

**STONERIDGE CREEK  
PLEASANTON CCRC, LLC**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2020 AND 2019**

**WITH INDEPENDENT AUDITORS' REPORT**



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**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
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## **INDEPENDENT AUDITORS' REPORT**

### Members

Stoneridge Creek Pleasanton CCRC, LLC  
Pleasanton, California

We have audited the accompanying financial statements of Stoneridge Creek Pleasanton CCRC, LLC (a Delaware limited liability company) (the Company), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, changes in members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stoneridge Creek Pleasanton CCRC, LLC as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

The financial statements as of and for the year ended December 31, 2019, were audited by White Nelson Diehl Evans LLP, whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2020, and has subsequently ceased operations. White Nelson Diehl Evans LLP's report dated April 23, 2020, expressed an unmodified opinion on those statements.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Irvine, California  
April 23, 2021

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**BALANCE SHEETS**  
**DECEMBER 31, 2020 AND 2019**

**ASSETS**

	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 6,109,483	\$ 3,427,821
Marketable securities	4,632,585	4,321,467
Accounts receivable	214,435	163,732
Inventories	71,353	50,229
Prepaid expenses and other current assets	607,100	382,274
Total Current Assets	11,634,956	8,345,523
Property and Equipment:		
Land	41,781,748	41,781,748
Land improvements	37,374,772	37,374,772
Buildings and improvements	191,559,664	191,559,664
Furniture, fixtures, and equipment	19,539,605	19,221,711
Construction in process	1,601,467	226,813
Total Property and Equipment, at Cost	291,857,256	290,164,708
Less: Accumulated depreciation	(62,323,363)	(51,623,641)
Property and Equipment, at Net Book Value	229,533,893	238,541,067
Other Assets:		
Restricted cash	448,328	1,730,988
Restricted marketable securities	1,601,222	-
Accounts receivable, long term	25,000	25,000
Costs of acquiring contracts, net	2,340,515	2,369,907
Deferred entrance fees receivable	72,050,031	71,454,665
Total Other Assets	76,465,096	75,580,560
Total Assets	\$ 317,633,945	\$ 322,467,150

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2020 AND 2019**

**LIABILITIES AND MEMBERS' DEFICIT**

	<u>2020</u>	<u>2019</u>
Current Liabilities:		
Accounts payable	\$ 1,081,146	\$ 1,428,234
Accrued expenses	1,334,814	1,196,914
Deposits on future occupancy	7,599,480	8,885,049
Current portion of note payable to Master Trust	<u>9,982,249</u>	<u>9,994,614</u>
Total Current Liabilities	19,997,689	21,504,811
Long-Term Liabilities:		
Note payable to Master Trust, net of current portion	389,307,704	389,789,953
Deferred revenue from unamortized deferred entrance fees, net	<u>58,524,186</u>	<u>56,714,113</u>
Total Long-Term Liabilities	<u>447,831,890</u>	<u>446,504,066</u>
Total Liabilities	467,829,579	468,008,877
Members' Deficit	<u>(150,195,634)</u>	<u>(145,541,727)</u>
Total Liabilities and Members' Deficit	<u>\$ 317,633,945</u>	<u>\$ 322,467,150</u>

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Revenues:		
Resident services	\$ 40,730,731	\$ 39,365,463
Amortization of deferred entrance fees	8,233,284	8,345,769
Deferred entrance fees on terminated contracts	3,256,960	1,758,384
Nonresident services	78,930	314,636
Total Revenues	52,299,905	49,784,252
Operating Expenses:		
Resident care	5,541,608	4,351,282
Food and beverage services	6,887,189	6,571,618
Environmental services	2,498,467	2,132,079
Plant facility operating costs	5,866,413	6,021,481
General and administrative expenses	8,756,149	8,118,531
Depreciation and amortization	10,897,439	10,842,770
Total Operating Expenses	40,447,265	38,037,761
Income from Operations	11,852,640	11,746,491
Other Income (Expense):		
Net realized gain (loss) on sale of marketable securities	(17,003)	13,257
Net unrealized gain on marketable securities	348,543	899,645
Interest and dividend income	162,588	112,010
Interest expense	(675)	-
Total Other Income (Expense)	493,453	1,024,912
Net Income	\$ 12,346,093	\$ 12,771,403

