

**KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022



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**KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
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YEARS ENDED DECEMBER 31, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

Audit and Oversight Committee
Kendal at Sonoma, a Zen Inspired Community
dba: Enso Village
Healdsburg, California

Report on the Financial Statement

Opinion

We have audited the accompanying financial statements of Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statement of operations and changes in net deficit, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village as of December 31, 2023 and 2022 and the results of its operations and changes in its net deficit, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

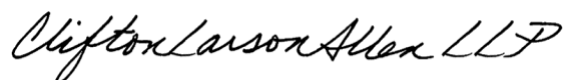
Auditors' Responsibilities for the Audit of the Financial Statements

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 Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village'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 Kendal at Sonoma, a Zen Inspired Community, dba: Enso Village'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.



CliftonLarsonAllen LLP

Irvine, California
May 16, 2024

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 385,013	\$ 145,244
Accounts Receivable	183,382	575,000
Prepaid Expenses and Other Assets	235,565	30,536
Assets Limited As To Use: Current Portion	7,645,990	17,641,488
Total Current Assets	8,449,950	18,392,268
ASSETS LIMITED AS TO USE: LONG-TERM PORTION	103,659,158	133,700,546
PROPERTY AND EQUIPMENT		
Land	12,856,100	12,856,100
Furniture and Equipment	7,272,820	1,497,333
Vehicles	59,072	18,694
Building and Improvements	215,067,597	-
Capitalized Interest	2,770,563	18,834,608
Construction in Progress	27,036,165	147,836,044
Total	265,062,317	181,042,779
Less: Accumulated Depreciation	(2,397,764)	(786,663)
Property and Equipment, Net	262,664,553	180,256,116
DEPOSITS	8,438	10,692
Total Assets	\$ 374,782,099	\$ 332,359,622
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 113,825,000	\$ 13,020,000
Accounts Payable	2,807,125	620,347
Construction and Retainage Payable	3,431,360	15,764,508
Accrued Interest	1,241,359	1,256,633
Accrued Expenses	166,146	-
Total Current Liabilities	121,470,990	30,661,488
LONG-TERM LIABILITIES		
Deferred Revenue From Unamortized Entrance Fees	14,702,463	-
Refundable Entrance Fees	70,746,729	-
Long-Term Debt, Net	166,369,133	285,075,550
Related Party - Subordinated Loan	4,820,000	4,820,000
Resident Deposits	17,301,381	24,678,208
Accrued Interest	772,015	720,843
Total Long-Term Liabilities	274,711,721	315,294,601
Total Liabilities	396,182,711	345,956,089
NET DEFICIT - WITHOUT DONOR RESTRICTIONS	(21,400,612)	(13,596,467)
Total Liabilities and Net Deficit	\$ 374,782,099	\$ 332,359,622

See accompanying Notes to Financial Statements.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
REVENUE		
Resident Services	\$ 245,647	\$ -
Investment Income	326,875	266
Other Income	27,856	8,100
Total Operating Revenues	600,378	8,366
OPERATING EXPENSES		
General and Administrative	4,188,565	1,462,345
Marketing	1,516,821	1,029,586
Depreciation	1,611,101	290,969
Interest	1,088,036	159,036
Total Operating Expenses	8,404,523	2,941,936
DEFICIT OF REVENUE OVER EXPENSES	(7,804,145)	(2,933,570)
Net Deficit - Without Donor Restrictions - Beginning of Year	(13,596,467)	(10,662,897)
NET DEFICIT - WITHOUT DONOR RESTRICTIONS - END OF YEAR	\$ (21,400,612)	\$ (13,596,467)

