



FOUNDATION FOR SENIOR LIVING  
AND AFFILIATED ENTITIES

PHOENIX, ARIZONA

COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Foundation for Senior Living and Affiliated Entities  
Phoenix, Arizona

We have audited the accompanying combined financial statements of Foundation for Senior Living and Affiliated Entities, which comprise the combined statements of financial position as of June 30, 2019 and 2018, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 the combined 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 combined 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Foundation for Senior Living and Affiliated Entities as of June 30, 2019 and 2018, and the changes in its net assets and its 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 20 to the combined financial statements have been restated to correct for a misstatement. Our opinion is not modified with respect to this matter.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position and combining statement of activities are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

*Henry + Home, LLP*

Tempe, Arizona  
November 25, 2019

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENTS OF FINANCIAL POSITION  
 June 30, 2019 and 2018

| ASSETS   | 2019          | 2018<br>(Restated) |
|--|---------------|--------------------|
| <b>CURRENT ASSETS</b>  |               |                    |
| Cash and cash equivalents  | \$ 4,164,503  | \$ 4,584,785       |
| Restricted deposits and funded reserves,<br>current portion        | 227,507       | 202,552            |
| Accounts receivable, net of allowance                              | 5,425,200     | 6,591,424          |
| Promises to give   | 1,028,861     | 1,054,147          |
| Grants receivable  | 2,710,043     | 2,860,801          |
| Due from affiliates, net of allowance                              | 3,010,433     | 2,991,816          |
| Prepaid expenses and deposits                                      | 146,316       | 142,491            |
| Notes receivable from affiliates, current portion                  | 68,521        | 68,422             |
| Property inventory   | 6,137,424     | 2,573,422          |
| Assets held for sale   | 3,639,472     | 2,435,933          |
| TOTAL CURRENT ASSETS   | 26,558,280    | 23,505,793         |
| <b>NON-CURRENT ASSETS</b>  |               |                    |
| Restricted deposits and funded reserves, net of<br>current portion | 2,941,022     | 1,985,189          |
| Property and equipment, net  | 36,950,113    | 30,130,714         |
| Notes receivable from affiliates, net of current portion           | 9,611,840     | 7,930,362          |
| Deferred tax asset   | 16,000        | 250,000            |
| Investment in affiliates, equity basis                             | (1,258,896)   | (1,040,959)        |
| TOTAL NON-CURRENT ASSETS   | 48,260,079    | 39,255,306         |
| TOTAL ASSETS   | \$ 74,818,359 | \$ 62,761,099      |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)  
 June 30, 2019 and 2018

|   | <u>2019</u>          | <u>2018</u><br>(Restated) |
|---|----------------------|---------------------------|
| LIABILITIES AND NET ASSETS  |                      |                           |
| CURRENT LIABILITIES   |                      |                           |
| Accounts payable  | \$ 1,449,254         | \$ 1,295,859              |
| Due to affiliates   | 1,080,675            | 977,916                   |
| Due to City of Phoenix  | 5,284,834            | 1,557,747                 |
| Accrued payroll and related expenses                              | 1,487,095            | 1,338,338                 |
| Interest payable  | 435,279              | 357,447                   |
| Contract advances   | 114,673              | 124,998                   |
| Contract liabilities  | 1,333,059            | 580,995                   |
| Other liabilities   | 539,685              | 734,841                   |
| Lines of credit   | 2,710,026            | 1,689,782                 |
| Long-term debt, current portion                                   | <u>2,443,618</u>     | <u>2,615,822</u>          |
| TOTAL CURRENT LIABILITIES   | <u>16,878,198</u>    | <u>11,273,745</u>         |
| NON-CURRENT LIABILITIES   |                      |                           |
| Tenant security deposits  | 107,419              | 112,099                   |
| Long-term debt, net of current portion<br>and debt issuance costs | <u>35,860,310</u>    | <u>30,331,229</u>         |
| TOTAL NON-CURRENT LIABILITIES                                     | <u>35,967,729</u>    | <u>30,443,328</u>         |
| TOTAL LIABILITIES   | <u>52,845,927</u>    | <u>41,717,073</u>         |
| NET ASSETS  |                      |                           |
| Without donor restrictions  | 6,856,177            | 7,378,296                 |
| With donor restrictions   | <u>15,116,255</u>    | <u>13,665,730</u>         |
| TOTAL NET ASSETS  | <u>21,972,432</u>    | <u>21,044,026</u>         |
| TOTAL LIABILITIES AND NET ASSETS                                  | <u>\$ 74,818,359</u> | <u>\$ 62,761,099</u>      |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENTS OF ACTIVITIES  
 Years Ended June 30, 2019 and 2018

|   | 2019                          |                            |                      | 2018 (Restated)               |                            |                      |
|---|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
| <b>SUPPORT AND REVENUES</b>                           |                               |                            |                      |                               |                            |                      |
| Government contracts                                  | \$ 22,625,979                 | \$ -                       | \$ 22,625,979        | \$ 23,073,773                 | \$ -                       | \$ 23,073,773        |
| Client fees   | 5,076,384                     | -                          | 5,076,384            | 6,084,830                     | -                          | 6,084,830            |
| Program income  | 624,217                       | -                          | 624,217              | 651,298                       | -                          | 651,298              |
| Management fees                                       | 156,802                       | -                          | 156,802              | 147,097                       | -                          | 147,097              |
| Grants  | 490,863                       | 1,600,000                  | 2,090,863            | 531,407                       | 1,040,000                  | 1,571,407            |
| Contributions   |                               |                            |                      |                               |                            |                      |
| Charity development appeal                            | -                             | 910,001                    | 910,001              | -                             | 910,000                    | 910,000              |
| Foundations   | 185                           | -                          | 185                  | 103,598                       | -                          | 103,598              |
| Corporations and individuals                          | 459,806                       | -                          | 459,806              | 65,552                        | 440,457                    | 506,009              |
| In-kind donations                                     | 770,346                       | -                          | 770,346              | 767,296                       | -                          | 767,296              |
| Release from time restrictions                        | 910,000                       | (910,000)                  | -                    | 910,000                       | (910,000)                  | -                    |
| Release from purpose restrictions                     | 149,476                       | (149,476)                  | -                    | 426,444                       | (426,444)                  | -                    |
|   | <u>31,264,058</u>             | <u>1,450,525</u>           | <u>32,714,583</u>    | <u>32,761,295</u>             | <u>1,054,013</u>           | <u>33,815,308</u>    |
| Other revenue   |                               |                            |                      |                               |                            |                      |
| Interest income                                       | 288,773                       | -                          | 288,773              | 278,375                       | -                          | 278,375              |
| Other   | 74,471                        | -                          | 74,471               | 74,429                        | -                          | 74,429               |
|   | <u>363,244</u>                | <u>-</u>                   | <u>363,244</u>       | <u>352,804</u>                | <u>-</u>                   | <u>352,804</u>       |
| <b>TOTAL SUPPORT AND REVENUES</b>                     | <u>31,627,302</u>             | <u>1,450,525</u>           | <u>33,077,827</u>    | <u>33,114,099</u>             | <u>1,054,013</u>           | <u>34,168,112</u>    |
| <b>EXPENSES</b>                                       |                               |                            |                      |                               |                            |                      |
| Program expenses                                      | 26,153,205                    | -                          | 26,153,205           | 26,414,785                    | -                          | 26,414,785           |
| Management and general                                | 5,506,857                     | -                          | 5,506,857            | 5,236,811                     | -                          | 5,236,811            |
| Fundraising   | 274,306                       | -                          | 274,306              | 205,304                       | -                          | 205,304              |
| <b>TOTAL EXPENSES</b>                                 | <u>31,934,368</u>             | <u>-</u>                   | <u>31,934,368</u>    | <u>31,856,900</u>             | <u>-</u>                   | <u>31,856,900</u>    |
| <b>OTHER INCOME (EXPENSE)</b>                         |                               |                            |                      |                               |                            |                      |
| Gain (loss) on sale of property and equipment         | 14,961                        | -                          | 14,961               | 69,064                        | -                          | 69,064               |
| Gain (loss) on LLC investments                        | 4,286                         | -                          | 4,286                | 426                           | -                          | 426                  |
| Impairment loss on assets held for sale               | -                             | -                          | -                    | (1,378,438)                   | -                          | (1,378,438)          |
| Transfers to affiliates                               | (100)                         | -                          | (100)                | (500)                         | -                          | (500)                |
| Income tax benefit (expense)                          | (234,200)                     | -                          | (234,200)            | (3,200)                       | -                          | (3,200)              |
| <b>TOTAL OTHER INCOME (EXPENSE)</b>                   | <u>(215,053)</u>              | <u>-</u>                   | <u>(215,053)</u>     | <u>(1,312,648)</u>            | <u>-</u>                   | <u>(1,312,648)</u>   |
| <b>CHANGE IN NET ASSETS</b>                           | <u>(522,119)</u>              | <u>1,450,525</u>           | <u>928,406</u>       | <u>(55,449)</u>               | <u>1,054,013</u>           | <u>998,564</u>       |
| <b>NET ASSETS, BEGINNING OF YEAR,<br/>AS RESTATED</b> | <u>7,378,296</u>              | <u>13,665,730</u>          | <u>21,044,026</u>    | <u>7,433,745</u>              | <u>12,611,717</u>          | <u>20,045,462</u>    |
| <b>NET ASSETS, END OF YEAR</b>                        | <u>\$ 6,856,177</u>           | <u>\$ 15,116,255</u>       | <u>\$ 21,972,432</u> | <u>\$ 7,378,296</u>           | <u>\$ 13,665,730</u>       | <u>\$ 21,044,026</u> |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
 Year Ended June 30, 2019

|                            | Program Services                                   |                   |                          |                                |                       | Support Services          |                           |                       |                                    |                   |                           |                                 |
|----------------------------|--|-------------------|--------------------------|--------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|------------------------------------|-------------------|---------------------------|---------------------------------|
|                            | FSL Programs/<br>Home<br>Improvements/<br>Pathways | HUD<br>Properties | FSL Rural<br>Development | FSL Real<br>Estate<br>Services | Eliminations          | Total Program<br>Services | Management<br>and General | Eliminations          | Total<br>Management<br>and General | Fundraising       | Total Support<br>Services | Total<br>Functional<br>Expenses |
| Salaries                   | \$ 10,011,149                                      | \$ 68,304         | \$ 137,249               | \$ 476,155                     | \$ -                  | \$ 10,692,857             | \$ 2,627,736              | \$ -                  | \$ 2,627,736                       | \$ 152,236        | \$ 2,779,972              | \$ 13,472,829                   |
| Payroll taxes              | 895,961  | 8,509             | 12,981                   | 41,835                         | -                     | 959,286                   | 199,001                   | -                     | 199,001                            | 8,605             | 207,606                   | 1,166,892                       |
| Employee benefits          | 1,482,978  | 17,453            | 22,241                   | 60,378                         | -                     | 1,583,050                 | 362,872                   | -                     | 362,872                            | -                 | 362,872                   | 1,945,922                       |
| Building and occupancy     | 1,414,478  | 158,812           | 453,405                  | 718,182                        | (893,326)             | 1,851,551                 | 275,664                   | (259,531)             | 16,133                             | -                 | 16,133                    | 1,867,684                       |
| Meetings and travel        | 537,879  | 2,502             | 18,886                   | 18,982                         | -                     | 578,249                   | 57,525                    | -                     | 57,525                             | -                 | 57,525                    | 635,774                         |
| Professional fees/taxes    | 6,418,358  | 26,568            | 43,385                   | 50,309                         | (7,200)               | 6,531,420                 | 735,730                   | -                     | 735,730                            | 53,837            | 789,567                   | 7,320,987                       |
| Food and beverage          | 573,954  | 131               | 135                      | 983                            | -                     | 575,203                   | 13,594                    | -                     | 13,594                             | 14,784            | 28,378                    | 603,581                         |
| Depreciation               | 50,984   | 72,873            | 77,315                   | 924,408                        | (74,570)              | 1,051,010                 | 20,952                    | -                     | 20,952                             | -                 | 20,952                    | 1,071,962                       |
| Interest                   | 33,041   | 41,142            | 999                      | 1,176,233                      | (388,565)             | 862,850                   | 1,268,522                 | (349,067)             | 919,455                            | -                 | 919,455                   | 1,782,305                       |
| Bad debt                   | 47,543   | 853               | 200                      | 21,201                         | -                     | 69,797                    | 25,224                    | -                     | 25,224                             | -                 | 25,224                    | 95,021                          |
| Materials and supplies     | 393,174  | 5,480             | 16,965                   | 61,822                         | -                     | 477,441                   | 197,315                   | -                     | 197,315                            | 3,239             | 200,554                   | 677,995                         |
| Insurance                  | 147,276  | 4,083             | 10,206                   | 28,016                         | -                     | 189,581                   | 19,723                    | -                     | 19,723                             | -                 | 19,723                    | 209,304                         |
| Telephones                 | 95,146   | 6,451             | 5,936                    | 20,735                         | -                     | 128,268                   | 36,339                    | -                     | 36,339                             | -                 | 36,339                    | 164,607                         |
| Specific client assistance | 38,628   | -                 | 583                      | 23,356                         | -                     | 62,567                    | 5,000                     | -                     | 5,000                              | -                 | 5,000                     | 67,567                          |
| Other operating            | 395,401  | 15,410            | 19,514                   | 122,150                        | (12,400)              | 540,075                   | 214,827                   | (15)                  | 214,812                            | 41,605            | 256,417                   | 796,492                         |
| Management fees            | -  | -                 | -                        | -                              | -                     | -                         | 3,131,519                 | (3,076,073)           | 55,446                             | -                 | 55,446                    | 55,446                          |
|                            | <u>\$ 22,535,950</u>                               | <u>\$ 428,571</u> | <u>\$ 820,000</u>        | <u>\$ 3,744,745</u>            | <u>\$ (1,376,061)</u> | <u>\$ 26,153,205</u>      | <u>\$ 9,191,543</u>       | <u>\$ (3,684,686)</u> | <u>\$ 5,506,857</u>                | <u>\$ 274,306</u> | <u>\$ 5,781,163</u>       | <u>\$ 31,934,368</u>            |

See accompanying notes.