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' DEFICIT**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Capital		Accumulated Equity	Accumulated Other Comprehensive Income	Total Members' Equity
	Class A	Class B			
Balance, December 31, 2018	\$ (113,819,356)	\$ (21,395,413)	\$ 10,391,093	\$ 554,401	\$ (124,269,275)
Reclassification of other comprehensive income (Note 2)	-	-	554,401	(554,401)	-
Write-off of existing costs of acquiring contracts (Note 2)	-	-	(3,716,199)	-	(3,716,199)
Capitalization of costs of acquiring contracts (Note 2)	-	-	2,472,344	-	2,472,344
Distributions	(26,240,000)	(6,560,000)	-	-	(32,800,000)
Net income	-	-	12,771,403	-	12,771,403
Balance, December 31, 2019	(140,059,356)	(27,955,413)	22,473,042	-	(145,541,727)
Distributions	(13,600,000)	(3,400,000)	-	-	(17,000,000)
Net income	-	-	12,346,093	-	12,346,093
Balance, December 31, 2020	<u>\$ (153,659,356)</u>	<u>\$ (31,355,413)</u>	<u>\$ 34,819,135</u>	<u>\$ -</u>	<u>\$ (150,195,634)</u>

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities:		
Cash received from residents	\$ 52,099,410	\$ 50,041,448
Interest and dividend income	162,588	112,010
Interest expense, net of capitalized amounts	(675)	-
Reimbursements for services to nonresidents	78,930	314,636
Cash paid to suppliers and employees	(30,165,917)	(27,475,734)
Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities	22,174,336	22,992,360
Cash Flows from Investing Activities:		
Payments made on purchases of property and equipment	(1,692,548)	(676,446)
Purchases of marketable securities	(2,948,608)	(1,974,155)
Proceeds from redemption of marketable securities	1,360,436	1,870,842
Net Cash and Cash Equivalents and Restricted Cash Used in Investing Activities	(3,280,720)	(779,759)
Cash Flows from Financing Activities:		
Proceeds from notes payable to Master Trust	9,500,000	16,300,000
Payments on notes payable to Master Trust	(9,994,614)	(6,987,153)
Distributions to members	(17,000,000)	(32,800,000)
Net Cash and Cash Equivalents and Restricted Cash Used in Financing Activities	(17,494,614)	(23,487,153)
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	1,399,002	(1,274,552)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	5,158,809	6,433,361
Cash and Cash Equivalents and Restricted Cash, End of Year	\$ 6,557,811	\$ 5,158,809

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Reconciliation of Net Income to Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities:		
Net Income	\$ 12,346,093	\$ 12,771,403
Noncash Items Included in Net Income:		
Depreciation	10,699,722	10,642,997
Amortization of costs of acquiring contracts	197,717	199,773
Amortization of deferred entrance fees	(8,233,284)	(8,345,769)
Deferred entrance fees on terminated contracts	(3,256,960)	(1,758,384)
Net realized (gain) loss on sale of marketable securities	17,003	(13,257)
Net unrealized gain on marketable securities	(348,543)	(899,645)
Changes in:		
Accounts receivable	(50,703)	(25,613)
Inventories	(21,124)	(4,816)
Prepaid expenses and other current assets	(217,454)	(23,798)
Costs of acquiring contracts	(168,325)	(97,336)
Deferred entrance fees receivable	12,704,952	9,303,557
Accounts payable	(347,088)	186,593
Accrued expenses	137,899	(341,387)
Deposits on future occupancy	(1,285,569)	1,398,042
Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities	\$ 22,174,336	\$ 22,992,360
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Deferred entrance fees receivable and deferred revenue from unamortized deferred entrance fees recorded to reflect additional amounts due from resident contributions	\$ 13,300,318	\$ 15,042,251

