



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SAN DIEGO HEBREW HOMES

June 30, 2022 and 2021

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Report of Independent Auditors

The Audit Committee of the Board of Trustees
San Diego Hebrew Homes

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of San Diego Hebrew Homes (“SDHH”), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of operations, change in net assets, and cash flows for the years 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 SDHH as of June 30, 2022 and 2021, and the results of its operations 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 Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SDHH 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 SDHH’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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 SDHH'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 SDHH'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.

Moss Adams LLP

Irvine, California
August 31, 2022

San Diego Hebrew Homes
Statements of Financial Position

ASSETS		June 30,	
		<u>2022</u>	<u>2021</u>
CURRENT ASSETS			
Cash	\$	949,088	\$ 3,473,402
Investments		4,678,500	3,601,199
Accounts receivable		616,763	729,659
Accounts receivable – related party		141,816	52,979
Interest receivable		62,236	18,065
Prepaid expenses and other current assets		<u>432,872</u>	<u>433,905</u>
Total current assets		6,881,275	8,309,209
INTEREST IN NET ASSETS OF SEACREST FOUNDATION		5,708,543	5,323,354
PROPERTY AND EQUIPMENT, net of accumulated depreciation		30,183,593	31,547,486
INVESTMENTS HELD BY TRUSTEES PURSUANT TO DEFERRED COMPENSATION AGREEMENTS		<u>1,542,944</u>	<u>1,717,275</u>
Total assets	\$	<u><u>44,316,355</u></u>	\$ <u><u>46,897,324</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Long-term debt, current portion	\$	264,571	\$ 278,066
Accounts payable		647,172	860,569
Accrued expenses		979,133	1,435,240
Other liabilities		<u>46,729</u>	<u>47,378</u>
Total current liabilities		1,937,605	2,621,253
LONG-TERM DEBT, net of current portion		6,999,704	7,264,275
DEPOSITS AND OTHER LONG-TERM LIABILITIES		<u>1,804,865</u>	<u>2,046,149</u>
Total liabilities		<u>10,742,174</u>	<u>11,931,677</u>
NET ASSETS			
Without donor restriction		30,233,495	31,647,458
With donor restriction		<u>3,340,686</u>	<u>3,318,189</u>
Total net assets		<u>33,574,181</u>	<u>34,965,647</u>
Total liabilities and net assets	\$	<u><u>44,316,355</u></u>	\$ <u><u>46,897,324</u></u>

San Diego Hebrew Homes

Statements of Operations

	For the Years Ended	
	June 30,	
	2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS, AND OTHER SUPPORT		
Resident services	\$ 11,593,874	\$ 10,562,307
Skilled nursing services	6,941,229	6,901,043
Management services	186,319	177,809
Investment (loss) income, net	(221,367)	176,340
Grant income	-	310,950
Other income	92,379	11,130
Net assets released from restrictions, used for operations	2,440,556	2,754,746
Total revenues, gains, and other support	21,032,990	20,894,325
OPERATING EXPENSES		
Salaries	11,473,306	11,013,804
Benefits	1,218,656	1,336,190
Utilities and food	2,165,516	1,992,769
Purchased services	2,277,231	1,825,382
Interest expense	318,588	330,336
Depreciation	2,621,344	2,352,588
Regulatory fees	317,488	309,349
Ancillary	937,421	1,048,680
Other	1,117,403	840,812
Total operating expenses	22,446,953	21,049,910
LOSS FROM OPERATIONS	(1,413,963)	(155,585)
OTHER INCOME		
Gain on debt extinguishment	-	2,375,667
Total other income	-	2,375,667
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	\$ (1,413,963)	\$ 2,220,082

