

Report of Independent Auditors and Financial Statements

San Diego Hebrew Homes

June 30, 2023 and 2022

MOSSADAMS

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of San Diego Hebrew Homes, which comprise the statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of San Diego Hebrew Homes as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of San Diego Hebrew Homes and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Hebrew Homes' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Diego Hebrew Homes' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Hebrew Homes' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

Irvine, California
August 31, 2023

Financial Statements

San Diego Hebrew Homes
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 4,563	$ 949,088
Investments	4,247,133	4,678,500
Accounts receivable	796,296	616,763
Accounts receivable – related party	139,628	141,816
Employee Retention Tax Credit receivable	1,393,229	-
Interest receivable	38,558	62,236
Prepaid expenses and other current assets	558,348	432,872
Total current assets	7,177,755	6,881,275
INTEREST IN NET ASSETS OF SEACREST FOUNDATION	5,009,576	5,708,543
PROPERTY AND EQUIPMENT, net	28,805,685	30,183,593
RIGHT-OF-USE ASSET, net	62,053	-
INVESTMENTS HELD BY TRUSTEES PURSUANT TO DEFERRED COMPENSATION AGREEMENTS	1,839,797	1,542,944
Total assets	$ 42,894,866	$ 44,316,355
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 302,238	$ 264,571
Accounts payable	962,932	647,172
Accrued expenses	1,015,712	979,133
Current portion of operating lease liabilities	21,291	-
Other liabilities	73,816	46,729
Total current liabilities	2,375,989	1,937,605
OPERATING LEASE LIABILITIES, net of current portion	40,762	-
LONG-TERM DEBT, net of current portion	6,670,887	6,999,704
DEPOSITS AND OTHER LONG-TERM LIABILITIES	2,112,705	1,804,865
Total liabilities	11,200,343	10,742,174
NET ASSETS		
Without donor restriction	27,290,079	30,233,495
With donor restriction	4,404,444	3,340,686
Total net assets	31,694,523	33,574,181
Total liabilities and net assets	$ 42,894,866	$ 44,316,355

See accompanying notes.

San Diego Hebrew Homes
Statements of Operations
Years Ended June 30, 2023 and 2022

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS, AND OTHER SUPPORT		
Resident services	$ 11,719,639	$ 11,593,874
Skilled nursing services	7,440,305	6,941,229
Management services	182,833	186,319
Investment income (loss), net	20,206	(221,367)
Contributions	8,178	-
Employee Retention Tax Credit	1,393,229	-
Other income	101,699	92,379
Net assets released from restrictions, used for operations	598,757	2,440,556
Total revenues, gains, and other support	21,464,846	21,032,990
OPERATING EXPENSES		
Salaries	12,315,654	11,473,306
Purchased services	2,746,255	2,277,231
Utilities and food	2,643,769	2,165,516
Depreciation	2,535,380	2,621,344
Benefits	1,240,165	1,218,656
Other	1,149,458	1,117,403
Ancillary	1,149,268	937,421
Regulatory fees	322,852	317,488
Interest expense	305,461	318,588
Total operating expenses	24,408,262	22,446,953
DEFICIENCY OF REVENUES OVER EXPENSES	$ (2,943,416)	$ (1,413,963)

See accompanying notes.

San Diego Hebrew Homes
Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Deficiency of revenue over expenses	$ (2,943,416)	$ (1,413,963)
Change in net assets without donor restriction	(2,943,416)	(1,413,963)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	-	7,885
Change in interest in net assets of Seacrest Foundation	1,662,515	2,455,168
Net assets released from restrictions used for operations	(598,757)	(2,440,556)
Change in net assets with donor restriction	1,063,758	22,497
CHANGE IN NET ASSETS	(1,879,658)	(1,391,466)
NET ASSETS, beginning of year	33,574,181	34,965,647
NET ASSETS, end of year	$ 31,694,523	$ 33,574,181

See accompanying notes.

San Diego Hebrew Homes
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	$ (1,879,658)	$ (1,391,466)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized losses	49,177	358,702
Depreciation	2,535,380	2,621,344
Net change in interest in net assets of Seacrest Foundation	698,967	(385,189)
Changes in operating assets and liabilities		
Accounts receivable, net	(179,533)	112,896
Accounts receivable – related party	2,188	(88,837)
Employee Retention Tax Credit receivable	(1,393,229)	-
Interest receivable	23,678	(44,171)
Prepaid expenses and other current assets	(125,476)	1,033
Accounts payable	315,760	(213,397)
Accrued expenses and other liabilities	63,666	(456,756)
Deposits and other long-term liabilities	307,840	(241,284)
Net cash provided by operating activities	418,760	272,875
INVESTING ACTIVITIES		
Purchase of investments	(518,779)	(2,475,452)
Proceeds from sale of investments	900,969	1,039,449
Investments held by trustees	(312,247)	140,913
Purchases of property and equipment	(1,157,472)	(1,257,451)
Net cash used in investing activities	(1,087,529)	(2,552,541)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(291,150)	(278,066)
Net cash used in financing activities	(291,150)	(278,066)
NET CHANGE IN CASH AND RESTRICTED CASH EQUIVALENTS	(959,919)	(2,557,732)
Cash and restricted cash equivalents, beginning of year	1,154,746	3,712,478
Cash and restricted cash equivalents, end of year	$ 194,827	$ 1,154,746
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 306,489	$ 325,473