The accompanying notes are an integral part of these financial statements.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

**Note 1: Nature of Business and Summary of Significant Accounting Policies**

**Nature of Business**

Stoneridge Creek Pleasanton CCRC, LLC (the Company) owns and operates a multiuse continuing care retirement community (CCRC) located in Pleasanton, California. The Company operates under the continuing care concept whereby residents enter into agreements that require payment of a onetime entrance fee and a monthly charge. Generally, these payments will entitle residents to the use and privileges of the facility for life.

**Limited Liability Company Operating Agreement**

The rights and obligations of the members of the Company are governed by the First Amended and Restated Limited Liability Company Operating Agreement (the Operating Agreement) of the Company dated July 14, 2015. The following represents a summary of significant financial terms of the Operating Agreement.

The Company has two types of members - Class A and Class B - and one appointed manager, who is responsible for the management of the day-to-day business and affairs of the Company. The manager is granted the authority to act on behalf of the Company, except for those actions requiring a Class A majority in interest vote or the unanimous approval of the Class A members, as designated in the Company's Operating Agreement. Class A members also have the authority to remove or replace the manager.

One of the Class A members is designated as the financing member. No member other than the financing member is required to contribute capital to the Company at any time. As of December 31, 2020 and 2019, 80% of the Company is owned by Class A members and 20% of the Company is owned by Class B members.

The members' liability to general creditors is limited to their investments in the Company. The Company will continue until dissolved pursuant to the terms of the Operating Agreement.

Profits and losses for financial statement purposes, distributable cash from operations, and profits and losses for tax purposes are allocated and distributed to the members in accordance with the Operating Agreement. The Operating Agreement also provides for priority distributions, plus an allowance for interest.

**Basis of Presentation**

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). References to the ASC hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents and Restricted Cash**

For purposes of the statements of cash flows, cash and cash equivalents include the operating cash account of the Company, money market accounts, time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, as well as restricted cash (see Note 5).

The following table provides a reconciliation of cash, restricted cash, and cash equivalents reported within the balance sheets that sum to the total of the same such amounts as shown in the statements of cash flows for the years ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,109,483	\$ 3,427,821
Restricted cash (Note 5)	<u>448,328</u>	<u>1,730,988</u>
Total Cash and Cash Equivalents and Restricted Cash as Shown on the Statements of Cash Flows	<u>\$ 6,557,811</u>	<u>\$ 5,158,809</u>

**Marketable Securities and Restricted Marketable Securities**

The Company accounts for its investments in equity securities in accordance with FASB ASC 321-10, *Investments - Equity Securities*. Marketable securities held by the Company have readily determinable fair values and are reported at fair value, with realized and unrealized gains and losses included in earnings. Any dividends received are recorded in interest income.

**Accounts Receivable**

Accounts receivable consist of amounts due from residents for which the Company has an unconditional right to receive payment and are primarily composed of receivables for monthly service fees and other ancillary services, as well as amounts due from residents for obligations related to independent unit renovations and deferred entrance fees on canceled contracts. Receivables for monthly service fees are primarily due upon receipt of invoice, and they are reviewed weekly and considered past due 14 days after the issuance of monthly statements. Accounts for which no payments have been received for 30 days are considered delinquent, and customary collection efforts are initiated. Uncollectible accounts are written off at the advice of a collection attorney and with the approval of ownership. Receivables for resident obligations are generally collected upon cancellation of contracts, which is estimated to occur long term.

The Company provides an allowance for doubtful accounts, as needed, for accounts deemed uncollectible. No allowance was necessary at December 31, 2020 and 2019.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Inventories**

Inventories consist of food and supplies used in operations and are valued at the lower of cost or net realizable value on a first-in, first-out basis.