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES  
 Year Ended June 30, 2018

|                            | Program Services                                   |                   |                          |                                |                       | Support Services          |                           |                       |                                    |                   |                           |                                 |
|----------------------------|--|-------------------|--------------------------|--------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|------------------------------------|-------------------|---------------------------|---------------------------------|
|                            | FSL Programs/<br>Home<br>Improvements/<br>Pathways | HUD<br>Properties | FSL Rural<br>Development | FSL Real<br>Estate<br>Services | Eliminations          | Total Program<br>Services | Management<br>and General | Eliminations          | Total<br>Management<br>and General | Fundraising       | Total Support<br>Services | Total<br>Functional<br>Expenses |
| Salaries                   | \$ 10,173,807                                      | \$ 69,261         | \$ 137,416               | \$ 467,242                     | \$ -                  | \$ 10,847,726             | \$ 2,332,820              | \$ -                  | \$ 2,332,820                       | \$ 138,587        | \$ 2,471,407              | \$ 13,319,133                   |
| Payroll taxes              | 907,361  | 8,073             | 12,277                   | 42,601                         | -                     | 970,312                   | 177,158                   | -                     | 177,158                            | 8,154             | 185,312                   | 1,155,624                       |
| Employee benefits          | 1,248,090  | 15,756            | 17,996                   | 47,047                         | -                     | 1,328,889                 | 327,487                   | -                     | 327,487                            | -                 | 327,487                   | 1,656,376                       |
| Building and occupancy     | 1,438,754  | 152,471           | 406,770                  | 1,167,714                      | (1,094,004)           | 2,071,705                 | 292,913                   | (58,375)              | 234,538                            | -                 | 234,538                   | 2,306,243                       |
| Meetings and travel        | 514,975  | 3,217             | 8,384                    | 9,462                          | -                     | 536,038                   | 55,813                    | -                     | 55,813                             | -                 | 55,813                    | 591,851                         |
| Professional fees/taxes    | 6,512,831  | 23,833            | 43,103                   | 27,911                         | (7,690)               | 6,599,988                 | 690,555                   | -                     | 690,555                            | -                 | 690,555                   | 7,290,543                       |
| Food and beverage          | 582,218  | 195               | 584                      | 582                            | -                     | 583,579                   | 14,770                    | -                     | 14,770                             | -                 | 14,770                    | 598,349                         |
| Depreciation               | 61,602   | 70,268            | 77,189                   | 926,548                        | (74,570)              | 1,061,037                 | 26,911                    | -                     | 26,911                             | -                 | 26,911                    | 1,087,948                       |
| Interest                   | 24,594   | 62,226            | 1,000                    | 1,229,020                      | (391,940)             | 924,900                   | 1,240,883                 | (357,160)             | 883,723                            | -                 | 883,723                   | 1,808,623                       |
| Bad debt                   | 65,916   | -                 | 2,560                    | 11,244                         | -                     | 79,720                    | 731,696                   | (731,696)             | -                                  | -                 | -                         | 79,720                          |
| Materials and supplies     | 424,905  | 13,586            | 21,489                   | 34,045                         | -                     | 494,025                   | 202,509                   | -                     | 202,509                            | -                 | 202,509                   | 696,534                         |
| Insurance                  | 115,714  | 3,548             | 7,155                    | 35,897                         | -                     | 162,314                   | 17,116                    | -                     | 17,116                             | -                 | 17,116                    | 179,430                         |
| Telephones                 | 109,866  | 6,085             | 6,800                    | 22,796                         | -                     | 145,547                   | 46,944                    | -                     | 46,944                             | -                 | 46,944                    | 192,491                         |
| Specific client assistance | 16,778   | -                 | 79                       | 60,000                         | -                     | 76,857                    | 26,582                    | -                     | 26,582                             | -                 | 26,582                    | 103,439                         |
| Other operating            | 408,714  | 14,902            | 18,362                   | 90,170                         | -                     | 532,148                   | 167,184                   | (12,400)              | 154,784                            | 58,563            | 213,347                   | 745,495                         |
| Management fees            | -  | -                 | -                        | -                              | -                     | -                         | 3,097,923                 | (3,052,822)           | 45,101                             | -                 | 45,101                    | 45,101                          |
|                            | <u>\$ 22,606,125</u>                               | <u>\$ 443,421</u> | <u>\$ 761,164</u>        | <u>\$ 4,172,279</u>            | <u>\$ (1,568,204)</u> | <u>\$ 26,414,785</u>      | <u>\$ 9,449,264</u>       | <u>\$ (4,212,453)</u> | <u>\$ 5,236,811</u>                | <u>\$ 205,304</u> | <u>\$ 5,442,115</u>       | <u>\$ 31,856,900</u>            |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENTS OF CASH FLOWS  
 Years Ended June 30, 2019 and 2018

|   | 2019             | 2018<br>(Restated) |
|---|------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                    |
| Change in net assets  | \$ 928,406       | \$ 998,564         |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                  |                    |
| Depreciation  | 1,071,962        | 1,087,948          |
| Amortization of debt issuance costs included in interest expense                                      | 88,337           | 75,763             |
| Bad debt expense  | 95,021           | 79,720             |
| Investment in affiliates - equity basis   | 217,937          | 131,235            |
| (Gain) loss on disposal of property and equipment   | (14,961)         | (69,064)           |
| Impairment loss on assets held for sale   | -                | 1,378,438          |
| Loss on debt issuance costs   | -                | 137,751            |
| Deferred income taxes   | 234,000          | 3,000              |
| Changes in operating assets and liabilities:  |                  |                    |
| Decrease (increase) in:   |                  |                    |
| Accounts receivable   | 1,071,203        | 384,878            |
| Due from affiliates   | (18,617)         | (251,770)          |
| Promises to give  | 25,286           | 98,118             |
| Grants receivable   | 150,758          | (1,062,801)        |
| Prepaid expenses and deposits   | (3,825)          | 4,254              |
| Increase (decrease) in:   |                  |                    |
| Accounts payable  | 153,395          | (248,113)          |
| Accrued payroll and related expenses  | 148,757          | (938,183)          |
| Interest payable  | 77,832           | 126,121            |
| Contract advances   | (10,325)         | 13,145             |
| Contract liabilities  | 752,064          | (468,794)          |
| Other liabilities   | (195,156)        | 539,715            |
| Tenant security deposits  | (4,680)          | 3,694              |
| Due to affiliates   | 102,759          | 246,472            |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES   | <u>4,870,153</u> | <u>2,270,091</u>   |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINED STATEMENTS OF CASH FLOWS (Continued)  
 Years Ended June 30, 2019 and 2018

|  | 2019                | 2018<br>(Restated)  |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| Purchases of property and equipment  | (7,866,623)         | (2,177,034)         |
| Proceeds from disposal of property and equipment   | 18,211              | 464,603             |
| Purchases of property inventory  | (1,839,662)         | (3,567,040)         |
| Proceeds received from sale of property inventory  | 2,002,747           | 2,741,930           |
| Purchases of assets held for sale  | (1,231,527)         | -                   |
| Issuance of notes receivable from affiliates   | (1,750,000)         | -                   |
| Payments received on notes receivable<br>from affiliates   | 68,423              | 63,324              |
| Bond issue costs   | (180,387)           | (275,674)           |
| NET CASH PROVIDED BY (USED IN)<br>INVESTING ACTIVITIES   | <u>(10,778,818)</u> | <u>(2,749,891)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                     |                     |
| Proceeds from long-term debt   | 6,627,351           | 9,667,029           |
| Principal payments on long-term debt   | (1,178,424)         | (10,710,306)        |
| Borrowings on lines of credit  | 1,053,550           | 1,185,618           |
| Payments on lines of credit  | (33,306)            | (400,682)           |
| NET CASH PROVIDED BY (USED IN)<br>FINANCING ACTIVITIES   | <u>6,469,171</u>    | <u>(258,341)</u>    |
| NET INCREASE (DECREASE) IN CASH  | 560,506             | (738,141)           |
| CASH AND CASH EQUIVALENTS,<br>BEGINNING OF YEAR  | <u>6,772,526</u>    | <u>7,510,667</u>    |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 7,333,032</u> | <u>\$ 6,772,526</u> |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS<br/>TO CONSOLIDATED STATEMENTS OF FINANCIAL<br/>POSITION:</b> |                     |                     |
| Cash and cash equivalents  | \$ 4,164,503        | \$ 4,584,785        |
| Restricted deposits and funded reserves, current   | 227,507             | 202,552             |
| Restricted deposits and funded reserves, net of current  | <u>2,941,022</u>    | <u>1,985,189</u>    |
|  | <u>\$ 7,333,032</u> | <u>\$ 6,772,526</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION:</b>   |                     |                     |
| Cash paid for interest expense   | <u>\$ 1,612,607</u> | <u>\$ 1,906,872</u> |

See accompanying notes.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foundation for Senior Living was organized in 1974 as a non-profit corporation for the purposes of providing home and community-based services and development of energy-efficient, affordable housing to promote health, independence, and dignity for all.

Foundation for Senior Living is an Arizona non-profit corporation whose sole member is the Roman Catholic Church, Diocese of Phoenix and has an elected Board of Directors that provides policy, advice, and guidance to Foundation for Senior Living and its affiliated entities.

The following includes a listing and descriptions of Foundation for Senior Living and its active affiliates, which are included in the combined financial statements (together, "FSL").

Subsidiaries of Foundation for Senior Living including ownership percentages in limited partnerships and limited liability companies are as follows:

| <u>General Partners</u>   | <u>Limited Partnerships and Limited Liability Companies</u> | <u>General Partner Ownership %</u> |
|---|---|------------------------------------|
| FSL Yuma Senior Terraces I, Inc.                                | FSL Yuma Senior Terraces, LP                                | .01%                               |
| FSL St. Peter, Inc.   | FSL St. Peter Place, LP                                     | .01%                               |
| FSL St. Francis, Inc.   | FSL St. Francis Villas, LP                                  | .01%                               |
| FSL Ruby Heights, Inc. (together with FSL Real Estate Services) | FSL Ruby Heights Village, LP                                | .01%                               |
| Affordable Services for Seniors, Inc.                           | FSL Becket House Apartments, LP                             | .01%                               |
| FSL Mountain Village, Inc.                                      | Mountain Village Seniors, LLC                               | .005%                              |

Programs, Pathways, and Home Improvements (PPHI):

FSL Programs is an Arizona non-profit corporation which administers programs and services for Arizonans of all ages but primarily adults, persons with disabilities, and their families. These programs are primarily supported by contracts with federal, state, county agencies, and client fees. Other major sources of revenue are from the Area Agency on Aging, Region One and Mercy Care.

