REPORT OF INDEPENDENT AUDITORS
AND COMBINED FINANCIAL STATEMENTS

SAN DIEGO HEBREW HOMES AND AFFILIATE

June 30, 2018 and 2017

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Report of Independent Auditors

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

Report on 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, 2018 and 2017, 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 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, 2018 and 2017, 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.

Moss Adams LLP

Los Angeles, California
September 4, 2018

ASSETS

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash	$ 2,434,555	$ 1,993,299
Investments	3,049,154	3,042,815
Accounts receivable, net of allowance for doubtful accounts of $95,869 and $68,534	690,267	846,383
Accounts receivable – related party	199,075	48,431
Interest receivable	21,895	19,291
Pledges receivable, current portion	-	250,000
Prepaid expenses and other current assets	299,365	398,835
Total current assets	6,694,311	6,599,054
Interest in net assets of Seacrest Foundation	1,653,419	571,653
Property and equipment, net of accumulated depreciation	26,641,842	27,332,878
Investments held by trustees pursuant to deferred compensation agreements	993,761	835,884
Total assets	$ 35,983,333	$ 35,339,469

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	$ 736,334	$ 922,889
Accrued expenses	1,218,776	1,178,534
Other liabilities	21,000	21,000
Total current liabilities	1,976,110	2,122,423
Deposits and other long-term liabilities	1,409,843	1,228,258
Total liabilities	3,385,953	3,350,681
NET ASSETS		
Unrestricted	32,000,680	31,874,132
Temporarily restricted	596,700	114,656
Total net assets	32,597,380	31,988,788
Total liabilities and net assets	$ 35,983,333	$ 35,339,469

See accompanying notes.

San Diego Hebrew Homes and Affiliate
Combined Statements of Operations

	For the Years Ended June 30, 2018	2017
REVENUE, GAINS, AND OTHER SUPPORT		
Resident services	$ 12,755,076	$ 12,436,463
Skilled nursing services	6,471,113	6,375,470
Contributions	-	3,850
Management services	170,986	177,321
Investment income	104,217	100,117
Other income	52,947	55,612
Net assets released from restrictions, used for operations	2,063,042	3,432,361
Total revenue, gains, and other support	21,617,381	22,581,194
OPERATING EXPENSES		
Salaries	11,240,873	10,904,439
Benefits	1,453,598	1,516,569
Utilities and food	2,313,785	2,190,109
Purchased services	1,731,500	1,745,599
Interest expense	-	13,653
Depreciation	2,166,040	2,562,660
Regulatory fees	315,263	329,977
Ancillary	1,161,487	1,128,811
Other	1,089,758	1,095,682
Total operating expenses	21,472,304	21,487,499
OTHER EXPENSES		
Grant expense	100,000	100,000
Total other expenses	100,000	100,000
Excess of revenue over expenses	$ 45,077	$ 993,695

	For the Years Ended June 30, 2018	2017
CHANGE IN UNRESTRICTED NET ASSETS		
Excess of revenue over expenses	$ 45,077	$ 993,695
Unrealized losses on investments, net	(95,133)	(49,189)
Net assets released from restrictions used for purchase of property and equipment	176,604	261,595
Change in Unrestricted Net Assets	126,548	1,206,101
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	43,768	129,466
Change in interest in net assets of Seacrest Foundation	2,677,922	1,402,291
Net assets released from restrictions used for operations	(2,063,042)	(3,432,361)
Net assets released from restrictions used for purchase of property and equipment	(176,604)	(261,595)
Change in Temporarily Restricted Net Assets	482,044	(2,162,199)
CHANGE IN NET ASSETS	608,592	(956,098)
Net Assets, Beginning of Year	31,988,788	32,944,886
Net Assets, End of Year	$ 32,597,380	$ 31,988,788

San Diego Hebrew Homes and Affiliate
Combined Statements of Cash Flows

	For the Years Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ 608,592	$ (956,098)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in pledges receivable discount	-	(21,466)
Unrealized losses on investments, net	95,133	49,189
Depreciation	2,166,040	2,562,660
Net change in interest in net assets of Seacrest Foundation	(1,081,766)	854,059
Changes in operating assets and liabilities:		
Accounts receivable, net	156,116	(34,457)
Accounts receivable – related party	(150,644)	(48,431)
Interest receivable	(2,604)	(1,221)
Pledges receivable	250,000	500,000
Prepaid expenses and other current assets	99,470	(103,764)
Accounts payable	(1,280)	(150,910)
Accrued expenses	40,242	105,721
Deposits and other long-term liabilities	181,585	118,219
Net cash provided by operating activities	2,360,884	2,873,501
INVESTING ACTIVITIES		
Purchase of investments	(529,802)	(99,865)
Proceeds from sale of investments	428,330	-
Investments held by trustees	(157,877)	(134,789)
Purchases of property and equipment	(1,660,279)	(1,602,893)
Net cash used by investing activities	(1,919,628)	(1,837,547)
FINANCING ACTIVITIES		
Principal payments on long-term debt	-	(564,488)
Net cash used by financing activities	-	(564,488)
NET CHANGE IN CASH	441,256	471,466
Cash, beginning of year	1,993,299	1,521,833
Cash, end of year	$ 2,434,555	$ 1,993,299

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2018	2017
Cash paid for interest	$ -	$ 14,211
Accrued purchases of property and equipment	$ 16,343	$ 201,618

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 owns and 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 and pledges receivable and depreciable lives of property and equipment. Actual results could differ from those estimates.

