

Affordable Living for the Aging, Inc. and Subsidiaries

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2020

Affordable Living for the Aging, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Affordable Living for the Aging, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Affordable Living for the Aging, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Affordable Living for the Aging, Inc. and Subsidiaries as of December 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Affordable Living for the Aging, Inc. and Subsidiaries' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Los Angeles, California
February 24, 2022

Affordable Living for the Aging, Inc. and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2020

With Summarized Totals at December 31, 2019

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 133,943	\$ 836,182
Government contracts receivable	38,352	79,103
Grants and contributions receivable	80,656	120,974
Replacement reserves and tenant deposits	281,705	302,703
Prepaid expenses and other assets	18,504	3,062
Property and equipment, net	8,644,134	8,467,038
Construction in progress	95,619	174,006
	<u>9,292,913</u>	<u>9,983,068</u>
Total assets	<u>\$ 9,292,913</u>	<u>\$ 9,983,068</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Notes payable and accrued interest	\$ 8,557,250	\$ 8,421,759
Accounts payable and accrued expenses	169,591	225,587
Tenant deposits	57,933	58,056
	<u>8,784,774</u>	<u>8,705,402</u>
Total liabilities	<u>8,784,774</u>	<u>8,705,402</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	(505,019)	(285,610)
With donor restrictions	1,013,158	1,563,276
	<u>508,139</u>	<u>1,277,666</u>
Total net assets	<u>508,139</u>	<u>1,277,666</u>
Total liabilities and net assets	<u>\$ 9,292,913</u>	<u>\$ 9,983,068</u>

See Notes to Consolidated Financial Statements.

Affordable Living for the Aging, Inc. and Subsidiaries

**Consolidated Statement of Activities
Year Ended December 31, 2020
With Summarized Totals for the Year Ended December 31, 2019**

	2020			2019
	Without donor restrictions	With donor restrictions	Total	Total
Revenues				
Grants and contributions	\$ 283,446	\$ -	\$ 283,446	\$ 1,272,547
Government contracts	558,168	-	558,168	461,202
Developer fees	31,048	-	31,048	-
Contributed rent	-	-	-	70,056
Interest and dividend income	325	-	325	562
Rental income, net of vacancies of \$5,613 and collection loss of \$43,801	698,125	-	698,125	678,455
PPP loan forgiveness	121,600	-	121,600	-
Net assets released from restrictions				
Building repairs and improvements	550,118	(550,118)	-	-
Total revenues	2,242,830	(550,118)	1,692,712	2,482,822
Functional expenses				
Program services	2,075,668	-	2,075,668	1,887,313
General and administrative	228,988	-	228,988	258,067
Fundraising	157,583	-	157,583	143,734
Total expenses	2,462,239	-	2,462,239	2,289,114
Change in net assets	(219,409)	(550,118)	(769,527)	193,708
Net assets, beginning	(285,610)	1,563,276	1,277,666	1,083,958
Net assets, end	\$ (505,019)	\$ 1,013,158	\$ 508,139	\$ 1,277,666

See Notes to Consolidated Financial Statements.

Affordable Living for the Aging, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2020
With Summarized Totals for the Year Ended December 31, 2019**

	2020				2019
	Program services	General and administrative	Fundraising	Total	Total
Personnel expenses					
Salaries and wages	\$ 761,907	\$ 77,156	\$ 125,377	\$ 964,440	\$ 903,570
Payroll taxes	52,219	5,355	9,373	66,947	60,542
Employee benefits	53,578	21,591	4,798	79,967	59,955
	<u>867,704</u>	<u>104,102</u>	<u>139,548</u>	<u>1,111,354</u>	<u>1,024,067</u>
Other expenses					
Bank charges	3,500	11,369	1,688	16,557	16,292
Depreciation and amortization	450,272	4,549	-	454,821	362,162
Insurance	61,354	7,177	-	68,531	84,337
Interest	226,783	-	-	226,783	225,589
Professional fees	96,967	-	4,040	101,007	108,981
Office	33,821	85,456	11,648	130,925	89,704
Rent	-	-	-	-	70,056
Repairs and maintenance	175,453	-	-	175,453	147,409
Supportive services	3,592	-	-	3,592	5,513
Taxes and licenses	28,128	12,057	-	40,185	20,100
Telephone	11,503	4,258	658	16,419	15,945
Travel and conference	-	20	1	21	1,466
Utilities	116,591	-	-	116,591	117,493
Total expenses	<u>\$ 2,075,668</u>	<u>\$ 228,988</u>	<u>\$ 157,583</u>	<u>\$ 2,462,239</u>	<u>\$ 2,289,114</u>

See Notes to Consolidated Financial Statements.