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

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

Basis of presentation – The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (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 GAAP.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation allowances for accounts receivable and depreciable lives of property and equipment. Actual results could differ from those estimates.

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

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

Net assets with donor restrictions – Represent contributions that are limited in use by SDHH in accordance with donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Deficiency of revenue over expenses – The statements of operations include deficiency of revenue over expenses. Changes in net assets without donor restrictions which are excluded from 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.

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 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, 2023 and 2022, due to the relative short maturities of these instruments.

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

	2023	2022
Cash	$ 4,563	$ 949,088
Restricted cash equivalents included in investments held by trustees pursuant to deferred compensation agreements	190,264	205,658
Cash and restricted cash equivalents as reported in statements of cash flows	$ 194,827	$ 1,154,746

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

Accounts receivable – Accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and determines its estimate of implicit price concessions based on its historical experience.

The beginning and ending contract balances were as follows:

	June 30, 2023	June 30, 2022	June 30, 2021
Accounts receivable	$ 796,296	$ 616,763	$ 729,659

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.

Leases – For the year ended June 30, 2022, SDHH followed FASB ASC Topic 840, *Leases*. Under that guidance, SDHH classified leases as either operating or capital leases. Leases that meet the criteria for capital leases are recognized as assets and liabilities on the statement of financial position, while leases that do not meet the criteria for capital leases are recognized as operating leases and lease payments are recognized as expense on a straight-line basis.

SDHH adopted FASB ASU 2016-02, *Leases (Topic 842)*, as of July 1, 2022, using the modified retrospective transition approach. The adoption of this standard did not have a significant impact on previously recognized rent expense. SDHH has elected the package of practical expedients permitted in Topic 842. Accordingly, SDHH accounted for its existing leases as operating or finance leases under the new guidance, as applicable, without reassessing (a) whether the contract contains a lease under Topic 842, (b) whether the classification of the lease would be different in accordance with Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments, as of June 30, 2023, would have met the definition of initial direct costs in Topic 842 at lease commencement. In addition, SDHH elected the practical expedient to use hindsight. Management reviews contracts to identify leases and properly classify them as either operating or financing leases. The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets and operating lease liabilities of approximately $82,510 each as of July 1, 2022.

Operating and finance lease liabilities are recognized based on the net present value of lease payments over the lease term at the commencement date of the lease and are reduced by payments made on each lease on a straight-line basis. SDHH elected to use their incremental borrowing rate as the discount rate for all leases for a period comparable to the lease term. Leases with an initial term of 12 months or less are not recorded on the statement of financial position; rather, rent expense for these leases is recognized on a straight-line basis over the lease term or when incurred if it is a month-to-month lease.

If a lease contains a renewal option at the commencement date and it is considered reasonably certain that the renewal option will be exercised by management to renew the lease, the renewal option payments are included in SDHH's net minimum lease payments used to determine the lease liabilities and related lease assets. All other renewal options are included in lease liabilities and related lease assets when they are reasonably certain to be exercised.

Variable lease costs, including escalating rent payments based on an index determined in future periods over the lease term due to changes in the Consumer Price Index or other measure of cost inflation, are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs.

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

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

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

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.

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, 2023 and 2022, approximately 91% of SDHH's Medi-Cal residents are dual eligible. SDHH is reimbursed by Medi-Cal and the Medi-Cal managed care plans at a fixed daily rate, which does not vary with the acuity level of the resident. The reimbursement is the same amount for traditional and managed care residents; however, payment time frames can be longer for Medi-Cal managed care.

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

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, 2023 and 2022, was not significant.

The following table shows skilled nursing services revenue by payor category for the years ended June 30, 2023 and 2022:

	2023	2022
Medicare	$ 1,926,662	$ 1,029,372
Medi-Cal managed care	2,160,556	2,148,575
Private	1,916,506	2,242,880
Other third-party payors	1,436,581	1,520,402
	$ 7,440,305	$ 6,941,229

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.

Employee Retention Tax Credit (ERTC) – SDHH recognizes income from the ERTC in accordance with ASC 958-605, *Not-For-Profit Entities – Revenue Recognition*, for conditional contributions. The ERTC is a refundable tax credit allowed to eligible employers to encourage retaining employees during the COVID-19 pandemic. SDHH must have "substantially met" the program's eligibility conditions to record revenue, and no amounts would be recorded until all criteria are evaluated and substantially met.