San Diego Hebrew Homes
Statements of Changes in Net Assets

	For the Years Ended	
	June 30,	
	<u>2022</u>	<u>2021</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
(Deficiency) excess of revenue over expenses	\$ (1,413,963)	\$ 2,220,082
Net assets released from restrictions used for purchase of property and equipment	<u>-</u>	<u>57,561</u>
Change in net assets without donor restriction	<u>(1,413,963)</u>	<u>2,277,643</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	7,885	3,952
Change in interest in net assets of Seacrest Foundation	2,455,168	3,684,320
Net assets released from restrictions used for operations	(2,440,556)	(2,754,746)
Net assets released from restrictions used for purchase of property and equipment	<u>-</u>	<u>(57,561)</u>
Change in net assets with donor restriction	<u>22,497</u>	<u>875,965</u>
CHANGE IN NET ASSETS	(1,391,466)	3,153,608
NET ASSETS, beginning of year	<u>34,965,647</u>	<u>31,812,039</u>
NET ASSETS, end of year	<u>\$ 33,574,181</u>	<u>\$ 34,965,647</u>

San Diego Hebrew Homes

Statements of Cash Flows

	For the Years Ended	
	June 30,	
	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ (1,391,466)	\$ 3,153,608
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized losses (gains)	358,702	(82,538)
Depreciation	2,621,344	2,352,588
Gain on debt extinguishment	-	(2,375,667)
Net change in interest in net assets of Seacrest Foundation	(385,189)	(1,118,320)
Changes in operating assets and liabilities		
Accounts receivable, net	112,896	120,133
Accounts receivable – related party	(88,837)	362,298
Interest receivable	(44,171)	6,088
Prepaid expenses and other current assets	1,033	(34,344)
Accounts payable	(213,397)	(222,109)
Accrued expenses and other liabilities	(456,756)	63,594
Deferred grant income	-	(78,969)
Deposits and other long-term liabilities	(241,284)	525,215
Net cash provided by operating activities	<u>272,875</u>	<u>2,671,577</u>
INVESTING ACTIVITIES		
Purchase of investments	(2,475,452)	(855,822)
Proceeds from sale of investments	1,039,449	810,263
Investments held by trustees	140,913	(500,361)
Purchases of property and equipment	<u>(1,257,451)</u>	<u>(2,155,827)</u>
Net cash used in investing activities	<u>(2,552,541)</u>	<u>(2,701,747)</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(278,066)</u>	<u>(266,360)</u>
Net cash used in financing activities	<u>(278,066)</u>	<u>(266,360)</u>
NET CHANGE IN CASH AND RESTRICTED CASH EQUIVALENTS		
Cash and restricted cash equivalents, beginning of year	<u>3,712,478</u>	<u>4,009,008</u>
Cash and restricted cash equivalents, end of year	<u>\$ 1,154,746</u>	<u>\$ 3,712,478</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 325,473</u>	<u>\$ 331,280</u>

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of activities – San Diego Hebrew Homes (SDHH) is a California nonprofit public benefit corporation which operates one San Diego County senior residential facility consisting of 119 independent living units, one 42-unit assisted living facility, one skilled nursing facility with 58 licensed beds, and one 24-unit facility serving those seniors afflicted with Alzheimer's, dementia, and other memory impairment diseases.

Basis of presentation – The accompanying financial statements were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). References to the ASC or ASU included herein refer to the Accounting Standards Codification and Accounting Standards Updates, respectively, established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP 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 revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation allowances for accounts receivable and depreciable lives of property and equipment. Actual results could differ from those estimates.

Financial statement presentation – Based on the existence or absence of donor-imposed restrictions, SDHH classifies resources into two categories: without donor restrictions and with donor restrictions.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of SDHH. These net assets may be used at the discretion of SDHH's management and Board of Directors.

Net assets with donor restrictions – Represent contributions that are limited in use by SDHH in accordance with donor-imposed stipulations. 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 may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

(Deficiency) excess of revenue over expenses – The statements of operations include (deficiency) excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from (deficiency) excess of revenue over expenses include net assets released from restriction used for capital and changes in unrealized gains on investments other than equity securities.