Affordable Living for the Aging, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2020
With Summarized Totals for the Year Ended December 31, 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (769,527)	\$ 193,708
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	454,821	362,162
Amortization of debt issuance costs	1,415	1,415
Accrued interest on long-term notes payable	190,660	206,436
PPP loan forgiveness	(121,600)	-
Changes in operating assets and liabilities		
Grants and contributions receivable	40,318	(24,488)
Government contracts receivable	40,751	(31,211)
Prepaid expenses and other assets	(15,442)	-
Accounts payable and accrued expenses	(55,996)	77,059
Tenant deposits	(123)	709
	<u>(234,723)</u>	<u>785,790</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchase of property and equipment	<u>(553,530)</u>	<u>(181,339)</u>
Cash flows from financing activities		
Borrowings on notes payable, line of credit, and PPP loan	121,600	190,000
Principal payments on notes payable	<u>(56,584)</u>	<u>(121,133)</u>
Net cash provided by financing activities	<u>65,016</u>	<u>68,867</u>
Net change in cash and cash equivalents	(723,237)	673,318
Cash and cash equivalents and restricted cash, beginning	<u>1,138,885</u>	<u>465,567</u>
Cash and cash equivalents and restricted cash, end	<u>\$ 415,648</u>	<u>\$ 1,138,885</u>
Supplemental disclosure of cash flow information		
Interest paid on notes payable	<u>\$ 35,223</u>	<u>\$ 33,924</u>
The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position:		
Cash and cash equivalents	\$ 133,943	\$ 836,182
Replacement reserves and tenant deposits	<u>281,705</u>	<u>302,703</u>
	<u>\$ 415,648</u>	<u>\$ 1,138,885</u>

See Notes to Consolidated Financial Statements.

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Note 1 - Nature of operations

Affordable Living for the Aging, Inc. ("ALA") was incorporated on September 12, 1978, as a California nonprofit public benefit corporation for the purpose of providing housing alternatives for senior citizens.

In 1982, ALA started Co-op House I ("Co-op I"), a cooperative living house for senior citizens in Los Angeles, California.

In 1985, ALA started Co-op House II ("Co-op II"), a cooperative living house for senior citizens in Los Angeles, California.

In 1986, El Greco Properties, Ltd., a California limited partnership, was formed for the purpose of owning and operating the El Greco Apartments, a low-to-moderate income senior citizen housing project. The current ownership of El Greco Properties, Ltd. has ALA as a 1% general partner and a 98% limited partner with El Greco Apartments, Inc. (a wholly-owned subsidiary of ALA) owning the remaining 1% as a limited partner. Collectively, these entities are referred to as "El Greco".

In 1987, ALA started the Liffman House ("Liffman"), a cooperative living house for senior citizens in Santa Monica, California.

In 1989, Gardner Apartments, L.P., a California limited partnership, was formed for the purpose of owning and operating the Gardner Apartments, a low-to-moderate income senior citizen housing project. The current ownership of Gardner Apartments, L.P. has ALA as a 1% general partner with ALA Gardner, Inc. (a wholly-owned subsidiary of ALA) owning the remaining 99% as a limited partner. Collectively, these entities are referred to as "Gardner".

In 2008, Bonnie Brae Village Partners, L.P. ("BBVP"), a California limited partnership, was formed for the purpose of owning and operating the Bonnie Brae Village Apartments, a low-to-moderate income senior citizen housing project. ALA Bonnie Brae, LLC (a wholly-owned subsidiary of ALA) ("ALABB") owns 0.002% of BBVP as a general partner. ALA's 0.002% ownership of BBVP via ALABB is accounted for under the equity method.

