$ -	$ (6,870)	$ 866	$ 853	$ -	$ 34,784	$ 6,819

Elder Care Alliance and Subordinate Corporation
Supplemental Schedules of Cash Flows – Mercy Retirement and Care Center
Year Ended June 30, 2019 and 2018 (in thousands)

	2019	2018
Cash Flows from Operating Activities		
Cash received from noncontract residents	$ 15,792	$ 16,542
Contributions	41	1,354
Cash received from other operating activities	(344)	248
Cash received from interest	382	340
Cash paid to related parties	(1,263)	197
Cash paid to suppliers and employees	(15,408)	(14,876)
Net cash (used in) provided by operating activities	(800)	3,805
Cash Flows from Investing Activities		
Purchases of investments	(5,161)	(7,064)
Sales of investments, and assets	8,982	5,544
Purchases of property and equipment	(4,828)	(2,713)
Change in investment in affiliate	867	-
Net cash used in investing activities	(140)	(4,233)
Cash Flows from Financing Activities		
Proceeds from restricted contributions and investment income	1,897	746
Payment of deferred financing costs	(330)	-
Transfer to affiliate	-	100
Net cash used in financing activities	1,567	846
Increase in Cash	627	418
Cash, Beginning of Year	1,808	1,390
Cash, End of Year	$ 2,435	$ 1,808
Reconciliation of Cash to Statements of Financial Position		
Cash	$ 2,280	$ 1,765
Cash in assets limited as to use	155	43
Total cash	$ 2,435	$ 1,808
Reconciliation of Changes in Net Assets to Net Cash provided by operating activities		
Change in net assets without donor restrictions	$ 31	$ 3,532
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and accretion	918	790
Unrealized and realized gains on investments, net	400	(836)
Release from restriction	(1,486)	(1,092)
Changes in certain current assets and liabilities		
Patient accounts receivable	(340)	149
Prepaid expenses and other receivables	(341)	205
Accounts payable	54	(428)
Accrued expenses and other	42	113
Net change in intercompany and investment in affiliate	(78)	1,372
Net cash (used in) provided by operating activities	$ (800)	$ 3,805
Supplemental Cash-flow Information		
Property and equipment acquisitions included in accounts payable	$ 50	$ 22
Investment earnings on investments held by affiliate	$ -	$ 208

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