REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS

SAN DIEGO HEBREW HOMES

June 30, 2020 and 2019

MOSSADAMS

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MOSSADAMS

Report of Independent Auditors

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

Report on Financial Statements

We have audited the accompanying financial statements of San Diego Hebrew Homes ("SDHH"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Hebrew Homes as of June 30, 2020 and 2019, 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

Irvine, California
September 4, 2020

ASSETS

	June 30, 2020	June 30, 2019
CURRENT ASSETS		
Cash	$ 3,823,908	$ 793,218
Investments	3,419,126	3,287,738
Accounts receivable, net of allowance for doubtful accounts of $150,815 and $140,630	849,792	875,418
Accounts receivable – related party	415,277	50,040
Interest receivable	24,153	22,373
Prepaid expenses and other current assets	399,561	400,560
Total current assets	8,931,817	5,429,347
INTEREST IN NET ASSETS OF SEACREST FOUNDATION	4,205,034	3,319,023
PROPERTY AND EQUIPMENT, net of accumulated depreciation	31,744,247	27,866,238
INVESTMENTS HELD BY TRUSTEES PURSUANT TO DEFERRED COMPENSATION AGREEMENTS	1,216,914	1,156,130
Total assets	$ 46,098,012	$ 37,770,738

LIABILITIES AND NET ASSETS

	June 30, 2020	June 30, 2019
CURRENT LIABILITIES		
Long-term debt, current portion	$ 1,322,211	$ 193,575
Accounts payable	1,082,678	1,421,897
Accrued expenses	1,370,368	1,243,091
Other liabilities	48,656	25,756
Total current liabilities	3,823,913	2,884,319
LONG-TERM DEBT, net of current portion	8,862,157	1,272,425
DEPOSITS AND OTHER LONG-TERM LIABILITIES	1,520,934	1,539,569
Total liabilities	14,207,004	5,696,313
NET ASSETS		
Without donor restriction	29,448,785	30,528,279
With donor restriction	2,442,223	1,546,146
Total net assets	31,891,008	32,074,425
Total liabilities and net assets	$ 46,098,012	$ 37,770,738

San Diego Hebrew Homes
Statements of Operations

	For the Years Ended June 30, 2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
REVENUES, GAINS, AND OTHER SUPPORT		
Resident services	$ 10,908,136	$ 12,569,104
Skilled nursing services	6,890,012	5,662,152
Management services	180,415	179,480
Investment income, net	111,370	96,892
Grant income	75,000	-
Other income	42,045	48,277
Net assets released from restrictions, used for operations	2,053,588	2,327,642
Total revenues, gains, and other support	20,260,566	20,883,547
OPERATING EXPENSES		
Salaries	11,423,688	11,308,620
Benefits	1,239,416	1,473,873
Utilities and food	1,932,448	2,363,380
Purchased services	1,732,695	1,759,438
Interest expense	299,474	25,302
Depreciation	1,918,636	2,159,267
Regulatory fees	359,041	266,929
Ancillary	1,301,732	1,078,597
Other	1,176,442	1,149,461
Loss on impairment	-	814,490
Total operating expenses	21,383,572	22,399,357
LOSS FROM OPERATIONS	(1,123,006)	(1,515,810)
OTHER EXPENSES		
Grant expense	-	100,000
Total other expenses	-	100,000
DEFICIENCY OF REVENUE OVER EXPENSES	$ (1,123,006)	$ (1,615,810)

See notes to financial statements.