FSL Pathways is an Arizona non-profit corporation which provides group housing and related behavioral health services for mentally impaired adults. These activities are funded by Mercy Care and Mercy Maricopa Integrated Care.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Programs, Pathways, and Home Improvements (PPHI) (Continued):

FSL Home Improvements is an Arizona non-profit corporation which provides construction services related to the rehabilitation of existing housing and for home repairs and improvements; primarily to reduce or eliminate health and safety hazards for the benefit of low-income individuals and individuals with disabilities. The primary sources of revenue are from contracts with Maricopa County and the City of Phoenix.

FSL Management:

FSL Management is an Arizona non-profit corporation, which provides executive management services, including accounting and cash management, employee benefits management, personnel and staff training management, maintenance of property/casualty/liability insurance, regulatory compliance, maintenance and monitoring of materials and supplies, information systems management, and the overall management of FSL and all of its affiliated entities.

Real Estate and Development Services:

FSL Rural Development and HUD Developments:

FSL Rural Development Corporation, Inc. (FSL Rural Development) is an Arizona non-profit corporation which provides people with housing facilities and services specially designed to meet their physical, social, and psychological needs. FSL Rural Development owns and operates three projects throughout Arizona: St. Agnes - 25 units; Padua Hills - 25 units; and Vianney Villas - 50 units. Substantially all of the Corporation's income is derived from the rental of units at these projects.

Foundation for Senior Adult Living, Inc. is an Arizona non-profit corporation which operates a 24-unit apartment complex, known as Sweetwater Gardens.

FSL Spring Valley Manor, Inc. is an Arizona non-profit corporation which operates a 20-unit apartment complex, known as Spring Valley Manor.

Foundation for Senior Adult Living, Inc. and FSL Spring Valley Manor, Inc. have agreements with the U.S. Department of Housing and Urban Development (HUD) for HUD to provide tenant housing assistance to these projects. In addition, Foundation for Senior Adult Living, Inc. holds a mortgage insured by HUD.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

FSL Real Estate:

FSL Real Estate Services is an Arizona non-profit corporation which provides real estate development services to all FSL affiliate entities. These services include the financing and construction management of affordable housing projects and replacement facilities for other FSL programs.

FSL Real Estate is the sole member of the following affiliates:

- FSL Holding Properties, LLC
- FSL Heritage Glen Retirement Apartments, LLC
- FSL Padre Kino, LLC
- FSL St. Alexander, LLC
- FSL St. Hildegarde, LLC
- FSL Village on Roeser Phoenix 2018, LLC

Additionally, FSL Real Estate Services and FSL St. Hildegarde, LLC together own Holbrook Court Apartments Associates, LP. Also, FSL Real Estate Services and FSL St. Alexander, LLC together own Spring Valley Terrace Apartments, LLC.

FSL Gibson Garden:

FSL Gibson Garden, Inc. is an Arizona non-profit corporation formed to be the limited partner in certain energy related partnerships. These limited partnerships are formed to utilize upfront incentive payments and rebates available from utility companies and in combination with Federal Treasury grants to acquire, install, and operate solar panels and related equipment which provide the electrical power needs for FSL housing projects.

The Arizona corporations that are the general partners in these limited partnerships provide electrical power needs through the installation of solar panels and related equipment for some FSL developments. The equipment is to be acquired, developed, utilized and owned by the limited partnerships.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
 POLICIES (Continued)

FSL Gibson Garden (continued):

A listing of ownership percentages in limited partnerships are as follows:

| <u>Limited and General Partner</u> | <u>Limited Partnership</u> | <u>Ownership %</u> |
|------------------------------------|----------------------------|--------------------|
| <u>Limited Partners:</u>           |                            |                    |
| FSL Gibson Garden, Inc.            | FSL Solar One, LP          | 99.99%             |
| FSL Gibson Garden, Inc.            | FSL Solar Two, LP          | 99.99%             |
| FSL Gibson Garden, Inc.            | FSL Solar Three, LP        | 99.99%             |
| <u>General Partners:</u>           |                            |                    |
| FSL Solar 1, Inc.                  | FSL Solar One, LP          | 0.01%              |
| FSL Solar 2, Inc.                  | FSL Solar Two, LP          | 0.01%              |
| FSL Solar 3, Inc.                  | FSL Solar Three, LP        | 0.01%              |

Other Affiliate Entities:

FSL Roeser Village, Inc. is an Arizona non-profit corporation and is one of two members (together with FSL Real Estate Services) of Roeser Senior Residences, LLC. It provides supervisory management functions for an 80-unit low-income housing project in South Phoenix. Roeser Senior Residences, LLC is the owner of the building and property known as FSL Roeser Village.

Arizona non-profit corporations are formed to be the general partner in limited partnerships to provide supervisory management functions. These limited liability partnerships are accounted for using the consolidation method of accounting and are formed to accept an award of tax credits from the State of Arizona. A listing of ownership percentages in limited partnerships are as follows:

| <u>General Partners</u>  | <u>Limited Partnerships</u>   | <u>General Partner<br/>Ownership %</u> |
|--------------------------|-------------------------------|--|
| FSL White Mountain, Inc. | FSL White Mountain Villas, LP | 99.00%                                 |
| FSL St. Monica, Inc.     | FSL St. Monica Villas, LP     | 99.00%                                 |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Other Affiliate Entities (Continued):

Arizona non-profit corporations were also formed to be the general partners in limited partnerships and limited liability companies to provide supervisory management functions. These limited partnerships and limited liability companies are accounted for using the equity method of accounting and are formed to promote and develop affordable residential housing for people with low incomes or physically disabled adults, to develop, own, manage, maintain, and operate facilities, programs and services designed to promote and provide such affordable housing, or to accept an award of tax credits from the State of Arizona.

Principles of Combination

The accompanying combined financial statements include the accounts of FSL. These combined entities are all affiliated through common control and provide social, health, and housing services to Arizona communities. All significant intercompany accounts and transactions have been eliminated in the preparation of these combined financial statements. The types of transactions that have been eliminated include management fees, developer fees, interest, contributions, and other administrative charges.

Basis of Presentation

The combined financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. FSL is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents include cash on hand or held by financial institutions as well as all highly liquid debt instruments with an original maturity of three months or less at date of acquisition.



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Restricted Deposits and Funded Reserves

The HUD Development entities are required to maintain separate accounts to hold security deposits collected from tenants as per the terms of the Regulatory Agreements entered into with HUD. In addition, the HUD Development entities are required to maintain certain escrow accounts, reserve for replacement accounts, and residual receipts accounts which are generally not available for operating purposes and are included in restricted deposits and funded reserves. Certain Real Estate and Development Services entities are also required to hold bond reserve funds in separate trust accounts as required by the bond indentures.

Promises to Give

Unconditional promises to give are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Promises are charged off against the allowance when they are deemed to be uncollectible. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of June 30, 2019 and 2018, FSL has a \$1,000,000 conditional promise to give from the Roman Catholic Diocese of Phoenix. This promise to give is conditional upon certain funds being raised and becoming available from the Roman Catholic Diocese of Phoenix. No amount of this promise have been recorded as of June 30, 2019 as the conditions have not yet been met.

Accounts Receivable

Accounts receivable consist primarily of fees due from program services, government contracts, client fees, and affiliate advances. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. FSL evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible.

Due to and Due from Affiliates

FSL enters into transactions with affiliated entities whose purpose is to provide housing to low income people. These transactions consist of development fees, operating and construction advances and other transactions. The due to and due from affiliates balances are carried at the outstanding balances, are unsecured with no interest due and have no specific repayment terms.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Property Inventory

Property inventory is stated at the lower of cost or market and includes land, developed lots, and direct and indirect costs of housing construction under FSL's contract with the City of Phoenix. Costs of each property are determined based on both direct and indirect allocated costs.

Property and Equipment

Acquisitions of property and equipment in excess of \$10,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

FSL reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Debt Issuance Costs

Costs associated with obtaining long-term debt financing have been capitalized and are reported on the statement of financial position as a direct deduction from the face amount of long-term debt. Debt issuance costs are amortized over the repayment term of the related debt and amortized costs are included in interest expense.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Revenue Recognition

In May 2014, The Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. FSL adopted the standard on July 1, 2018. FSL has analyzed the provisions of the FASB’s ASC Topic 606 and have identified developer fees as exchange transactions that require changes to conform with this new standard. Developer fees are included in client fee revenues on the combined statements of activities. Developer fees are earned to develop single family homes and apartment complexes that qualify as low-income housing projects.

Contracts to develop single family homes generally contain two performance obligations. The contract price is allocated to both performance obligations pro-rata, based on estimated project costs of each performance obligation. The first performance obligation is generally for obtaining the necessary permits, financing sources, development plans, and managing the completion of the model homes. The second performance obligation is generally for managing the development and completion of the remaining homes in the contract. Revenues for both performance obligations are earned over a period of time as control is continuously transferred to the customer. Earnings on the first performance obligation is recognized using the percentage of completion. Earnings on the second performance obligation are recognized pro-rata after each certificate of occupancy is obtained.

Contracts to develop apartment complexes generally contain a single performance obligation as the promise to transfer individual goods and services are not separately identifiable from other promises in the contracts and is, therefore, not distinct. Revenue is earned over a period of time as control is continuously transferred to customers. Earnings on these contracts are recognized using a percentage of completion methodology.

Significant judgements impacting the amount and timing of revenue recognized from developer fee contracts include estimates of project costs of each performance obligation and total estimated project costs.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Revenue Recognition (Continued)

Amounts are billed as work is performed in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. Amounts that are billed prior to meeting contractual terms or milestones are recorded as contract liabilities on the combined statements of financial position until the contractual terms or milestones have been met, at which time revenue will be recognized.

Program service fees and payments under cost-reimbursement contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, and are recorded as contract advances. Rental income is recognized monthly in the month of the rental period.

Contributions

Contributions and grants, including promises to give, are recorded as either support with donor restrictions or as support without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. If the donor restriction is met or expires in the same year the contribution was received, the amount is classified as support without donor restrictions.

Non-Cash Donations

Contributions of donated non-cash tangible assets (in-kind donations) are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donated services, are recorded at their fair market values in the period received. In-kind donations include rent, use of vehicles, utilities, and forgiveness of debt.

Advertising

Advertising costs are charged to operations as incurred. Advertising expenses charged to operations were \$35,786 and \$35,449 for the years ended June 30, 2019 and 2018, respectively.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Net Assets

FSL reports information regarding its financial position and activities according to two classes of net assets as follows:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.
- Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Gifts of long-lived assets and gifts of cash restricted for acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program services and supporting services. Expenses are charged to program services, management and general, and fundraising categories based on direct expenditures incurred. Any expenditures not directly chargeable are allocated based on personnel activity or other appropriate indicators.

Income Tax Status

Certain entities described as non-profit corporations above qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC) and, therefore, there is no provision for income taxes for those entities. In addition, those entities qualify for the charitable contribution deduction under Section 170 of the code and have been classified as organizations that are not private foundations. Income determined to be unrelated business taxable income (UBTI) would be taxable.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Income Tax Status (Continued)

Foundation for Senior Living is a qualified charitable organization for Arizona and as such, individuals making charitable contributions to Foundation for Senior Living may claim tax credits up to the allowable amount on their Arizona personal income tax returns. Other entities described above are organized as Arizona limited liability companies and Arizona limited partnerships. These entities are treated as pass-through entities for income tax purposes and, as such, they are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners or members on their respective income tax returns. These entities' tax status as pass-through entities is based on their legal status as a partnership or limited liability company. The limited partnerships and the limited liability companies with more than one member are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. The single member limited liability companies are not required to file tax returns with the Internal Revenue Service and other taxing authorities and are reported as disregarded entities on the tax returns of their sole member. Accordingly, these combined financial statements do not reflect a provision for income taxes for these entities and they have no other tax positions which must be considered for disclosure.

Certain entities described above are organized as Arizona C Corps. These entities recognize deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate principally to depreciation of property and federal and state net operating loss carry-forwards. Deferred tax assets and liabilities represent the future tax consequences for those differences, which will either be taxable or deductible when the assets and liabilities are recovered to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

FSL recognizes uncertainty in income taxes in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2019 and 2018, FSL had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

FSL recognizes interest and penalties associated with income tax in general and administrative expenses. During the years ended June 30, 2019 and 2018, FSL did not have any income tax related interest and penalties expense.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Management's Use of Estimates

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

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Date of Management's Review

In preparing these combined financial statements, FSL has evaluated events and transactions for potential recognition or disclosure through November 25, 2019, the date the combined financial statements were available to be issued.

