REPORT OF INDEPENDENT AUDITORS
AND COMBINED FINANCIAL STATEMENTS

SAN DIEGO HEBREW HOMES AND AFFILIATE

June 30, 2019 and 2018

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Report of Independent Auditors

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

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of San Diego Hebrew Homes and Affiliate ("SDHH"), which comprise the combined statements of financial position as of June 30, 2019 and 2018, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of San Diego Hebrew Homes and Affiliate as of June 30, 2019 and 2018, 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 1 to the combined financial statements, as of and for the year ended June 30, 2019, San Diego Hebrew Homes and Affiliate adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Irvine, California
August 30, 2019

ASSETS

	June 30, 2019	June 30, 2018
CURRENT ASSETS		
Cash	$ 793,218	$ 2,434,555
Investments	3,287,738	3,049,154
Accounts receivable, net of allowance for doubtful accounts of $140,630 and $95,869	875,418	690,267
Accounts receivable - related party	50,040	199,075
Interest receivable	22,373	21,895
Prepaid expenses and other current assets	400,560	299,365
Total current assets	5,429,347	6,694,311
INTEREST IN NET ASSETS OF SEACREST FOUNDATION	3,319,023	1,653,419
PROPERTY AND EQUIPMENT, net of accumulated depreciation	27,866,238	26,641,842
INVESTMENTS HELD BY TRUSTEES PURSUANT TO DEFERRED COMPENSATION AGREEMENTS	1,156,130	993,761
Total assets	$ 37,770,738	$ 35,983,333

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Long-term debt, current portion	$ 193,575	$ -
Accounts payable	1,421,897	736,334
Accrued expenses	1,243,091	1,218,776
Other liabilities	25,756	21,000
Total current liabilities	2,884,319	1,976,110
LONG-TERM DEBT, net of current portion	1,272,425	-
DEPOSITS AND OTHER LONG-TERM LIABILITIES	1,539,569	1,409,843
Total liabilities	5,696,313	3,385,953
NET ASSETS		
Without donor restriction	30,528,279	32,000,680
With donor restriction	1,546,146	596,700
Total net assets	32,074,425	32,597,380
Total liabilities and net assets	$ 37,770,738	$ 35,983,333

San Diego Hebrew Homes and Affiliate
Combined Statements of Operations

	For the Years Ended June 30, 2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS, AND OTHER SUPPORT		
Resident services	$ 12,569,104	$ 12,755,076
Skilled nursing services	5,662,152	6,471,113
Management services	179,480	170,986
Investment income, net	96,892	104,217
Other income	48,277	52,947
Net assets released from restrictions, used for operations	2,327,642	2,063,042
Total revenues, gains, and other support	20,883,547	21,617,381
OPERATING EXPENSES		
Salaries	11,308,620	11,240,873
Benefits	1,473,873	1,453,598
Utilities and food	2,363,380	2,313,785
Purchased services	1,759,438	1,731,500
Interest expense	25,302	-
Depreciation	2,159,267	2,166,040
Regulatory fees	266,929	315,263
Ancillary	1,078,597	1,161,487
Other	1,149,461	1,089,758
Loss on impairment	814,490	-
Total operating expenses	22,399,357	21,472,304
OTHER EXPENSES		
Grant expense	100,000	100,000
Total other expenses	100,000	100,000
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	$ (1,615,810)	$ 45,077

	For the Years Ended June 30, 2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
(Deficiency) excess of revenue over expenses	$ (1,615,810)	$ 45,077
Unrealized gains (losses) on investments, net	143,409	(95,133)
Net assets released from restrictions used for purchase of property and equipment	-	176,604
Change in net assets without donor restriction	(1,472,401)	126,548
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	11,750	43,768
Change in interest in net assets of Seacrest Foundation	3,265,336	2,677,922
Net assets released from restrictions used for operations	(2,327,640)	(2,063,042)
Net assets released from restrictions used for purchase of property and equipment	-	(176,604)
Change in net assets with donor restriction	949,446	482,044
CHANGE IN NET ASSETS	(522,955)	608,592
NET ASSETS, beginning of year	32,597,380	31,988,788
NET ASSETS, end of year	$ 32,074,425	$ 32,597,380