In 2011, Janet L. Witkin Center, LLC ("Witkin Center"), a California limited liability company, was formed as a wholly-owned subsidiary of ALA to own and operate a low-to-moderate income senior citizen housing project.

In 2014, MJM Pathways Shared Housing, LLC ("MJM Pathways"), a California limited liability company, was formed as a wholly-owned subsidiary of ALA to design, develop, and rehabilitate community housing for low-to-moderate income families.

In 2015, ALA 252 Rampart LLC ("ALA 252 Rampart"), a California limited liability company, was formed as a wholly-owned subsidiary of ALA to obtain a 49.5% ownership interest in 252 Rampart Apartments LP. ALA is the co-developer and property manager of the project. On December 1, 2017, there was an amended and restated agreement of limited partnership. Under this agreement ALA is a general partner and owns .0045% of 252 Rampart Apartments LP via ALA 252 Rampart and is accounted for under the equity method. There was no activity during the year ended December 31, 2020 in ALA 252 Rampart. 252 Rampart Apartments, LP started leasing units on November 10, 2020 and as of December 31, 2020, all of the 22 units are being leased.

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Note 2 - Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of ALA, Co-op I, Co-op II, El Greco, Liffman, Gardner, ALABB, Witkin Center, MJM Pathways, and ALA 252 Rampart. All significant intercompany transactions and balances have been eliminated in consolidation. Affordable Living for the Aging, Inc. and Subsidiaries are collectively referred to as the "Organization" in the accompanying consolidated financial statements.

Basis of accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. They are described as follows:

Net assets without donor restrictions - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for specific purposes by action of the board.

Net assets with donor restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

Cash and cash equivalents

Cash and cash equivalents include demand deposits and all highly liquid investments with initial maturities at the date of acquisition of three months or less that are available for current use.

Grants and contributions receivable

Grants and contributions receivable and pledges receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the donors to meet their obligations. Management anticipates all grants and contributions receivable and pledges receivable will be collected; thus no allowance for potentially uncollectible grants and contributions receivable has been established. Receivables that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions. All grants and contributions receivable are due in less than one year.

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Government contracts receivable

Contract revenue is earned and billed as services are performed. Management believes all receivable balances are collectible and, therefore, has provided no allowance for doubtful accounts.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method and are provided over the estimated useful lives of the assets, generally between three to forty years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Depreciation commences on construction in progress when the asset is placed in service. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

Long-lived assets to be held and used are reviewed for events or changes in circumstances that indicate that their carrying value may not be recoverable. The Organization periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred. No impairment loss was recorded during the year ended December 31, 2020.

Grants and contributions

Grants and contributions consist primarily of donations from foundations, businesses and the general public. Grants and contributions are recorded when committed to the Organization by the donor.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. At December 31, 2020, the Organization does not have any conditional contributions.

Contributed goods and services

The Organization had no contributed goods and services during the year ended December 31, 2020.

Rental income

Rental income is recognized as rentals become due in the period the service is provided. Rental payments received in advance are deferred until earned. All leases between the Organization and the tenants of the property are operating leases.

Functional allocation of expenses

The costs of providing various programs and activities have been summarized on a functional basis in the consolidated statement of activities. Program activities include the direct cost associated with providing housing alternatives to senior citizens as well as an allocation of indirect costs. Indirect costs are allocated by program amount and supporting activities using a method that best measures the relative degree of benefit, which is typically based on usage of resources such as personnel time and space utilized for activities.

Income taxes

The Organization is tax exempt under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the Revenue and Taxation Code of California. While tax-exempt organizations

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

pay tax on unrelated business income, the Organization has reported no such income. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements. The Organization has no unrecognized tax benefits at December 31, 2020.

The Organization's federal and state income tax returns prior to 2017 and 2016, respectively, are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the Organization recognizes interest and penalties associated with tax matters as part of income tax expense and includes accrued interest and penalties with accrued expenses in the consolidated statement of financial position.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the note payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Concentrations

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, contributions and other receivables. The Organization maintains its cash and cash equivalents, replacement reserves, and tenant deposits with high-credit quality financial institutions. At times, such amounts may exceed federally insured limits.