	For the Years Ended June 30, 2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION		
Deficiency of revenue over expenses	$ (1,123,006)	$ (1,615,810)
Unrealized gains on investments, net	28,512	143,409
Net assets released from restrictions used for purchase of property and equipment	15,000	-
Change in net assets without donor restriction	(1,079,494)	(1,472,401)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Contributions	527,332	11,750
Change in interest in net assets of Seacrest Foundation	2,437,333	3,265,336
Net assets released from restrictions used for operations	(2,053,588)	(2,327,640)
Net assets released from restrictions used for purchase of property and equipment	(15,000)	-
Change in net assets with donor restriction	896,077	949,446
CHANGE IN NET ASSETS	(183,417)	(522,955)
NET ASSETS, beginning of year	32,074,425	32,597,380
NET ASSETS, end of year	$ 31,891,008	$ 32,074,425

San Diego Hebrew Homes
Statements of Cash Flows

	For the Years Ended June 30, 2020	2019
OPERATING ACTIVITIES		
Change in net assets	$ (183,417)	$ (522,955)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized gains	(28,512)	(143,409)
Depreciation	1,918,636	2,159,267
Loss on impairment	-	814,490
Net change in interest in net assets of Seacrest Foundation	(886,011)	(1,665,604)
Changes in operating assets and liabilities		
Accounts receivable, net	25,626	(185,151)
Accounts receivable – related party	(365,237)	149,035
Interest receivable	(1,780)	(478)
Prepaid expenses and other current assets	999	(101,195)
Accounts payable	7,403	75,556
Accrued expenses and other liabilities	150,177	24,315
Deposits and other long-term liabilities	(18,635)	134,482
Net cash provided by operating activities	619,249	738,353
INVESTING ACTIVITIES		
Purchase of investments	(982,074)	(448,191)
Proceeds from sale of investments	879,198	353,016
Investments held by trustees	(42,313)	(133,606)
Purchases of property and equipment	(6,143,267)	(3,588,146)
Net cash used by investing activities	(6,288,456)	(3,816,927)
FINANCING ACTIVITIES		
Proceeds from long-term debt	8,909,667	1,466,000
Principal payments on long-term debt	(191,299)	-
Net cash provided by financing activities	8,718,368	1,466,000
NET CHANGE IN CASH AND RESTRICTED CASH EQUIVALENTS	3,049,161	(1,612,574)
Cash and restricted cash equivalents, beginning of year	959,847	2,572,421
Cash and restricted cash equivalents, end of year	$ 4,009,008	$ 959,847
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 276,574	$ 5,302
Accrued purchases of property and equipment	$ 263,385	$ 610,007

See notes to financial statements.

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of activities – San Diego Hebrew Homes ("SDHH") is a California nonprofit public benefit corporation which operates one San Diego County senior residential facility consisting of 119 independent living units, one 42-unit assisted living facility, one skilled nursing facility with 58 licensed beds, and one 24-unit facility serving those seniors afflicted with Alzheimer's, dementia, and other memory impairment diseases. On September 11, 2019, SDHH ceased operation of its Poway facility due to the sale of the property (see note 5). The Poway facility was a 54-unit independent living facility operation.

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

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

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

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

Deficiency 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 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 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 Accounting Standards Codification (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.

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

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

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

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

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

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

The carrying value of cash, receivables, and payables approximates fair value as of June 30, 2020 and 2019, due to the relative short maturities of these instruments.

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 of revenue over expenses unless the income is restricted by donor or by law.

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

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

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

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

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. As discussed in Note 5, SDHH recognized an impairment loss of $814,490 for the year ended June 30, 2019.

Deposits – SDHH 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.

SDHH 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 SDHH'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.

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, 2020 and 2019, approximately 90% 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.

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

Contributed services – Many individuals volunteer their time and perform a variety of tasks that assist SDHH with various programs. The services do not meet the criteria for recognition as a contribution, and 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.

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

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

The estimated costs for services and supplies furnished under SDHH's charity care policy totaled approximately $2,783,000 and $2,580,000 for the years ended June 30, 2020 and 2019, respectively. Charity care is given based upon the applications received each year. SDHH received contributions of $1,292,000 and $1,199,000 in the years ended June 30, 2020 and 2019, respectively, in support of charitable care.

