HILLCREST®

A REMARKABLE RETIREMENT COMMUNITY®

# INDEPENDENT AUDITOR'S REPORT
# AND
# FINANCIAL STATEMENTS

**FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

HH

HANSEN HUNTER & CO. P.C.

*Certified Public Accountants*

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HANSEN HUNTER & CO. P.C.
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Brethren Hillcrest Homes
La Verne, California

## Opinion

We have audited the accompanying financial statements of Brethren Hillcrest Homes (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes as of June 30, 2022 and 2021, and the changes in its net assets 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. 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 Brethren Hillcrest 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 Brethren Hillcrest Homes' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

HANSEN HUNTER & CO. P.C.
Certified Public Accountants

**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 generally accepted auditing standards 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 controls. 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 generally accepted auditing standards, 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 Brethren Hillcrest Homes' internal controls. 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 Brethren Hillcrest 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.

Hansen Hunter + Co. P.C.

September 30, 2022

## BRETHREN HILLCREST HOMES

## STATEMENTS OF FINANCIAL POSITION

## ASSETS

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 9,687,093 | $ 4,818,669 |
| Accounts receivable, net | 637,654 | 708,066 |
| Entrance fees receivable | 2,215,500 | 786,000 |
| Inventory | 57,890 | 48,290 |
| Prepaid expenses and deposits | 275,420 | 186,360 |
| Total current assets | 12,873,557 | 6,547,385 |
| **Non-current assets** | | |
| Endowment | 2,209,509 | 2,836,122 |
| Assets whose use is limited | 884,280 | 2,102,990 |
| Investments | 29,068,196 | 28,649,793 |
| Derivative instruments | 2,808,345 | 1,036,096 |
| Property, plant and equipment, net | 71,853,651 | 72,413,682 |
| **Total assets** | $ 119,697,538 | $ 113,586,068 |

***The accompanying notes are an integral part of these financial statements.***

**BRETHREN HILLCREST HOMES**

**STATEMENTS OF FINANCIAL POSITION**
(Continued)

**LIABILITIES AND NET ASSETS**

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 867,316 | $ 914,646 |
| Accrued expenses | 1,353,958 | 1,210,492 |
| Refundable deposits | 155,114 | 874,248 |
| Prepaid resident service fees | - | 58,552 |
| Current portion of bonds payable | 1,705,000 | 1,670,000 |
| Current portion of note payable | 30,816 | 30,816 |
| Construction payable | 29,653 | 584,083 |
| Interest payable | 67,876 | 82,913 |
| Refundable advance - HHS provider relief funds | 59,250 | 59,250 |
| Total current liabilities | 4,268,983 | 5,485,000 |
| **Non-current liabilities** | | |
| Bonds payable, net of current portion | 37,885,000 | 35,579,483 |
| Unamortized debt issuance costs | (584,312) | (520,982) |
| Bonds payable, net | 37,300,688 | 35,058,501 |
| Note payable, net of current portion | 263,938 | 298,610 |
| Other long-term liability | 113,020 | 129,166 |
| Annuities payable | 685,022 | 716,907 |
| Repayable entrance fees | 477,130 | 477,130 |
| Contract liability from entrance fees | 40,568,325 | 33,679,695 |
| **Total liabilities** | 83,677,106 | 75,845,009 |
| **Net assets** | | |
| Without donor restrictions | 24,006,063 | 25,368,714 |
| With donor restrictions | 12,014,369 | 12,372,345 |
| Total net assets | 36,020,432 | 37,741,059 |
| **Total liabilities and net assets** | $ 119,697,538 | $ 113,586,068 |