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 $2,581,000 and $1,904,000 for the years ended June 30, 2023 and 2022, respectively. Charity care is given based upon the applications received each year. SDHH received contributions of approximately $1,600,000 and $900,000 in the years ended June 30, 2023 and 2022, respectively, in support of charitable care.

Income taxes – SDHH is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) 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 IRC. 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, 2023 and 2022. 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 up to a limit of $250,000 per depositor, per institution. As of June 30, 2023 and 2022, SDHH had cash balances of $0 and $944,525, 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 55% and 59% of net accounts receivable as of June 30, 2023 and 2022, respectively. Medicare programs represented 24% and 11% of net accounts receivable as of June 30, 2023 and 2022, respectively. For the year ended June 30, 2023, Medi-Cal and Medicare programs represented 29% and 26%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. For the year ended June 30, 2023, Medi-Cal and Medicare programs represented 47% and 17%, 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.

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

SDHH has evaluated subsequent events through August 31, 2023, 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 consisted of the following as of June 30, 2023 and 2022:

	2023			
	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 3,317,089	$ -	$ -	$ 3,317,089
Taxable municipal bonds	580,518	-	-	580,518
Certificates of deposit	-	60,770	-	60,770
Pooled fund	-	243,023	-	243,023
Money market funds	45,733	-	-	45,733
	3,943,340	303,793	-	4,247,133
Investments held by trustees				
Money market funds	190,264	-	-	190,264
Unit investment trust	-	-	258,094	258,094
Mutual funds				
U.S. equity – large cap	1,031,878	-	-	1,031,878
Growth	28,277	-	-	28,277
REIT	229,244	-	-	229,244
Bonds	25,870	-	-	25,870
Non-U.S. equity	76,170	-	-	76,170
	1,581,703	-	258,094	1,839,797
Total Investments	$ 5,525,043	$ 303,793	$ 258,094	$ 6,086,930

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

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, 2023 and 2022, consisted of the following:

	2023	2022
Dividends and interest	$ 145,700	$ 137,567
Realized (losses) gains on investments, net	(69,750)	5,065
Unrealized losses	(49,177)	(358,702)
Investment expenses	(6,567)	(5,297)
	$ 20,206	$ (221,367)

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, 2023 and 2022, are summarized as follows:

	2023	2022
Balance, beginning of year	$ 5,708,543	$ 5,323,354
Change in the net assets of the Foundation before contributions to SDHH	1,662,515	2,455,168
Foundation contributions to SDHH	(2,361,482)	(2,069,979)
Balance, end of year	$ 5,009,576	$ 5,708,543

Note 4 – Property and Equipment

Property and equipment consisted of the following as of June 30, 2023 and 2022:

	2023	2022
Leasehold improvements	$ 45,865,769	$ 45,392,002
Furniture and equipment	3,819,431	3,592,924
	49,685,200	48,984,926
Less: accumulated depreciation	(21,715,045)	(19,179,664)
	27,970,155	29,805,262
Construction in progress	835,530	378,331
Property and equipment, net	$ 28,805,685	$ 30,183,593

Note 5 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of $1,134,535 and $981,593 as of June 30, 2023 and 2022, respectively. Additionally, four and five employees have 457(b) deferred compensation plans as of June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, the balance of these combined arrangements was $705,262 and $561,351, respectively, which is included in the statements of financial position in deposits and other long-term liabilities and as investments held by trustees pursuant to deferred compensation agreements, respectively.

Note 6 – Coronavirus Aid, Relief, and Economic Security (CARES) Act

On March 27, 2020, the United States Congress passed the CARES Act. This legislation included multiple programs and funding intended to provide relief from the COVID-19 pandemic. During the year ended June 30, 2023, SDHH claimed the Employee Retention Tax Credit (ERTC). The ERTC is a refundable tax credit against certain employment taxes equal to 50% of qualified wages an eligible employer pays to employees after March 12, 2020 through December 31, 2020. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and American Rescue Plan Act of 2021 extended and expanded the ERTC through September 30, 2021.

SDHH claimed $1,393,229 of ERTC for qualified wages paid during the year ended June 30, 2023, and has recorded the balance as a receivable as of June 30, 2023, and net assets without donor restriction contributions for the year ended June 30, 2023. Management has evaluated its ERTC claims and the recognition of revenue under ASC 958-605 and believes conditions for revenue recognition have been substantially met as of and for the year ended June 30, 2023. However, the ERTC claims are subject to review by the IRS for compliance with the program rules and therefore amounts recognized are subject to change.

