REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

SAN DIEGO HEBREW HOMES

June 30, 2021 and 2020

MOSSADAMS

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Report of Independent Auditors

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

Report on Financial Statements

We have audited the accompanying financial statements of San Diego Hebrew Homes ("SDHH"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Hebrew Homes as of June 30, 2021 and 2020, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, SDHH adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Irvine, California
August 23, 2021

ASSETS

	June 30, 2021	June 30, 2020
CURRENT ASSETS		
Cash	$ 3,473,402	$ 3,823,908
Investments	3,601,199	3,419,126
Accounts receivable	729,659	849,792
Accounts receivable – related party	52,979	415,277
Interest receivable	18,065	24,153
Prepaid expenses and other current assets	433,905	399,561
Total current assets	8,309,209	8,931,817
INTEREST IN NET ASSETS OF SEACREST FOUNDATION	5,323,354	4,205,034
PROPERTY AND EQUIPMENT, net of accumulated depreciation	31,547,486	31,744,247
INVESTMENTS HELD BY TRUSTEES PURSUANT TO DEFERRED COMPENSATION AGREEMENTS	1,717,275	1,216,914
Total assets	$ 46,897,324	$ 46,098,012

LIABILITIES AND NET ASSETS

	June 30, 2021	June 30, 2020
CURRENT LIABILITIES		
Long-term debt, current portion	$ 278,066	$ 1,322,211
Accounts payable	860,569	1,082,678
Accrued expenses	1,435,240	1,370,368
Deferred grant income	-	78,969
Other liabilities	47,378	48,656
Total current liabilities	2,621,253	3,902,882
LONG-TERM DEBT, net of current portion	7,264,275	8,862,157
DEPOSITS AND OTHER LONG-TERM LIABILITIES	2,046,149	1,520,934
Total liabilities	11,931,677	14,285,973
NET ASSETS		
Without donor restriction	31,647,458	29,448,785
With donor restriction	3,318,189	2,363,254
Total net assets	34,965,647	31,812,039
Total liabilities and net assets	$ 46,897,324	$ 46,098,012

San Diego Hebrew Homes
Statements of Operations

	For the Years Ended June 30, 2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS, AND OTHER SUPPORT		
Resident services	$ 10,562,307	$ 10,908,136
Skilled nursing services	6,901,043	6,890,012
Management services	177,809	180,415
Investment income, net	176,340	111,370
Grant income	310,950	515,486
Other income	11,130	42,045
Net assets released from restrictions, used for operations	2,754,746	1,613,102
Total revenues, gains, and other support	20,894,325	20,260,566
OPERATING EXPENSES		
Salaries	11,013,804	11,423,688
Benefits	1,336,190	1,239,416
Utilities and food	1,992,769	1,932,448
Purchased services	1,825,382	1,732,695
Interest expense	330,336	299,474
Depreciation	2,352,588	1,918,636
Regulatory fees	309,349	359,041
Ancillary	1,048,680	1,301,732
Other	840,812	1,176,442
Total operating expenses	21,049,910	21,383,572
LOSS FROM OPERATIONS	(155,585)	(1,123,006)
OTHER INCOME		
Gain on debt extinguishment	2,375,667	-
Total other income	2,375,667	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 2,220,082	$ (1,123,006)

See notes to financial statements.

	For the Years Ended June 30, 2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Excess (deficiency) of revenue over expenses	$ 2,220,082	$ (1,123,006)
Unrealized gains on investments, net	-	28,512
Net assets released from restrictions used for purchase of property and equipment	57,561	15,000
Change in net assets without donor restriction	2,277,643	(1,079,494)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	3,952	7,877
Change in interest in net assets of Seacrest Foundation	3,684,320	2,437,333
Net assets released from restrictions used for operations	(2,754,746)	(1,613,102)
Net assets released from restrictions used for purchase of property and equipment	(57,561)	(15,000)
Change in net assets with donor restriction	875,965	817,108
CHANGE IN NET ASSETS	3,153,608	(262,386)
NET ASSETS, beginning of year	31,812,039	32,074,425
NET ASSETS, end of year	$ 34,965,647	$ 31,812,039