Interest in net assets of Seacrest Foundation – Seacrest Foundation (the "Foundation") is a not-for-profit corporation established for the charitable purpose of promoting and supporting the work of SDHH and other organizations. The Foundation has a separate board of directors over which SDHH does not exercise majority control, and therefore, the operations of the Foundation are not included in the accompanying financial statements. SDHH recognizes its interest in the net assets of the Foundation in accordance with ASC Topic 958, which requires that a specified beneficiary recognize its rights to assets held by a recipient organization as an asset, unless the donor has explicitly granted the recipient organization variance power; that is, the unilateral power to redirect the use of the assets.

San Diego Hebrew Homes

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value measurements – SDHH defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. SDHH applies fair value measurements to assets and liabilities that are required to be recorded at fair value under U.S. GAAP. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The carrying value of cash, receivables, and payables approximates fair value as of June 30, 2022 and 2021, due to the relative short maturities of these instruments.

Cash and cash equivalents – SDHH considers all highly liquid investments with an original maturity of 90 days or less when purchased to be cash equivalents. The following table provides a reconciliation of cash and restricted cash equivalents reported with the accompanying statements of financial position to the accompanying statements of cash flows as of June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 949,088	\$ 3,473,402
Restricted cash equivalents included in investments held by trustees pursuant to deferred compensation agreements	<u>205,658</u>	<u>239,076</u>
Cash and restricted cash equivalents as reported in statements of cash flows	<u>\$ 1,154,746</u>	<u>\$ 3,712,478</u>

Investments – SDHH carries investments in marketable securities with readily determinable fair values and all investments in debt securities at fair values in the statements of financial position. Investment income (including realized gains and losses on investments, interest, and dividends) is included in (deficiency) excess of revenue over expenses unless the income is restricted by donor or by law.

Accounts receivable – Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Pledges receivable – Unconditional written pledges of private gifts to SDHH in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Unconditional written pledges must be evidenced by donor signature and deemed legally enforceable by the Board of Trustees. Conditional pledges, including intentions to pledge, are recognized as revenue when the funds are actually received and the conditions are met. After pledges are originally recorded, an allowance for uncollectible pledges may be established based on specific circumstances.

Property and equipment – Acquisitions of property and equipment of \$1,000 or more are capitalized and are recorded at cost. Donated property and equipment are recorded at fair value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from 3–40 years.

Long-lived assets – SDHH recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

Deposits – SDHH collects a community fee, of which a portion is returned, under certain circumstances, as defined in California state law.

Revenue recognition – SDHH's revenue streams are as follows:

Resident services revenue – Resident services revenue, including revenue related to the rental of apartments and assisted living units; the provision of skilled nursing services; and inpatient/outpatient therapy services, is reported at the amount that reflects the consideration to which SDHH expects to be entitled to in exchange for the services provided. Under SDHH's resident services agreement, SDHH provides senior living services to residents for a stated monthly fee. SDHH recognizes revenue for senior living services under the residential services agreement for independent living and assisted living in accordance with the provision of ASC 840, *Leases*.

Skilled nursing services – Skilled nursing services revenue is reported at the amount that reflects the consideration to which SDHH expects to be entitled to in exchange for providing care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, SDHH bills the patients and third-party payors several days after the month in which services are performed. Revenue is recognized as performance obligations are satisfied.

San Diego Hebrew Homes

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Revenue for health service performance obligations satisfied over time is recognized based on actual charges incurred. SDHH believes 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. Generally, performance obligations satisfied over time relate to residents in SDHH's skilled nursing facility. SDHH measures the performance obligation from admission into the skilled nursing facility to the point when it is no longer required to provide health care services to that resident, which is generally at the time of discharge.

SDHH's initial estimate of the transaction price for services provided to patients is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to SDHH's standard charges. SDHH determines the transaction price associated with services provided to patients who have third-party payor coverage based on the reimbursement terms outlined in contractual agreements and historical experience. For uninsured patients who do not qualify for charity care, SDHH determines the transaction price associated with services on the basis of charges reduced by SDHH's discount policies and implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on SDHH's historical collection experience with this class of patients. Subsequent changes to the estimate of the transaction process are generally recorded as adjustments to skilled nursing revenue in the period of change.