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

SDHH follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. SDHH will record a liability for uncertain tax positions when it is more-likely-than-not that a tax position would not be sustained if examined by the taxing authority. Management has determined that SDHH does not have any uncertain tax positions as of June 30, 2020 and 2019. SDHH files informational and income tax returns in the United States and various state and local jurisdictions.

Concentrations of credit risk – Financial instruments that potentially subject SDHH to concentrations of credit risk consist primarily of investments and accounts receivable. The investment portfolio is managed within the guidelines established by the Board of Trustees, which, as a matter of policy, limit the amounts that may be invested in any one issuer. SDHH maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor, per institution. As of June 30, 2020 and 2019, SDHH had cash balances of $3,569,345 and $543,218, respectively, that were exposed to uninsured deposit risk. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

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

A significant portion of skilled nursing revenue is derived from residents covered under the California Medi-Cal and federal Medicare programs. These programs are highly regulated and are subject to state and federal budgetary and other constraints. Medi-Cal programs represented 38% and 30% of net accounts receivable as of June 30, 2020 and 2019, respectively. Medicare programs represented 19% and 20% of net accounts receivable as of June 30, 2020 and 2019, respectively. For the year ending June 30, 2020, Medi-Cal and Medicare programs represented 36% and 28%, respectively, of revenue from these programs as a percentage of skilled nursing revenues. 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. SDHH does not believe there is any undue credit risk related to these government programs.

Recent accounting standards – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, this update will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in this update will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in this update also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of this update was deferred by ASU 2020-05, *Effective Dates for Certain Entities,* to annual periods beginning after December 15, 2019. Management is currently evaluating the impact of the provisions of this update on the 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. 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. SDHH adopted this update during the year ended June 30, 2020. The adoption of this update did not have an impact on the financial statements.

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

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, which requires the statement of cash flows to explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This update is effective for fiscal years beginning after December 15, 2018. SDHH adopted ASU 2016-18 retrospectively effective July 1, 2020.

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:

	2020	2019
Cash	$ 3,823,908	$ 793,218
Restricted cash equivalents included in investments held by trustees pursuant to deferred compensation agreements	185,100	166,629
Cash and restricted cash equivalents as reported in statements of cash flows	$ 4,009,008	$ 959,847

For the year ended June 30, 2019, cash and restricted cash equivalents, beginning of year, have been retrospectively adjusted to include $137,866 of restricted cash equivalents included in investments held by trustees pursuant to deferred compensation agreements.

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. SDHH adopted the resource recipient provisions of this update during the year ended June 30, 2020.

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 September 4, 2020, which is the date the financial statements were available to be issued.

Note 2 – Investments

Investments are categorized by the fair value hierarchy level and consist of the following as of June 30, 2020 and 2019:

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

	2019			
	Level 1	Level 2	Level 3	Total
Investments				
Corporate bonds	$ 2,367,274	$ -	$ -	$ 2,367,274
Certificates of deposit	-	319,702	-	319,702
Pooled fund	-	201,591	-	201,591
Money market funds	-	251,207	-	251,207
Foreign corporate bonds	-	147,964	-	147,964
	2,367,274	920,464	-	3,287,738
Investments held by trustees				
Money market funds	-	166,629	-	166,629
Unit investment trust	-	27,142	-	27,142
Mutual funds:				
U.S. equity – large cap	838,847	-	-	838,847
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
	962,359	193,771	-	1,156,130
Total Investments	$ 3,329,633	$ 1,114,235	$ -	$ 4,443,868

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, 2020 and 2019, consists of the following:

	2020	2019
Dividends and interest	$ 111,047	$ 107,513
Realized gains (losses) on investments, net	1,561	(9,453)
Unrealized gains	28,512	143,409
Investment expenses	(1,238)	(1,168)
	$ 139,882	$ 240,301

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, 2020 and 2019, are summarized as follows:

	2020	2019
Balance, beginning of year	$ 3,319,023	$ 1,653,419
Change in the net assets of the Foundation before contribution to SDHH	2,437,333	3,265,336
Foundation contributions to SDHH	(1,551,322)	(1,599,732)
Balance, end of year	$ 4,205,034	$ 3,319,023

Note 4 – Property and Equipment

Property and equipment consists of the following as of June 30, 2020 and 2019:

	2020	2019
Leasehold improvements	$ 39,894,378	$ 41,004,938
Furniture and equipment	2,924,741	3,192,728
	42,819,119	44,197,666
Less: accumulated depreciation	(20,994,804)	(21,053,072)
	21,824,315	23,144,594
Construction in progress	9,919,932	4,721,644
Property and equipment, net of accumulated depreciation	$ 31,744,247	$ 27,866,238

Note 5 – Sale of Poway Facility

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

Note 6 – Compensation Arrangements

One employee of SDHH has a “rabbi trust” compensation arrangement with SDHH with a balance of $801,832 and $800,523 as of June 30, 2020 and 2019, respectively. Additionally, four employees have 457(b) deferred compensation plans as of June 30, 2020 and 2019. As of June 30, 2020 and 2019, the balance of these combined arrangements was $415,082 and $355,607, respectively, which is included in the statements of financial position in deposits and other long-term liabilities and as investments held by trustees pursuant to deferred compensation agreements, respectively.

Note 7 – HHS and Cal OES Grant

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

Note 7 – CalOES and HHS Grant (continued)

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

To combat the financial effects of COVID-19, on March 27, 2020, Congress passed a $2.3 trillion stimulus bill. Included in the bill was a provision for $100 billion of financial support for health care providers. In April and May 2020, the U.S. Department of Health & Human Services (HHS) distributed $50 billion of the $100 billion in the form of grants to health care providers. SDHH received $519,455 in grants and signed attestations agreeing to the terms and conditions of payment. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, limitations of out-of-pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. The grant is considered a non-exchange transaction and has been recognized as contributions with donor restrictions during the year ended June 30, 2020. Amounts expended during the year ended June 30, 2020, totaled $440,486 and are included in net assets released from restrictions, used for operations, in the statement of operations. Unexpended grant funds totaling $78,969 as of June 30, 2020, are included in net assets with donor restrictions. Refer to Note 9.

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

Note 8 – Long-Term Debt

Long-term debt consists of the following as of June 30, 2020 and 2019:

	2020	2019
Term Loan	$ 7,808,701	$ 1,466,000
Paycheck Protection Program Loan	2,375,667	-
	10,184,368	1,466,000
Less amounts classified as current	(1,322,211)	(193,575)
Total long-term debt	$ 8,862,157	$ 1,272,425

Note 8 – Long-Term Debt (continued)

On March 7, 2019, SDHH entered into a long-term credit arrangement with a bank for up to $8,000,000 (“Credit Agreement”). The Credit Agreement allowed for advances through September 1, 2019, as requested by SDHH. On September 1, 2019, the undisbursed principal was disbursed, and the Credit Agreement converted to a term loan subject to repayment over a term of 240 months. The Credit Agreement bears interest at 4.25 percent per annum. The note is secured by a security interest in security accounts of Seacrest Foundation. The outstanding borrowing as of June 30, 2020, was $7,808,701.

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

In April 2020, SDHH was granted a loan under the Paycheck Protection Program (“PPP Loan”) offered by the Small Business Association (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), section 7(a) (36) of the Small Business Act for $2,375,667. The loan bears interest at 1% with no payments for the first 6 months. Monthly payments of principal and interest of approximately $134,000 begin in November 2020 and continue through maturity in April 2022, if required. The loan is subject to partial or full forgiveness if SDHH uses all proceeds for eligible purposes; maintains certain employment levels; and maintains certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance.