See accompanying Notes to Financial Statements.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Year Ended December 31, 2023		
	Care and Services to Residents	Management and General	Total
OPERATING EXPENSES			
Salaries	\$ 312,999	\$ 2,307,157	\$ 2,620,156
Professional Fees, Purchased Services	63,474	1,152,924	1,216,398
Technology	24,926	97,534	122,460
Conferences and Workshops	157,291	65,935	223,226
Supplies and Equipment	188,516	152,228	340,744
Depreciation and Amortization	1,735,478	34,659	1,770,137
Insurance	21,880	25,800	47,680
Interest	909,575	19,425	929,000
Utilities	18,879	403	19,282
Other Expenses	1,967	166,847	168,814
Employee Benefits	34,309	9,588	43,897
Accounting Fees	-	62,464	62,464
Marketing	-	677,688	677,688
License	324	82,437	82,761
Food	79,816	-	79,816
Total Operating Expenses	\$ 3,549,434	\$ 4,855,089	\$ 8,404,523

	Year Ended December 31, 2022		
	Program Services	Management and General	Total
OPERATING EXPENSES			
Salaries, Wages, and Benefits	\$ -	\$ 225,545	\$ 225,545
Professional Fees	-	397,484	397,484
Marketing and Advertising	-	1,029,586	1,029,586
Depreciation and Amortization	-	450,005	450,005
General Office Administrative	-	560,304	560,304
Miscellaneous Expense	-	146,916	146,916
Business Licenses and Permits	-	10,710	10,710
Insurance	-	121,386	121,386
Total Operating Expenses	\$ -	\$ 2,941,936	\$ 2,941,936

See accompanying Notes to Financial Statements.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Residents	\$ 245,647	\$ -
Interest and Dividend Income	326,875	266
Reimbursement for Services to Nonresidents	27,856	8,100
Cash Paid to Suppliers and Employees	(24,002,884)	7,808,377
Cash Paid for Interest on Long-Term Debt, Net of Amounts Capitalized of \$10,053,063 and \$10,053,063, respectively	45,735	-
Net Cash Provided (Used) by Operating Activities	(23,356,771)	7,816,743
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(84,019,538)	(111,056,782)
Increase (Decrease) in Assets Limited as to Use	40,036,886	102,682,508
Net Cash Used by Investing Activities	(43,982,652)	(8,374,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Initial Entrance Fees	85,449,192	-
Payments of Long-Term Debt	(17,870,000)	-
Net Cash Provided by Financing Activities	67,579,192	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	239,769	(557,531)
Cash and Cash Equivalents - Beginning of Year	145,244	702,775
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 385,013	\$ 145,244
SUPPLEMENTAL DISCLOSURE OF INVESTING AND FINANCING ACTIVITIES		
Purchases of Property and Equipment	\$ 3,431,360	\$ 15,764,508
Construction and Retainage Payable	(3,431,360)	(15,764,508)
Total	\$ -	\$ -

See accompanying Notes to Financial Statements.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Deficit	\$ (7,804,145)	\$ (2,933,570)
Adjustments to Reconcile Change in Net Deficit to Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Depreciation Expense	1,611,101	290,969
Amortization of Bond Discount (Premium)	(190,453)	(190,453)
Amortization of Deferred Financing Costs	159,036	159,036
(Increase) Decrease in:		
Accounts Receivable	391,618	(391,733)
Prepaid Expenses and Other Assets	(202,775)	61,511
Increase (Decrease) in:		
Accounts Payable	(10,146,370)	10,310,243
Accrued Interest Payable	35,898	330,155
Accrued Expenses	166,146	-
Resident Deposits	(7,376,827)	180,585
Net Cash Provided (Used) by Operating Activities	\$ (23,356,771)	\$ 7,816,743

See accompanying Notes to Financial Statements.

**KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kendal at Sonoma, a Zen Inspired Community dba: Enso Village (the Organization) was formed November 1, 2016 as a California nonstock corporation for the purpose of establishing, maintaining, operating, and managing a life plan community in Sonoma County, California. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The community is an anchor property as part of a larger master plan community in Healdsburg, the “North Village”. The members of the Organization are Zen-Inspired Senior Living, LLC and Kendal Aging.

The sole member of Zen-Inspired Senior Living, LLC (ZISL) is the San Francisco Zen Center (SFZC). The SFZC, established in 1962, is one of the largest residential training Soto Zen Buddhist organizations outside of Asia. It has three practice places which offer daily meditation, regular monastic retreats and practice periods, classes, lectures, and workshops throughout the Bay area.

