Northern California Retired Officers Community d.b.a. Paradise Valley Estates

Financial Statements

December 31, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
Northern California Retired Officers Community d.b.a. Paradise Valley Estates

Opinion

We have audited the financial statements of Northern California Retired Officers Community d.b.a. Paradise Valley Estates (a California nonprofit public benefit Company) (PVE), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PVE as of December 31, 2022, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PVE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of PVE as of December 31, 2021 were audited by other auditors whose report dated March 28, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PVE's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PVE's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PVE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

San Francisco, California
April 28, 2023

Northern California Retired Officers Community
d.b.a. Paradise Valley Estates

Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 2,386,644	$ 1,687,571
Assets whose use is limited	8,232,936	9,677,537
Investments	23,891,305	42,323,877
Accounts receivable, net	1,930,260	1,517,682
Entrance fees receivable	1,124,500	563,000
Prepaid expenses and other current assets	1,697,340	1,647,375
Total current assets	39,262,985	57,417,042
Assets Whose Use is Limited	17,258,253	20,500,182
Property and Equipment, Net	174,374,215	178,043,773
Total assets	$ 230,895,453	$ 255,960,997
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 1,339,668	$ 917,037
Retainage payable	3,290,979	3,853,234
Accrued personnel expenses	1,279,309	1,291,901
Accrued compensated annual leave	1,392,035	1,282,762
Accrued interest	2,581,789	2,694,480
Current portion of long-term debt	3,320,000	3,175,000
Total current liabilities	13,203,780	13,214,414
Long-Term Debt, Net	108,236,264	118,251,625
Entrance Fee Deposits	331,172	1,604,657
Refundable Entrance Fees and Deposits	9,301,324	10,078,139
Deferred Revenue From Entrance Fees	74,782,621	70,602,501
Total liabilities	205,855,161	213,751,336
Net Assets		
Without donor restriction	22,704,301	39,969,073
With donor restriction	2,335,991	2,240,588
Total net assets	25,040,292	42,209,661
Total liabilities and net assets	$ 230,895,453	$ 255,960,997

See notes to financial statements

Northern California Retired Officers Community
d.b.a. Paradise Valley Estates

Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Change in Net Assets Without Donor Restrictions		
Revenues:		
Net resident service revenues	$ 39,738,608	$ 36,115,555
Other operating revenue	683,740	493,208
Net assets released from restrictions	145,181	72,400
Total revenues	40,567,529	36,681,163
Expenses:		
Salaries and benefits	23,474,170	20,040,531
Depreciation	7,733,741	4,974,902
Interest	6,008,552	2,497,295
Purchased services	3,281,686	2,191,912
Utilities	2,995,827	2,566,258
Food and beverage costs	2,344,863	2,129,574
Other operating expenses	2,128,948	1,397,445
Supplies	1,246,750	1,176,189
Bad debt expense	975,248	-
Insurance	948,099	815,750
Repairs and maintenance	814,603	586,218
Marketing and advertising	564,877	1,056,169
Total expenses	52,517,364	39,432,243
Operating loss	(11,949,835)	(2,751,080)
Other income (loss):		
Gain on forgiveness of Paycheck Protection Program loan	-	3,328,396
Contributions	1,300,000	-
Investment (loss) return	(6,614,937)	4,478,442
Revenues (less than) in excess of expenses	(17,264,772)	5,055,758
Changes in Net Assets With Donor Restriction		
Restricted contributions	240,584	223,724
Net assets released from restrictions	(145,181)	(72,400)
Change in net assets with donor restrictions	95,403	151,324
Change in net assets	(17,169,369)	5,207,082
Net Assets, Beginning	42,209,661	37,002,579
Net Assets, Ending	$ 25,040,292	$ 42,209,661