Agreements with third-party payors provide the payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medi-Cal – SDHH is reimbursed by Medicare prospectively according to resident care classifications, with each class assigned a fixed reimbursement rate. In July 2012, the state of California passed the Coordinated Care Initiative. Effective July 2014, the initiative requires that beneficiaries who qualify for both Medicare and Medi-Cal (dual eligible beneficiaries) must enroll in a Medi-Cal managed care plan to receive their Medi-Cal benefits. For the years ended June 30, 2022 and 2021, approximately 91% of SDHH's Medi-Cal residents are dual eligible. SDHH is reimbursed by Medi-Cal and the Medi-Cal managed care plans at a fixed daily rate, which does not vary with the acuity level of the resident. The reimbursement is the same amount for traditional and managed care residents; however, payment time frames can be longer for Medi-Cal managed care.

Secondary insurance – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by government agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge SDHH’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon SDHH.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. SDHH estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments determined on a resident-by-resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to health services revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident’s ability to pay are recorded as a bad debt expense. Bad debt expense for the years ended June 30, 2022 and 2021, was not significant.

The following table shows skilled nursing services revenue by payor category for the years ended June 30, 2022 and 2021:

	2022	2021
Medicare	\$ 1,029,372	\$ 1,334,745
Medi-Cal managed care	2,148,575	2,306,747
Private	2,242,880	1,912,559
Other third-party payors	1,520,402	1,346,992
	\$ 6,941,229	\$ 6,901,043

Contributions – Contributions received are recorded as net assets with or without donor restrictions, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. Net assets are released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service.

Contributed services – Many individuals volunteer their time and perform a variety of tasks that assist SDHH with various programs. Since these services do not meet the criteria for recognition as a contribution they are not reflected in the financial statements. The fair value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets are recorded at their fair values in the period received.

San Diego Hebrew Homes

Notes to Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Charity care – SDHH, guided by Jewish values and traditions, provides free and reduced-fee care and housing to qualified residents. The need for charity care is addressed as soon as the resident indicates a financial hardship. Charity is provided through all services offered by SDHH. Because SDHH does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. SDHH measures charity care in accordance with ASC 954-605, *Health Care Entities – Revenue Recognition – Charity Care and Related Fundraising Activities*. ASC 954-605 requires all health care entities to measure the amount of charity care provided based on direct and indirect costs incurred in providing such care; no other measurement basis is considered acceptable. In addition, both the method used to identify or estimate the amount of charity care costs and the amount of any funds received to subsidize charity care services must be disclosed. SDHH maintains records to identify and monitor the level of charity care it provides, which includes management's estimate of the expense to provide charity care. SDHH estimates the cost to provide charity care based on the ratio of costs to provide care to revenue for all patients and multiplying the ratio by charity care charges.

The estimated costs for services and supplies furnished under SDHH's charity care policy totaled approximately \$1,904,000 and \$2,241,000 for the years ended June 30, 2022 and 2021, respectively. Charity care is given based upon the applications received each year. SDHH received contributions of approximately \$900,000 and \$1,500,000 in the years ended June 30, 2022 and 2021, respectively, in support of charitable care.

Income taxes – SDHH is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SDHH has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. SDHH may be subject to tax on income which is not related to its exempt purpose. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

SDHH follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. SDHH will record a liability for uncertain tax positions when it is more-likely-than-not that a tax position would not be sustained if examined by the taxing authority. Management has determined that SDHH does not have any uncertain tax positions as of June 30, 2022 and 2021. SDHH files informational and income tax returns in the United States and various state and local jurisdictions.