San Diego Hebrew Homes
Statements of Cash Flows

	For the Years Ended June 30, 2021	2020
OPERATING ACTIVITIES		
Change in net assets	$ 3,153,608	$ (262,386)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized gains	(82,538)	(28,512)
Depreciation	2,352,588	1,918,636
Gain on debt extinguishment	(2,375,667)	-
Net change in interest in net assets of Seacrest Foundation	(1,118,320)	(886,011)
Changes in operating assets and liabilities		
Accounts receivable, net	120,133	25,626
Accounts receivable – related party	362,298	(365,237)
Interest receivable	6,088	(1,780)
Prepaid expenses and other current assets	(34,344)	999
Accounts payable	(222,109)	7,403
Accrued expenses and other liabilities	63,594	150,177
Deferred grant income	(78,969)	78,969
Deposits and other long-term liabilities	525,215	(18,635)
Net cash provided by operating activities	2,671,577	619,249
INVESTING ACTIVITIES		
Purchase of investments	(855,822)	(982,074)
Proceeds from sale of investments	810,263	879,198
Investments held by trustees	(500,361)	(42,313)
Purchases of property and equipment	(2,155,827)	(6,143,267)
Net cash used by investing activities	(2,701,747)	(6,288,456)
FINANCING ACTIVITIES		
Proceeds from long-term debt	-	8,909,667
Principal payments on long-term debt	(266,360)	(191,299)
Net cash (used in) provided by financing activities	(266,360)	8,718,368
NET CHANGE IN CASH AND RESTRICTED CASH EQUIVALENTS	(296,530)	3,049,161
Cash and restricted cash equivalents, beginning of year	4,009,008	959,847
Cash and restricted cash equivalents, end of year	$ 3,712,478	$ 4,009,008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 331,280	$ 276,574
Accrued purchases of property and equipment	$ -	$ 263,385

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. On September 11, 2019, SDHH ceased operation of its Poway facility due to the sale of the property (see Note 5). The Poway facility was a 54-unit independent living facility operation.

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.

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

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

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.

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, 2021 and 2020, due to the relative short maturities of these instruments.

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

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:

	2021	2020
Cash	$ 3,473,402	$ 3,823,908
Restricted cash equivalents included in investments held by trustees pursuant to deferred compensation agreements	239,076	185,100
Cash and restricted cash equivalents as reported in statements of cash flows	$ 3,712,478	$ 4,009,008

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 excess (deficiency) 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.

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 to 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.

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

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.

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 polices 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.

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

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, 2021 and 2020, approximately 91% and 90%, respectively, 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.

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, 2021 and 2020, was not significant.

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

The following table shows skilled nursing services revenue by payor category for the years ended June 30, 2021 and 2020:

	2021	2020
Medicare	$ 1,334,745	$ 2,101,930
Medi-Cal managed care	2,306,747	2,320,175
Private	1,912,559	1,815,648
Other third-party payors	1,346,992	652,259
	$ 6,901,043	$ 6,890,012

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.

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 $2,241,000 and $2,783,000 for the years ended June 30, 2021 and 2020, respectively. Charity care is given based upon the applications received each year. SDHH received contributions of approximately $1,500,000 and $1,292,000 in the years ended June 30, 2021 and 2020, respectively, in support of charitable care.

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

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, 2021 and 2020. 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, 2021 and 2020, SDHH had cash balances of $3,468,758 and $3,569,345, 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.

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 37% and 38% of net accounts receivable as of June 30, 2021 and 2020, respectively. Medicare programs represented 22% and 19% of net accounts receivable as of June 30, 2021 and 2020, respectively. 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. For the year ended June 30, 2020, Medi-Cal and Medicare programs represented 36% and 28%, 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.

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

Recent accounting standards – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, this update will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in this update will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in this update also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. SDHH adopted the provisions of this ASU retrospectively to all periods presented. The adoption of this ASU did not have an impact on the timing or period of revenue recognition.

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.

Reclassifications – Certain reclassifications have been made to the 2020 amounts to conform to the current year presentation.

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 23, 2021, which is the date the financial statements were available to be issued.