See notes to financial statements

Northern California Retired Officers Community
d.b.a. Paradise Valley Estates

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ (17,169,369)	$ 5,207,082
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of entrance fees	(8,935,235)	(8,095,522)
Amortization of debt issuance costs	1,377,795	341,074
Depreciation	7,733,741	5,032,900
Proceeds from nonrefundable entrance fees, existing units	6,751,000	6,841,000
Bad debt expense	975,248	-
Net unrealized loss on investments	7,955,315	574,315
Net realized gain on sales of investments	(406,209)	(3,893,516)
Amortization of bond premium	(508,156)	(508,156)
Gain on forgiveness of Paycheck Protection Program loan	-	(3,328,396)
(Increase) decrease in assets:		
Accounts receivable	(1,387,826)	(1,225,154)
Prepaid expenses	(49,965)	(209,868)
Entrance fees receivable	(561,500)	(351,000)
(Increase) decrease in liabilities:		
Accounts payable and other accrued expenses	422,631	(3,641,309)
Accrued personnel expenses	(12,592)	(144,500)
Accrued compensated annual leave	109,273	105,465
Accrued interest	(112,691)	(56,943)
Entrance fee deposits	(1,273,485)	(2,242,366)
Net cash used in operating activities	$ (5,092,025)	$ (5,594,894)
Cash Flows From Investing Activities		
Net change in assets whose use is limited	$ (1,034,806)	$ 7,568,362
Net proceeds from sale of investments	10,883,466	9,732,241
Purchases of property and equipment	(4,626,438)	(23,281,702)
Net cash provided by (used in) investing activities	5,222,222	(5,981,099)
Cash Flows From Financing Activities		
Payments on long-term debt	(10,740,000)	(14,365,000)
Proceeds from refundable entrance fees, existing units	743,755	2,506,950
Proceeds from entrance fees, new units	7,552,895	10,826,000
Refunds of refundable entrance fees	(2,709,110)	(1,513,857)
Net cash used in financing activities	(5,152,460)	(2,545,907)
Net change in cash, cash equivalents and restricted cash and cash equivalents	(5,022,263)	(14,121,900)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	20,894,764	35,016,664
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 15,872,501	$ 20,894,764
Noncash Investing Activities		
Purchase of property and equipment, accrued but not paid	$ 3,290,979	$ 3,853,234
Reconciliation of Cash, Cash Equivalents and Restricted Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,386,644	$ 1,687,571
Cash and cash equivalents included in assets whose use is limited	13,485,857	19,207,193
Total cash, cash equivalents and restricted cash and cash equivalents	$ 15,872,501	$ 20,894,764

See notes to financial statements

1. Organization

The Northern California Retired Officers Community d.b.a. Paradise Valley Estates (PVE) is a California nonprofit public benefit corporation organized to provide retired uniformed services officers and their spouses, widows and widowers with housing facilities and healthcare services.

PVE operates a continuing care retirement community (the Community) consisting of 391 independent living (IL) units, 60 assisted living (AL) units, 18 AL memory care (MC) units, a 60-bed skilled nursing (SN) facility and public spaces and amenities. The Community is located in Fairfield, California.

PVE is certified as a continuing care retirement community by the State of California Department of Social Services.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents is defined as cash and cash equivalents, which are restricted in their use by debt agreements or donors.

Accounts Receivable and Entrance Fee Receivables

PVE assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable and anticipated collection of the consideration. As of December 31, 2021, all accounts receivable were deemed collectible; therefore, no allowance for doubtful accounts was necessary. The allowance for doubtful accounts was approximately $950,000 at December 31, 2022.

Entrance fee receivables are evaluated for collectability prior to residents being admitted to the Community based on the resident's credit worthiness. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

Investments, Assets Whose Use is Limited and Investment Risk

Investments primarily include assets set aside for the general use and purposes of PVE.

Assets whose use is limited primarily include assets held by a trustee under indentures for the Series 2013 Bonds, Series 2016 Bonds and Series 2019 Bonds; assets whose use by PVE has been limited by donors to specific time periods or purposes; a refund reserve to fund the payment of entrance fee refunds; and resident entrance fee deposits. Amounts available to meet current liabilities have been classified as current assets on the balance sheet.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment (loss) return is included in operating (loss) income unless the investment (loss) return is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on the trade date.

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted income. Net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restriction when an asset is purchased with the donated funds and placed in service.

PVE capitalizes interest costs incurred on tax-exempt borrowings specifically for capital related projects. PVE capitalized interest costs of approximately $2,956,000 in 2021. PVE did not capitalize interest costs in 2022.

Property and equipment will be evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. No impairment losses were recognized in 2022 or 2021.

Debt Issuance Costs and Bond Premiums

Costs incurred and bond premiums received in connection with the issuance of long-term debt are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method and are presented in PVE's balance sheets as a direct addition to or reduction of long-term debt.