Adoption of New Accounting Standards

The FASB has issued ASU 2016-14, *Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. FSL has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and resulted in the temporarily restricted net asset balance (\$13,665,730) and unrestricted net asset balance, as restated (\$7,378,296) at June 30, 2018 being renamed net assets with donor restrictions and net assets without donor restrictions, respectively. A new disclosure about liquidity and availability has also been added.

FSL adopted ASU 2014-09, *Revenue from Contracts with Customers*, on July 1, 2018, for exchange transactions using the full retrospective method. Accordingly, the prior year financial statements for 2018 have been restated and the cumulative effect of the adoption has been charged to net assets without donor restrictions as of June 1, 2017, the beginning of the first period presented. Prior to the adoption of ASU 2014-19, revenues related to developer fee contracts were recognized when contractual milestones were reached.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 2 LIQUIDITY AND AVAILABILITY

FSL regularly monitors liquidity required to meet its operating needs. FSL operates on a balanced budget. Its goal is to maintain liquid financial assets sufficient to cover a minimum of 30 days of general expenditures. FSL has resources for both general expenses and its real estate development projects. As of June 30, 2019, the financial assets that could readily be made available to meet general expenditures within the next year is calculated as follows:

|   |                      |
|---|----------------------|
| Cash and cash equivalents   | \$ 4,164,503         |
| Promises to give that is available for program activities               | 910,000              |
| Accounts receivable, net of allowance                                   | 5,425,200            |
| Prepaid expenses and deposits   | 146,316              |
| Notes receivable from affiliates, current portion                       | <u>68,521</u>        |
| Financial assets available to meet general expenditures within one year | <u>\$ 10,714,540</u> |

NOTE 3 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject FSL to potential concentrations of credit risk consist principally of cash and cash equivalents, promises to give, and grants receivable. FSL maintains its cash in bank accounts, which at times may exceed federally insured limits. FSL has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Promises to give at June 30, 2019 and 2018 include amounts due from one funding source that make up approximately 88% and 86% of net promises to give, respectively. Grants receivable from one funding source compose approximately 97% and 98% of total net grants receivable at June 30, 2019 and 2018, respectively. Concentrations of credit risk with respect to these receivables is limited due to the nature of the receivables and FSL's history with the funding sources.



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 4 RESTRICTED DEPOSITS AND FUNDED RESERVES

As a requirement of the various bond issuances, as disclosed in Note 13, certain trustee-held funds were established. Their use is restricted to provide funds to fund the debt service reserve fund, fund the operating reserve fund, and pay certain costs of issuance of the bonds. The funds are held in money market cash accounts.

In addition, certain real estate entities are required to maintain separate accounts to hold security deposits, escrow accounts, debt service reserve accounts, reserve for replacement accounts, and residual receipts accounts which are generally not available for operating purposes.

The balances of the funds were as follows as of June 30:

|                   | <u>2019</u>         | <u>2018</u>         |
|-------------------|---------------------|---------------------|
| Reserve funds     | \$ 1,256,593        | \$ 1,374,008        |
| Debt service fund | 685,928             | 268,613             |
| Bond fund         | 276,944             | 276,939             |
| Security deposits | 136,477             | 142,243             |
| Escrow deposits   | 91,030              | 79,549              |
| Interest fund     | 692,516             | 21,058              |
| Other             | 29,041              | 25,331              |
|                   | <u>\$ 3,168,529</u> | <u>\$ 2,187,741</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 5 ACCOUNTS RECEIVABLE AND REVENUE DEPENDENCY

FSL obtains a majority of their revenues through contracts and grants from various governmental agencies, insurance plans, and individuals. The accounts receivable balance is summarized as follows:

|                                 | <u>2019</u>         | <u>2018</u>         |
|---------------------------------|---------------------|---------------------|
| Accounts receivable             | \$ 5,643,976        | \$ 6,796,509        |
| Allowance for doubtful accounts | <u>(218,776)</u>    | <u>(205,085)</u>    |
|                                 | <u>\$ 5,425,200</u> | <u>\$ 6,591,424</u> |

Accounts receivable from three funding sources compose approximately 68% of total net accounts receivable at June 30, 2019. Accounts receivable from two funding sources compose approximately 36% of total net accounts receivable at June 30, 2018. Concentrations of credit risk with respect to accounts receivable is limited due to the nature of the receivables and FSL's history with government agencies. Included in accounts receivable are approximately \$3,669,000 and \$3,660,000 due from affiliated entities at June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, FSL received funding from two funding sources composing approximately 43% of total revenues. During the year ended June 30, 2018, FSL received funding from three funding sources composing approximately 39% of total revenues. If the governmental agencies affect significant budget cuts in the future, this source of funding could decrease. If this were to occur, it is management's opinion that FSL could continue most of its activities through other sources of funding. Additionally, program costs are subject to audit by the contracting agency, and in the event that the contract proceeds were not spent in accordance with contract terms, the proceeds may be required to be returned to the appropriate agency. Management is of the opinion that an adequate provision has been made in the combined financial statements for the effect of any costs, which might be disallowed under these various contracts.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 6 ASSETS HELD FOR SALE

During the year ended June 30, 2018, FSL entered into a purchase and sale agreement to sell certain assets that are to be converted to low income housing tax credit properties. As of June 30, 2019, the sale was not closed and is conditional upon an operating agreement being finalized between FSL and the purchaser. FSL expects the sale to close during the year ending June 30, 2020 and therefore, assets under the purchase and sale agreement were included in assets held for sale as of June 30, 2019.

As part of the purchase and sale agreement, an independent appraisal was performed on the assets held for sale and determined that the fair value of the assets held for sale was less than the recorded values. Therefore, FSL recorded an impairment loss to write down the assets to fair value in the amount of \$1,378,438 for the year ended June 30, 2018. This impairment loss is included on the combined statements of activities. There was no impairment loss recognized for the year ended June 30, 2019.

Assets held for sale consist of the following as of June 30:

|   | 2019         | 2018         |
|---|--------------|--------------|
| Land and improvements                     | \$ 873,007   | \$ 869,769   |
| Buildings and improvements                | 996,405      | 987,077      |
| Furniture and equipment                   | 8,826        | 8,826        |
|   | \$ 1,878,238 | \$ 1,865,672 |
| Accumulated depreciation and amortization | (37,316)     | -            |
|   | 1,840,922    | 1,865,672    |
| Construction in progress                  | 1,798,550    | 570,261      |
|   | \$ 3,639,472 | \$ 2,435,933 |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
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NOTE 7 NOTES RECEIVABLE FROM AFFILIATES

Notes receivable from affiliates consist of the following agreements as of June 30:

|   | 2019       | 2018       |
|---|------------|------------|
| Note receivable due from Mountain Village Seniors, LLC in the amount of \$250,000. This note bears an interest rate of 1.00% and matures August 31, 2022.   | \$ 250,000 | \$ 250,000 |
| Note receivable due from FSL Becket House Apartments, LP as a result of a subsidy awarded to FSL which was then passed to FSL Becket House Apartments, LP. This note bears interest at zero percent and both principal and interest are due in a balloon payment on December 31, 2024. This note is secured by a mortgage on real property.   | 1,000,000  | 1,000,000  |
| Note receivable due from FSL Yuma Senior Terraces, LP as a result of a subsidy awarded to FSL which was then passed to FSL Yuma Senior Terraces, LP. This note bears interest at 3.00% and both principal and interest are due in a balloon payment on June 1, 2028. This note is secured by a mortgage on real property.   | 116,736    | 116,736    |
| Note receivable due from FSL Becket House Apartments, LP as a result of the Series 2009 Taxable Multifamily Housing Mortgage Bonds received by FSL which was then passed to FSL Becket House Apartments, LP. This note bears interest at a graduated rate between 5.50% and 6.25% with interest payments to be made every March 15 and September 15. Principal payments are due in graduated increments as described in the note agreement. This note matures March 15, 2025. | 2,325,000  | 2,390,000  |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 7 NOTES RECEIVABLE FROM AFFILIATES (Continued)

|  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Note receivable due from FSL Yuma Senior Terraces, LP as a result of a subsidy awarded to FSL which was then passed to FSL Yuma Senior Terraces, LP. This note bears interest at 6% and both principal and interest are due in a balloon payment on December 1, 2031. This note is secured by a mortgage on real property. | \$ 500,000  | \$ 500,000  |
| Note receivable due from FSL St. Peter Place, LP as a result of a subsidy awarded to FSL which was then passed to FSL Yuma Senior Terraces, LP. This note bears interest at 3% and both principal and interest are due in a balloon payment on December 7, 2029. This note is secured by a mortgage on real property.      | 500,000     | 500,000     |
| Note receivable due from FSL St. Francis Villas, LP as a result of a subsidy awarded to FSL which was then passed to FSL St. Francis Villas, LP. This note bears interest at 3.00% and both principal and interest are due in a balloon payment on June 30, 2029. This note is secured by a mortgage on real property.     | 1,000,000   | 1,000,000   |
| Note receivable due from FSL St. Monica Villas, LP. This note bears interest at 5.00% with principal and interest payments due annually. The note matures on July 17, 2045 and is secured by a mortgage on real property.  | 360,000     | 360,000     |
| Note receivable due from FSL St. Francis Villas, LP. This note bears interest at 1.00% and both principal and interest are due in a balloon payment on June 1, 2028. This note is secured by a mortgage on real property.  | 1,200,000   | 1,200,000   |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 7 NOTES RECEIVABLE FROM AFFILIATES (Continued)

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Note receivable due from FSL St. Francis Villas, LP. This note bears interest at 1.00% and both principal and interest are due in a balloon payment on September 30, 2030. This note is secured by a mortgage on real property.       | \$ 217,746          | \$ 217,746          |
| Note receivable due from FSL St. Francis Villas, LP. This note bears interest at zero percent and both principal and interest are due in a balloon payment on January 1, 2033. This note is secured by a mortgage on real property.   | 450,000             | 450,000             |
| Note receivable due from FSL St. Francis Villas, LP. The note bears interest at 2.90% with principal and interest payments due monthly through the maturity date of July 1, 2022.   | 10,879              | 14,302              |
| Note receivable due from FSL Padre Kino Village, LP. This note bears interest at zero percent and the principal is due in a balloon payment on April 2, 2038. This note is secured by a subordinated fee and leasehold deed of trust. | <u>1,750,000</u>    | <u>-</u>            |
|   | 9,680,361           | 7,998,784           |
| Current portion   | <u>(68,521)</u>     | <u>(68,422)</u>     |
| Long-term portion   | <u>\$ 9,611,840</u> | <u>\$ 7,930,362</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 7 NOTES RECEIVABLE FROM AFFILIATES (Continued)

Annual principal payments due on notes receivable from affiliates over the next five years and thereafter are as follows:

| <u>Years Ending June 30,</u> |                     |
|------------------------------|---------------------|
| 2020                         | \$ 68,521           |
| 2021                         | 73,627              |
| 2022                         | 73,732              |
| 2023                         | 325,000             |
| 2024                         | 2,045,000           |
| Thereafter                   | <u>7,094,481</u>    |
|                              | <u>\$ 9,680,361</u> |

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

|   | <u>2019</u>          | <u>2018</u>          |
|---|----------------------|----------------------|
| Land and improvements                     | \$ 12,952,628        | \$ 7,426,611         |
| Buildings and improvements                | 27,445,563           | 27,717,723           |
| Furniture and equipment                   | 5,181,998            | 5,187,353            |
| Vehicles                                  | <u>462,982</u>       | <u>445,447</u>       |
|   | 46,043,171           | 40,777,134           |
| Accumulated depreciation and amortization | <u>(15,430,555)</u>  | <u>(14,340,093)</u>  |
|   | 30,612,616           | 26,437,041           |
| Construction in progress                  | <u>6,337,497</u>     | <u>3,693,673</u>     |
|   | <u>\$ 36,950,113</u> | <u>\$ 30,130,714</u> |

Depreciation expense charged to operations was \$1,071,962 and \$1,087,948 for the years ended June 30, 2019 and 2018, respectively.