Concentrations of credit risk – Financial instruments that potentially subject SDHH to concentrations of credit risk consist primarily of investments and accounts receivable. The investment portfolio is managed within the guidelines established by the Board of Trustees, which, as a matter of policy, limit the amounts that may be invested in any one issuer. SDHH maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor, per institution. As of June 30, 2022 and 2021, SDHH had cash balances of \$944,525 and \$3,468,758, respectively, that were exposed to uninsured deposit risk. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

A significant portion of skilled nursing revenue is derived from residents covered under the California Medi-Cal and federal Medicare programs. These programs are highly regulated and are subject to state and federal budgetary and other constraints. Medi-Cal programs represented 59% and 37% of net accounts receivable as of June 30, 2022 and 2021, respectively. Medicare programs represented 11% and 22% of net accounts receivable as of June 30, 2022 and 2021, respectively. For the year ended June 30, 2022, Medi-Cal and Medicare programs represented 47% and 17%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. For the year ended June 30, 2021, Medi-Cal and Medicare programs represented 33% and 19%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. SDHH does not believe there is any undue credit risk related to these government programs.

Recent accounting standards – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. The effective date of this ASU was deferred by ASU 2020-05, *Effective Dates for Certain Entities*, to annual periods beginning after December 15, 2021. Management is currently evaluating the impact of the provisions of this ASU on the financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. SDHH recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. SDHH's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

SDHH has evaluated subsequent events through August 31, 2022, which is the date the financial statements were available to be issued.

San Diego Hebrew Homes

Notes to Financial Statements

Note 2 – Investments

Investments are categorized by the fair value hierarchy level and consisted of the following as of June 30, 2022 and 2021:

	2022			Total
	Level 1	Level 2	Level 3	
Investments				
Corporate bonds	\$ 3,757,416	\$ -	\$ -	\$ 3,757,416
Taxable municipal bonds	547,227	-	-	547,227
Certificates of deposit	-	87,549	-	87,549
Pooled fund	-	221,246	-	221,246
Money market funds	65,062	-	-	65,062
	<u>4,369,705</u>	<u>308,795</u>	<u>-</u>	<u>4,678,500</u>
Investments held by trustees				
Money market funds	205,658	-	-	205,658
Unit investment trust	-	-	92,570	92,570
Mutual funds				
U.S. equity – large cap	999,455	-	-	999,455
REIT	30,783	-	-	30,783
Bonds	151,547	-	-	151,547
Non-U.S. equity	22,063	-	-	22,063
U.S. equity – small/mid cap	40,868	-	-	40,868
	<u>1,450,374</u>	<u>-</u>	<u>92,570</u>	<u>1,542,944</u>
Total Investments	<u>\$ 5,820,079</u>	<u>\$ 308,795</u>	<u>\$ 92,570</u>	<u>\$ 6,221,444</u>

San Diego Hebrew Homes
Notes to Financial Statements

Note 2 – Investments (continued)

	2021			Total
	Level 1	Level 2	Level 3	
Investments				
Corporate bonds	\$ 2,279,896	\$ -	\$ -	\$ 2,279,896
Taxable municipal bonds	568,262	-	-	568,262
Certificates of deposit	-	106,881	-	106,881
Pooled fund	-	-	257,713	257,713
Money market funds	388,447	-	-	388,447
	<u>3,236,605</u>	<u>106,881</u>	<u>257,713</u>	<u>3,601,199</u>
Investments held by trustees				
Money market funds	239,076	-	-	239,076
Unit investment trust	-	-	38,835	38,835
Mutual funds				
U.S. equity – large cap	1,174,868	-	-	1,174,868
Growth	92,397	-	-	92,397
REIT	30,485	-	-	30,485
Bonds	86,943	-	-	86,943
Non-U.S. equity	32,610	-	-	32,610
U.S. equity – small/mid cap	22,061	-	-	22,061
	<u>1,678,440</u>	<u>-</u>	<u>38,835</u>	<u>1,717,275</u>
Total Investments	<u>\$ 4,915,045</u>	<u>\$ 106,881</u>	<u>\$ 296,548</u>	<u>\$ 5,318,474</u>

The fair value of certificates of deposit and foreign corporate bonds are determined by discounting the related cash flow based on the current yield on similar instruments with comparable durations considering the credit worthiness of the issuer. Unit investment trusts and pooled funds are reported at fair value based on the net asset value estimates provided by the custodian.