Principal maturities of long term-debt, if PPP Loan is not forgiven, are due as follows:

	Term Loan	PPP Loan	Total
Years Ending June 30,			
2021	$ 266,359	$ 1,055,852	$ 1,322,211
2022	278,066	1,319,815	1,597,881
2023	290,288	-	290,288
2024	302,238	-	302,238
2025	316,330	-	316,330
Thereafter	6,355,420	-	6,355,420
	$ 7,808,701	$ 2,375,667	$ 10,184,368

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2020 and 2019:

	2020	2019
SDHH time restricted	$ 1,794,879	$ 1,197,500
SDHH operations	221,375	74,331
SDHH charitable care	-	15,815
SDHH capital expansion	347,000	258,500
HHS provider relief funding	78,969	-
	$ 2,442,223	$ 1,546,146

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, 2020 and 2019, net assets were released from donor restrictions by satisfying conditions specified by the donor as follows:

	2020	2019
Available to support operations:		
Satisfaction of purpose restrictions	$ 1,613,102	$ 2,327,640
Satisfaction of HHS provider relief funding expenditure requirements	440,486	-
Total available to support operations	$ 2,053,588	$ 2,327,640
Capital improvements	$ 15,000	$ -

Note 10 – Functional Expenses

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

Note 10 – Functional Expenses (continued)

Expenses related to providing these services for the year ended June 30, 2020 and 2019, are as follows:

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

2019	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 a fundraising organization, Seacrest Foundation. For the years ended June 30, 2020 and 2019, Seacrest Foundation granted to SDHH $1,551,322 and $1,599,732, 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, 2020 and 2019, and SDHH passed-through fundraising costs to the Foundation of $866,215 and $682,061 for the years ended June 30, 2020 and 2019, respectively. The amount due to SDHH from the Foundation related to this management services agreement was $327,579 and $35,109 as of June 30, 2020 and 2019, respectively. These amounts are recorded as accounts receivable – related party on the statements of financial position.

Seacrest Holdings Corp. is a nonprofit corporation organized to conduct or support activities for the benefit of SDHH. Seacrest Holdings Corp. leased land and buildings located in Encinitas and Poway to SDHH, prior to the sale of the Poway facility. See Note 5 for further discussion of the Poway facility. The annual commitment for the Encinitas property is $7,200 through December 31, 2024. The annual commitment for the Poway property was $1,200 through September 10, 2019. Also, as of June 30, 2020 and 2019, Seacrest Holdings Corp. owed SDHH $86,005 and $14,931, respectively, related to certain expenses incurred by SDHH on Seacrest Holding Corp.'s behalf. These amounts are recorded as accounts receivable – related party on the statements of financial position.

Note 12 – Retirement Plans

SDHH provides a defined contribution retirement plan (the "Plan") for full-time and part-time employees who meet certain eligibility requirements. The Plan allows for a discretionary contribution. Discretionary contribution expense was $170,067 and $187,472 for the years ended June 30, 2020 and 2019, respectively.

Additionally, SDHH 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, SDHH has recorded a liability of $21,000 for each of the years ending June 30, 2020 and 2019.

Note 13 – Contingencies

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

Note 13 – Contingencies (continued)

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

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

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

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

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

In accordance with ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, SDHH discloses in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries. The estimated liability and insurance recoveries for workers' compensation claims amounted to $49,010 and $20,949 for the years ended June 30, 2020 and 2019, 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, 2019 and 2018 (the Group's year-end), the Group has a surety bond from Liberty Mutual Insurance Company in the amount $3,002,428. Additionally, as of December 31, 2019 and 2018, the Group obtained a surety bond from Westchester Fire Insurance Company in the amount of $20,199,826 and $20,199,824, respectively. These surety bonds satisfy the financial security requirement for self-insured plans.

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 24 and 25 members as of December 31, 2019 and 2018, 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, 2020, comprise the following:

Cash	$ 3,823,908
Investments	3,419,126
Accounts receivable, net	849,792
Accounts receivable – related party	415,277
Interest receivable	24,153
	$ 8,532,256

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