Construction in progress include costs that relate to land development projects. Interest costs are capitalized while development is in progress and is also included in construction in progress.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 9 NEIGHBORHOOD STABILIZATION PROGRAM

FSL entered into a contract with the City of Phoenix for FSL to provide services to the City under the Neighborhood Stabilization Program (the Program). Under the Program, the titles to undeveloped lots are transferred from the City of Phoenix to FSL. FSL then provides or contracts for construction of single-family homes to be completed on the property before it is listed for sale to eligible buyers as defined in the contract. A total of 126 lots will be developed and sold. The term of the contract is through February 9, 2020 with a one-year option to extend, if considered to be in the City's best interest to do so.

At June 30, 2019 and 2018, FSL has a liability of \$5,284,834 and \$1,557,747, respectively, due to the City of Phoenix representing amounts for lots transferred to FSL from the City of Phoenix to be developed under the Program, as well as construction costs funded by the City of Phoenix. When the properties are sold, the amount due to the City of Phoenix is paid with the proceeds. In accordance with the agreement with the City, the City absorbs any gains or losses generated upon the sales of these properties.

At June 30, 2019 and 2018, FSL has property inventory of \$6,137,424 and \$2,573,422, respectively, representing amounts also for lots transferred to FSL from the City of Phoenix, as well as construction costs funded by both FSL and the City of Phoenix that have not been sold.

NOTE 10 INVESTMENTS IN AFFILIATES

FSL has investments in affiliates that are accounted for using the equity method of accounting. The balance of investments in affiliates was (\$1,258,896) and (\$1,040,959) at June 30, 2019 and 2018, respectively. The Foundation has investments ranging from .005% to .01% in various low-income housing projects, as disclosed in Note 1.



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 11 DUE FROM AND DUE TO AFFILIATES

FSL enters into transactions with affiliated entities whose purpose is to provide low income housing. These transactions consist of development fees, operating and construction advances and other transactions.

Due from affiliates consisted of the following at June 30:

|                                      | <u>2019</u>         | <u>2018</u>         |
|--------------------------------------|---------------------|---------------------|
| FSL Padre Kino Village, LP           | \$ 895,954          | \$ 1,026,930        |
| FSL St. Francis Villas, LP           | 318,676             | 315,983             |
| FSL St. Peter's Place, LP            | 296,361             | 286,656             |
| FSL Mountain Village Seniors, LLC    | 207,374             | 207,374             |
| FSL St. Isadore Villas, LP           | 176,402             | 176,389             |
| FSL St. Monica Villas, LP            | 174,620             | 174,620             |
| FSL Yuma Senior Terraces, LP         | 40,508              | 40,456              |
| FSL Becket House Apts, LP            | 39,333              | 19,884              |
| Other receivables from affiliates    | 13,618              | 13,123              |
| Interest receivable                  | <u>888,116</u>      | <u>770,930</u>      |
|                                      | 3,050,962           | 3,032,345           |
| Allowance for uncollectible accounts | <u>(40,529)</u>     | <u>(40,529)</u>     |
|                                      | <u>\$ 3,010,433</u> | <u>\$ 2,991,816</u> |

Due to affiliates consisted of the following at June 30:

|   | <u>2019</u>         | <u>2018</u>       |
|---|---------------------|-------------------|
| FSL Padre Kino Village, LP                  | \$ 733,198          | \$ 614,114        |
| FSL St. Isadore Villas, LP                  | 339,810             | 357,191           |
| FSL Heritage Glen Retirement Apartments, LP | 5,147               | 3,926             |
| FSL St. Monica Villas, LP                   | 2,421               | 2,431             |
| Other payables to affiliates                | <u>99</u>           | <u>254</u>        |
|   | <u>\$ 1,080,675</u> | <u>\$ 977,916</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 12 LINES OF CREDIT

Lines of credit consist of the following at June 30:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| \$1,500,000 revolving line of credit that requires monthly interest payments on the outstanding balance at prime rate plus 0.50%, subject to a floor of 4.00% at June 30, 2019. The interest rate as of June 30, 2019 was 6.00%. This line of credit expires on June 9, 2020.                             | \$ 861,686          | \$ 778,136          |
| \$750,000 revolving line of credit collateralized by substantially all of the assets of FSL Home Improvements, with an interest at the prime rate plus 0.50%, subject to a floor of 4.00% at June 30, 2019. The interest rate as of June 30, 2019 was 6.00%. This line of credit expires on June 9, 2020. | 390,000             | 150,000             |
| \$2,000,000 revolving line of credit that requires monthly interest payments on the outstanding balance at prime rate plus 0.50%, subject to a floor of 4.00% at June 30, 2019. The interest rate as of June 30, 2019 was 6.00%. This line of credit expires on June 9, 2020.                             | <u>1,458,340</u>    | <u>761,646</u>      |
|   | <u>\$ 2,710,026</u> | <u>\$ 1,689,782</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT

Long-term debt includes bond debt and various other types of notes payable described as follows.

Bond Debt

As of June 30, bond debt balances consisted of the following:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Taxable mortgage bonds                       | \$ 14,270,000        | \$ 8,950,000         |
| Revenue bond - Roeser Village Development    | 715,000              | 750,000              |
| Revenue bond - Becket House                  | 2,325,000            | 2,390,000            |
| Revenue bond - Vianney Villas Project        | 3,220,000            | 3,295,000            |
| Revenue bond - Rural Development Corporation | 2,365,000            | 2,430,000            |
| Revenue bond - FSL Holding and Gibson Garden | 4,350,000            | 4,575,000            |
| General obligation - FSL Corporate           | <u>1,500,000</u>     | <u>1,500,000</u>     |
| Bonds payable                                | <u>\$ 28,745,000</u> | <u>\$ 23,890,000</u> |

Following is a description of these bond issuances:

Taxable Mortgage Bonds

In September 2018, FSL Holding Properties, LLC issued and received \$5,675,000 in bond proceeds from the Series 2018 A and Series B Taxable Mortgage Bonds for the purpose of financing the acquisition, construction and equipping of additional community service facilities. FSL's bond indenture contains certain restrictions and a financial statement covenant (debt service coverage ratio).

The indenture requires interest payments to be made every March 15 and September 15, commencing on March 15, 2019. Interest is payable at a graduated scale from 5.00% to 6.00% and matures with principal payments of \$3,875,000 and \$1,800,000 being payable on September 15, 2025 and September 15, 2027, respectively. The bond is secured by "The Trust Estate (Flagstaff)" as defined in the bond documents. At June 30, 2019, there are funds held in trust accounts with the trustee, as required by the bond indenture as disclosed in Note 4.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Bond Debt (Continued)

In March 2018, FSL Holding Properties, LLC issued and received \$8,950,000 in bond proceeds from the Series 2018 Taxable Mortgage Bond for the purpose of refinancing the Series 2007 Revenue and Refunding Bonds and to finance the acquisition, construction and equipping of additional community service facilities. FSL's bond indenture contains certain restrictions and a financial statement covenant (debt service coverage ratio).

The indenture requires principal and interest payments to be made every September 1 and March 1, commencing on September 1, 2018. Interest is payable at a graduated scale from 2.00% to 5.00% and principal payments are payable at a graduated scale from \$175,000 to \$355,000 as defined by the indenture. The bond is scheduled to mature on March 1, 2036. The bond is secured by "The Trust Estate, or from the general assets of the Issuer" as defined in the bond documents. At June 30, 2019, there are funds held in trust accounts with the trustee, as required by the bond indenture as disclosed in Note 4.

Revenue Bond - Roeser Village Development

In May 2007, the Foundation for Senior Living, Inc. issued Series 2007 Taxable Multifamily Housing Mortgage Revenue Bonds and received \$1,025,000 in bond proceeds for the purpose of refinancing the Series 2001 Bonds previously issued by FSL Roeser Village. At June 30, 2019, there are funds held in trust accounts with the trustee, as required by the bond indenture as disclosed in Note 4.

The indenture requires interest payments at 6.375% to be made every April 1 and October 1, commencing October 1, 2007. Principal payments on the bonds began April of 2008 at graduated principal amounts, beginning with \$20,000 in 2008, and ending with a payment of \$80,000 in April 2032. Upon issuance, Foundation for Senior Living, Inc. issued a \$1,025,000 note receivable to FSL Roeser Village, Inc. for the entire amount of the bond proceeds. The note receivable, payable, and interest revenue and expense eliminate in combination. Upon issuance of the note receivable, FSL Roeser Village, Inc. issued an allonge to the note receivable to Roeser Senior Residences, LLC for the entire amount of the note proceeds, \$1,025,000, and all responsibility of repayment of the bonds has been transferred to Roeser Senior Residences, LLC.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
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June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Bond Debt (Continued)

Revenue Bond - Becket House

In March 2009, the Foundation for Senior Living, Inc. issued Series 2009 Taxable Multifamily Housing Mortgage Bonds and received \$2,800,000 in bond proceeds for the purpose of financing the Becket House Apartments Limited Partnership Project. During 2014, the bonds were refinanced at the amount of \$2,625,000. Upon issuance, Foundation for Senior Living (Issuer) issued a \$2,800,000 note receivable to Becket House Apartments Limited Partnership (Owner) for the entire amount of the bond proceeds and all responsibility of repayment of the bonds was transferred to FSL Becket House Apartments Limited Partnership.

The indenture requires interest payments to be made every April 15 and October 15, commencing October 15, 2014, at a graduated scale from 3.00% to 5.50% as defined in the indenture. Principal payments on the bonds began October 15, 2014 at graduated principal amounts as defined in the indenture. The note is scheduled to mature on April 15, 2024. The bonds are secured by "The Trust Estate" as defined in the bond documents.

Revenue Bond - Vianney Villas Project

In July 2009, the Foundation for Senior Living, Inc. issued Series 2009A Taxable Multifamily Housing Mortgage Revenue Bonds and received \$2,800,000 in bond proceeds for the purpose of paying off the revolving lines of credit which were guaranteed by the Deed of Trust of Vianney Villas. In July 2014, this bond debt was refinanced with a bond issuance in the amount of \$3,500,000. Upon issuance, Foundation for Senior Living (Issuer) issued a \$3,500,000 note receivable to FSL Rural Development (Owner) for the entire amount of the bond proceeds and all responsibility of repayment of the bonds was transferred to FSL Rural Development. The note receivable, payable, and interest revenue and expense eliminate in combination. At June 30, 2019, there are funds held in trust accounts with the trustee, as required by the bond indenture as disclosed in Note 4.

The indenture requires interest payments to be made every July 1 and January 1, commencing January 1, 2010, at a graduated scale from 3.00% to 5.50% as defined in the indenture. Principal payments on the bonds began July 1, 2010 at graduated principal amounts as defined in the indenture. The note is scheduled to mature on July 1, 2024.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
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June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Bond Debt (Continued)

Revenue Bond - Rural Development Corporation

In February 2011, the Foundation for Senior Living, Inc. issued Series 2011A Taxable Multifamily Housing Mortgage Revenue Bonds and received \$2,600,000 in bond proceeds for the purpose of retiring short term loans on land purchased for future development, funds for the construction of solar systems as well as improvements to several FSL properties, including Roeser Village and St. Agnes. Upon issuance, Foundation for Senior Living (Issuer) issued a \$2,600,000 note receivable to FSL Rural Development (Owner) for the entire amount of the bond proceeds and all responsibility of repayment of the bonds was transferred to FSL Rural Development. The note receivable, payable, and interest revenue and expense eliminate in combination.

At June 30, 2019, there are funds held in trust accounts with the trustee, as required by the bond indenture as disclosed in Note 4. The indenture requires interest payments to be made every February 28 and August 15, commencing August 15, 2011, at a graduated scale from 4.25% to 6.75% as defined in the indenture. Principal payments on the bonds began in February 2012 at graduated principal amounts as defined in the indenture. The note is scheduled to mature on February 15, 2041.

Revenue Bond - FSL Holdings and Gibson Gardens

In May 2013, the Foundation for Senior Living, Inc. issued Series 2013 Taxable Mortgage Revenue Bonds and received \$5,600,000 in bond proceeds for the purpose of retiring previous outstanding loans on land purchased for future development and outstanding loans for the construction of solar systems. Upon issuance, Foundation for Senior Living (Issuer) issued a \$2,275,000 note receivable to FSL Holding Properties, LLC and a \$3,325,000 note receivable to FSL Gibson Garden, Inc. The note receivable, payable, and interest revenue and expense eliminate in combination. As part of the terms of the note, all responsibility of repayment of the bonds was transferred to FSL Holding Properties, LLC and FSL Gibson Garden, Inc.