Kendal Aging (Kendal) is a subsidiary of The Kendal Corporation, which is its sole member. The Kendal Corporation is a Pennsylvania nonprofit corporation that supports a system of affiliated nonprofit housing and services for older adults founded on the principles of the Religious Society of Friends (Quakers). Kendal aspires to “Together transform the experience of aging™.”

Use of Estimates

The preparation of the 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

The Organization considers cash and cash equivalents to include all highly liquid investments with maturities of three months or less.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under bond indenture agreements and assets internally designated by the Organization. Assets limited as to use which are assumed to be available to meet current obligations are classified as current assets.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Accounts Receivable

Accounts receivable consist of amounts due from residents for which the Organization has an unconditional right to receive payment and are primarily composed of receivables for monthly service fees and other ancillary services, as well as amounts due from residents for personalization of their residence. Receivables for monthly service fees are primarily due upon receipt of invoice, are reviewed weekly and are considered past due 14 days after the issuance of monthly statements. Accounts for which no payments have been received for 30 days are considered delinquent, and customary collection efforts are initiated. Uncollectible accounts are written off upon exhaustion of all collection efforts. Receivables for personalization deposits are generally collected when the personalization of the individual residence is completed.

The Organization provides an allowance for credit losses, as needed, to present the net amount of accounts receivable expected to be collected. The allowance represents the estimate of expected credit losses based on historical experience, current economic conditions, and certain forward-looking information. Management's determination is that no allowance was necessary at December 31, 2023 and 2022.

Property, Plant and Equipment

Property and equipment acquisitions are recorded at cost. Acquisitions of property, plant, and equipment in excess of \$1,000 and all expenditures for maintenance, repairs, renewals, and betterments that materially extend the useful life of the asset are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Land Improvements	27.5 Years
Buildings	39 Years
Equipment and Furniture	7 Years
Vehicles	5 Years

Construction-in-progress costs are determined until the projects are completed and placed into service at which time the costs are depreciated over the useful life of the asset. During 2023 the Organization received a series of temporary certificates of occupancy from the State of California and accordingly placed construction-in-progress assets into service as more fully described in Note 5. Depreciation expense totaled \$1,611,101 and \$290,969 for the years ended December 31, 2023 and 2022, respectively.

Interest Capitalization

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets and depreciated over the estimated useful lives by the straight-line method of depreciation. Interest capitalized as part of construction in progress totaled \$23,088,023 and \$18,834,608 for the years ended December 31, 2023 and 2022. During 2023, a total of \$20,643,387 of interest costs were placed into service.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Bond Premium

Original issue premiums related to the Series 2021 bonds are recorded as an increase of long-term debt (see Note 4). The bond premium is amortized on the effective interest method over the term of the related indebtedness. At December 31, 2023, Bond Premiums were \$6,761,065. At December 31, 2023 and 2022, Accumulated amortization was \$492,002 and \$301,550, respectively. Amortization expense of the original issue premium was \$190,453 for both years ended December 31, 2023 and 2022.

Deferred Financing Costs

Deferred financing costs represent costs incurred with the issuance of long-term debt. Debt issuance costs for the Series 2021 Bonds are amortized over the term of the bonds using the straight-line method which approximates the effective interest rate method. At December 31, 2023 and 2022, debt issuance costs were \$5,645,772. At December 31, 2023 and 2022, accumulated amortization was \$410,842 and \$251,807, respectively. Amortization expense was \$159,036 for each of the years ended December 31, 2023 and 2022.