**Property and Equipment**

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over the estimated useful lives of the respective assets. Depreciation for property and equipment is computed on the straight-line method for book purposes.

The estimated useful lives of the related assets are as follows:

Land improvements	10-20 years
Buildings and improvements	10-40 years
Furniture, fixtures, and equipment	5-10 years
Computer equipment and systems	5 years

Depreciation expense for the years ended December 31, 2020 and 2019, totaled \$10,699,722 and \$10,642,997, respectively.

**Long-Lived Assets**

The Company accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of value of such assets for the years ended December 31, 2020 and 2019.

**Revenue Recognition from Contracts with Customers**

The Company recognizes revenue for residency in accordance with the provisions of FASB ASC 606, *Revenue from Contracts with Customers (Topic 606)*. The Company enters into continuing care residency contracts with its customers. The form of the agreement is in conformity with the statutes of the State of California Department of Social Services Continuing Care Contracts Branch. Prior to actual occupancy by the resident, a contribution is required to be deposited with the Master Trust (as defined in Note 6) pursuant to a Residence and Care Agreement (the Residence Agreement). The provisions of the Residence Agreement include, but are not limited to, such items as the unit to be occupied, initial monthly fee, amount of contribution to the Master Trust, and methods of cancellation and refunds or contingent repayments subject to resale of the units.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition from Contracts with Customers (Continued)**

Generally, the Company is deemed to have Type A life care contracts that are all-inclusive continuing care contracts that include residential facilities, other amenities, and access to health-care services, primarily assisted living and nursing care. Type A contracts are deemed to have one performance obligation - to provide each resident the ability to live in the CCRC and access the appropriate level of care based on his or her needs. A Type A contract also allows a resident the ability to cancel the Residence Agreement at any time, and thus, because of this provision, the resident agreement for a Type A life care CCRC resident is generally deemed to be a monthly contract with the option to renew.

Contract Revenues

The following are descriptions of the services provided and the accounting policies related to the contracted services.

*Entrance Fees* - The contract provides a material right to occupy an appropriate-level living unit for life and to receive certain services for which residents are required to pay an entrance fee. Generally, the entrance fee is payable on or before occupancy by the resident. Residents may cancel their Residence Agreement at any time, and, upon cancellation, the contribution received will be repayable under the following terms and conditions:

- (1) Cancellation During the Trial Residence Period - Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Company or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law, which states that the Company may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.
- (2) Cancellation After 90 Days - A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Company 90 days' written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Company may cancel the agreement at any time after the trial residence period for good cause upon 90 days' written notice to the resident. Examples of good cause are defined in the Residence Agreement.

Further, upon termination of the Residence Agreement, the resident or his or her estate will be entitled to a repayment of the contribution less a predetermined percentage and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements. In addition, upon termination of the Residence Agreement after the probationary period of 90 days, the Company may be entitled to a Deferred Entrance Fee (a percentage of the resident's contribution amount), as defined in each resident's Residence Agreement.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition from Contracts with Customers (Continued)**

*Resident Fees* - Resident living service fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased by the Company with appropriate notice as specified in the individual agreements, generally based on increases in operating costs or inflationary increases. Revenue for resident fees is recognized as the Company satisfies the performance obligation, which is monthly.

*Nonresident Services* - Nonresident services are revenues recognized at a point in time primarily for nonresident guest meals and short-term guest accommodations.

Contract Assets and Contract Liabilities

The following are assets and liabilities resulting from contracts with customers.

*Deferred Entrance Fees Receivable* - Deferred entrance fees receivable represent that portion of the entrance fees that would be payable to the Company upon termination of the existing Residence Agreements, based on the specific terms of each resident contract, which are due from the Master Trust (see Note 6).

*Deposits on Future Occupancy* - Deposits on future occupancy represent deposits on future contracts from prospective residents that are fully refundable upon demand.