***The accompanying notes are an integral part of these financial statements.***

## BRETHREN HILLCREST HOMES

## STATEMENTS OF ACTIVITIES

| | Years Ended June 30, 2022 | 2021 |
|---|---|---|
| **Changes in net assets without donor restrictions:** | | |
| **Revenues** | | |
| Residential Living | $ 14,772,043 | $ 14,189,961 |
| Birch Court | 2,475,106 | 2,283,597 |
| Woods Assisted Living | 892,589 | 764,139 |
| Southwoods Lodge | 1,747,645 | 1,720,369 |
| Woods Health Services | 5,588,582 | 4,844,594 |
| Telephone system | 186,633 | 214,652 |
| Rentals | 124,430 | 120,901 |
| Other revenue | 1,349,895 | 1,509,627 |
| Contributions | 39,235 | 112,945 |
| Investment return, net | (4,317,524) | 3,492,082 |
| Gain on disposal of fixed assets | 125 | 530 |
| Unrealized gain on derivative investment | 1,772,249 | 405,096 |
| Net assets released from restrictions | 599,000 | 1,041,706 |
| **Total revenues** | 25,230,008 | 30,700,199 |
| **Expenses** | | |
| Residential Living | 9,069,609 | 8,146,379 |
| Birch Court | 872,239 | 791,939 |
| Woods Assisted Living | 438,142 | 329,764 |
| Southwoods Lodge | 1,218,449 | 1,109,694 |
| Woods Health Services | 5,234,956 | 4,444,267 |
| Marketing and development | 514,187 | 886,619 |
| Management and general | 2,325,129 | 2,181,643 |
| Interest | 754,226 | 980,253 |
| Depreciation | 5,009,644 | 4,898,747 |
| Insurance | 493,263 | 434,387 |
| Telephone system | 380,773 | 174,292 |
| Bad debt expense | 1,942 | 11,786 |
| Inter-fund interest | 280,100 | 270,559 |
| **Total expenses** | 26,592,659 | 24,660,329 |

*The accompanying notes are an integral part of these financial statements.*

## BRETHREN HILLCREST HOMES

## STATEMENTS OF ACTIVITIES
(Continued)

| | Years Ended June 30, 2022 | 2021 |
|---|---|---|
| Change in net assets without donor restrictions from operations | $ (1,362,651) | $ 6,039,870 |
| Loss on bond defeasance | - | (2,515,519) |
| Gain on forgiveness of loan | - | 1,842,968 |
| Change in net assets without donor restrictions | (1,362,651) | 5,367,319 |
| **Changes in net assets with donor restrictions:** | | |
| Contributions | 552,707 | 964,182 |
| Inter-fund interest income | 259,531 | 270,559 |
| Investment return, net | (462,313) | 388,372 |
| Present value adjustment of gift annuities payable | (108,901) | (99,386) |
| Net assets released from restriction | (599,000) | (1,041,706) |
| Change in net assets with donor restrictions | (357,976) | 482,021 |
| **Change in total net assets** | (1,720,627) | 5,849,340 |
| **Net assets, beginning of year** | 37,741,059 | 31,891,719 |
| **Net assets, end of year** | $ 36,020,432 | $ 37,741,059 |

***The accompanying notes are an integral part of these financial statements.***

**BRETHREN HILLCREST HOMES**

**STATEMENTS OF FUNCTIONAL EXPENSES**

| | For the Year Ended June 30, 2022 | | | |
|---|---|---|---|---|
| | Program Services | General and Administrative | Fundraising | Total |
| Salaries and wages | $ 7,249,251 | $ 2,232,848 | $ 139,738 | $ 9,621,837 |
| Payroll taxes, benefits and related costs | 2,066,176 | 636,405 | 39,828 | 2,742,409 |
| Contracted services | 2,166,258 | 499,312 | 27 | 2,665,597 |
| Advertising and promotion | - | 86,518 | 14,559 | 101,077 |
| Office expenses | 288,064 | 254,142 | - | 542,206 |
| Occupancy | 935,777 | 253,307 | - | 1,189,084 |
| Supplies | 1,692,082 | 72,943 | 1,003 | 1,766,028 |
| Repairs and maintenance | 386,777 | 4,602 | - | 391,379 |
| Other | 771,522 | 239,089 | 23,256 | 1,033,867 |
| Interest | 754,226 | 280,100 | - | 1,034,326 |
| Depreciation | 4,750,629 | 259,015 | - | 5,009,644 |
| Insurance | 389,678 | 103,585 | - | 493,263 |
| Bad debt | 1,942 | - | - | 1,942 |
| | $ 21,452,382 | $ 4,921,866 | $ 218,411 | $ 26,592,659 |