Debt issuance costs totaled $9,074,961 at December 31, 2022 and 2021. Accumulated amortization was $3,215,690 and $1,837,895 at December 31, 2022 and 2021, respectively. Amortization expense is recorded as an adjustment to interest expense and was $1,377,795 and $341,074 in 2022 and 2021, respectively.

Bond premiums totaled $13,040,724 at December 31, 2022 and 2021. Accumulated amortization was $3,855,189 and $3,347,033 at December 31, 2022 and 2021, respectively. Amortization of the bond premiums is recorded as an adjustment to interest expense and was $508,156 in 2022 and 2021.

Continuing Care Contracts and Entrance Fees

Under continuing care contracts (CCCs) for the majority of PVE's IL units, residents pay an entrance fee and a monthly fee according to the type of residence selected, the refund plan chosen and the number of residents who occupy the unit. Under all entrance fee refund plans, residents have the right to cancel the CCC with or without cause within 90 days of occupancy of the IL unit (the Cancellation Period). In the case of such cancellation, PVE is obligated to refund the entrance fee, the monthly fee, and all other fees paid to PVE, less the reasonable value of services rendered to the resident pursuant to the cancelled CCC.

PVE offers one basic CCC with three different refund plans; a nonrefundable plan, a 50 precent refund plan and a 95% refund plan. Under the nonrefundable plan, following the Cancellation Period and upon termination of the CCC, the entrance fee will be refunded, less a $7,500 processing fee and less 2% of the entrance fee per month of residency for 50 months. After 53 months of residency, no refund is due or payable. Under the 50% refund plan, following the Cancellation Period and upon termination of the CCC, the entrance fee will be refunded, less a $7,500 processing fee and less 2% of the entrance fee per month of residency for 25 months. After the CCC has been in effect for 28 months, the refund remains fixed at 50% of the original entrance fee. Under the 95% refund plan, following the Cancellation Period and upon termination of the CCC, the entrance fee will be refunded, less a $7,500 processing fee and less 2% of the entrance fee per month of residency for 2.5 months. After the CCC has been in effect for 5.5 months, the refund remains fixed at 95% of the original entrance fee.

All entrance fee refunds are paid within 14 days after the resident vacates the IL unit.

PVE is required to maintain an entrance fee refund escrow to fund the payment of entrance fee refunds to residents who elected the 50% and 95% refund plans. This escrow is included in assets whose use is limited.

The guaranteed refund component of entrance fees under the 50% and 95% refund plans is not amortized to income and is classified as refundable entrance fees on the balance sheets. The balance of entrance fees received is classified as deferred revenue from entrance fees in the balance sheets. The deferred revenue is amortized to income over the annually adjusted actuarially determined life expectancy of the residents using the straight-line method, which approximates the period of time that goods and services under the CCCs are expected to be transferred to residents and PVEs's performance obligation to the residents is satisfied.

The gross amount of contractual refund obligations under existing CCCs approximated $38,110,000 and $35,859,000 at December 31, 2022 and 2021, respectively.

Amortization of entrance fees was $8,935,235 in 2022 and $8,095,522 in 2021. A significant portion of amortization revenue in 2022 and 2021 was included in deferred revenue from entrance fees as of the beginning of each year.

Under the majority of existing CCCs, upon permanent transfer to AL, AL MC or SN, IL residents pay the daily resident healthcare rate, which is approximately equal to the weighted average of all first-person monthly fees for IL units. The CCC does not entitle the residents to an interest in the property owned by PVE.

PVE also offers rental contracts to prospective residents. Under these arrangements, residents do not pay an entrance fee. Residents are only obligated to pay a monthly fee according to the type of residence selected and the number of residents who occupy the IL unit.

Effective January 2023, PVE began offering modified life care contracts to prospective residents. Under these arrangements, residents pay an entrance fee and monthly fee according to the type of residence selected, the refund plan chosen, and the number of residents who occupy the IL unit. Residents are entitled on an annual basis to 30 days of temporary AL, AL MC or SN care and services, based on medical necessity, which is non-cumulative from year to year. This benefit shall be at no extra charge to the resident except for the payment of the Daily Supplemental Fee, as defined. In addition, under the modified life care contracts, residents are entitled to 90 days of AL, AL MC or SN care and services upon permanent transfer to these levels of care. The residents continue paying the monthly fee for the IL unit vacated, and the Daily Supplemental Fee, as defined, during the 90-day period. After 90 days, residents pay current market rates for AL, AL MC or SN care and services.