*Deferred Revenue from Unamortized Entrance Fees* - Deferred revenue from unamortized entrance fees represents the total amount of the entrance fees that have become nonrepayable to the residents, based on the specific terms of each resident contract, which are recorded as deferred revenue from entrance fees and are amortized to income over time using the straight-line method over the remaining life expectancy of the resident. The period of amortization is adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual or joint and last survivor life expectancy of each pair of residents occupying the same unit.

Costs of Acquiring Contracts

*Costs of Acquiring Contracts* - Costs of acquiring contracts are the unamortized incremental costs of acquiring contracts, which primarily consist of commissions paid to salespeople. These assets are amortized on a straight-line basis over the duration of the contract. During the years ended December 31, 2020 and 2019, the Company recognized amortization expense of these assets totaling \$197,717 and \$199,773, respectively.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Comprehensive Income**

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. An analysis of changes in components of accumulated other comprehensive income is presented in the statements of changes in members' deficit.

**Income Taxes**

The Company is taxed as a partnership for federal tax purposes and accordingly pays no federal taxes. For California purposes, the Company pays an \$800 limited liability company tax plus a fee based on its total revenue. The taxable income or loss is recognized on the individual income tax returns of the members.

**Advertising and Promotional Costs**

Advertising and promotional costs are charged to operations when incurred. For the years ended December 31, 2020 and 2019, advertising and promotional costs totaled \$441,858 and \$663,971, respectively, and are included in general and administrative expenses in the accompanying statements of operations.

**Use of Estimates**

The process of preparing financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2: Adoption of New Accounting Standards**

On January 1, 2019, the Company adopted FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as well as FASB ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. A summary of the impact resulting from the implementation of ASU 2014-09, as well as members' deficit reclassifications driven by the adoption of ASU 2016-01 as of January 1, 2019, is stated below.

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 2: Adoption of New Accounting Standards (Continued)**

Members' Deficit - December 31, 2018

Accumulated other comprehensive income:	
Accumulated other comprehensive income, as reported	\$ 554,401
Adjusted for the effect of ASU 2016-01	<u>(554,401)</u>
Accumulated other comprehensive income, adjusted as of January 1, 2019	<u>\$ -</u>
Members' deficit:	
Members' deficit, as reported	\$ (124,823,676)
Adjusted for the effect of ASU 2016-01	<u>554,401</u>
Members' deficit, subtotal	(124,269,275)
Members' deficit, impact of ASU 2014-09	<u>(1,243,855)</u>
Members' deficit, adjusted – January 1, 2019	<u>\$ (125,513,130)</u>
Total Members' Deficit – As of January 1, 2019	<u>\$ (125,513,130)</u>

**Note 3: Revenue from Contracts with Customers**

The following table presents the Company's revenue disaggregated by service for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue from Contracts with Customers:		
Entrance fees, amortized and on terminated contracts (over time)	\$ 11,490,244	\$ 10,104,153
Monthly resident fees and ancillary charges (over time)	40,730,731	39,365,463
Nonresident services (point in time)	<u>78,930</u>	<u>314,636</u>
Total Revenue from Contracts with Customers	<u>\$ 52,299,905</u>	<u>\$ 49,784,252</u>

The beginning and end of year balances of the Company's various contract-related balances were as follows:

	<u>January 1, 2020</u>	<u>December 31, 2020</u>
Accounts Receivable	<u>\$ 163,732</u>	<u>\$ 214,435</u>
Costs to Acquire Contracts	<u>\$ 2,369,907</u>	<u>\$ 2,340,515</u>
Deferred Entrance Fees Receivable	<u>\$ 71,454,665</u>	<u>\$ 72,050,031</u>
Deposits on Future Occupancy	<u>\$ 8,885,049</u>	<u>\$ 7,599,480</u>
Deferred Revenue from Unamortized Entrance Fees	<u>\$ 56,714,113</u>	<u>\$ 58,524,186</u>

**STONERIDGE CREEK PLEASANTON CCRC, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 4: Concentrations, Risks, and Uncertainties**

The Company maintains cash balances with one financial institution. At December 31, 2020 and 2019, accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The Company's deposits in these financial institutions at times exceeded the amount insured by the FDIC. The risk is managed by maintaining deposits in high-quality financial institutions.