The indenture requires interest payments to be made every May 1 and November 1, commencing November 1, 2013, at a graduated scale from 3.00% to 5.50% as defined in the indenture. Principal payments on the bonds began in May 2014 at graduated principal amounts as defined in the indenture. The note is scheduled to mature on May 1, 2028.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Bond Debt (Continued)

General Obligation - Foundation for Senior Living

In May 2014, the Foundation for Senior Living, Inc. issued Series 2014A Taxable General Obligation Bonds and received \$1,500,000 in bond proceeds to fund and perform its mission.

The indenture requires interest payments to be made every May 1 and November 1, commencing November 1, 2014, at 5.00% as defined in the indenture. The principal is due in a lump sum at the maturity date. The note is scheduled to mature on May 1, 2022. At June 30, 2019, there are funds held in trust accounts with UMB Bank, as required by the bond indenture as disclosed in Note 4.

Mortgage Notes Payable

Mortgage notes payable consist of the following at June 30:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Mortgage note payable on one HUD project is insured by HUD, secured by a deed of trust on the rental property, and bear interest at 3.53% with monthly installments of \$5,284, including principal and interest. This note matures on September 1, 2044. | <u>\$ 1,058,648</u> | <u>\$ 1,084,196</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Real Estate Notes Payable

Real estate notes payable are collateralized by substantially all of the assets of FSL. Real estate notes payable consists of the following at June 30:

|   | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Note payable due in monthly principal and interest payments of \$2,998, including interest at 6.00%. This note matures on December 1, 2031.                           | \$ 442,820  | \$ 451,925  |
| Non-interest bearing note payable due in monthly principal installments of \$1,000, with the balance due at maturity on January 1, 2033.                              | 445,000     | 446,000     |
| Note payable with monthly interest payments at 9.00%. This note is due on demand.   | 516,250     | 516,250     |
| Note payable due in monthly principal and interest payments of \$1,483, including interest at 7.00% with an extended maturity date of February 27, 2023.              | 115,690     | 125,031     |
| Non-interest bearing note payable in one lump sum, maturing January 1, 2031.  | 619,083     | 619,083     |
| Note payable due in one lump sum with monthly interest payments of \$4,125 at a rate of 6.00% with an extended maturity date of February 27, 2023.                    | 825,000     | 825,000     |
| Note payable due in monthly payments of \$2,704, including interest at 6.00%. The note matures on November 30, 2030.  | 317,018     | 324,673     |
| Note payable due in one lump sum with monthly installments of \$5,923, consisting of interest at a rate of 6.875%. All unpaid principal and interest is due May 2031. | 928,663     | 942,556     |



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Real Estate Notes Payable (Continued)

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| Note payable to the State of Arizona due in annual payments up to a maximum of \$8,368, including interest at a rate of 1.00%, through December 2031.  | \$ 246,188          | \$ 251,553          |
| Non-interest bearing note payable used to construct a 20-unit apartment complex for low income families. This note is due at the earlier of the date of sale of the property or 20 years after the property first receives an initial certificate of occupancy, and is secured by a deed of trust to the property. | 448,380             | 448,380             |
| Note payable due in monthly payments of \$958, consisting of principal and interest at 6.75%. The balance is due at maturity on November 1, 2026. The note is secured by a deed of trust to the property.  | 116,957             | 120,270             |
| Non-interest bearing predevelopment note payable that matures at the earlier of the receipt of financing for the development, the date of sale of the development property acquired, or on February 8, 2021, the maturity date.  | 100,000             | -                   |
| Non-interest bearing predevelopment note payable that matures at the earlier of the receipt of financing for the development, the date of sale of the development property acquired, or on March 22, 2021, the maturity date.  | 100,000             | -                   |
| Note payable with interest at a rate of 7.00%. All unpaid principal and interest is due May 1, 2020.   | <u>750,000</u>      | <u>-</u>            |
|  | <u>\$ 5,971,049</u> | <u>\$ 5,070,721</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Forgivable Notes Payable

Forgivable notes payable consisted of the following at June 30:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| In 2011 and 2013, FSL Real Estate Services, Inc. accepted assignments of multifamily rental properties and entered into promissory note agreements with Arizona Department of Housing for the costs of rehabilitation of the properties. The notes are non-interest bearing and payable upon the dates of the sales of the properties. The notes are deemed satisfied and all amounts due paid in full upon expiration of the covenants, conditions, and restrictions, which occurs in 2027 and 2029. The balances are to be amortized upon completion of the rehabilitation construction or through the maturity date and recognized as in-kind contributions. | \$ 2,549,976        | \$ 2,819,101        |
| In 2017, FSL received a Federal Home Program construction loan commitment to complete energy improvements to a property serving low income families. The non-interest bearing note will be forgiven at the end of the 20 year period if FSL complies with the terms in the agreement during the period.   | <u>314,160</u>      | <u>320,000</u>      |
|   | <u>\$ 2,864,136</u> | <u>\$ 3,139,101</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Other Notes Payable

Other notes payable consisted of the following at June 30:

|   | <u>2019</u>       | <u>2018</u>       |
|---|-------------------|-------------------|
| Note payable with interest due quarterly at a rate of 2.00%. Quarterly principal payments of \$62,500 commence on September 27, 2021 and matures on September 27, 2023.                                       | \$ 500,000        | \$ 500,000        |
| Loan agreements for the purchase of vehicles. The vehicle loans require varying monthly payments averaging approximately \$440 at interest rates ranging from 4.00% to 6.70% and mature through November 2020 | <u>25,766</u>     | <u>31,654</u>     |
|   | <u>\$ 525,766</u> | <u>\$ 531,654</u> |

Debt issuance costs for the years ended June 30, 2019 and 2018 are reported on the combined statements of financial position as a direct deduction from the face amount of the related debt.

Total long-term debt and related debt issuance costs are summarized as follows at June 30:

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Bonds  | \$ 28,745,000        | \$ 23,890,000        |
| Mortgage and real estate notes               | 7,029,697            | 6,154,917            |
| Forgivable and other notes                   | <u>3,389,902</u>     | <u>3,670,755</u>     |
|  | 39,164,599           | 33,715,672           |
| Debt issuance costs                          | (1,239,834)          | (1,059,447)          |
| Accumulated amortization                     | <u>379,163</u>       | <u>290,826</u>       |
| Net debt issuance costs                      | <u>(860,671)</u>     | <u>(768,621)</u>     |
| Long-term debt, less net debt issuance costs | <u>\$ 38,303,928</u> | <u>\$ 32,947,051</u> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 13 LONG-TERM DEBT (Continued)

Future minimum principal payments required on all long term debt as of June 30, 2019 are as follows:

| Years Ending June<br>30,   | Bond Debt            | Mortgages<br>and Real<br>Estate Notes | Forgiveable<br>and Other<br>Notes | Total                |
|----------------------------|----------------------|---------------------------------------|-----------------------------------|----------------------|
| 2020                       | \$ 840,000           | \$ 1,334,493                          | \$ 269,125                        | \$ 2,443,618         |
| 2021                       | 875,000              | 274,094                               | 269,125                           | 1,418,219            |
| 2022                       | 2,405,000            | 75,237                                | 331,625                           | 2,811,862            |
| 2023                       | 945,000              | 975,428                               | 331,625                           | 2,252,053            |
| 2024                       | 2,945,000            | 70,291                                | 331,625                           | 3,346,916            |
| Thereafter                 | <u>20,735,000</u>    | <u>4,300,154</u>                      | <u>1,856,777</u>                  | <u>26,891,931</u>    |
|                            | 28,745,000           | 7,029,697                             | 3,389,902                         | 39,164,599           |
| Net debt issuance<br>costs | <u>(714,508)</u>     | <u>(146,163)</u>                      | <u>-</u>                          | <u>(860,671)</u>     |
|                            | 28,030,492           | 6,883,534                             | 3,389,902                         | 38,303,928           |
| Current portion            | <u>(840,000)</u>     | <u>(1,334,493)</u>                    | <u>(269,125)</u>                  | <u>(2,443,618)</u>   |
| Long term portion          | <u>\$ 27,190,492</u> | <u>\$ 5,549,041</u>                   | <u>\$ 3,120,777</u>               | <u>\$ 35,860,310</u> |

NOTE 14 INCOME TAXES

FSL Roeser Village, Inc.; FSL Mountain Village Inc.; FSL Yuma Senior Terraces I, Inc.; FSL Ruby Heights Inc.; FSL Solar One, Inc.; FSL Solar Two, Inc.; FSL Solar Three, Inc.; FSL Gibson Garden, Inc.; and Affordable Services for Seniors, Inc. are C Corporations that file separate federal and state income tax returns.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 14 INCOME TAXES (Continued)

Components of FSL's deferred tax assets are as follows at June 30:

|  | <u>2019</u>      | <u>2018</u>       |
|--|------------------|-------------------|
| Excess tax over book depreciation        | \$ (675,000)     | \$ (706,000)      |
| Federal net operating loss carryforwards | <u>708,000</u>   | <u>1,200,000</u>  |
| Total deferred tax asset                 | 33,000           | 494,000           |
| Less valuation allowance                 | <u>(17,000)</u>  | <u>(244,000)</u>  |
| Net deferred tax asset - long-term       | <u>\$ 16,000</u> | <u>\$ 250,000</u> |

During the years ended June 30, 2019 and 2018, the affiliates had provisions for income tax expense of \$234,200 and income tax expense of \$3,200, respectively. As of June 30, 2019, FSL Gibson Gardens, Inc., FSL Solar One, Inc., FSL Solar Two, Inc., and FSL Solar Three, Inc. have available approximately \$3,368,000 of federal operating loss carryforwards that begin to expire in 2031.

The valuation allowance of \$17,000 and \$244,000 for the years ended June 30, 2019 and 2018, respectively, was established to reflect the possible inability of FSL to use all federal and state net operating loss carryforwards prior to expiration. Realization of the remaining deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the net operating loss carryforward. Although realization is not assured, management believes it is more likely than not that the remaining deferred tax asset will be realized. The amount of the remaining deferred tax asset is considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

NOTE 15 EMPLOYEE BENEFIT PLAN

FSL employees are eligible to participate in a 403(b) Tax Sheltered Annuity Employee Retirement Plan and a 457 Deferred Compensation Plan. The Plans cover substantially all full-time employees over age 21 that have one year of service, as defined. FSL matches eligible contributions of employee compensation based on a years of service formula as defined in the plan documents. FSL will match 100% of employee contributions up to 2% of employee compensation subject to certain eligibility criteria as stated in the plan documents. For the years ended June 30, 2019 and 2018, FSL made contributions of approximately \$196,000 and \$156,000, respectively, to these plans.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 16 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of various contracts and unexpended restricted contributions as of June 30:

|  | <u>2019</u>              | <u>2018</u>              |
|--|--------------------------|--------------------------|
| Time restricted:                             |                          |                          |
| AHP restrictions                             | \$ 8,847,777             | \$ 7,247,777             |
| Federal grant                                | 4,798,340                | 4,798,340                |
| Promises to give                             | 1,342,308                | 1,321,425                |
| Purpose restricted:                          |                          |                          |
| Care by design                               | -                        | 50,192                   |
| Transportation                               | 63,495                   | 79,945                   |
| Nutrition                                    | 47,749                   | 68,499                   |
| Home care                                    | -                        | 15,760                   |
| Home repair                                  | -                        | 22,352                   |
| Other  | 16,586                   | 61,440                   |
|  | <u>16,586</u>            | <u>61,440</u>            |
| <br>Total net assets with donor restrictions | <br><u>\$ 15,116,255</u> | <br><u>\$ 13,665,730</u> |

The federal grant restriction consists of a federal grant received during the year ended June 30, 2010, in the original amount of \$4,798,340, in relation to the construction of the White Mountain Villas Project. The grant funds are to supplement the cost of construction for the project and were awarded in-lieu of tax credits. The grant requires the project to be used for 15 years once it enters the compliance period as defined by the grant award. The grant is subject to recapture of 6.67% per year for any years the project is out of compliance, subject to the cure provisions as documented in the grant award.

The affordable housing properties (AHP) restriction consists of funds received under various contracts to finance the purchase, construction, or improvement of affordable housing properties. Under the terms of the contracts, FSL may be required to repay any amount not released from restriction upon converting the property to its intended purpose, therefore, the restriction will not be met until the end of the 15-year term.