Investment return for the years ended June 30, 2022 and 2021, consisted of the following:

	2022	2021
Dividends and interest	\$ 137,567	\$ 92,539
Realized gains on investments, net	5,065	2,678
Unrealized (losses) gains	(358,702)	82,538
Investment expenses	(5,297)	(1,415)
	<u>\$ (221,367)</u>	<u>\$ 176,340</u>

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Notes to Financial Statements

Note 3 – Interest in Net Assets of Seacrest Foundation

The total changes in beneficial interest in the net assets of the Foundation for the years ended June 30, 2022 and 2021, are summarized as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 5,323,354	\$ 4,205,034
Change in the net assets of the Foundation before contribution to SDHH	2,455,168	3,684,320
Foundation contributions to SDHH	<u>(2,069,979)</u>	<u>(2,566,000)</u>
Balance, end of year	<u>\$ 5,708,543</u>	<u>\$ 5,323,354</u>

Note 4 – Property and Equipment

Property and equipment consisted of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 45,392,002	\$ 44,338,751
Furniture and equipment	<u>3,592,924</u>	<u>3,390,573</u>
	48,984,926	47,729,324
Less: accumulated depreciation	<u>(19,179,664)</u>	<u>(16,558,319)</u>
	29,805,262	31,171,005
Construction in progress	<u>378,331</u>	<u>376,481</u>
Property and equipment, net of accumulated depreciation	<u>\$ 30,183,593</u>	<u>\$ 31,547,486</u>

In 2021, SDHH disposed of approximately \$6,800,000 of fully depreciated property and equipment as part of the CORE project.

Note 5 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of \$981,593 and \$1,133,427 as of June 30, 2022 and 2021, respectively. Additionally, five and four employees have 457(b) deferred compensation plans as of June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021, the balance of these combined arrangements was \$561,351 and \$583,848, respectively, which is included in the statements of financial position in deposits and other long-term liabilities and as investments held by trustees pursuant to deferred compensation agreements, respectively.

Note 6 – COVID-19 Pandemic and Government Funding

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 22, 2020, the World Health Organization characterized COVID-19 as a pandemic. It is anticipated that these impacts will continue for some time.

Future potential impacts of the pandemic and resulting economic downturn may include decrease in census, disruptions or restrictions on our employees' ability to work, infections of staff or residents, residents' ability to pay the required monthly rent, and increased cost for required cleaning and personal protective equipment. Operating functions that have changed include admissions protocol, employee and resident viral testing, and cleaning and disinfectant requirements. The future effects of these issues are unknown.

To combat the financial effects of COVID-19, on March 27, 2020, Congress passed a \$2.3 trillion stimulus bill. Included in the bill was a provision for \$100 billion of financial support for health care providers. In April and May 2020, the U.S. Department of Health & Human Services (HHS) distributed \$50 billion of the \$100 billion in the form of grants to health care providers. During the year ended June 30, 2021, SDHH received \$231,982 in HHS grants and signed attestations agreeing to the terms and conditions of payment. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, limitations of out-of-pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. SDHH expended \$0 and \$310,950 of these grant funds during the years ended June 30, 2022 and 2021, respectively, which is included in grant income in the statement of operations. There were no unexpended grant funds as of June 30, 2022 and 2021.

Note 7 – Long-Term Debt

Long-term debt consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Term loan	\$ 7,264,275	\$ 7,542,341
Less: amounts classified as current	(264,571)	(278,066)
Total long-term debt	\$ 6,999,704	\$ 7,264,275

SDHH has a term loan with a bank subject to repayment over a term of 240 months and matures in September 2039. The Credit Agreement bears interest at 4.25 percent per annum. The note is secured by a security interest in security accounts of Seacrest Foundation. The outstanding borrowings as of June 30, 2022 and 2021, were \$7,264,275 and \$7,542,341, respectively.

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Notes to Financial Statements

Note 7 – Long-Term Debt (continued)

The Credit Agreement is secured by a guaranty by Seacrest Foundation and requires SDHH to maintain compliance with certain financial covenants, including maintaining a ratio of cash flow from operations to debt service not less than 1.25 to 1.