Revenue Recognition from Contracts with Customers

The Organization recognizes revenue for residency in accordance with the provisions of FASB ASC 606, *Revenue from Contracts with Customers (Topic 606)*. The Organization operates under the continuing care concept whereby residents enter into residence and services agreements (residency agreement) that require payment of a onetime entrance fee and an ongoing monthly charge. The form of the residency agreement is in conformity with the statutes of the State of California Department of Social Services Continuing Care Contracts Branch. The residency agreements provide a material right to occupy an appropriate-level living unit, and limited care and care support, but do not entitle the residents to an ownership interest in the property or skilled nursing. Residents may cancel their residency agreements at any time and upon cancellation, the entrance fees will be repayable under the following terms and conditions:

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

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Revenue Recognition from Contracts with Customers (Continued)

(2) Cancellation After 90 Days – (Continued)

The entrance fee repayment amount will be due upon re-occupancy of the residency unit, and the amount will generally be the entrance fee amount less one and one-half percent for each month or partial month of occupancy until the minimum entrance fee repayment percentage is reached, pursuant to the individual residency agreement.

Contract Revenues – The following is a description of the services provided and the accounting policies related to the contracted services.

Resident Services Revenue - Resident living services fees, which are for basic support services, are paid on a monthly basis. Monthly fees are established at the inception of occupancy and may be increased by the Organization according to economic necessity, which is related to the percentage change in the prior-year per capita cost of operating expenses of the Organization for furnishing services to the residents. Resident service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing resident care and is recognized as the Organization satisfies the performance obligation, which is monthly. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Other Income – Other income are nonresident service revenues recognized at a point in time primarily for nonresident guest meals and other finite transactions that do not generate future performance obligations.

Contract Assets and Contract Liabilities – The following are assets and liabilities resulting from contracts with customers.

Deferred Revenues from Unamortized Entrance Fees – The Organization's continuing care residency contracts require certain payments upon occupancy. Entrance fees paid by a resident upon entering into a residency agreement, net of the portion thereof that is refundable to the resident, are recorded as deferred revenue and amortized to income using the straight-line method over an actuarially determined, estimated remaining life expectancy of the resident, or the contract term, if shorter. The period of amortization is adjusted annually based on the actuarially determined estimated remaining life expectancy of each individual or joint and last survivor life expectancy of each pair of residents occupying the same unit. Unamortized deferred revenue from entrance fees is recorded as revenue upon contract termination.

Deferred Repayment of Refundable Entrance Fees – Deferred repayment of refundable entrance fees represent amounts contractually refundable under the residency agreement and are computed based on the specific terms of the individual contracts.

**KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition from Contracts with Customers (Continued)

Contract Assets and Contract Liabilities – (Continued)

Resident Deposits – Future residents’ deposits are required prior to the execution of a residency agreement and the acceptance of entrance fees. Upon occupancy, future resident deposits are reclassified to refundable entrance fee liability and deferred revenue from entrance fees. Deposits are refundable upon request if a future resident no longer wishes to reside at the Organization according to the terms of the residency agreements.

The opening and closing contract balances were as follows:

	<u>Deferred Revenue</u>	<u>Accounts Receivable</u>	<u>Refundable Entrance Fees</u>
Balance - December 31, 2022	\$ -	\$ -	\$ -
Balance - December 31, 2023	\$ 14,702,463	\$ 24,380	\$ 70,746,729

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize (unadjusted) quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Fair Value Measurements (Continued)

Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value, however, may elect to measure newly acquired financial instruments at fair value in the future.

Financial Statement Presentation

Contributions received are recorded as an increase in net assets without donor restrictions or with donor restrictions, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Those resources over which the boards of directors have discretionary control. Designated amounts represent those revenues that the board has set aside for a particular purpose.

Net Assets With Donor Restrictions – Those resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or through the passage of time, or those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for program purposes.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported as net assets with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as contributions without donor restriction.

At December 31, 2023 and 2022, the Organization did not have any net assets with donor restrictions. For the year ended December 31, 2023 and 2022, all activities for the Organization were classified as net assets without donor restriction.

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
DBA: ENSO VILLAGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the IRC, however, would be liable for tax on any unrelated business income. The Organization's tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

Functional Allocations of Expenses

The costs of providing the various programs and support services have been summarized on a functional basis in the statement of operations. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New Accounting Pronouncement

The Organization has adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's financial statements but did change how allowances for credit losses are to be determined.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 16, 2024, the date the financial statements were available to be issued.