At December 31, 2020 and 2019, the Company also maintains its money market funds and investments in equity securities at brokerage firms that are not FDIC insured. The firms are insured by the Securities Investor Protection Corporation for up to \$500,000.

During 2020, the World Health Organization declared the spread of coronavirus (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Management believes that the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated, as these events continue to have impacts on the global economy.

**Note 5: Restricted Cash and Restricted Marketable Securities**

As a condition of development, the Company entered into an agreement with the City of Pleasanton, California, whereby the Company will provide a certain number of independent living units that will be affordable to households of lower incomes as specified in the agreement. The agreement also calls for the Company to establish an annuity for the purpose of providing ongoing subsidies to specific households for future periods. At December 31, 2020 and 2019, amounts of restricted cash and restricted marketable securities established totaled \$2,049,550 and \$1,730,988, respectively. The Company was in compliance with all terms of the agreement.

**Note 6: Notes Payable to Master Trust and Trust Agreements**

The Stoneridge Creek Pleasanton Master Trust (the Master Trust) was established to provide protection to the residents of the community by providing them with a vehicle through which they obtain a secured interest in the real property of the Company. New residents join in and become grantors under the trust agreement. At December 31, 2020 and 2019, the balance outstanding on the Master Trust note payable was \$399,289,953 and \$399,784,567, respectively.

A contribution amount, as specified in the Residence Agreement, is made to the Master Trust by the grantor (see Note 1). The trustee of the Master Trust is directed to invest virtually all the funds in the form of an interest-free loan to the Company. The loan, which currently may not exceed \$518,000,000, is secured by the following:

- (1) A first priority deed of trust on the Company's real property and improvements thereon.

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**Note 6: Notes Payable to Master Trust and Trust Agreements (Continued)**

- (2) Security agreement creating a first security interest in the Company's current and hereafter acquired equity in all the improvements, fixtures, personal property, and intangible property associated and used in connection with the real property described in the deed of trust.
- (3) First priority assignment of contracts including, but not limited to, any residence and care agreement and any management agreement entered into in conjunction with the operation of Stoneridge Creek Pleasanton.

The security also includes any income generated from and any insurance proceeds recovered from the loss of any property serving as collateral for this loan.

Repayments of principal will be made in annual amounts for a period of 40 years with a final payment due December 31, 2061. Each annual payment or series of payments made during the year shall be equal to or greater than the amount of principal advanced on December 15 next preceding the payment due date divided by 40 years. The next scheduled principal payment of \$9,982,249 was paid in January 2021.

Principal payments of the current outstanding Master Trust loan are estimated to mature as follows:

2021	\$ 9,982,249
2022	9,732,693
2023	9,489,375
2024	9,252,141
2025	9,020,837
Thereafter	<u>351,812,658</u>
Total	<u>\$ 399,289,953</u>

In addition to the annual principal payment, the Company provides the Master Trust temporary loans to fund grantor distributions when necessary. These temporary loans are refunded to the Company upon subsequent sale of a unit or when the Master Trust has excess liquidity.

**Note 7: Commitments and Contingencies**

**Obligation to Provide Future Services**

The Company annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the present value of monthly service fees and the unamortized deferred revenue from deferred entrance fees. If the present value of the net cost of future services and use of facilities exceeds the monthly service fees and deferred revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 5.0% at December 31, 2020, and a rate of 2.39% at December 31, 2019, the anticipated revenues are estimated to exceed the cost of future services for both years and, therefore, no liability was accrued.