Financial statement presentation – The Home reports information regarding their combined financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations, or the donor-imposed restrictions have expired. Unrestricted net assets represent the funds that are fully available, at the discretion of management and the Board of Directors, for the Home to utilize in its programs or supporting activities.

Temporarily restricted net assets – Net assets comprised of contributions that are subject to donor-imposed stipulations that can be fulfilled by actions of the Home pursuant to those stipulations or that expire by the passage of time. When the donor-imposed restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets – Net assets comprised of contributions subject to donor-imposed restrictions to be maintained in perpetuity. The related income is temporarily restricted either for specific purpose (donor-imposed) or time period (in accordance with GAAP). There were no permanently restricted net assets at June 30, 2018 and 2017.

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

Excess of revenue over expenses – The combined statements of operations include excess of revenue over expenses. Changes in unrestricted net assets 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.

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, 2018 and 2017, 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 excess of revenue over expenses unless the income is restricted by donor or by law.

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

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

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

Property and equipment – Acquisitions of property and equipment of $1,000 or more are capitalized and are recorded at cost. Donated property and equipment are recorded at fair value at the date of the gift. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from 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. There was no impairment of the value of such assets for the years ended June 30, 2018 and 2017.

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.

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 53% and 35% of net accounts receivable at June 30, 2018 and 2017, respectively. Medicare programs represented 20% of net accounts receivable at June 30, 2018 and 2017. 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. For the year ending June 30, 2017, Medi-Cal and Medicare programs represented 34% and 32%, respectively, of revenue from these programs as a percentage of skilled nursing revenues.

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

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 each of the years ended June 30, 2018 and 2017, approximately 5% 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.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of operations and statements of changes in net assets net assets released from restrictions.

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.

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

The estimated costs for services and supplies furnished under the Home's charity care policy totaled approximately $2,236,000 and $2,544,000 for the years ended June 30, 2018 and 2017, respectively. Charity care is given based upon the applications received each year. SDHH received charitable contributions of $1,466,000 and $1,356,000 in the years ended June 30, 2018 and 2017, respectively, related to 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, 2018 and 2017. Accordingly, no provisions for federal or state income taxes have been made in the combined financial statements.

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, 2018 and 2017. 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. A significant portion of the Home’s accounts receivable is concentrated in government programs, in which the Home does not believe there is any undue credit risk. The Home maintains their 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. At June 30, 2018 and 2017, the Home had cash balances of $2,179,256 and $1,487,999, respectively, that were exposed to uninsured deposit risk. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

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

Recent accounting standards – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017 and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. Management is currently evaluating the impact of the provisions of ASU No. 2016-04 on the combined financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 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 ASU No. 2014-09 was deferred by ASU No. 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 ASU No. 2014-09 on the combined financial statements.

In February 2016, the FASB issued ASU No. 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 ASU No. 2016-02 on the combined financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the 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 statement of financial position but arose after the statement of financial position date and before the combined financial statements are available to be issued.

The Home has evaluated subsequent events through September 4, 2018, 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, 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:					
US equity-large cap	778,307	-	-	-	778,307
REIT	28,675				28,675
Bonds	13,925	-	-	-	13,925
Non-US equity	11,366	-	-	-	11,366
US equity-small/mid cap	14,672	-	-	-	14,672
Total	$ 3,276,503	$ 549,518	$ -	$ 216,894	$ 4,042,915

Investments are categorized by the fair value hierarchy level and consist of the following as of June 30, 2017:

	2017				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value	Total
Investments:					
Corporate bonds	$ 2,021,847	$ -	$ -	$ -	$ 2,021,847
US equities	597,864	-	-	-	597,864
Certificates of deposit	-	520,089	-	-	520,089
Pooled fund	-	-	-	178,661	178,661
Foreign corporate bonds	-	158,044	-	-	158,044
Unit investment trust	-	-	-	142,919	142,919
Preferred fixed rate securities	51,060	-	-	-	51,060
Money market funds	40,478	-	-	-	40,478
Mutual funds:					
US equity-large cap	115,564	-	-	-	115,564
Bonds	36,034	-	-	-	36,034
Non-US equity	8,243	-	-	-	8,243
US equity-small/mid cap	7,896	-	-	-	7,896
Total	$ 2,878,986	$ 678,133	$ -	$ 321,580	$ 3,878,699

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.