NOTE 2 RELATED PARTY SUBORDINATED LOANS

There is a Loan Agreement between the Organization and ZISL for \$3,546,000, representing Accrued Predevelopment Interest of \$226,000 and \$3,320,000 cash used to fund a Liquidity Support Account in connection with the Series 2021 bonds. The Loan bears interest at the rate of 6% per annum, payment of which is deferred until certain other performance obligations are met. The Organization expects to repay these funds with proceeds of the permanent financing and upon stabilization of the life plan community (see Note 4). As such, the related party payable has been classified as a long-term liability as of December 31, 2023 and 2022. Accrued interest on the loan as of December 31, 2023 and December 31, 2022, respectively, was \$545,015 and \$332,255.

Kendal advanced \$1,500,000 to the Organization as part of the Series 2021 bonds issuance (see Note 4) to fund a Liquidity Support Account. The Organization expects to repay these funds with proceeds from the permanent financing and upon stabilization of the life plan community. As such, the related party payable has been classified as a long-term liability as of December 31, 2023 and 2022.

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NOTE 3 INVESTMENTS AND ASSETS LIMITED AS TO USE

Funds Held By Bond Trustee

The Organization is required to hold funds in various accounts based upon terms in the indenture of trust of the Series 2021 bond issuances (see Note 4). These funds consist of the following:

Debt Service Reserve Funds

Debt service reserve funds have been established to maintain reserves related to each of the Series 2021A Bonds, Series 2021B-1 Bonds, Series 2021B-2 Bonds, Series 2021B-3 Bonds, and the Series 2021C Bonds. The debt service reserve funds were funded from proceeds of the Series 2021 Bonds. Each of the debt service reserve funds is forecasted to be released and available to pay debt services in the year that the respective series bonds are repaid in full.

Funded Interest Fund

A Funded interest fund has been established with proceeds of the Series 2021 Bonds to pay interest expense on the Series 2021 Bonds for the first 33 months after issuance.

Project Fund

Proceeds from the Series 2021 Bonds were deposited into a project fund for construction and related costs of the Project.

Entrance Fee Fund

Initial Entrance Fees related to the Independent Living Units are to be deposited into an entrance fee fund (the Entrance Fee Fund). Amounts on deposit in the Entrance Fee Fund are to be used first to pay the entrance fee refunds of the Independent Living Units; second, to fund the Operating Reserve Fund; third, to fund the Working Capital Fund; and fourth, and assuming no event of default has occurred and is continuing, amounts remaining on deposit in the Entrance Fee Fund are forecast to be released by the trustee to the Organization.

Operating Reserve Fund

An Operating reserve fund in the amount of \$7,500,000 was established with proceeds of the Initial Entrance Fees. This fund is available to pay construction, development and marketing costs and operating needs of the Organization, if necessary. All amounts on deposit in the Operating Reserve Fund shall be released to the Organization and the Operating Reserve Fund shall be closed when all the Series 2021B Bonds have been redeemed provided no event of default has occurred and is continuing.

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NOTE 3 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Funds Held By Bond Trustee (Continued)

Working Capital Fund

A Working Capital Fund (the Working Capital Fund) was established in the initial amount of \$20,000,000 and was funded with Initial Entrance Fees. The Working Capital Fund will be used to fund pre-opening costs and ongoing working capital needs of the Organization. All amounts on deposit in the Working Capital Fund shall be retained by the trustee until fully drawn. The Working Capital Fund shall be closed when all amounts on deposit therein have been depleted.