***The accompanying notes are an integral part of these financial statements.***

## BRETHREN HILLCREST HOMES

## STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

| | For the Year Ended June 30, 2021 | | | |
|---|---|---|---|---|
| | Program Services | General and Administrative | Fundraising | Total |
| Salaries and wages | $ 6,203,928 | $ 2,291,250 | $ 113,732 | $ 8,608,910 |
| Payroll taxes, benefits and related costs | 1,957,252 | 317,748 | 36,799 | 2,311,799 |
| Contracted services | 1,698,110 | 302,906 | 49,000 | 2,050,016 |
| Advertising and promotion | 2,058 | 136,174 | 13,108 | 151,340 |
| Office expenses | 305,754 | 245,339 | - | 551,093 |
| Occupancy | 898,267 | 249,164 | - | 1,147,431 |
| Supplies | 1,842,166 | 80,715 | 5,263 | 1,928,144 |
| Repairs and maintenance | 522,130 | 3,212 | - | 525,342 |
| Other | 540,599 | 225,462 | 24,461 | 790,522 |
| Interest | 980,253 | 270,559 | - | 1,250,812 |
| Depreciation | 4,722,471 | 176,276 | - | 4,898,747 |
| Insurance | 343,166 | 91,221 | - | 434,387 |
| Bad debt | 11,786 | - | - | 11,786 |
| | $ 20,027,940 | $ 4,390,026 | $ 242,363 | $ 24,660,329 |

***The accompanying notes are an integral part of these financial statements.***

## BRETHREN HILLCREST HOMES

## STATEMENTS OF CASH FLOWS

| | | Years Ended June 30, | |
|---|---|---|---|
| | | 2022 | 2021 |
| **Cash flows from operating activities** | | | |
| Cash received from residents | $ | 21,327,080 | $ 19,323,477 |
| Non-refundable entrance fees received | | 11,455,276 | 8,549,278 |
| Contributions | | 22,988 | 1,010,261 |
| Investment income received | | 633,511 | 514,011 |
| Interest paid | | (723,600) | (753,323) |
| Cash paid to suppliers and employees | | (21,320,038) | (18,513,474) |
| Net cash provided by (used in) operating activities | | 11,395,217 | 10,130,230 |
| **Cash flows from investing activities** | | | |
| Capital expenditures | | (4,981,924) | (2,860,470) |
| Proceeds from sale of assets | | 125 | 530 |
| (Purchases) sales of assets whose use is limited | | 311,034 | 79,107 |
| (Purchases) sales of investments | | (5,204,950) | (5,581,054) |
| (Purchases) sales of endowment | | 154,316 | (1,405,070) |
| Deposit to interest rate cap derivative instruments | | - | (631,000) |
| Net cash provided by (used in) investing activities | | (9,721,399) | (10,397,957) |
| **Cash flows from financing activities** | | | |
| Proceeds from contributions restricted for: | | | |
| Investment in donor restricted assets | | 552,707 | 33,366 |
| Investment subject to annuity agreements | | 7,329 | 7,329 |
| Other financing activities: | | | |
| Entrance fees repaid | | (223,347) | (761,267) |
| Debt principal payments | | (1,665,000) | (1,355,000) |
| Proceeds from Series 2020 Bonds | | 4,005,517 | 680,320 |
| Payment of Series 2014 Bonds | | - | (3,525,538) |
| Debt issuance costs paid | | (103,904) | (32,497) |
| Finance lease payments | | - | (149,106) |
| Payments on annuity obligations | | (131,868) | (133,451) |
| Net cash provided by (used in) financing activities | | 2,441,434 | (5,235,844) |

*The accompanying notes are an integral part of these financial statements.*

## STATEMENTS OF CASH FLOWS
(Continued)

| | Years Ended June 30, 2022 | Years Ended June 30, 2021 |
|---|---|---|
| **Net change in cash, cash equivalents and restricted cash** | $ 4,115,252 | $ (5,503,571) |
| **Cash, cash equivalents and restricted cash, beginning of year** | 5,763,963 | 11,267,534 |
| **Cash, cash equivalents and restricted cash, end of year** | $ 9,879,215 | $ 5,763,963 |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reporte within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows.