At December 31, 2020, approximately 95% of the Organization's grants and contributions receivable are from three donors.

At December 31, 2020, approximately 86% of the Organization's government contracts receivable are from one grantor.

For the year ended December 31, 2020, approximately 53% of the Organization's grants and contributions were gifted by one donor.

For the year ended December 31, 2020, approximately 94% of the Organization's government grants were provided by two grantors.

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.

Comparative totals

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Adoption of new accounting pronouncement

The Organization adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Organization adopted ASU 2014-09 on January 1, 2020 using the modified retrospective method of transition for all contracts that were not completed as of that date.

The Organization's revenue for reporting periods ended after December 31, 2019 is presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Organization's historical accounting policy. The Organization has not experienced changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of variable consideration.

Subsequent events

The Organization has evaluated the impact of subsequent events through February 24, 2022, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$	133,943
Government contracts receivable		38,352
Grants and contributions receivable		<u>80,656</u>
	\$	<u><u>252,951</u></u>

Financial assets of the Organization are intended to be sufficient to meet its general expenditures, liabilities, and other obligations as they become due.

Affordable Living for the Aging, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2020**

Note 4 - Property and equipment

At December 31, 2020, property and equipment consist of the following:

Land	\$	1,834,840
Buildings		11,935,501
Leasehold improvements		197,228
Furniture and equipment		386,065
Automobiles		<u>16,402</u>
		14,370,036
Less accumulated depreciation and amortization		<u>(5,725,902)</u>
		8,644,134
Construction in progress		<u>95,619</u>
	\$	<u><u>8,739,753</u></u>

Depreciation and amortization expense for the year ended December 31, 2020 was \$454,821. Depreciation of construction in progress will commence when finished projects are placed in service.

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Note 5 - Notes payable

At December 31, 2020, notes payable are detailed as follows:

Note payable by Gardner to Citibank, secured by a first deed of trust on the real estate of Gardner, payable in monthly installments of \$2,161, including interest at 2.125%, through August 2022; there was no accrued interest as of December 31, 2020. \$ 40,474

Note payable by Gardner to the City of West Hollywood ("WEHO"), secured by a second deed of trust on the real estate of Gardner through June 2029, at which time all outstanding principal and interest at 1% per annum are due to the extent the fair value of the property at that time exceeds the total outstanding principal and interest of notes payable secured by Gardner that are superior to the second deed of trust; there was accrued interest totaling \$86,524 as of December 31, 2020. 310,000

Note payable by Witkin Center to WEHO, secured by a first deed of trust on the real estate of Witkin Center, payable in annual installments to the extent of 50% of Net Available Cash Flow (as defined in the WEHO Commission Note), applied first to interest at 3%, then to principal through April 2066, at which time all outstanding principal and interest are due. WEHO has committed to loan up to \$2,482,025 on this note; there was accrued interest totaling \$540,048 as of December 31, 2020. 2,482,025

Note payable by Witkin Center to the Community Development Commission of the County of Los Angeles ("LA CDC"), secured by a second deed of trust on the real estate of Witkin Center, payable in annual installments to the extent of 22.56% of Residual Receipts (as defined in the LA CDC HOME Promissory Note), applied first to interest at 3%, then to principal through June 2068, at which time all outstanding principal and interest are due. LA CDC has committed to loan up to \$2,055,565 on this note; there was accrued interest totaling \$456,293 as of December 31, 2020. 2,055,565

Note payable by Witkin Center to California Bank & Trust ("CB&T"), secured by a third deed of trust on the real estate of Witkin Center, which required monthly payments of interest at 5.25% until construction was complete. Upon completion of construction, the loan converted to a term loan on January 19, 2016, in the amount of \$575,408. The mortgage requires monthly combined payments of principal and interest equal to \$4,711 on the first day of each calendar month through January 19, 2031; there was accrued interest totaling \$1,958 as of December 31, 2020. 433,469

Affordable Living for the Aging, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2020**

Note payable by Witkin Center to the State of California Department of Housing and Community Development ("HCD"), obtained in January 2016 and bearing simple interest of 3% per annum. Commencing in the initial operating year, as defined, and continuing through January 2045, the Witkin Center is required to pay a minimum interest of 0.42% per annum on the unpaid principal amount. Commencing in January 2046, payments are due annually in an amount equal to the lesser of the interest accrued for the preceding 12-month period or the amount required to continue monitoring for compliance. The mortgage will mature on January 19, 2071. There was accrued interest totaling \$106,869 as of December 31, 2020.