San Diego Hebrew Homes and Affiliate
Combined Statements of Cash Flows

	For the Years Ended June 30, 2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ (522,955)	$ 608,592
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gains) losses on investments	(143,409)	95,133
Depreciation	2,159,267	2,166,040
Loss on impairment	814,490	-
Net change in interest in net assets of Seacrest Foundation	(1,665,604)	(1,081,766)
Changes in operating assets and liabilities:		
Accounts receivable, net	(185,151)	156,116
Accounts receivable - related party	149,035	(150,644)
Interest receivable	(478)	(2,604)
Pledges receivable	-	250,000
Prepaid expenses and other current assets	(101,195)	99,470
Accounts payable	75,556	(1,280)
Accrued expenses	24,315	40,242
Deposits and other long-term liabilities	134,482	181,585
Net cash provided by operating activities	738,353	2,360,884
INVESTING ACTIVITIES		
Purchase of investments	(448,191)	(529,802)
Proceeds from sale of investments	353,016	428,330
Investments held by trustees	(162,369)	(157,877)
Purchases of property and equipment	(3,588,146)	(1,660,279)
Net cash used by investing activities	(3,845,690)	(1,919,628)
FINANCING ACTIVITIES		
Proceeds from long-term debt	1,466,000	-
Net cash provided by financing activities	1,466,000	-
NET CHANGE IN CASH	(1,641,337)	441,256
Cash, beginning of year	2,434,555	1,993,299
Cash, end of year	$ 793,218	$ 2,434,555
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 5,302	$ -
Accrued purchases of property and equipment	$ 610,007	$ 16,343

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 two San Diego County senior residential facilities consisting of 173 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.

In 1999, SDHH formed Generations Management Group, LLC ("GMG"), a for-profit Nevada limited liability company of which San Diego Hebrew Homes is the sole member, to provide healthcare management services. On July 12, 2017, GMG was officially dissolved.

Basis of combination – The combined financial statements include the accounts of San Diego Hebrew Homes and Generations Management Group, LLC (collectively referred to as the "Home"). All significant inter-organization accounts and transactions have been eliminated in the combined financial statements.

Reclassifications – Certain prior year amounts were reclassified to conform to current year presentation.

Use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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, the Home classifies resources into two categories: without donor restrictions and with donor restrictions.

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

Net Assets with Donor Restriction – Represent contributions that are limited in use by the Home 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 combined statements of operations include (deficiency) excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenue over expenses include net assets released from restriction used for capital expenditures and changes in unrealized gains and losses on investments.

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 the Home and other organizations. The Foundation has a separate board of directors over which the Home does not exercise majority control, and therefore, the operations of the Foundation are not included in the accompanying combined financial statements. The Home recognizes its interest in the net assets of the Foundation in accordance with Accounting Standards Codification (ASC) 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 – The Home 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. The Home applies fair value measurements to assets and liabilities that are required to be recorded at fair value under 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, 2019 and 2018, due to the relative short maturities of these instruments.

Investments – The Home carries investments in marketable securities with readily determinable fair values and all investments in debt securities at fair values in the combined 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 three to forty years.

Long-lived assets – The Home 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. As discussed in Note 6, the Home recognized an impairment loss of $814,490 for the year ended June 30, 2019. There was no impairment loss recognized for the year ended June 30, 2018.

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

Revenue recognition – Resident services and skilled nursing revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Home has provided for the difference between established charges for services provided to residents and patients and the estimated amounts realizable under the reimbursement principles of the programs in order to determine net patient revenue. While the Home's cash flow could be adversely affected by periodic government program funding delays or shortfalls, management does not believe there is any significant credit risk associated with these government programs.