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 9,687,093 | $ 4,818,669 |
| Endowment | 6,616 | 4,766 |
| Assets whose use is limited | 185,506 | 940,528 |
| | $ 9,879,215 | $ 5,763,963 |

Amounts included in restricted cash represent those required to be set aside for the endowment an assets whose use is limited as disclosed in Notes 4 and 5, respectively.

**Supplemental disclosures of cash flow information:**

| | 2022 | 2021 |
|---|---|---|
| Capital expenditures included in construction payable | $ 29,653 | $ 584,083 |
| Capital expenditures included in accounts payable | $ 201,916 | $ 170,852 |
| Capitalized interest included in payable | $ - | $ 11,385 |
| Proceeds from Series 2020 Bonds | $ - | $ 37,925,084 |
| Payment of Series 2014 Bonds | $ - | $ 28,244,462 |
| Payment of Series 2020 debt issuance costs | $ - | $ 511,610 |
| Forgiveness of PPP loan | $ - | $ 1,824,100 |

*The accompanying notes are an integral part of these financial statements.*

## BRETHREN HILLCREST HOMES

## STATEMENTS OF CASH FLOWS
(Continued)

| | Years Ended June 30, 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (1,720,627) | $ 5,849,340 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Amortization of entrance fees | (5,772,799) | (6,145,770) |
| Amortization of gift annuities | 108,901 | 99,386 |
| Depreciation | 5,009,644 | 4,898,747 |
| Amortization of debt issuance costs | 34,278 | 24,905 |
| Amortization of note payable | (30,816) | (30,816) |
| Amortization of other long-term liability | (16,146) | (16,146) |
| Amortization of long-term debt premium | - | (4,417) |
| Contributions restricted for long-term investment | (552,707) | (33,366) |
| Unrealized (gain) loss on investments | 5,413,348 | (3,366,443) |
| Gain on asset disposal | (125) | (530) |
| Revenue on expired gift annuity contracts | (16,247) | (55,250) |
| Non-refundable entrance fees received | 11,455,276 | 8,549,278 |
| Unrealized gain on derivative investment | (1,772,249) | (405,096) |
| Loss on bond defeasance | - | 2,515,519 |
| Gain on forgiveness of loan | - | (1,842,968) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 70,412 | (122,332) |
| Inventory | (9,600) | (1,284) |
| Prepaid expenses and deposits | (89,060) | 82,074 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (78,394) | 151,963 |
| Accrued expenses | 143,466 | (12,040) |
| Refundable deposits | (719,134) | 189,797 |
| Prepaid resident service fees | (58,552) | 2,487 |
| Settlement payable | - | (425,000) |
| Interest payable | (3,652) | 206,442 |
| Refundable advance - HHS provider relief funds | - | 21,750 |
| **Net cash provided by (used in) operating activities** | $ 11,395,217 | $ 10,130,230 |

***The accompanying notes are an integral part of these financial statements.***

## NOTE 1 – NATURE OF BUSINESS:

Brethren Hillcrest Homes (Hillcrest) was incorporated in 1947 as a California tax-exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 400 residents.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

***Basis of Presentation*** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Hillcrest and changes therein are classified as follows:

> 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 Hillcrest. Hillcrest's board of directors may designate assets without restrictions for specific operational purposes from time to time.
>
> Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Hillcrest or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated that the funds be maintained in perpetuity.

***Use of Estimates*** - The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents*** - Hillcrest considers all highly liquid instruments, those with a maturity of three months or less at the time of purchase, to be cash equivalents, excluding assets whose use is limited. The carrying amount reported in the statements of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

***Accounts Receivable*** – Accounts receivable represents monthly fees and amounts due from residents and third-party payors for health care services. Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was $77,632 and $98,729 at June 30, 2022 and 2021, respectively. Accounts receivable over 90 days old were $0 and $93,631 at June 30, 2022 and 2021, respectively.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Inventory Valuation*** - Inventory, which consists of dietary supplies, is recorded at lower of cost or net realizable value based on the first-in/first-out method.