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**Note 7: Commitments and Contingencies (Continued)**

**Reservations and Designations**

At December 31, 2020 and 2019, the Company maintains cash reserves in the amount of \$6,055,650 and \$5,523,361, respectively, for operating expense contingencies in accordance with the requirements of the California Health and Safety Code under the State of California Department of Social Services. These reserves are included in cash and cash equivalents and marketable securities in the accompanying balance sheets.

**Litigation**

The Company experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

**Note 8: Related-Party Transactions**

Pursuant to the provisions of FASB ASU 2018-17, *Consolidation (Topic 810)*, the Company has elected to not apply variable interest entity guidance to legal entities under common control. The Company is not aware of any exposure to loss as a result of its involvement with these entities.

At December 31, 2020 and 2019, the Company has a formal service agreement with a related company concerning the provision of administrative and operational oversight services, including use of brand, transaction processing, and benefit and insurance administration, among others. The service agreement calls for annual service fees payable in equal monthly installments, and the agreement renews annually unless canceled. For the years ended December 31, 2020 and 2019, services paid under this agreement totaled \$638,244 and \$532,524, respectively. The service agreement also provides for additional fees for supplemental services and out-of-pocket expenses, as needed. For the years ended December 31, 2020 and 2019, the additional fees paid under this agreement totaled \$411,220 and \$285,774, respectively. Furthermore, the service agreement also provides for insurance premiums to be paid to a related company. Insurance premiums paid under this agreement for the years ended December 31, 2020 and 2019, totaled \$478,241 and \$365,219, respectively.

During both years ended December 31, 2020 and 2019, the Company paid \$50,000 for management services provided by an affiliated entity owned by the financing member. These expenses are included in general and administrative expenses in the accompanying statements of operations.

The Company has an agreement for purchased health-care costs with Creekview HC, LLC, an affiliated entity. The health-care costs paid to this entity during the years ended December 31, 2020 and 2019, were \$4,496,359 and \$3,428,214, respectively, and are included in resident care expenses in the accompanying statements of operations. In addition, the Company had payables for accrued health-care costs totaling \$96,900 and \$64,454 at December 31, 2020 and 2019, respectively, which are included in accounts payable in the accompanying balance sheets.

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**Note 9: Employee Benefit Plan**

The Company sponsors a qualified 401(k) plan (the Plan) for all eligible employees. Employees may contribute up to 80% of their yearly compensation for up to the maximum amount prescribed by law. The Company makes a safe harbor matching contribution equal to 100% of the first 3% of the participant's compensation and 50% of the next 2% of the participant's compensation, which is deferred as an elective deferral. For the years ended December 31, 2020 and 2019, employer contributions to the Plan totaled \$178,199 and \$120,013, respectively, which have been included in operating expenses in the accompanying statements of operations.

**Note 10: Fair Value Measurements**

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date.

The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measurement considered from the perspective of a market participant rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 1,871,949	\$ -	\$ -
Large growth	995,066	-	-
Large core	3,018,566	-	-
Mid value	222,866	-	-
Mid core	<u>125,360</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 6,233,807</u>	<u>\$ -</u>	<u>\$ -</u>

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**Note 10: Fair Value Measurements (Continued)**

The following table provides fair value measurement for financial assets measured at fair value on a recurring basis as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:			
Large value	\$ 1,640,043	\$ -	\$ -
Large growth	661,976	-	-
Large core	1,895,148	-	-
Mid value	<u>124,300</u>	<u>-</u>	<u>-</u>
 Total Assets at Fair Value	 <u>\$ 4,321,467</u>	 <u>\$ -</u>	 <u>\$ -</u>

**Note 11: Subsequent Events**

Events occurring after December 31, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of April 23, 2021, which is the date the financial statements were available to be issued. There were no adjustments to the financial statements or additional disclosures as a result of this evaluation.

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