Future Service Obligation

PVE annually calculates the present value of the costs of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (future service obligation) with the corresponding charge to expense. There was no liability for a future service obligation at December 31, 2022 or 2021.

Net Assets

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

Net Assets Without Donor Restrictions - This classification includes net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net Assets With Donor Restrictions - This classification includes net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net Resident Service Revenues

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

Payment terms and conditions for PVE's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service revenues for recurring and routine monthly services due from private pay residents are generally billed monthly in advance. Net resident service fee revenues for ancillary services due from private pay residents are generally billed monthly in arrears. Net resident service revenues due from Medicare and other third-party payor programs are billed monthly in arrears.

Net resident service revenues are primarily comprised of SN, AL, AL MC and IL revenue streams, which are primarily derived from providing housing and SN, AL, AL MC and IL services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. PVE has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, PVE considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, SN, AL, AL MC and IL revenues are recognized on a daily or month-to-month basis as services are rendered.

PVE receives revenue for SN services under third-party payor programs, including Medicare and other third-party payors. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are included in the determination of the estimated transaction price for providing services. PVE estimates the transaction price based on the terms of the contract and correspondence with the third-party payor and historical payment trends. Retroactive adjustments are recognized in future periods as final settlements are determined.

Income Taxes

PVE is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC.

Measure of Operations

PVE's operating loss includes only those operating revenues and expenses that are an integral part of PVE's program activities and net assets released from donor restrictions to support operating expenditures. Nonoperating activities are limited to resources that generate return on investments and other activities considered to be more unusual and nonrecurring in nature.

Performance Indicator

PVE’s performance indicator is revenues (less than) in excess of expenses as reflected in the accompanying statements of operations and changes in net assets. Revenues (less than) in excess of expenses includes all changes in net assets other than changes in net assets with donor restrictions.

Subsequent Events

PVE evaluated subsequent events for recognition or disclosure through April 28, 2023, the date the financial statements were issued.

Reclassifications

Certain items in the 2021 financial statements have been reclassified to conform with the 2022 financial statement presentation.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31:

	2022	2021
Cash and cash equivalents	$ 2,386,644	$ 1,687,571
Accounts receivable	1,930,260	1,517,682
Entrance fees receivable	1,124,500	563,000
Investments	23,891,305	42,323,877
Total	$ 29,332,709	$ 46,092,130

PVE has assets whose use is limited that include assets held by a trustee under bond indentures for the Series 2019 Bonds, Series 2016 Bonds and Series 2013 Bonds; assets whose use by PVE has been limited by donors to specific purposes; and an entrance fee refund escrow. These assets are generally not available for general expenditure within the next year and are not reflected in the amounts above.

As part of PVE's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

4. Net Resident Service Revenues

PVE disaggregates revenue from contracts with residents by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Net resident service revenues consist of the following for the years ended December 31:

	2022			
	Skilled Nursing	Assisted Living and Memory Support	Independent Living	Total
Self-pay	$ 1,794,447	$ 3,473,565	$ 22,726,540	$ 27,994,552
Medicare and other	2,808,821	-	-	2,808,821
Total	$ 4,603,268	$ 3,473,565	$ 22,726,540	30,803,373
Amortization of entrance fees				8,935,235
Net resident service revenues				$ 39,738,608

	2021			
	Skilled Nursing	**Assisted Living and Memory Support**	**Independent Living**	**Total**
Self-pay	$ 1,849,642	$ 3,901,163	$ 20,052,560	$ 25,803,365
Medicare and other	2,216,668	-	-	2,216,668
Total	$ 4,066,310	$ 3,901,163	$ 20,052,560	28,020,033
Amortization of entrance fees				8,095,522
Net resident service revenues				$ 36,115,555

PVE has an agreement with Medicare that provides for payments at amounts different from established rates. Nursing and ancillary services provided to Medicare Part A beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident-specific classification system that is based on clinical, diagnostic and other factors and the reimbursement methodology is subject to various limitations and adjustments.

As described above, the Medicare Part A rates are based on clinical, diagnostic and other factors. The determination of these rates is partially based on PVE's clinical assessment of its residents. PVE is required to clinically assess its residents at predetermined time periods throughout the year which are subject to review and adjustment by the Medicare program.