***Debt Issuance Costs*** - Costs related to the issuance of the Series 2014 Bonds of $466,344 were being amortized to interest expense over the term of the related debt. Accumulated amortization of these costs was $126,376 at June 30, 2020. These amounts were included as reductions of the bonds payable balance in the accompanying statements of activities. On July 31, 2020, the Series 2014 Bonds were defeased (see Note 10) and the debt issuance costs in the amount of $338,188 were written off, included in loss on bond defeasance in the accompanying statements of activities.

Costs related to the issuance of the Series 2020 Bonds of $648,011 are being amortized to interest expense over the term of the related debt. Accumulated amortization of these costs was $63,699 at June 30, 2022. These amounts are included as reductions of the bonds payable balance in the accompanying statements of financial position.

***Debt Premium*** – The debt premium related to the issuance of the Series 2014 Bonds of $1,157,382 was being amortized to interest expense over the term of the related debt. The amount was included as an increase of the bonds payable balance in the accompanying statements of financial position. On July 31, 2020, the Series 2014 Bonds were defeased (see Note 10) and the debt premium in the amount of $839,326 was written off, included in loss on bond defeasance in the accompanying statements of activities.

***Assets Whose Use is Limited*** - Assets whose use is limited consist of cash, money market funds and other investments. These assets are limited as to their use by contract agreements or the bond purchase agreement. These assets are reported at fair market value.

***Investments*** - Hillcrest considers its investments in marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the sale proceeds versus the cost basis of the securities sold. Investment return (including realized and unrealized gains and losses on investments, interest and dividends) is included as an increase or decrease to net assets without donor restrictions, unless its use is restricted by explicit donor stipulations or law.

***Refundable Deposits*** – Hillcrest collects deposits from applicants to secure units prior to move-in. Also included are deposits collected from applicants to secure the Hawthorne Avenue units. These Hawthorne Avenue deposits will be applied against their entrance fee upon admission to Hillcrest or will be refunded if the potential resident determines he or she no longer wants to be on the waiting list. The Hawthorne Avenue deposit funds are held separately and apart from other funds.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Amortization of Entrance Fees*** – Hillcrest receives an upfront entrance fee when residents enter into a continuing care contract. The continuing care contract is inclusive of care and services, which is described in the agreement. In exchange for the fixed entrance fee and the monthly resident service fees, the resident has the right to occupy a unit and continue to live at Hillcrest. The continuing care contract creates a performance obligation to be satisfied over the resident's remaining life at Hillcrest.

Lump sum entrance fees are included as a component of the transaction price and are amortized into revenue over the remaining life expectancy of the resident. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.6 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as contract liability. Current year activity of the unamortized portion of entrance fees is summarized as follows:

| | Years Ended June 30, 2022 | Years Ended June 30, 2021 |
|---|---|---|
| Balance, beginning of year | $ 33,679,695 | $ 32,390,974 |
| Sale of contracts | 12,884,776 | 8,195,758 |
| Refunds | (223,347) | (761,267) |
| Amortization of continuing care contracts | (5,772,799) | (6,145,770) |
| Balance, end of year | $ 40,568,325 | $ 33,679,695 |

***Non-Refundable Fees*** - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before fifty months. If the resident withdraws within three months, the entire entrance fee is refunded, less a 4% termination fee. Contracts are refundable over fifty months, with the refundable amount reduced by 2% per month, less a 4% termination fee.

Unamortized entrance fees still within a potentially refundable declining period at June 30, 2022 and 2021, were $16,315,682 and $11,908,210, respectively. Based on the past five years, actual refunds have averaged $333,613 per year.

***Repayable Contracts*** - Hillcrest has contracts under a repayable entrance fee program that are entitled to a refund of 90% of the total entrance fee, less a 4% termination fee, upon withdrawal or death after the unit is reoccupied.