Note 2 – Investments

Investments are categorized by the fair value hierarchy level and consist of the following as of June 30, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Total
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
	3,236,605	106,881	257,713	3,601,199
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
	1,678,440	-	38,835	1,717,275
Total Investments	$ 4,915,045	$ 106,881	$ 296,548	$ 5,318,474

Note 2 – Investments (continued)

	2020			
	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 2,531,500	$ -	$ -	$ 2,531,500
Certificates of deposit	-	407,568	-	407,568
Pooled fund	-	206,525	-	206,525
Money market funds	-	273,533	-	273,533
	2,531,500	887,626	-	3,419,126
Investments held by trustees				
Money market funds	-	185,100	-	185,100
Unit investment trust	-	41,439	-	41,439
Mutual funds				
U.S. equity – large cap	880,729	-	-	880,729
Growth	33,973	-	-	33,973
REIT	28,200	-	-	28,200
Bonds	16,319	-	-	16,319
Non-U.S. equity	18,371	-	-	18,371
U.S. equity – small/mid cap	12,783	-	-	12,783
	990,375	226,539	-	1,216,914
Total Investments	$ 3,521,875	$ 1,114,165	$ -	$ 4,636,040

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, 2021 and 2020, consists of the following:

	2021	2020
Dividends and interest	$ 92,539	$ 111,047
Realized gains (losses) on investments, net	2,678	1,561
Unrealized gains	82,538	-
Investment expenses	(1,415)	(1,238)
	$ 176,340	$ 111,370

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, 2021 and 2020, are summarized as follows:

	2021	2020
Balance, beginning of year	$ 4,205,034	$ 3,319,023
Change in the net assets of the Foundation before contribution to SDHH	3,684,320	2,437,333
Foundation contributions to SDHH	(2,566,000)	(1,551,322)
Balance, end of year	$ 5,323,354	$ 4,205,034

Note 4 – Property and Equipment

Property and equipment consist of the following as of June 30, 2021 and 2020:

	2021	2020
Leasehold improvements	$ 44,338,751	$ 39,894,378
Furniture and equipment	3,390,573	2,924,741
	47,729,324	42,819,119
Less: accumulated depreciation	(16,558,319)	(20,994,804)
	31,171,005	21,824,315
Construction in progress	376,481	9,919,932
Property and equipment, net of accumulated depreciation	$ 31,547,486	$ 31,744,247

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

Note 5 – Sale of Poway Facility

The owner of the Poway, California, senior residential facility, operated by SDHH, entered into a Purchase and Sale Agreement on June 28, 2019, with a third party. The sale closed on September 11, 2019, at which date SDHH ceased its operations in Poway. The agreement includes the sale of nearly all land, building, furniture, and equipment, including those owned by SDHH and recorded as leasehold improvements. As such, SDHH determined that such leasehold improvements had been impaired as of June 30, 2019, and a loss on impairment of $814,490 was recognized for the year ended June 30, 2019.

Note 6 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of $1,133,427 and $801,832 as of June 30, 2021 and 2020, respectively. Additionally, four employees have 457(b) deferred compensation plans as of June 30, 2021 and 2020. As of June 30, 2021 and 2020, the balance of these combined arrangements was $583,848 and $415,082, 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 7 – 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. SDHH received $751,436 in 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 $310,950 and $440,486 of these grant funds during the years ended June 30, 2021 and 2020, respectively, which is included in grant income in the statement of operations. Unexpended grant funds totaling $0 and $78,969 as of June 30, 2021 and 2020, respectively, are included in deferred grant income on the statements of financial position.

In March 2020, SDHH received $75,000 from the California Governor’s Office of Emergency Services (Cal OES). The grant was part of the FY2017 California State Non-Profit Security Grant Program (CSNSGP). The funding was granted and expended for Cal OES approved security enhancements to the Encinitas campus. All security enhancements were completed prior to funding receipt. The grant is subject to a future Cal OES audit of security enhancement completion.