827,410

Note payable by MJM Pathways to California Financing Housing Agency, secured by a deed of trust on the real estate of MJM Pathways, with an interest rate at 3.00% per annum. The loan is used for acquisition and rehabilitation of MJM Pathways' single family homes. The loan amount is \$943,371. The outstanding principal amount of the loan and all accrued interest are due on October 1, 2035; there was accrued interest totaling \$144,235 as of December 31, 2020.

943,371

On August 28, 2019, the Organization entered into a line of credit for \$150,000, with an interest rate of 6% and expiration in one year. The due date was extended to December 1, 2021. The line of credit was provided to ALA and EL Greco for working capital. There was no accrued interest as of December 31, 2020.

143,270

\$ 7,235,584

Estimated future maturities of notes payable for each of the years subsequent to December 31, 2020 and thereafter are as follows:

	2021	\$ 203,527
	2022	40,900
	2023	38,559
	2024	40,633
	2025	42,818
	Thereafter	<u>6,869,147</u>
	Principal payments	7,235,584
	Accrued interest	<u>1,335,927</u>
	Total balance due	8,571,511
	Less unamortized debt issuance costs	<u>(14,261)</u>
		<u><u>\$ 8,557,250</u></u>

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

Debt issuance costs, net of accumulated amortization, totaled \$14,261 as of December 31, 2020, and are primarily related to the Witkin Center's third note payable held with CB&T. Amortization of debt issuance costs on the note is being amortized using an imputed interest rate of 5.83%.

On May 7, 2020, the Organization obtained a loan under the Small Business Administration's Paycheck Protection Program ("PPP") for a total of \$121,600. On December 8, 2020, the entire loan was forgiven and recognized as PPP loan forgiveness in revenue during the year ended December 31, 2020.

Note 6 - Contingencies

The Organization is conditionally liable under several contingent promissory notes. These contingent promissory notes have not been recorded as liabilities on the consolidated statement of financial position as repayment is not required as long as the Organization continues to own the properties securing the notes and complies with the provisions of the respective notes and regulatory agreements, which it fully intends to do. Accordingly, the related accrued interest has not been recorded. The contingent promissory notes have been reflected as net assets with donor restrictions (see Note 7).

Terms and descriptions of the contingent promissory notes are as follows:

Conditional promissory note payable by ALA to the Community Redevelopment Agency of the City of Los Angeles ("LA CRA"), secured by a deed of trust on the real estate of Co-op II. The regulatory agreement between ALA and LA CRA requires ALA to operate the property exclusively for rental to low- and moderate-income elderly persons. For as long as ALA complies with the provisions of its regulatory agreement with LA CRA, the principal and interest payments on the balance of this loan and any corresponding interest will be deferred entirely until such time as the property is sold, conveyed, transferred, or refinanced, except as follows: to the extent the property has Net Income (as defined in the LA CRA Residential Loan Agreement), 75% of the Net Income, if any, must be paid as a contingent liability, applied first to interest at 6%, then to principal. The conditional promissory note had outstanding principal totaling \$407,850 and accrued interest totaling \$901,490 as of December 31, 2020.

Conditional promissory note payable by ALA to the Redevelopment Agency of the City of Santa Monica ("SM RA"), secured by a second deed of trust on the real estate of Liffman. The regulatory agreement between ALA and SM RA requires ALA to operate the property to provide shared housing and supportive services to low-income seniors. For as long as ALA complies with the provisions of its regulatory agreement with SM RA, the principal and interest payments on the balance of this loan and any corresponding interest will be deferred until March 2042, except as follows: to the extent the property has Residual Receipts (as defined in the SM RA regulatory agreement), the Residual Receipts, if any, must be paid as a contingent liability, applied first to 10% interest on \$165,000 (the Residual Receipts portion of the conditional promissory note) of the principal balance, then to the \$165,000 Residual Receipts principal through March 2042. In March 2042, all principal (\$315,000 as of December 31, 2020) and any unpaid interest, calculated at 10% per annum (\$1,033,934 as of December 31, 2020), will be forgiven.