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 16 NET ASSETS WITH DONOR RESTRICTIONS (Continued)

The contracts, which release restrictions at different dates, are summarized as follows as of June 30:

| Property                 | Date of contract | Released period from restriction | 2019         | 2018         |
|--------------------------|------------------|----------------------------------|--------------|--------------|
| White Mountain Villas    | January 2006     | 15 years                         | \$ 445,500   | \$ 445,500   |
| Mountain Village         | June 2006        | 15 years                         | 250,000      | 250,000      |
| Becket House             | June 2007        | 15 years                         | 1,000,000    | 1,000,000    |
| Yuma Senior Terraces     | June 2007        | 15 years                         | 642,768      | 642,768      |
| Flagstaff Senior Meadows | June 2011        | 15 years                         | 1,000,000    | 1,000,000    |
| Pineview Manors          | June 2011        | 15 years                         | 500,000      | 500,000      |
| Highland Square          | December 2013    | 15 years                         | 360,000      | 360,000      |
| 29 Palms                 | June 2014        | 15 years                         | 259,509      | 259,509      |
| Padre Kino               | June 2017        | 15 years                         | 1,750,000    | 1,750,000    |
| Village on Roeser        | June 2018        | 15 years                         | 1,040,000    | 1,040,000    |
| 29 Palms II              | June 2019        | 15 years                         | 400,000      | -            |
| Flagstaff Humphrey's     | June 2019        | 15 years                         | 1,200,000    | -            |
|                          |                  |                                  | \$ 8,847,777 | \$ 7,247,777 |

NOTE 17 OPERATING LEASES

FSL leases other office space and equipment for certain of its management and program service locations under long-term operating lease agreements that expire at various times through April 2021 and agreements that are on a month-to-month basis. Approximate future minimum rental payments required under these operating leases that have an initial or remaining non-cancellable lease term in excess of one year are as follows at June 30, 2019:

| Years Ending June 30, |            |
|-----------------------|------------|
| 2020                  | \$ 88,000  |
| 2021                  | 22,000     |
|                       | \$ 110,000 |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 17 OPERATING LEASES (Continued)

Rental expense for the years ended June 30, 2019 and 2018 amounted to \$492,531 and \$500,734, respectively. These amounts include in-kind use of facilities in the approximate amounts of \$240,000 and \$239,000, respectively.

NOTE 18 TRANSACTIONS WITH AFFILIATES

The Roman Catholic Church of the Diocese of Phoenix has committed future financial support to help assist the Foundation and its affiliates in attaining their goals and objective, with \$910,000 committed for both years ended June 30, 2019 and 2018.

FSL has various notes receivable with affiliates that are due under extended payment terms exceeding one year, as disclosed in Note 7.

NOTE 19 NEW ACCOUNTING PRONOUNCEMENTS

The FASB has issued Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2019. The standard’s core principle is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This ASU should assist entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

The FASB has issued ASU No. 2016-02, *Leases*. For nonpublic companies, the standard must be adopted for annual reporting periods beginning after December 15, 2020. The standard’s core principle is the recognition of lease assets and lease liabilities by lessees for substantially all leases, including those currently classified as operating leases. Under the ASU, a lessee will be required to recognize assets and liabilities for operating and finance leases with terms of more than 12 months. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

NOTE 20 RESTATEMENT OF COMBINED FINANCIAL STATEMENTS

During the year ended June 30, 2019, management discovered that consulting fee expenses that were incurred in the amount of \$520,746 were not recorded, which resulted in an understatement of other liabilities and program expenses as of June 30, 2017 and 2018. This restatement has no effect on the change in net assets for the year ended June 30, 2019.



FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 NOTES TO COMBINED FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

NOTE 20 RESTATEMENT OF COMBINED FINANCIAL STATEMENTS (Continued)

Additionally, as described in Note 1, FSL adopted ASU 2014-09 on July 1, 2018, for exchange transactions using the full retrospective method. Under ASU 2014-09, revenue is recognized when a customer obtains control of the promised goods or service in an amount that reflects consideration the entity expects to be entitled to in exchange for those good or services. The prior year financial statements for 2018 have been restated and the cumulative effect of the adoption has been charged to net assets without donor restrictions as of June 1, 2017, the beginning of the first period presented.

The following table summarizes the retrospective effects of adopting ASU 2014-09 and the correction of an error on the combined statement of financial position as of June 30, 2018:

|                      | As previously reported | Adjustment related to:  |                        | As restated |
|----------------------|------------------------|-------------------------|------------------------|-------------|
|                      |                        | Adoption of ASU 2014-09 | Correction of an error |             |
| Contract liabilities | \$ -                   | \$ 580,995              | \$ -                   | \$ 580,995  |
| Other liabilities    | 214,095                | -                       | 520,746                | 734,841     |

The following table summarizes the retrospective effects of adopting ASU 2014-09 and the correction of an error and on the combined statement of activities for the year ended June 30, 2018:

|  | As previously reported | Adjustment related to:  |                        | As restated  |
|--|------------------------|-------------------------|------------------------|--------------|
|  |                        | Adoption of ASU 2014-09 | Correction of an error |              |
| Client fees  | \$ 5,616,036           | \$ 468,794              | \$ -                   | \$ 6,084,830 |
| Program expenses   | 26,012,878             | -                       | 401,907                | 26,414,785   |
| Change in net assets without donor restrictions          | (122,336)              | 468,794                 | (401,907)              | (55,449)     |
| Net assets without donor restrictions, beginning of year | 8,602,373              | (1,049,789)             | (118,839)              | 7,433,745    |
| Net assets without donor restrictions, end of year       | 8,480,037              | (580,995)               | (520,746)              | 7,378,296    |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES

SUPPLEMENTARY INFORMATION

June 30, 2019

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINING STATEMENT OF FINANCIAL POSITION  
 June 30, 2019

|   | FSL and<br>Subsidiaries | FSL Programs/<br>Home<br>Improvements/<br>Pathways | FSL<br>Management | FSL Rural<br>Development<br>and Subsidiary | HUD<br>Developments | FSL Real Estate<br>Services | FSL Gibson<br>Gardens | FSL Roeser<br>Village | FSL White<br>Mountain Inc.<br>and Subsidiary | Combined<br>Eliminations | Totals               |
|---|-------------------------|--|-------------------|--|---------------------|-----------------------------|-----------------------|-----------------------|--|--------------------------|----------------------|
| <b>ASSETS</b>   |                         |  |                   |  |                     |                             |                       |                       |  |                          |                      |
| <b>CURRENT ASSETS</b>                                       |                         |  |                   |  |                     |                             |                       |                       |  |                          |                      |
| Cash and cash equivalents                                   | \$ 1,204,305            | \$ 304,014   | \$ 150,807        | \$ 1,820,653                               | \$ 57,236           | \$ 488,757                  | \$ 127,454            | \$ 2,673              | \$ 8,604                                     | \$ -                     | \$ 4,164,503         |
| Restricted deposits and funded reserves,<br>current portion | -                       | -  | -                 | 53,560                                     | 54,123              | 110,346                     | -                     | -                     | 9,478  | -                        | 227,507              |
| Accounts receivable, net of allowance                       | 22,029                  | 2,177,395  | 8                 | 2,839                                      | 5,222               | 3,575,186                   | -                     | -                     | 5  | (357,484)                | 5,425,200            |
| Promises to give  | 1,023,325               | -  | 5,536             | -  | -                   | -                           | -                     | -                     | -  | -                        | 1,028,861            |
| Grants receivable   | 2,640,000               | 67,884   | -                 | -  | 2,159               | -                           | -                     | -                     | -  | -                        | 2,710,043            |
| Due from affiliates, net of allowance                       | 14,355,671              | 4,151,584  | 258,621           | 3,352,695                                  | -                   | 8,038,092                   | 866,823               | 3,056                 | -  | (28,016,109)             | 3,010,433            |
| Prepaid expenses and deposits                               | 322                     | 63,950   | 18,126            | -  | -                   | 63,918                      | -                     | -                     | -  | -                        | 146,316              |
| Notes receivable from affiliates, current portion           | 977,259                 | 3,522  | -                 | 129,051                                    | -                   | 7,239                       | -                     | 31,087                | -  | (1,079,637)              | 68,521               |
| Property inventory  | -                       | -  | -                 | -  | -                   | 6,137,424                   | -                     | -                     | -  | -                        | 6,137,424            |
| Assets held for sale  | -                       | -  | -                 | -  | -                   | 3,639,472                   | -                     | -                     | -  | -                        | 3,639,472            |
| <b>TOTAL CURRENT ASSETS</b>                                 | <b>20,222,911</b>       | <b>6,768,349</b>                                   | <b>433,098</b>    | <b>5,358,798</b>                           | <b>118,740</b>      | <b>22,060,434</b>           | <b>994,277</b>        | <b>36,816</b>         | <b>18,087</b>                                | <b>(29,453,230)</b>      | <b>26,558,280</b>    |
| <b>NON-CURRENT ASSETS</b>                                   |                         |  |                   |  |                     |                             |                       |                       |  |                          |                      |
| Restricted deposits and funded reserves                     | 1,023,052               | -  | -                 | -  | 460,055             | 1,066,335                   | -                     | -                     | 391,580                                      | -                        | 2,941,022            |
| Property and equipment, net                                 | -                       | 323,509  | 19,937            | 1,009,535                                  | 1,128,850           | 29,128,634                  | 1,663,837             | -                     | 5,035,901                                    | (1,360,090)              | 36,950,113           |
| Notes receivable from affiliates,<br>net of current portion | 17,623,851              | 7,358  | -                 | 1,631,901                                  | -                   | 2,325,039                   | -                     | -                     | -  | (11,976,309)             | 9,611,840            |
| Deferred tax asset  | -                       | -  | -                 | -  | -                   | -                           | 16,000                | -                     | -  | -                        | 16,000               |
| Investment in affiliates, equity basis                      | (1,241,111)             | -  | (22,038)          | -  | -                   | 129                         | (32)                  | 100                   | -  | 4,056                    | (1,258,896)          |
| <b>TOTAL NON-CURRENT ASSETS</b>                             | <b>17,405,792</b>       | <b>330,867</b>                                     | <b>(2,101)</b>    | <b>2,641,436</b>                           | <b>1,588,905</b>    | <b>32,520,137</b>           | <b>1,679,805</b>      | <b>100</b>            | <b>5,427,481</b>                             | <b>(13,332,343)</b>      | <b>48,260,079</b>    |
| <b>TOTAL ASSETS</b>   | <b>\$ 37,628,703</b>    | <b>\$ 7,099,216</b>                                | <b>\$ 430,997</b> | <b>\$ 8,000,234</b>                        | <b>\$ 1,707,645</b> | <b>\$ 54,580,571</b>        | <b>\$ 2,674,082</b>   | <b>\$ 36,916</b>      | <b>\$ 5,445,568</b>                          | <b>\$ (42,785,573)</b>   | <b>\$ 74,818,359</b> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINING STATEMENT OF FINANCIAL POSITION (Continued)  
 June 30, 2019