The Home 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, 2019 and 2018, approximately 90% and 80%, respectively, of the Home's Medi-Cal residents are dual eligible. The Home 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 are longer for Medi-Cal managed care.

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

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 the Home with various programs. The services do not meet the criteria for recognition as a contribution, and are not reflected in the combined 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 the Home's charity care policy totaled approximately $2,580,000 and $2,236,000 for the years ended June 30, 2019 and 2018, respectively. Charity care is given based upon the applications received each year. SDHH received contributions of $1,199,000 and $1,466,000 in the years ended June 30, 2019 and 2018, 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 combined financial statements taken as a whole.

For federal income tax purposes, income or loss of GMG is that of the individual member, SDHH. No taxes were due for the years ended June 30, 2019 and 2018. Accordingly, no provisions for federal or state income taxes have been made in the combined financial statements.

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

The Home 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. The Home 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 the Home does not have any uncertain tax positions as of June 30, 2019 and 2018. The Home 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 the Home 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. The Home maintains its cash in bank deposit accounts that are either insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor, per institution. As of June 30, 2019 and 2018, the Home had cash balances of $543,218 and $2,179,256, 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 30% and 53% of net accounts receivable as of June 30, 2019 and 2018, respectively. Medicare programs represented 20% of net accounts receivable as of June 30, 2019 and 2018. For the year ending June 30, 2019, Medi-Cal and Medicare programs represented 39% and 28%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. For the year ending June 30, 2018, Medi-Cal and Medicare programs represented 34% and 30%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. The Home 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 – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Home has adjusted the presentation of these statements accordingly and has reclassified net assets as of June 30, 2018, as follows:

	Without Donor Restriction	With Donor Restriction
Unrestricted	$ 32,000,680	$ -
Temporarily restricted	-	596,700
Permanently restricted	-	-
	$ 32,000,680	$ 596,700

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 GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in this update also improves 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. The effective date of this update was deferred by ASU 2015-14, *Deferral of the Effective Date,* to annual periods beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of this update on the combined financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including requiring equity investments (other than those under the equity method) to be measured at each reporting at fair value through excess of revenue over expenses, with an exception allowed for equity investments that do not have readily determinable fair value, thereby eliminating the other-than-trading equity security designation. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the provisions of this update on the combined financial statements.

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

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. This update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of the provisions of this update on the combined financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),* to clarify and improve the scope and the accounting guidance for contributions received and made. The amendments should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 968, *Not-for-Profit Entities,* or as exchange (reciprocal) transactions subject to other guidance, and also in determining whether a contribution is conditional. For transactions in which an entity serves as a resource recipient, the entity should apply the amendments in this update on contributions received to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. For transactions in which an entity serves as a resource provider, the entity should apply the amendments in this update to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

Subsequent events – Subsequent events are events or transactions that occur after the combined statement of financial position date but before financial statements are available to be issued. The Home recognizes in the combined 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 combined financial statements. The Home's combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined statement of financial position but arose after the combined statement of financial position date and before the combined financial statements are available to be issued.

The Home has evaluated subsequent events through August 30, 2019, which is the date the combined 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, 2019:

	2019				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value	Total
Investments:					
Corporate bonds	$ 2,367,273	$ -	$ -	$ -	$ 2,367,273
Certificates of deposit	-	319,702	-	-	319,702
Pooled fund	-	-	-	201,591	201,591
Money market funds	417,837	-	-	-	417,837
Foreign corporate bonds	-	147,965	-	-	147,965
Unit investment trust	-	-	-	27,142	27,142
Mutual funds:					
U.S. equity - large cap	838,846	-	-	-	838,846
REIT	36,997	-	-	-	36,997
Bonds	22,457	-	-	-	22,457
Non-U.S. equity	13,219	-	-	-	13,219
U.S. equity - small/mid cap	50,839	-	-	-	50,839
Total	$ 3,747,468	$ 467,667	$ -	$ 228,733	$ 4,443,868