There was one repayable contract as of June 30, 2022 and 2021. The total liability for the repayable entrance fee contract was $477,130 at June 30, 2022 and 2021.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Revenue Recognition*** – Hillcrest provides residential living, assisted living and health services to residents for a stated daily or monthly fee. Resident fee revenue for recurring and routine monthly services is generally billed monthly in advance under Hillcrest's independent living, assisted living and health services agreements. Hillcrest recognizes revenue as its performance obligations are completed. Amounts collected from residents in advance are recognized as deferred revenue until the performance obligations are satisfied. Routine resident services are treated as a single performance obligation satisfied over time as services are rendered. These routine services represent a bundle of services that are not capable of being distinct. The performance obligations are satisfied over time as the resident simultaneously receives and consumes the benefits of the services provided.

Hillcrest determines the transaction price based on established billing rates, reduced by contractual adjustments provided to third-party payors. Contractual adjustments are based on contractual agreements and historical experience. Hillcrest considers the resident's ability and intent to pay the amount of consideration upon admission. Subsequent changes resulting from a resident's ability to pay are recorded as bad debt expense.

As the performance obligations relate to contracts with a duration of one year or less, Hillcrest has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Hillcrest has minimal unsatisfied performance obligations at the end of the reporting period as residents are typically under no obligation to remain at the facility or under Hillcrest's care.

Net revenues are adjusted when changes in estimates of variable considerations occur. Changes in estimates typically arise as a result of new information obtained, such as payment receipt or denial, or retroactive pricing adjustments by payors for services. Subsequent changes to estimates of transaction prices are recorded as adjustments to net revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in payors ability to pay are recorded as an allowance for doubtful accounts. Hillcrest will write off accounts receivable once all collection efforts are exhausted and accounts are deemed uncollectible. In accordance with the adoption of ASC 606, an allowance for doubtful accounts is established only as a result of an adverse change in the customer or payor's ability to pay outstanding billings.

***Net Patient Service Revenue*** - Hillcrest has agreements with third-party payors that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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. Net resident revenues from Medicare were $939,288 and $777,034 for the years ended June 30, 2022 and 2021, respectively. Net resident revenues from Medi-Cal were $804,104 and $810,338 for the years ended June 30, 2022 and 2021, respectively. Upon audit by the State or Medicare, there is a possibility of adjustment to costs reimbursed.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Donated Services*** - Significant amounts of time from a number of people have been donated to Hillcrest. The accompanying financial statements do not reflect the value of those donated services as no reliable basis exists for reasonably determining the amounts involved.

***Contributions*** – Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets being placed in service.

***Obligation to Provide Future Services*** - Annually, Hillcrest calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to expense. For the years ended June 30, 2022 and 2021, the calculation resulted in no future service liability. The discount rate used was 6%.

***Gift Annuities*** - Hillcrest sponsors a charitable gift annuity program as part of its fundraising activities. The assets received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. Cash received is invested per Hillcrest's policy, while other assets received are held as the underlying investments for the related contracts. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the net assets without donor restrictions class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and adjusted accordingly. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

***Advertising*** - Advertising and marketing costs are charged to expense at the time they are incurred. Total advertising expense was $83,801 and $138,209 for the years ended June 30, 2022 and 2021, respectively.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Concentrations of Credit Risk*** - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. For monthly fees charged to residents, Hillcrest grants credit on an unsecured basis.

Hillcrest has reserve funds, comprised of cash and equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the federally-insured limit. Hillcrest manages deposit concentration risk by placing amounts with financial institutions believed to be creditworthy. To date, Hillcrest has not experienced losses in any of these accounts.

***Financial Instruments*** - Hillcrest's financial instruments consist of accounts and entrance fees receivable, endowment, assets whose use is limited, investments, derivative instruments, accounts payable, accrued expenses, refundable deposits, construction payable, interest payable, bonds payable, note payable, annuities payable and repayable entrance fees. It is management's opinion that Hillcrest is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

***Functional Expenses*** – The costs of providing various programs and other activities of Hillcrest have been summarized on a functional basis in the accompany statements of functional expenses. Accordingly, the costs of Hillcrest have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses which are allocated include the following:

| Expense | Method of Allocation |
|---|---|
| Personnel and related costs | Time and effort, analyzed by department |
| Supplies | Department and purpose |
| Contract services | Department and purpose |
| Maintenance | Department and purpose |
| Utilities and facility costs | Department and purpose |
| Insurance and taxes | Department and purpose |
| Interest | Purpose of debt |
| Depreciation and amortization | Department and purpose |

***Income Taxes*** – Hillcrest is a tax-exempt organization pursuant to Internal Revenue Code (IRC) 501(a) as an organization described by the IRC Section 501(c)(3) and applicable state law; therefore, no provision for income taxes has been made in the accompanying financial statements.