5. Fair Value Measurements, Assets Whose Use is Limited and Investments

Fair Value Measurements

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to dispose of a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to PVE for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the instrument through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present the fair value hierarchy for those financial instruments measured at fair value on a recurring basis at December 31:

	2022		
	Total	**Level 1**	**Level 2**
Assets:			
Investments and assets whose use is limited:			
Equity securities	$ 9,949,415	$ 9,949,415	$ -
Fixed income mutual funds	6,529,119	6,529,119	-
Exchange-traded funds	4,317,527	4,317,527	-
Fixed income securities:			
Corporate bonds	1,655,926	-	1,655,926
Municipal bonds	156,333	-	156,333
Corporate obligations	1,705,984	-	1,705,984
U.S. treasury	3,607,984	-	3,607,984
Government securities	5,738,160	-	5,738,160
Total measured at fair value	33,660,448	$ 20,796,061	$ 12,864,387
Cash and cash equivalents	15,722,046		
Total investments and assets whose use is limited	$ 49,382,494		

	2021		
	Total	**Level 1**	**Level 2**
Assets:			
Investments and assets whose use is limited:			
Equity securities	$ 20,437,186	$ 20,437,186	$ -
Fixed income mutual funds	8,915,048	8,915,048	-
Exchange-traded funds	5,601,183	5,601,183	-
Fixed income securities:			
Corporate bonds	3,720,711	-	3,720,711
Corporate obligations	2,803,083	-	2,803,083
U.S. treasury	4,039,706	-	4,039,706
Government securities	5,336,494	-	5,336,494
Total measured at fair value	50,853,411	$ 34,953,417	$ 15,899,994
Cash and cash equivalents	21,648,185		
Total investments and assets whose use is limited	$ 72,501,596		

Investments and assets whose use is limited are presented together in the tables above as there are various investment and cash accounts that are allocated between the investment and assets whose use is limited lines on the balance sheets.

	2022	2021
Current portion of assets whose use is limited	$ 8,232,936	$ 9,677,537
Investments	23,891,305	42,323,877
Assets whose use is limited	17,258,253	20,500,182
Total investments and assets whose use is limited	$ 49,382,494	$ 72,501,596

Valuation Methodologies

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2022 and 2021.

Mutual and exchange traded funds are valued at fair value based on quoted market prices in active markets.

Corporate bonds and obligations, municipal bonds and U.S. government and government agency obligations are generally valued using quoted market prices of similar securities.

California Code Chapter 10, Article 6, Section 1792 requires CCRCs to establish liquid reserves (cash, marketable securities, etc.) equal to, or greater than, the annual principal and interest payments on long-term obligations plus 75 days of the CCRC's adjusted operating expenses. PVE's liquid reserves at December 31, 2022 and 2021 were sufficient to meet this requirement.

Assets whose use is limited are classified as follows:

	2022	2021
Assets whose use is limited:		
Under trust indenture, held by trustee:		
Liquid reserve funds	$ 6,174,346	$ 6,261,278
Bond principal funds	3,320,215	3,175,526
Bond interest funds	2,455,222	2,635,234
Project fund	2,454,056	4,519,639
Redemption fund	1,921,004	2,876
Capitalized interest fund	3,442	13,542
Entrance fee fund	-	556,515
	16,328,285	17,164,610
Other:		
Entrance fee refund reserve	5,740,573	6,741,438
Benevolence fund	2,229,167	2,492,807
Other	775,081	3,469,120
Ziegler Link-Age fund	325,000	150,000
Charitable annuities	93,083	159,744
Total assets whose use is limited	25,491,189	30,177,719
Less current portion	(8,232,936)	(9,677,537)
Assets whose use is limited	$ 17,258,253	$ 20,500,182

Investment (loss) return without donor restrictions is comprised of the following for the years ended December 31:

	2022	2021
Investment income:		
Interest and dividends	$ 934,169	$ 1,159,241
Net realized gains on sales of investments	406,209	3,893,516
Investment income	1,340,378	5,052,757
Change in net unrealized gains and losses on investments	(7,955,315)	(574,315)
Total investment (loss) return	$ (6,614,937)	$ 4,478,442

6. Property and Equipment, Net

A summary of property and equipment is as follows:

	2022	2021
Land	$ 9,872,311	$ 9,863,452
Land improvements	21,550,460	21,522,335
Buildings and improvements	193,446,869	189,896,537
Furniture and equipment	27,567,968	26,437,427
Vehicles	1,037,397	1,037,397
	253,475,005	248,757,148
Less accumulated depreciation	(80,197,234)	(72,463,493)
	173,277,771	176,293,655
Construction in progress	1,096,444	1,750,118
Total	$ 174,374,215	$ 178,043,773

7. Long-Term Debt

Series 2019 Bonds

In February 2019, the California Municipal Finance Authority (CMFA) issued, on behalf of PVE, $95,685,000 of Insured Revenue Bonds (NCROC-Paradise Valley Estates Project), Series 2019 (the Series 2019 Bonds). The proceeds from the Series 2019 Bonds were used to finance the construction and equipping of an IL expansion project, consisting of 70 new IL cottage and villa units (known as The Ridge at Paradise Valley Estates), fund interest on the Series 2019 Bonds during the construction period, fund a Bond Reserve Account and pay a portion of the costs of issuing the Series 2019 Bonds. The Series 2019 Bonds were issued in two series: Series 2019A Bonds totaling $66,585,000 and Series 2019B Bonds totaling $29,100,000.

The Series 2019A Bonds are due in varying annual installments beginning January 2027 through January 2049 and bear interest at rates ranging from 2.0% to 3.5% payable semi-annually. The Series 2019B Bonds are due in July 2024 ($17,000,000) and July 2025 ($12,100,000) and bear interest at rates ranging from 2.0% to 2.25% payable semi-annually.

Proceeds from entrance fees for the new IL units are being used to repay the Series 2019B Bonds prior to maturity. PVE made payments on the Series 2019B Bonds of $7,565,000 in 2022 and $11,295,000 in 2021.

Series 2016 Bonds

In November 2016, CMFA issued, on behalf of PVE, $22,080,000 of Insured Revenue Bonds (NCROC-Paradise Valley Estates Project), Series 2016 (the Series 2016 Bonds). The proceeds from the Series 2016 Bonds were used to finance certain capital projects, refinance the outstanding balance of California Health Facilities Financing Authority (CHFFA) Series 2005 Bonds and pay a portion of the costs of issuing the Series 2016 Bonds.

The Series 2016 Bonds are due in varying annual installments through January 2047 and bear interest at rates ranging from 2.375% to 5.0% payable semi-annually.

Series 2013 Bonds

In March 2013, the CHFFA issued, on behalf of PVE, $32,215,000 of Insured Refunding Revenue Bonds (NCROC-Paradise Valley Estates Project), Series 2013 (the Series 2013 Bonds). The proceeds from the Series 2013 Bonds were used to refinance the outstanding balance of CHFFA Series 2002 Bonds, fund a Bond Reserve Account and pay a portion of the costs of issuing the Series 2013 Bonds.

The Series 2013 Bonds are due in varying annual installments through January 2026 and bear interest at rates ranging from 3.5% to 5.0% payable semi-annually.

Security

The 2019 Bonds, Series 2016 Bonds and Series 2013 Bonds (collectively, the Bonds) are secured on a parity basis by a lien on and security interest in the Community, a pledge of Gross Revenues, as defined, and the balance of funds held by trustee in connection with the Bonds. Further, payment of principal and interest on the Series 2019 Bonds and Series 2016 Bonds is secured by Contracts of Insurance entered into between PVE, CMFA and the Office of Statewide Health Planning and Development of the State of California.

Debt Covenants

PVE is required to comply with certain debt covenants, including the maintenance of certain financial ratios. Also, under the terms of the Bonds, PVE is required to maintain certain deposits with a trustee.

As of December 31, 2022, PVE was not in compliance with its debt service coverage ratio. However, the failure is such that it does not result in an event of default, as PVE received a waiver from the Office of Health Facility Loan Insurance of the Department of Health Care Access and Information.