Liquidity Support Account

Liquidity support accounts were established and funded by the issuance of the Series 2021 Bonds in the following amounts:

“Greenbrier Liquidity Support Account” – \$3,521,000 from Greenbrier (funded with proceeds from the Series 2021 Bonds as payment of the Greenbrier Additional Development Consulting Fee);

“Kendal Liquidity Support Account” – \$1,500,000 from Kendal Aging;

“ZISL Liquidity Support Account” – \$3,320,000 from ZISL (funded with proceeds of the Series 2021 Bonds as repayment of the Related Party Subordinate Note) and deposited as follows: The Related Party Subordinate Note of \$3,320,000 was repaid from proceeds of the Series 2021 Bond; Upon receipt, ZISL contributed approximately \$1,391,000 to fund certain costs of the Project and deposit approximately \$1,929,000 into the Liquidity Support Account; and approximately \$1,391,111 of the initial Entrance Fees were remitted to ZISL and deposited into the Liquidity Support Account to satisfy ZISL’s liquidity support obligation.

Other Designated Funds

Other designated funds include funds that are held for deposits made by future residents of the independent living units of the Organization. These deposits are held by the Organization and represent 10% of the entrance fees required to be paid for occupancy of the independent living units. These deposits are fully refundable.

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NOTE 3 INVESTMENTS AND ASSETS LIMITED AS TO USE (CONTINUED)

Assets limited as to use are invested in the following:

	December 31, 2023	
	Fair Value	Cost
Cash	\$ 87,706,996	\$ 87,702,239
U.S. Government Issues	5,682,034	5,677,947
Corporate Issues	15,522,765	15,585,280
Foreign Issues	2,393,353	2,390,168
Total Assets Limited as to Use	<u>\$ 111,305,148</u>	<u>\$ 111,355,634</u>

	December 31, 2022	
	Fair Value	Cost
Cash	\$ 42,073,746	\$ 42,073,746
U.S. Government Issues	4,843,125	4,104,058
Corporate Issues	85,425,742	87,685,025
Foreign Issues	18,999,421	19,409,831
Total Assets Limited as to Use	<u>\$ 151,342,034</u>	<u>\$ 153,272,660</u>

The assets limited as to use are included as follows on the balance sheets at December 31:

	2023	2022
HELD BY BOND TRUSTEE		
Project Fund	\$ 3,500,285	\$ 96,468,097
Funded Interest Account	2,101,068	8,330,038
Interest Account	8,612	3,341,445
Principal Account	1,367	-
Debt Service Reserve Fund - 2021A	7,228,757	6,885,908
Debt Service Reserve Fund - 2021B-1	1,254,636	1,193,517
Debt Service Reserve Fund - 2021B-2	1,237,706	1,177,897
Debt Service Reserve Fund - 2021B-3	2,059,703	1,959,370
Debt Service Reserve Fund - 2021C	83	121,776
Liquidity Support Account - Greenbrier Development	3,678,062	3,486,230
Liquidity Support Account - ZISL	3,404,141	1,914,714
Liquidity Support Account - Kendal	1,570,019	1,487,925
Equity Account	1,476,494	1,407,548
Entrance Fee Fund	41,898,745	-
Working Capital Fund	20,000,000	-
Operating Reserve Fund	7,500,000	-
Total Held by Bond Trustee	<u>96,919,678</u>	<u>127,774,465</u>
OTHER DESIGNATED FUNDS		
Entrance Fee Deposits	14,385,470	23,567,569
Total Assets Limited as to Use	<u>111,305,148</u>	<u>151,342,034</u>
Less: Current Portion of Assets Limited as to Use	(7,645,990)	(17,641,488)
Total Assets Limited as to Use, Net of Current Portion	<u>\$ 103,659,158</u>	<u>\$ 133,700,546</u>

KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
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NOTE 4 LONG-TERM DEBT