Investments are categorized by the fair value hierarchy level and consist of the following as of June 30, 2018:

	2018				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value	Total
Investments:					
Corporate bonds	$ 2,198,375	$ -	$ -	$ -	$ 2,198,375
Certificates of deposit	-	410,529	-	-	410,529
Pooled fund	-	-	-	190,988	190,988
Money market funds	231,183	-	-	-	231,183
Foreign corporate bonds	-	138,989	-	-	138,989
Unit investment trust	-	-	-	25,906	25,906
Mutual funds:					
U.S. equity - large cap	778,307	-	-	-	778,307
REIT	28,675				28,675
Bonds	13,925	-	-	-	13,925
Non-U.S. equity	11,366	-	-	-	11,366
U.S. equity - small/mid cap	14,672	-	-	-	14,672
Total	$ 3,276,503	$ 549,518	$ -	$ 216,894	$ 4,042,915

Note 2 – Investments (continued)

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, 2019 and 2018, consists of the following:

	2019	2018
Dividends and interest	$ 107,513	$ 105,355
Realized loss on investments, net	(9,453)	-
Unrealized gains (losses)	143,409	(95,133)
Investment expenses	(1,168)	(1,138)
	$ 240,301	$ 9,084

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, 2019 and 2018, are summarized as follows:

	2019	2018
Balance, beginning of year	$ 1,653,419	$ 571,653
Change in the net assets of the Foundation before contribution to the Home	3,265,336	2,677,922
Foundation contributions to the Home	(1,599,732)	(1,596,156)
Balance, end of year	$ 3,319,023	$ 1,653,419

Note 4 – Pledges Receivable

SDHH had a pledge receivable of $250,000 as of June 30, 2017, which was due in 2018 and was paid in full. There were no pledges receivable as of June 30, 2019 and 2018.

Note 5 – Property and Equipment

Property and equipment consists of the following as of June 30, 2019 and 2018:

	2019	2018
Leasehold improvements	$ 41,004,938	$ 40,586,926
Furniture and equipment	3,192,728	3,375,646
	44,197,666	43,962,572
Less accumulated depreciation	(21,053,072)	(18,351,913)
	23,144,594	25,610,659
Construction in progress	4,721,644	1,031,183
Property and equipment, net of accumulated depreciation	$ 27,866,238	$ 26,641,842

Note 6 – Pending 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 is anticipated to close on September 11, 2019, at which date SDHH will cease 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 7 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of $800,523 and $716,667 as of June 30, 2019 and 2018, respectively. Additionally, five employees have 457(b) deferred compensation plans as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, the balance of these combined arrangements was $355,607 and $277,094, respectively, which is included in the combined statements of financial position in deposits and other long-term liabilities and as investments held by trustees pursuant to deferred compensation agreements, respectively.

Note 8 – Long-Term Debt

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 allows for advances through September 1, 2019, as requested by SDHH. On September 1, 2019, the undisbursed principal will be disbursed, and the Credit Agreement will convert 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 borrowing as of June 30, 2019, was $1,466,000.

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.

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

Year Ending June 30,	
2020	$ 193,575
2021	267,870
2022	279,479
2023	291,591
2024	304,228
Thereafter	129,257
	$ 1,466,000

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2019 and 2018:

	2019	2018
SDHH time restricted	$ 1,197,500	$ -
SDHH operations	74,331	9,400
SDHH charitable care	15,815	587,300
SDHH capital expansion	258,500	-
	$ 1,546,146	$ 596,700

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.