Litigation, claims and contingencies

The Organization may become party to various legal actions that arise in the ordinary course of its business. It is impossible at this time to determine the ultimate liabilities that the Organization may

Affordable Living for the Aging, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2020

incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies, and related matters or the timing of these liabilities, if any. If these matters were to be ultimately resolved unfavorably, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon the Organization's financial position or results of operations. However, the Organization believes that the ultimate resolution of such actions will not have a material adverse effect on the Organization's financial position, statement of activities, or liquidity.

Coronavirus

In March 2020, the coronavirus that causes COVID-19 was declared a global pandemic by the World Health Organization, which has caused business disruption domestically in the United States, the area in which the Organization primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while this matter may negatively impact the Organization's financial condition, statement of activities, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

Note 7 - Net assets with donor restrictions

At December 31, 2020, net assets with donor restrictions consist of the following:

Conditional promissory note payable to the LA CRA - Co-op II	\$ 407,850
Conditional promissory note payable to the SM RA - Liffman	315,000
Grant for building repairs and improvements	<u>290,308</u>
	<u>\$ 1,013,158</u>

During the year ended December 31, 2020, \$550,118 was released from restriction for building repairs and improvements.

Note 8 - Subsequent events

On February 7, 2021, the Organization obtained a second draw under the Small Business Administration's Paycheck Protection Program for a total of \$121,600. The note has an interest rate of 1.00% per annum and has a term of 60 months. On September 24, 2021, the entire loan was forgiven.

On January 31, 2022, the Organization received approval from the State of California Department of Health Services and a private health insurance provider to be a contractor for this private health insurance provider's Medi-Cal members. The Organization is able to serve as an Enhanced Care Management contractor for Medi-Cal patients in California under this private health insurance provider in 2022.

Supplementary Information

Affordable Living for the Aging, Inc. and Subsidiaries

Supplementary Information

Consolidating Statement of Financial Position December 31, 2020

	ALA	Co-op House I	Co-op House II	El Greco Properties, Ltd.	El Greco Apartments, Inc.	Liffman House	Gardner Apartments, L.P.	ALA Gardner, Inc.	ALA Bonnie Brae, LLC	Janet L. Witkin Center, LLC	MJM Pathways	Total
Assets												
Cash and cash equivalents	\$ 66,153	\$ 3,465	\$ 2,833	\$ 3,231	\$ 73	\$ 3,833	\$ 16,948	\$ 2,309	\$ -	\$ 38,914	\$ (3,816)	\$ 133,943
Intercompany receivable (payable)	1,389,662	(30,367)	(1,522)	(357,226)	(158)	(1,850)	(428,575)	(2,309)	(77)	(479,689)	(87,889)	-
Government contracts receivable	38,352	-	-	-	-	-	-	-	-	-	-	38,352
Grants and contributions receivable	49,630	5,025	3,955	1,272	-	8,555	1,111	-	-	9,587	1,521	80,656
Replacement reserves and tenant deposits	-	3,990	6,273	8,233	-	5,198	8,917	-	-	211,858	37,236	281,705
Prepaid expenses and other assets	18,504	-	-	-	-	-	-	-	-	-	-	18,504
Property and equipment, net	1,156,562	-	312,600	90,507	-	188,590	602,218	-	-	5,534,324	759,333	8,644,134
Construction in progress	72,390	820	8,500	4,000	-	5,000	4,000	-	-	800	109	95,619
Total assets	\$ 2,791,253	\$ (17,067)	\$ 332,639	\$ (249,983)	\$ (85)	\$ 209,326	\$ 204,619	\$ -	\$ (77)	\$ 5,315,794	\$ 706,494	\$ 9,292,913
Liabilities and Net Assets												
Liabilities												
Notes payable	\$ 143,270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 436,997	\$ -	\$ -	\$ 6,889,376	\$ 1,087,607	\$ 8,557,250
Accounts payable and accrued expenses	105,195	4,758	2,098	9,594	-	2,302	3,954	-	-	36,855	4,835	169,591
Tenant deposits	-	4,750	5,247	6,974	-	5,805	8,893	-	-	19,222	7,042	57,933
Total liabilities	248,465	9,508	7,345	16,568	-	8,107	449,844	-	-	6,945,453	1,099,484	8,784,774
Commitments and contingencies												
Net assets												
Without donor restrictions	1,529,630	(26,575)	325,294	(266,551)	(85)	201,219	(245,225)	-	(77)	(1,629,659)	(392,990)	(505,019)
With donor restrictions	1,013,158	-	-	-	-	-	-	-	-	-	-	1,013,158
Total net assets	2,542,788	(26,575)	325,294	(266,551)	(85)	201,219	(245,225)	-	(77)	(1,629,659)	(392,990)	508,139
Total liabilities and net assets	\$ 2,791,253	\$ (17,067)	\$ 332,639	\$ (249,983)	\$ (85)	\$ 209,326	\$ 204,619	\$ -	\$ (77)	\$ 5,315,794	\$ 706,494	\$ 9,292,913