Note 2 – Investments (continued)

Investment return for the years ended June 30, 2018 and 2017 consists of the following:

	2018	2017
Dividends and interest	$ 105,355	$ 101,117
Realized gains on investments, net	-	5
Unrealized losses on investments, net	(95,133)	(49,189)
Investment expenses	(1,138)	(1,005)
	$ 9,084	$ 50,928

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, 2018 and 2017 are summarized as follows:

	2018	2017
Balance, beginning of year	$ 571,653	$ 1,425,712
Change in the net assets of the Foundation before contribution to the Home	2,677,922	1,402,291
Foundation contributions to the Home	(1,596,156)	(2,256,350)
Balance, end of year	$ 1,653,419	$ 571,653

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, 2018.

Note 5 – Property and Equipment

Property and equipment consist of the following as of June 30, 2018 and 2017:

	2018	2017
Leasehold improvements	$ 40,586,926	$ 39,869,472
Furniture and equipment	3,375,646	3,171,383
	43,962,572	43,040,855
Less accumulated depreciation	(18,351,913)	(16,185,874)
	25,610,659	26,854,981
Construction in progress	1,031,183	477,897
Property and equipment, net of accumulated depreciation	$ 26,641,842	$ 27,332,878

Note 6 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of $716,667 and $627,546 as of June 30, 2018 and 2017, respectively. Additionally, five employees have 457(b) deferred compensation plans as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, the balance of these combined arrangements was $277,094 and $208,338, 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 7 – Long-Term Debt

On August 27, 2010, the Colorado Educational and Cultural Authority (Issuer) issued $8 million of fixed rate Revenue Bonds Series H-1 (Bonds) on behalf of SDHH and Seacrest Holdings Corp. (see Note 10 for description of relationship between SDHH and Seacrest Holdings Corp.). SDHH and Seacrest Holdings Corp. are hereafter referred to collectively as the Borrower. The Bonds were issued pursuant to and secured by a financing agreement (Agreement) between the Issuer, City National Bank (Bondholder and Lender) and the Borrower. The term of the Bonds was 10 years, beginning October 1, 2010. Principal and interest payments were due monthly at an interest rate of 4.67%. The Bonds were secured by a first trust deed on real property held by Seacrest Holdings Corp. and a guaranty by Seacrest Foundation. In connection with the issuance of the Bonds described above, SDHH was subject to certain financial and operational covenants. This debt was paid in full on June 1, 2017.

Note 8 – Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
SDHH operations	$ 9,400	$ 14,726
SDHH charitable care	587,300	-
SDHH capital expansion	-	99,930
	$ 596,700	$ 114,656

During the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2018	2017
Available to support operations:		
Satisfaction of purpose restrictions	$ 2,063,042	$ 1,438,789
Satisfaction of time restrictions	-	1,993,572
Total available to support operations	$ 2,063,042	$ 3,432,361
Capital improvements	$ 176,604	$ 261,595

Note 9 – 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, 2018 and 2017:

	2018	2017
Program services	$ 18,744,342	$ 18,688,782
Supporting services:		
General and administrative	2,727,962	2,798,717
	$ 21,472,304	$ 21,487,499

Note 10 – Related-Party Transactions

SDHH is the primary beneficiary of two fund raising organizations, Guardians of San Diego, Inc. and Seacrest Foundation (the Foundation). For the years ended June 30, 2018 and 2017, Guardians of San Diego, Inc. contributed to SDHH $35,767 and $108,000, respectively. For the years ended June 30, 2018 and 2017, Seacrest Foundation granted to SDHH $1,596,158 and $1,469,369, 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, 2018 and 2017, and SDHH passed-through fundraising costs of $884,148 and $744,417 for the years ended June 30, 2018 and 2017, respectively. The amount due to SDHH from SF, based on the management services agreement, at June 30, 2018 and 2017 was $199,075 and $48,431, respectively. These amounts are recorded as accounts receivable – related party on the combined statements of financial position.

Seacrest Holdings Corp. is a nonprofit corporation organized to conduct or support activities for the benefit of SDHH. Seacrest Holdings Corp. leases land and buildings located in Encinitas and Poway to SDHH under a renewable triple net lease. The annual commitment is $8,400 through December 31, 2019.

Note 11 – 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 $268,394 and $234,122 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

Note 12 – Contingencies

Litigation – From time to time, the Home is subject to various litigation as a result of their 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.

Note 12 – Contingencies (continued)

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.

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 $1.0 million 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 No. 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 $42,322 and $30,379 for the years ended June 30, 2018 and 2017, 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, 2017 and 2016 (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, 2017 and 2016 the Group obtained a surety bond from Westchester Fire Insurance Company in the amount of $18,685,263 and $17,490,227, 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 29 and 31 members as of December 31, 2017 and 2016, respectively.