In April 2020, SDHH was granted a loan under the Paycheck Protection Program offered by the Small Business Association (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), section 7(a) (36) of the Small Business Act for \$2,375,667. The loan was subject to partial or full forgiveness if SDHH used all proceeds for eligible purposes; maintained certain employment levels; and maintained certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance. SDHH received notification of full forgiveness by the SBA on June 8, 2021, and recognized a gain on debt extinguishment of \$2,375,667 during the year ended June 30, 2021.

Principal maturities of long term-debt are due as follows:

Years Ending June 30,	
2023	\$ 264,571
2024	302,238
2025	316,330
2026	330,233
2027	344,747
Thereafter	<u>5,706,156</u>
	<u>\$ 7,264,275</u>

Note 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
SDHH time restricted	\$ 2,005,344	\$ 1,744,255
SDHH operations	545,988	65,805
SDHH charitable care	630,766	1,458,779
SDHH capital expansion	<u>158,588</u>	<u>49,350</u>
	<u>\$ 3,340,686</u>	<u>\$ 3,318,189</u>

SDHH time restricted represents contributions received by the Foundation for the benefit of SDHH that may be used for any SDHH purpose upon being granted by the Foundation.

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Notes to Financial Statements

Note 8 – Net Assets with Donor Restrictions (continued)

During the years ended June 30, 2022 and 2021, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2022	2021
Available to support operations		
Satisfaction of purpose restrictions	\$ 2,440,556	\$ 2,754,746
Capital improvements	\$ -	\$ 57,561

Note 9 – Functional Expenses

SDHH provides care to its residents and patients within their geographic location. The financial statements report certain expense categories that are attributable to more than one program or support services function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest, and other occupancy costs, are allocated to a function based on a square footage or units of services basis.

Expenses related to providing these services for the years ended June 30, 2022 and 2021, are as follows:

	2022		
	Program Services	Supporting Services General and Administrative	Total
Salaries	\$ 9,638,628	\$ 1,834,678	\$ 11,473,306
Benefits	1,047,479	171,177	1,218,656
Utilities and food	2,165,516	-	2,165,516
Purchased services	1,734,510	542,721	2,277,231
Interest expense	318,588	-	318,588
Depreciation	2,543,599	77,745	2,621,344
Regulatory fees	317,488	-	317,488
Ancillary	937,421	-	937,421
Other	926,760	190,643	1,117,403
	\$ 19,629,989	\$ 2,816,964	\$ 22,446,953

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Notes to Financial Statements

Note 9 – Functional Expenses (continued)

	2021		
	Program Services	Supporting Services General and Administrative	Total
Salaries	\$ 9,159,626	\$ 1,854,178	\$ 11,013,804
Benefits	1,196,060	140,130	1,336,190
Utilities and food	1,992,769	-	1,992,769
Purchased services	1,434,449	390,933	1,825,382
Interest expense	330,336	-	330,336
Depreciation	2,274,189	78,399	2,352,588
Regulatory fees	309,349	-	309,349
Ancillary	915,389	133,291	1,048,680
Other	840,812	-	840,812
	<u>\$ 18,452,979</u>	<u>\$ 2,596,931</u>	<u>\$ 21,049,910</u>

Note 10 – Related-Party Transactions

SDHH is the primary beneficiary of a fundraising organization, Seacrest Foundation. For the years ended June 30, 2022 and 2021, Seacrest Foundation granted to SDHH \$2,069,979 and \$2,566,000, respectively.

SDHH is also party to a management services agreement with the Foundation whereby it provides management services. In July 2016, the management services agreement was amended to also include fundraising efforts, which were to be passed through to the Foundation at SDHH's cost. SDHH recognized \$30,000 in management services revenue for each of the years ended June 30, 2022 and 2021, and SDHH passed-through fundraising costs to the Foundation of \$722,280 and \$599,886 for the years ended June 30, 2022 and 2021, respectively. The amount due to SDHH from the Foundation related to this management services agreement was \$141,816 and \$52,979 as of June 30, 2022 and 2021, respectively. These amounts are recorded as accounts receivable – related party on the statements of financial position.