Note 8 – Long-Term Debt

Long-term debt consists of the following as of June 30, 2021 and 2020:

	2021	2010
Term loan	$ 7,542,341	$ 7,808,701
Paycheck Protection Program loan	-	2,375,667
	7,542,341	10,184,368
Less: amounts classified as current	(278,066)	(1,322,211)
Total long-term debt	$ 7,264,275	$ 8,862,157

On March 7, 2019, SDHH entered into a long-term credit arrangement with a bank for up to $8,000,000 (“Credit Agreement”). The Credit Agreement allowed for advances through September 1, 2019, as requested by SDHH. On September 1, 2019, the undisbursed principal was disbursed, and the Credit Agreement converted to a term loan subject to repayment over a term of 240 months. 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, 2021 and 2020, were $7,542,341 and $7,808,701, respectively.

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 has 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,	
2022	$ 278,066
2023	290,288
2024	302,238
2025	316,330
2026	330,233
Thereafter	6,025,186
	$ 7,542,341

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2021 and 2020:

	2021	2020
SDHH time restricted	$ 1,744,255	$ 1,794,879
SDHH operations	65,805	221,375
SDHH charitable care	1,458,779	-
SDHH capital expansion	49,350	347,000
	$ 3,318,189	$ 2,363,254

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.

During the years ended June 30, 2021 and 2020, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2021	2020
Available to support operations		
Satisfaction of purpose restrictions	$ 2,754,746	$ 1,613,102
Capital improvements	$ 57,561	$ 15,000

Note 10 – 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.

Note 10 – Functional Expenses (continued)

Expenses related to providing these services for the years ended June 30, 2021 and 2020, are as follows:

	2021		
		Supporting Services	
	Program 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
	$ 18,452,979	$ 2,596,931	$ 21,049,910

	2020		
		Supporting Services	
	Program Services	General and Administrative	Total
Salaries	$ 9,476,142	$ 1,947,546	$ 11,423,688
Benefits	1,104,298	135,118	1,239,416
Utilities and food	1,932,448	-	1,932,448
Purchased services	1,284,783	447,912	1,732,695
Interest expense	299,474	-	299,474
Depreciation	1,833,927	84,709	1,918,636
Regulatory fees	359,041	-	359,041
Ancillary	1,301,732	-	1,301,732
Other	1,033,127	143,315	1,176,442
	$ 18,624,972	$ 2,758,600	$ 21,383,572

Note 11 – Related-Party Transactions

SDHH is the primary beneficiary of a fundraising organization, Seacrest Foundation. For the years ended June 30, 2021 and 2020, Seacrest Foundation granted to SDHH $2,566,000 and $1,551,322, 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, 2021 and 2020, and SDHH passed-through fundraising costs to the Foundation of $599,886 and $866,215 for the years ended June 30, 2021 and 2020, respectively. The amount due to SDHH from the Foundation related to this management services agreement was $51,065 and $327,579 as of June 30, 2021 and 2020, 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 and Poway to SDHH, prior to the sale of the Poway facility. See Note 5 for further discussion of the Poway facility. The annual commitment for the Encinitas property is $7,200 through December 31, 2024. The annual commitment for the Poway property was $1,200 through September 10, 2019. Also, as of June 30, 2021 and 2020, Seacrest Holdings Corp. owed SDHH $0 and $86,005, respectively, related to certain expenses incurred by SDHH on Seacrest Holding Corp.'s behalf. These amounts are recorded as accounts receivable – related party on the statements of financial position.

Note 12 – 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 and $170,067 for the years ended June 30, 2021 and 2020, respectively.

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, 2021 and 2020.

Note 13 – 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.

Note 13 – Contingencies (continued)

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.

In accordance with ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, SDHH discloses in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries. The estimated liability and insurance recoveries for workers' compensation claims amounted to $22,875 and $49,010 for the years ended June 30, 2021 and 2020, respectively. Insurance recoveries payable are included in other current liabilities on the statements of financial position.

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 $2,080,322 and $3,002,428, respectively. Additionally, as of December 31, 2020 and 2019, the Group obtained a surety bond from Westchester Fire Insurance Company in the amount of $20,199,824 and $20,199,826, respectively. These surety bonds satisfy the financial security requirement for self-insured plans.

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 23 and 24 members as of December 31, 2021 and 2020, respectively.

Note 14 – Liquidity and Availability

Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of June 30, 2021, comprise the following:

Cash	$ 3,473,402
Investments	3,601,199
Accounts receivable, net	729,659
Accounts receivable – related party	52,979
Interest receivable	18,065
	$ 7,875,304

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.