See Independent Auditor's Report.

Affordable Living for the Aging, Inc. and Subsidiaries

Supplementary Information

**Consolidating Statement of Activities
Year Ended December 31, 2020**

	ALA	Co-op House I	Co-op House II	El Greco Properties, Ltd.	El Greco Apartments, Inc.	Liffman House	Gardner Apartments, L.P.	ALA Gardner, Inc.	ALA Bonnie Brae, LLC	Janet L. Witkin Center, LLC	MJM Pathways	Eliminating	Total
Revenues													
Grants and contributions	\$ 283,446	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 283,446
Government contracts	558,168	-	-	-	-	-	-	-	-	-	-	-	558,168
Developer fees	31,048	-	-	-	-	-	-	-	-	-	-	-	31,048
Interest and dividend income	252	3	5	5	-	7	7	-	-	46	-	-	325
Rental income, net of vacancies and collection loss	-	59,349	75,805	97,018	-	74,979	118,709	-	-	259,027	13,238	-	698,125
PPP loan forgiveness	121,600	-	-	-	-	-	-	-	-	-	-	-	121,600
Intercompany management income	105,364	-	-	-	-	-	-	-	-	-	-	(105,364)	-
Partnership fees	6,720	-	-	-	-	-	-	-	-	-	-	-	(6,720)
Ground lease	19,200	-	-	-	-	-	-	-	-	-	-	(19,200)	-
Total revenues	1,125,798	59,352	75,810	97,023	-	74,986	118,716	-	-	259,073	13,238	(131,284)	1,692,712
Functional expenses													
Program services	1,132,997	55,585	67,427	92,148	-	47,027	78,841	-	-	494,170	107,473	-	2,075,668
General and administrative	124,992	6,132	7,439	10,166	-	5,188	8,698	-	-	54,517	11,856	-	228,988
Fundraising	86,016	4,220	5,119	6,996	-	3,570	5,986	-	-	37,517	8,159	-	157,583
Intercompany fees	-	13,896	10,416	36,384	-	16,128	16,548	-	-	37,912	-	(131,284)	-
Total expenses	1,344,005	79,833	90,401	145,694	-	71,913	110,073	-	-	624,116	127,488	(131,284)	2,462,239
Change in net assets	(218,207)	(20,481)	(14,591)	(48,671)	-	3,073	8,643	-	-	(365,043)	(114,250)	-	(769,527)
Net assets, beginning	2,760,995	(6,094)	339,885	(217,880)	(85)	198,146	(253,868)	-	(77)	(1,264,616)	(278,740)	-	1,277,666
Net assets, end	\$ 2,542,788	\$ (26,575)	\$ 325,294	\$ (266,551)	\$ (85)	\$ 201,219	\$ (245,225)	\$ -	\$ (77)	\$ (1,629,659)	\$ (392,990)	\$ -	\$ 508,139

See Independent Auditor's Report.



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