|   | FSL and Subsidiaries | FSL Programs/<br>Home<br>Improvements/<br>Pathways | FSL<br>Management  | FSL Rural<br>Development<br>and Subsidiary | HUD<br>Developments | FSL Real Estate<br>Services | FSL Gibson<br>Gardens | FSL Roeser<br>Village | FSL White<br>Mountain Inc.<br>and Subsidiary | Combined<br>Eliminations | Totals               |
|---|----------------------|--|--------------------|--|---------------------|-----------------------------|-----------------------|-----------------------|--|--------------------------|----------------------|
| <b>LIABILITIES AND NET ASSETS</b>                                 |                      |  |                    |  |                     |                             |                       |                       |  |                          |                      |
| <b>CURRENT LIABILITIES</b>  |                      |  |                    |  |                     |                             |                       |                       |  |                          |                      |
| Accounts payable  | \$ 351,851           | \$ 659,773   | \$ 84,709          | \$ 32,188                                  | \$ 30,958           | \$ 289,617                  | \$ -                  | \$ -                  | \$ 158                                       | \$ -                     | \$ 1,449,254         |
| Due to affiliates   | 7,104,000            | 144,389  | 1,664,434          | 8,751                                      | 11,763              | 18,330,801                  | 709,637               | 5,829                 | 885,374                                      | (27,784,303)             | 1,080,675            |
| Due to City of Phoenix  | -                    | -  | -                  | -  | -                   | 5,284,834                   | -                     | -                     | -  | -                        | 5,284,834            |
| Accrued payroll and related expenses                              | 100,573              | 903,433  | 330,228            | 36,999                                     | 2,614               | 111,147                     | -                     | -                     | 2,101  | -                        | 1,487,095            |
| Interest payable  | 227,781              | -  | -                  | 4,907                                      | 3,114               | 227,023                     | 11,266                | 3,056                 | 189,938                                      | (231,806)                | 435,279              |
| Contract advances   | -                    | 114,673  | -                  | -  | -                   | -                           | -                     | -                     | -  | -                        | 114,673              |
| Contract liabilities  | -                    | -  | -                  | -  | -                   | 1,333,059                   | -                     | -                     | -  | -                        | 1,333,059            |
| Other liabilities   | -                    | -  | -                  | -  | 29,884              | 503,054                     | -                     | -                     | 364,231                                      | (357,484)                | 539,685              |
| Lines of credit   | 861,686              | 390,000  | -                  | -  | -                   | 1,458,340                   | -                     | -                     | -  | -                        | 2,710,026            |
| Long-term debt, current portion                                   | 484,667              | -  | -                  | -  | 26,464              | 1,929,152                   | -                     | -                     | 3,335  | -                        | 2,443,618            |
| Notes payable to affiliates, current portion                      | -                    | 7,239  | -                  | 145,000                                    | -                   | 755,841                     | 140,026               | 31,087                | -  | (1,079,193)              | -                    |
| <b>CURRENT LIABILITIES</b>  | <b>9,130,558</b>     | <b>2,219,507</b>                                   | <b>2,079,371</b>   | <b>227,845</b>                             | <b>104,797</b>      | <b>30,222,868</b>           | <b>860,929</b>        | <b>39,972</b>         | <b>1,445,137</b>                             | <b>(29,452,786)</b>      | <b>16,878,198</b>    |
| <b>NON-CURRENT LIABILITIES</b>                                    |                      |  |                    |  |                     |                             |                       |                       |  |                          |                      |
| Tenant security deposits  | -                    | -  | -                  | 27,684                                     | 11,470              | 60,315                      | -                     | -                     | 7,950  | -                        | 107,419              |
| Long-term debt, net of current portion<br>and debt issuance costs | 14,900,525           | 5,328  | 18,087             | (5,000)                                    | 1,032,184           | 19,117,583                  | (83,326)              | -                     | 874,929                                      | -                        | 35,860,310           |
| Notes payable to affiliates,<br>net of current portion            | 250,000              | 207,293  | -                  | 5,345,286                                  | -                   | 3,297,516                   | 2,431,158             | -                     | 445,500                                      | (11,976,753)             | -                    |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                              | <b>15,150,525</b>    | <b>212,621</b>                                     | <b>18,087</b>      | <b>5,367,970</b>                           | <b>1,043,654</b>    | <b>22,475,414</b>           | <b>2,347,832</b>      | <b>-</b>              | <b>1,328,379</b>                             | <b>(11,976,753)</b>      | <b>35,967,729</b>    |
| <b>TOTAL LIABILITIES</b>  | <b>24,281,083</b>    | <b>2,432,128</b>                                   | <b>2,097,458</b>   | <b>5,595,815</b>                           | <b>1,148,451</b>    | <b>52,698,282</b>           | <b>3,208,761</b>      | <b>39,972</b>         | <b>2,773,516</b>                             | <b>(41,429,539)</b>      | <b>52,845,927</b>    |
| <b>NET ASSETS</b>   |                      |  |                    |  |                     |                             |                       |                       |  |                          |                      |
| Without donor restrictions  | 3,157,535            | 4,546,758  | (1,666,461)        | 2,404,419                                  | 559,194             | 1,874,789                   | (534,679)             | (3,056)               | (2,126,288)                                  | (1,356,034)              | 6,856,177            |
| With donor restrictions   | 10,190,085           | 120,330  | -                  | -  | -                   | 7,500                       | -                     | -                     | 4,798,340                                    | -                        | 15,116,255           |
| <b>TOTAL NET ASSETS</b>   | <b>13,347,620</b>    | <b>4,667,088</b>                                   | <b>(1,666,461)</b> | <b>2,404,419</b>                           | <b>559,194</b>      | <b>1,882,289</b>            | <b>(534,679)</b>      | <b>(3,056)</b>        | <b>2,672,052</b>                             | <b>(1,356,034)</b>       | <b>21,972,432</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                           | <b>\$ 37,628,703</b> | <b>\$ 7,099,216</b>                                | <b>\$ 430,997</b>  | <b>\$ 8,000,234</b>                        | <b>\$ 1,707,645</b> | <b>\$ 54,580,571</b>        | <b>\$ 2,674,082</b>   | <b>\$ 36,916</b>      | <b>\$ 5,445,568</b>                          | <b>\$ (42,785,573)</b>   | <b>\$ 74,818,359</b> |

FOUNDATION FOR SENIOR LIVING AND AFFILIATED ENTITIES  
 COMBINING STATEMENT OF ACTIVITIES  
 Year Ended June 30, 2019

|   | FSL and Subsidiaries | FSL Programs/<br>Home<br>Improvements/<br>Pathways | FSL<br>Management     | FSL Rural<br>Development<br>and Subsidiary | HUD<br>Developments | FSL Real Estate<br>Services | FSL Gibson<br>Gardens | FSL Roeser<br>Village | FSL White<br>Mountain Inc.<br>and Subsidiary | Combined<br>Eliminations | Totals               |
|---|----------------------|--|-----------------------|--|---------------------|-----------------------------|-----------------------|-----------------------|--|--------------------------|----------------------|
| <b>SUPPORT AND REVENUES</b>                           |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Government contracts                                  | \$ -                 | \$ 20,573,633                                      | \$ -                  | \$ 998,535                                 | \$ 314,632          | \$ 739,179                  | \$ -                  | \$ -                  | \$ -   | \$ -                     | \$ 22,625,979        |
| Client fees   | 59,591               | 1,921,788  | 20,400                | 371,003                                    | 139,781             | 3,043,621                   | 342,002               | -                     | 196,745                                      | (1,018,547)              | 5,076,384            |
| Program income  | -                    | 713,921  | -                     | -  | -                   | -                           | -                     | -                     | -  | (89,704)                 | 624,217              |
| Management fees                                       | -                    | -  | 3,117,256             | -  | -                   | 95,414                      | -                     | -                     | -  | (3,055,868)              | 156,802              |
| Grants  | 1,765,000            | 259,721  | -                     | 30,292                                     | 27,018              | 8,832                       | -                     | -                     | -  | -                        | 2,090,863            |
| <b>Contributions</b>                                  |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Charity and Development Appeal                        | 910,000              | 539,001  | -                     | -  | -                   | -                           | -                     | -                     | -  | (539,000)                | 910,001              |
| Foundations   | -                    | 49,293   | -                     | -  | -                   | 892                         | -                     | -                     | -  | (50,000)                 | 185                  |
| Corporations and individuals                          | 459,064              | 358,854  | -                     | 588  | -                   | 1,300                       | -                     | -                     | -  | (360,000)                | 459,806              |
| In-kind donations                                     | -                    | 447,607  | -                     | -  | -                   | 322,739                     | -                     | -                     | -  | -                        | 770,346              |
|   | <u>3,193,655</u>     | <u>24,863,818</u>                                  | <u>3,137,656</u>      | <u>1,400,418</u>                           | <u>481,431</u>      | <u>4,211,977</u>            | <u>342,002</u>        | <u>-</u>              | <u>196,745</u>                               | <u>(5,113,119)</u>       | <u>32,714,583</u>    |
| <b>Other revenue</b>                                  |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Interest income                                       | 839,949              | 3,139  | -                     | 82,858                                     | 583                 | 51,701                      | -                     | 46,110                | 2,065  | (737,632)                | 288,773              |
| Other   | 33,444               | 2,335  | 8,750                 | 2,060                                      | 2,294               | 23,970                      | -                     | -                     | 1,618  | -                        | 74,471               |
|   | <u>873,393</u>       | <u>5,474</u>                                       | <u>8,750</u>          | <u>84,918</u>                              | <u>2,877</u>        | <u>75,671</u>               | <u>-</u>              | <u>46,110</u>         | <u>3,683</u>                                 | <u>(737,632)</u>         | <u>363,244</u>       |
| <b>TOTAL SUPPORT AND REVENUES</b>                     | <u>4,067,048</u>     | <u>24,869,292</u>                                  | <u>3,146,406</u>      | <u>1,485,336</u>                           | <u>484,308</u>      | <u>4,287,648</u>            | <u>342,002</u>        | <u>46,110</u>         | <u>200,428</u>                               | <u>(5,850,751)</u>       | <u>33,077,827</u>    |
| <b>EXPENSES</b>                                       |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Program expenses                                      | -                    | 22,535,950   | -                     | 820,000                                    | 428,571             | 3,035,507                   | 323,152               | -                     | 386,086                                      | (1,376,061)              | 26,153,205           |
| <b>Supporting Services</b>                            |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Management and general                                | 1,322,697            | 2,682,798  | 3,083,823             | 360,382                                    | 41,507              | 1,523,686                   | 7,814                 | 50,523                | 26,555                                       | (3,592,928)              | 5,506,857            |
| Fundraising   | 274,306              | -  | -                     | -  | -                   | -                           | -                     | -                     | -  | -                        | 274,306              |
| <b>TOTAL EXPENSES</b>                                 | <u>1,597,003</u>     | <u>25,218,748</u>                                  | <u>3,083,823</u>      | <u>1,180,382</u>                           | <u>470,078</u>      | <u>4,559,193</u>            | <u>330,966</u>        | <u>50,523</u>         | <u>412,641</u>                               | <u>(4,968,989)</u>       | <u>31,934,368</u>    |
| <b>OTHER INCOME (EXPENSE)</b>                         |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
| Gain (loss) on sale of property and equipment         | -                    | -  | -                     | 4,992                                      | (194)               | 10,163                      | -                     | -                     | -  | -                        | 14,961               |
| Gain (loss) on LLC investments                        | 4,328                | -  | (4,056)               | -  | -                   | (42)                        | -                     | -                     | -  | 4,056                    | 4,286                |
| Transfers to affiliates                               | (949,000)            | -  | (100)                 | -  | -                   | -                           | -                     | -                     | -  | 949,000                  | (100)                |
| Income tax benefit (expense)                          | -                    | -  | -                     | -  | -                   | -                           | (234,200)             | -                     | -  | -                        | (234,200)            |
| <b>TOTAL OTHER INCOME (EXPENSE)</b>                   | <u>(944,672)</u>     | <u>-</u>   | <u>(4,156)</u>        | <u>4,992</u>                               | <u>(194)</u>        | <u>10,121</u>               | <u>(234,200)</u>      | <u>-</u>              | <u>-</u>                                     | <u>953,056</u>           | <u>(215,053)</u>     |
| <b>CHANGE IN NET ASSETS</b>                           | <u>1,525,373</u>     | <u>(349,456)</u>                                   | <u>58,427</u>         | <u>309,946</u>                             | <u>14,036</u>       | <u>(261,424)</u>            | <u>(223,164)</u>      | <u>(4,413)</u>        | <u>(212,213)</u>                             | <u>71,294</u>            | <u>928,406</u>       |
| <b>NET ASSETS, BEGINNING OF YEAR,<br/>AS RESTATED</b> |                      |  |                       |  |                     |                             |                       |                       |  |                          |                      |
|   | <u>11,822,247</u>    | <u>5,016,544</u>                                   | <u>(1,724,888)</u>    | <u>2,094,473</u>                           | <u>545,158</u>      | <u>2,143,713</u>            | <u>(311,515)</u>      | <u>1,357</u>          | <u>2,884,265</u>                             | <u>(1,427,328)</u>       | <u>21,044,026</u>    |
| <b>NET ASSETS, END OF YEAR</b>                        | <u>\$ 13,347,620</u> | <u>\$ 4,667,088</u>                                | <u>\$ (1,666,461)</u> | <u>\$ 2,404,419</u>                        | <u>\$ 559,194</u>   | <u>\$ 1,882,289</u>         | <u>\$ (534,679)</u>   | <u>\$ (3,056)</u>     | <u>\$ 2,672,052</u>                          | <u>\$ (1,356,034)</u>    | <u>\$ 21,972,432</u> |