Seacrest Holdings Corp. is a nonprofit corporation organized to conduct or support activities for the benefit of SDHH. Seacrest Holdings Corp. leased land and buildings located in Encinitas to SDHH. The annual commitment for the Encinitas property is \$7,200 through December 31, 2024.

Note 11 – Retirement Plans

SDHH provides a defined contribution retirement plan (the "Plan") for full-time and part-time employees who meet certain eligibility requirements. The Plan allows for a discretionary contribution. Discretionary contribution expense was \$183,216 for each of the years ended June 30, 2022 and 2021.

Note 11 – Retirement Plans (continued)

Additionally, SDHH has a nonqualified retirement plan to provide benefits to those employees with greater than 20 years of service as of July 1, 1994. In connection with this plan, SDHH has recorded a liability of \$21,000 for each of the years ended June 30, 2022 and 2021.

Note 12 – Contingencies

Litigation – From time to time, SDHH is subject to various litigation as a result of its ongoing business activities. Management believes that the outcome of any such litigation will not have a material adverse effect on SDHH's financial position, results of operations, or liquidity.

Regulatory matters – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws or regulations, specifically those relating to Medicare and Medi-Cal programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal and state government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Professional, general, and workers' compensation liability insurance – SDHH is insured for professional and general liability losses through commercial carriers. The professional and general liability policy is a "claims-made" policy with limits of \$1,000,000 per claim and \$3,000,000 aggregate. SDHH also has excess insurance coverage with limits of \$7,000,000 per claim and \$7,000,000 aggregate.

Prior to January 1, 2017, SDHH was insured for workers' compensation liability losses through a commercial carrier with policy limits of \$1,000,000 per accident.

Effective January 1, 2017, SDHH is self-insured for its workers' compensation through a nonprofit mutual benefit corporation ("Group") organized under the Nonprofit Mutual Benefit Corporation Law of California. SDHH is covered up to \$1,000,000 for the payment of medical, indemnity, and legal costs of claims.

SDHH is also covered by a supplemental policy for excess workers' compensation coverage that pays all statutory benefits in excess of a retention limit of \$500,000. SDHH believes there is adequate coverage provided by the nonprofit mutual benefit corporation.

As required by the state of California Department of Industrial Relations, Office of Self-Insurance Plans (OSIP), the Group obtained a surety bond from two insurance carriers. As of December 31, 2020 and 2019 (the Group's year-end), the Group has a surety bond from Liberty Mutual Insurance Company in the amount \$1,466,823 and \$2,080,322, respectively. Additionally, as of December 31, 2020 and 2019, the Group obtained a surety bond from Westchester Fire Insurance Company in the amount of \$20,199,826 and \$20,199,824, respectively. These surety bonds satisfy the financial security requirement for self-insured plans.

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Notes to Financial Statements

Note 12 – Contingencies (continued)

As a condition from surety carriers in return for obtaining the surety bond posted by the program to OSIP, each participating member in the program is required to sign a General Agreement of Indemnity. In the event that Liberty Mutual is called upon to satisfy any outstanding obligation of the Group, Liberty Mutual has the right of indemnification from each member on a joint and several basis. There were 22 and 23 members as of December 31, 2021 and 2020, respectively.

Note 13 – Liquidity and Availability

Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of June 30, 2022, comprised the following:

Cash	\$ 949,088
Investments	4,678,500
Accounts receivable, net	616,763
Accounts receivable – related party	141,816
Interest receivable	<u>62,236</u>
	<u>\$ 6,448,403</u>

The Company has structured its financial assets and liquidity resources to be available within one year for its operating expenses, obligations, and capital construction costs not financed with debt. The Company maximizes its earnings potential on liquid assets by investing in short-term instruments such as money market funds and certificates of deposit.