<u>Description</u>	<u>2023</u>	<u>2022</u>
California Public Finance Authority Senior Living Revenue and Refunding Bonds Series 2021A; 5.00% interest rates; annual interest payments due through maturity from 2021 to 2056 and annual principal payments beginning in 2026.	\$ 111,280,000	\$ 111,280,000
California Public Finance Authority Senior Living Revenue and Refunding Bonds Series 2021B-1; 3.125% interest rate; annual interest payments due through maturity from 2021 to 2025 and annual principal payments beginning in 2025.	38,500,000	38,500,000
California Public Finance Authority Senior Living Revenue and Refunding Bonds Series 2021B-2; 2.375% interest rate; annual interest payments due through maturity from 2021 to 2025 and semi-annual principal payments beginning in 2024.	50,000,000	50,000,000
California Public Finance Authority Senior Living Revenue and Refunding Bonds Series 2021B-3; 2.125% interest rate; annual interest payments due through maturity from 2021 to 2024 and annual principal payments beginning in 2023.	79,380,000	93,000,000
California Public Finance Authority Senior Living Revenue and Refunding Bonds Series 2021C; 2.875% interest rate; annual interest payments due through maturity from 2021 to 2023 and semi-annual principal payments beginning in 2023.	-	4,250,000
Total	279,160,000	297,030,000
Less: Unamortized Debt Issuance Costs	(5,234,930)	(5,393,965)
Plus: Original Issue Premium	6,269,063	6,459,515
Long-Term Debt, Net	280,194,133	298,095,550
Less: Current Portion of Long-Term Debt	(113,825,000)	(13,020,000)
Total Long-Term Debt, Net	<u>\$ 166,369,133</u>	<u>\$ 285,075,550</u>

**KENDAL AT SONOMA, A ZEN INSPIRED COMMUNITY
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NOTE 4 LONG-TERM DEBT (CONTINUED)

In June 2021, the California Public Finance Authority issued \$297,030,000 Series 2021 Senior Living Revenue and Refunding Bonds (Series 2021 Bonds) for the benefit of Kendal at Sonoma to fund the new project development. The bonds are secured by the mortgage on the property.

Under the terms of the Series 2021 Bonds revenue and refunding bond indentures, Kendal at Sonoma, a Zen Inspired Community dba Enso Village is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The revenue and refunding bond indenture also places limits on the incurrence of additional borrowing and requires that Kendal at Sonoma, a Zen Inspired Community dba Enso Village satisfy certain measures of financial performance as long as the bonds are outstanding. As of December 31, 2023, management was aware of one instance where the Organization was not in compliance with debt covenants.

Long-term debt maturities for the next five years and thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 113,825,000
2024	58,905,000
2025	1,575,000
2026	1,650,000
2027	1,650,000
Thereafter	101,555,000
Total	<u>\$ 279,160,000</u>

NOTE 5 PROJECT DEVELOPMENT

The Organization established permanent financing in 2021 and during 2023, continued pre-sales and the construction phases of developing a Zen-inspired life plan community as a Kendal Affiliate. During 2023, the Organization applied for and received an initial certificate of occupancy for the independent living units in the community from the State of California, enabling the Organization to enter into residency agreements beginning in November 2023. The community design includes 221 independent living apartments, 30 assisted living suites, and 24 memory support residences. The costs that have been incurred as of December 31, 2023 and 2022 include deposits for the acquisition of land, development and design costs, marketing expenses, and construction costs. As of December 31, 2023 and 2022, \$239,587,945 and \$166,670,652, respectively, of costs have been capitalized. Estimated remaining project costs are \$3,431,360 and the estimated completion date for all community construction is June 1, 2024.

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NOTE 6 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 for the year ended December 31:

	2023	2022
Cash and Cash Equivalents	\$ 385,013	\$ 145,244
Resident Accounts Receivable, Net	24,380	-
Total Assets Available for General Expenditure	\$ 409,393	\$ 145,244

NOTE 7 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Nature of Organization and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of December 31:

	2023			
	Level 1	Level 2	Level 3	Total
Assets Limited as to Use:				
U.S. Government Issues	\$ -	\$ 5,682,034	\$ -	\$ 5,682,034
Corporate Issues	-	15,522,765	-	15,522,765
Foreign Issues	-	2,393,353	-	2,393,353
Total Assets	\$ -	\$ 23,598,152	\$ -	\$ 23,598,152
	2022			
	Level 1	Level 2	Level 3	Total
Assets Limited as to Use:				
U.S. Government Issues	\$ -	\$ 4,843,125	\$ -	\$ 4,843,125
Corporate Issues	-	85,425,742	-	85,425,742
Foreign Issues	-	18,999,421	-	18,999,421
Total Assets	\$ -	\$ 109,268,288	\$ -	\$ 109,268,288

Assets Limited as to Use

Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. The Organization does not have any securities valued using Level 1 inputs. Securities valued using Level 2 inputs include private collateralized mortgage obligations, municipal bonds, and corporate debt securities. The Organization does not have any securities valued using Level 3 inputs.