Note 7 – Long-Term Debt

Long-term debt consisted of the following as of June 30, 2023 and 2022:

	2023	2022
Term loan	$ 6,973,125	$ 7,264,275
Less: amounts classified as current	(302,238)	(264,571)
Total long-term debt	$ 6,670,887	$ 6,999,704

SDHH has a term loan with a bank subject to repayment over a term of 240 months and matures in September 2039. The Credit Agreement bears interest at 4.25% per annum. The note is secured by a security interest in security accounts of Seacrest Foundation. The outstanding borrowings as of June 30, 2023 and 2022, were $6,973,125 and $7,264,275, 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.

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

Years Ending June 30,	
2024	$ 302,238
2025	316,330
2026	330,233
2027	344,747
2028	359,250
Thereafter	5,320,327
	$ 6,973,125

Note 8 – Leases

SDHH routinely enters into noncancelable operating leases for use of buildings and equipment. Most of the lease contracts include annual fixed percentage increases on annual rent expense. There were no finance leases for which SDHH was a lessee for the year ended June 30, 2023. The components of lease cost and other information related to leases as of and for the year ended June 30, 2023, were as follows:

Rent related to cost of revenue	
Operating lease expense	$ 23,722
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 23,722
Noncash impact of the implementation of ASC Topic 842	
Recognition of existing operating leases	
Lease right-of-use assets recognized	$ 82,510
Lease liabilities recognized	$ 82,510
Weighted-average remaining lease term in years for operating leases	4.93
Weighted-average discount rate for operating leases	4.00%

Maturities of lease liabilities as of June 30, 2023, are as follows:

2024	$ 23,308
2025	9,508
2026	9,508
2027	7,968
2028	7,200
Thereafter	10,800
Total undiscounted cash flows	68,292
Less: present value discount	(6,239)
Less: current portion	(21,291)
	$ 40,762

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2023 and 2022:

	2023	2022
SDHH time restricted	$ 2,016,431	$ 2,005,344
SDHH operations	153,456	545,988
SDHH charitable care	1,964,764	630,766
SDHH capital expansion	269,793	158,588
	$ 4,404,444	$ 3,340,686

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, 2023 and 2022, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2023	2022
Available to support operations		
Satisfaction of purpose restrictions	$ 599,757	$ 2,440,556

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.

Expenses related to providing these services for the years ended June 30, 2023 and 2022, are as follows:

	2023		
		Supporting Services	
	Program Services	General and Administrative	Total
Salaries	$ 10,388,194	$ 1,927,460	$ 12,315,654
Purchased services	2,131,066	615,189	2,746,255
Utilities and food	2,643,769	-	2,643,769
Depreciation	2,446,846	88,534	2,535,380
Benefits	1,055,641	184,524	1,240,165
Other	910,084	239,374	1,149,458
Ancillary	1,149,268	-	1,149,268
Regulatory fees	322,852	-	322,852
Interest expense	305,461	-	305,461
	$ 21,353,181	$ 3,055,081	$ 24,408,262

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

Note 11 – Related-Party Transactions

SDHH is the primary beneficiary of a fundraising organization, Seacrest Foundation. For the years ended June 30, 2023 and 2022, Seacrest Foundation granted to SDHH $2,361,482 and $2,069,979, respectively.

SDHH is also party to a management services agreement with the Foundation whereby it provides management services. The management services agreement also includes fundraising efforts, which are 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, 2023 and 2022, and SDHH passed-through fundraising costs to the Foundation of $1,086,592 and $722,280 for the years ended June 30, 2023 and 2022, respectively. The amount due to SDHH from the Foundation related to this management services agreement was $139,628 and $141,816 as of June 30, 2023 and 2022, 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 support the activities of SDHH. Seacrest Holdings Corp. leased land and buildings located in Encinitas to SDHH under an annual commitment of $7,200 through December 2024. The lease payment of $600 per month falls below market value and is therefore not considered an arm's-length transaction.

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 for each of the years ended June 30, 2023 and 2022.

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, 2023 and 2022.

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.

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 (the "Group") organized under the Nonprofit Mutual Benefit Corporation Law of California. SDHH is covered up to $1,000,000 for the payment of medical, indemnity, and legal costs of claims.

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

As required by the state of California Department of Industrial Relations, Office of Self-Insurance Plans (OSIP), the Group obtained a surety bond from two insurance carriers. As of December 31, 2022 (the Group's year-end), the Group has a surety bond from Chubb Associate in the amount of $19,877,513. During 2022, the surety bond held with Liberty Mutual Insurance Company was released by OSIP. 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 21 and 22 members as of June 30, 2023 and 2022, 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, 2023, comprised the following:

Cash	$ 4,563
Investments	4,247,133
Accounts receivable	796,296
Accounts receivable – related party	139,628
Interest receivable	38,558
	$ 5,226,178

SDHH 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. SDHH maximizes its earnings potential on liquid assets by investing in short-term instruments such as money market funds and certificates of deposit.