Note 9 – Net Assets with Donor Restrictions (continued)

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2019	2018
Available to support operations:		
Satisfaction of purpose restrictions	$ 2,327,640	$ 2,063,042
Total available to support operations	$ 2,327,640	$ 2,063,042
Capital improvements	$ -	$ 176,604

Note 10 – Functional Expenses

The Home provides care to its residents and patients within their geographic location. Expenses related to providing these services are as follows for the years ended June 30, 2019 and 2018:

	2019	2018
Program services	$ 19,619,746	$ 18,744,342
Supporting services:		
General and administrative	2,779,611	2,727,962
	$ 22,399,357	$ 21,472,304

The combined 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 year ended June 30, 2019, are as follows:

	Program Services	Supporting Services General and Administrative	Total
Salaries	$ 9,434,822	$ 1,873,798	$ 11,308,620
Benefits	1,320,841	153,032	1,473,873
Utilities and food	2,363,380	-	2,363,380
Purchased services	1,380,560	378,878	1,759,438
Interest expense	25,302	-	25,302
Depreciation	2,075,516	83,751	2,159,267
Regulatory fees	266,929	-	266,929
Ancillary	1,078,597	-	1,078,597
Other	859,309	290,152	1,149,461
Loss on impairment	814,490	-	814,490
	$ 19,619,746	$ 2,779,611	$ 22,399,357

Note 11 – Related-Party Transactions

SDHH is the primary beneficiary of two fundraising organizations, Guardians of San Diego, Inc. and Seacrest Foundation. For the years ended June 30, 2019 and 2018, Guardians of San Diego, Inc. contributed to SDHH $0 and $35,767, respectively. For the years ended June 30, 2019 and 2018, Seacrest Foundation granted to SDHH $1,599,732 and $1,596,158, 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, 2019 and 2018, and SDHH passed-through fundraising costs to the Foundation of $682,061 and $884,148 for the years ended June 30, 2019 and 2018, respectively. The amount due to SDHH from the Foundation related to this management services agreement was $35,109 and $199,075 as of June 30, 2019 and 2018, respectively. These amounts are recorded as accounts receivable – related party on the combined statements of financial position.

Note 11 – Related-Party Transactions (continued)

Seacrest Holdings Corp. is a nonprofit corporation organized to conduct or support activities for the benefit of SDHH. Seacrest Holdings Corp. leases land and buildings located in Encinitas and Poway to SDHH under a renewable triple net lease. The annual commitment for the Encinitas property is $7,200 through December 31, 2024. The annual commitment for the Poway property is $1,200 through December 31, 2019. See Note 6 for further discussion of Poway facility. Also, as of June 30, 2019, Seacrest Holdings Corp. owed SDHH $14,931 related to certain expenses incurred by SDHH on Seacrest Holding Corp.'s behalf. There were no such amounts as of June 30, 2018. These amounts are recorded as accounts receivable – related party on the combined statement of financial position.

Note 12 – Retirement Plans

The Home 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 $187,472 and $268,394 for the years ended June 30, 2019 and 2018, respectively.

Additionally, the Home has a nonqualified retirement plan to provide benefits to those employees with greater than twenty years of service as of July 1, 1994. In connection with this plan, the Home has recorded a liability of $21,000 for each of the years ending June 30, 2019 and 2018.

Note 13 – Contingencies

Litigation – From time to time, the Home 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 the Home'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 worker compensation liability insurance – The Home 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. The Home also has excess insurance coverage with limits of $12,000,000 per claim and $12,000,000 aggregate.

Prior to January 1, 2017, the Home was insured for worker compensation liability losses through a commercial carrier with policy limits were $1,000,000 per accident.

Note 13 – Contingencies (continued)

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 $20,949 and $42,322 for the years ended June 30, 2019 and 2018, 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, 2018 and 2017 (the Group's year-end), the Group has a surety bond from Liberty Mutual Insurance Company in the amount $4,826,675. Additionally, as of December 31, 2018 and 2017, the Group obtained a surety bond from Westchester Fire Insurance Company in the amount of $20,199,824 and $18,685,263, 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 25 and 29 members as of December 31, 2018 and 2017, 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, 2019, comprise the following:

Cash	$ 793,218
Investments	3,287,783
Accounts receivable, net	875,418
Accounts receivable - related party	50,040
Interest receivable	22,373
	$ 5,028,832

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 deposits.