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NOTE 8 COMMITMENTS AND CONTINGENCIES

Pre-Affiliation Agreement

In August 2017, the Organization entered into a pre-affiliation agreement with Kendal and ZISL. The agreement, as amended, provides, among other things, project planning and market analysis, design and construction, finance, and public relations support. The agreement allows for a co-sponsorship fee of \$2,200,000 (\$1,100,000 per sponsor) and other development and service fees as certain milestones are achieved. At permanent financing, Kendal was paid a development fee of \$975,000, and an interest payment was made to ZISL of \$975,000 for part of the accrued interest on the predevelopment capital provided to the Organization by ZISL. Kendal will be paid a pre-opening affiliation services fee from the date of the Series 2021 Bonds until opening of the Community of \$480,000 in monthly installments. For the years ended December 31, 2023 and 2022, total fees paid to Kendal were \$260,000 and \$110,000, respectively. ZISL will be paid a pre-opening services fee from the date of issuance of the 2021 Bonds until opening of the Community of \$120,000 in monthly installments. For the years ended December 31, 2023 and 2022, total fees paid to ZISL were \$120,000 and \$110,000, respectively.

The pre-affiliation agreement provides for licensing and system fees upon commencement of operations of the project (at move-in of the first resident) or upon stabilization. The fee payable to ZISL will be equal to 2% of the project operating expenses, payable monthly, for the duration of the affiliation. For the year ended December 31, 2023, total licensing fees payable to ZISL were \$4,590. The fee payable to Kendal will be equal to 5% of the project operating expenses, payable monthly and ending at stabilized occupancy, at which point the fee shall be reduced to the fee structure described in the pre-affiliation agreement. There were no system fees paid as the Organization had not yet reached stabilization.

Development and Marketing Agreement

On August 17, 2017, the Organization entered into a development agreement with Greenbrier Development to manage the design, marketing, development and construction of the project, in collaboration with Kendal and San Francisco Zen Center. The base fee related to this agreement is 3.75% of the final project budget cost, which will be paid over the construction period of the project, except that much of the marketing portion of the Greenbrier fee will be deferred until stabilized occupancy or when all development consulting fees have been paid to Greenbrier Development. For the years ending December 31, 2023 and 2022, approximately \$1,624,000 and \$1,750,000, respectively was paid to Greenbrier Development.

Architect Agreement

On June 23, 2017, the Organization entered into an architect agreement with HKIT Architects for the design of the project. The estimated fee is expected to be approximately \$3.8 million, which will be paid over the design and construction period of the project. As of December 31, 2023 and 2022, the total cost paid to HKIT Architects was approximately \$233,116 and \$655,196, respectively. The sum of the cost of the work and Construction Manager's fee is guaranteed by the Construction Manager not to exceed \$182,000,000, subject to additions and deductions by change order as provided in the Construction Contract. The Construction Contract includes a contractor's contingency of \$4,000,000.

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NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

In the normal course of business, there could be various outstanding claims and contingent liabilities. No contingent liabilities are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

Development Stage

The Organization is a development stage company that has not previously operated a life plan community. Facilities of this nature are subject to inherent risks and variability in demand, and in the event there is insufficient demand for the services may need to adjust the contemplated scope of the project. Additionally, the Organization is not expected to have any revenues except those derived from the operations of the project (see Note 4). The Organization is opening the community in phases as construction is completed and regulatory approval is received. The first residents were welcomed in November 2023. As of December 31, 2023, the health center and certain other common service and amenity spaces were not completed or placed in service.

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INDEPENDENT
NETWORK MEMBER

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