Long-Term Debt Summary

Long-term debt was as follows at December 31:

	2022	2021
Series 2019A Bonds	$ 66,585,000	$ 66,585,000
Series 2019B Bonds	10,240,000	17,805,000
Series 2016 Bonds	19,560,000	20,100,000
Series 2013 Bonds	11,845,000	14,480,000
Total	108,230,000	118,970,000
Additions/Deductions:		
Debt issuance costs, net	(5,859,271)	(7,237,066)
Unamortized original issue bond premiums	9,185,535	9,693,691
Current maturities	(3,320,000)	(3,175,000)
Long-term debt	$ 108,236,264	$ 118,251,625

Scheduled principal payments on long-term debt are as follows:

Years ending December 31:	
2023	$ 3,320,000
2024	20,475,000
2025	15,730,000
2026	3,770,000
2027	2,045,000
Thereafter	62,890,000
Total	$ 108,230,000

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31:

	2022	2021
Benevolence fund	$ 2,030,769	$ 1,954,567
Other	305,222	286,021
Total	$ 2,335,991	$ 2,240,588

9. Defined Contribution Plans

PVE sponsors a defined contribution retirement plan covering substantially all of its employees. PVE also sponsors a second defined contribution retirement plan available to employees who meet additional eligibility requirements. PVE's contributions to the plans were $487,870 in 2022 and $565,004 in 2021.

10. Medical Malpractice Claims Coverage

PVE maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents occurred or will be asserted that will exceed PVE's insurance coverages or will have a material adverse effect on the financial statements.

11. Concentrations of Credit Risk

PVE grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily with Medicare and various commercial insurance companies.

PVE maintains cash and cash equivalents accounts, which, at times, may exceed federally insured limits. PVE has not experienced any losses from maintaining cash and cash equivalents accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on its cash and cash equivalents accounts.

12. Commitments and Contingencies

PVE operates in an industry where various suits and claims arise in the normal course of business. Management is not currently aware of any claims that have been or will be asserted that will, after consideration of applicable insurance coverages, have a material adverse effect on the the financial statements.

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

PVE has an unfunded capital commitment of $675,000 related to an investment in the Ziegler Link-Age fund as of December 31, 2022.

PVE is self-insured for workers' compensation. Claims are accrued under the plan as the incidents that give rise to them occur. Unpaid claims accruals, including estimates of incurred but not reported claims, are based on the estimated ultimate cost of settlement, including claim settlement expenses, in accordance with PVE's past experience. The workers' compensation reserve liability is $300,000 as of December 31, 2022 and is included in accounts payable and accrued expenses in the accompanying balance sheet. There is no workers' compensation reserve liability as of December 31, 2021.

The spread of COVID-19 around the world has caused significant volatility in U.S. and international markets, supply chains, businesses and communities. PVE's evaluation of the effects of these events is ongoing as of the date the accompanying consolidated financial statements were available to be issued. COVID-19 may impact various parts of PVE's 2023 operations and financial performance, including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption, sales of independent living units or declines in revenue related to decreases in occupancy or volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

13. Functional Expenses

PVE provides housing health care and other related services to elderly residents within its geographic location. Expenses related to providing these services are as follows in 2022 and 2021:

	2022		
	Program Services	**General and Administrative**	**Total**
Salaries and benefits	$ 18,996,215	$ 4,477,955	$ 23,474,170
Food and beverage costs	2,344,863	-	2,344,863
Supplies	1,093,159	153,591	1,246,750
Purchased services	1,217,293	2,064,393	3,281,686
Marketing and advertising	-	564,877	564,877
Repairs and maintenance	813,988	615	814,603
Insurance	-	948,099	948,099
Utilities	2,995,827	-	2,995,827
Depreciation	7,733,741	-	7,733,741
Interest	6,008,552	-	6,008,552
Bad debt expense	-	975,248	975,248
Other operating expenses	706,931	1,422,017	2,128,948
Total	$ 41,910,569	$ 10,606,795	$ 52,517,364

	2021		
	Program Services	**General and Administrative**	**Total**
Salaries and benefits	$ 15,995,137	$ 4,045,394	$ 20,040,531
Food and beverage costs	2,129,574	-	2,129,574
Supplies	990,903	185,286	1,176,189
Purchased services	997,400	1,194,512	2,191,912
Marketing and advertising	-	1,056,169	1,056,169
Repairs and maintenance	582,624	3,594	586,218
Insurance	-	815,750	815,750
Utilities	2,566,258	-	2,566,258
Depreciation	4,974,902	-	4,974,902
Interest	2,497,295	-	2,497,295
Other operating expenses	540,622	856,823	1,397,445
Total	$ 31,274,715	$ 8,157,528	$ 39,432,243

Certain expense categories above, including utilities, depreciation and interest, are attributable to more than one program service or support function. The Organization believes substantially all utilities, depreciation and interest is applicable to program services. As such, these expenses were reported in the program services columns above.