Hillcrest follows the provisions of the Income Tax Topic of the FASB Accounting Standards Codification relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. Hillcrest is liable for taxes to the extent of any unrelated business income as defined by the IRS regulations. Hillcrest believes that it has not generated any unrelated business taxable income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions at June 30, 2022.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

***Adoption of accounting standard changes*** – In August 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, amending the eligibility criteria for hedged items and transactions to expand an entity's ability to hedge nonfinancial and financial risk components. The new guidance eliminates the requirement to separately measure and present hedge ineffectiveness and aligns the presentation of hedge gains and losses with the underlying hedge item. The new guidance also simplifies the hedge documentation and hedge effectiveness assessment requirements. The new guidance was effective for Hillcrest as of July 1, 2021. The new guidance did not have a material impact on Hillcrest's financial statements.

***Reclassifications*** – Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year's presentation.

## NOTE 3 – LIQUIDITY AND AVAILABILITY:

The table below represents financial assets available for general expenditures within one year at June 30, 2022 and 2021:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Cash and cash equivalents | $ 9,687,093 | $ 4,818,669 |
| Accounts receivable, net | 637,654 | 708,066 |
| Entrance fees receivable | 2,215,500 | 786,000 |
| Undesignated investments | 16,123,139 | 14,584,143 |
| | $ 28,663,386 | $ 20,896,878 |

Hillcrest tracks cash on a monthly basis and it is reviewed by the Board of Directors on a quarterly basis. Hillcrest's goal is to maintain financial assets to meet a minimum of 250 days of operating expenses (approximately $14,800,000) and have sufficient funds available to meet required debt service payments under the terms of the Bonds. In addition to the assets above there is $11,380,776 of Board Designated investments available if deemed necessary by the Board of Directors. As part of its liquidity plan, excess cash is invested in financial instruments, as disclosed in Note 8.

## NOTE 4 – ENDOWMENT:

The Endowment funds are recorded at fair market value and invested as follows:

| | June 30, | |
|---|---|---|
| | 2022 | 2021 |
| *Endowment Funds* | | |
| Cash and money markets | $ 6,616 | $ 4,766 |
| Fixed income securities | 645,513 | 778,275 |
| Equity securities | 1,557,380 | 2,053,081 |
| | $ 2,209,509 | $ 2,836,122 |

## NOTE 5 – ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited are recorded at fair market value and consist of the following as of:

| | June 30, | |
|---|---|---|
| | 2022 | 2021 |
| *Gift Annuities* | | |
| Gift annuities funds | $ 735,215 | $ 1,210,632 |
| *Hawthorne Avenue* | | |
| Hawthorne Avenue deposits | - | 820,283 |
| *Resident Association* | | |
| Resident association funds | 149,065 | 72,075 |
| | $ 884,280 | $ 2,102,990 |

## NOTE 5 – ASSETS WHOSE USE IS LIMITED (continued):

The assets are invested as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| *Gift Annuities* | | |
| Cash and money markets | $ 36,441 | $ 48,170 |
| Fixed income securities | 453,514 | 737,529 |
| Equity securities | 245,260 | 424,933 |
| | 735,215 | 1,210,632 |
| *Hawthorne Avenue* | | |
| Cash | - | 820,283 |
| *Resident Association* | | |
| Cash | 149,065 | 72,075 |
| | $ 884,280 | $ 2,102,990 |

## NOTE 6 – INVESTMENTS:

Investments are recorded at fair market value and consist of the following as of:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| *Board Designated Funds* | | |
| Operating and capital reserve | $ 11,211,690 | $ 13,121,585 |
| Earthquake insurance fund | 169,086 | - |
| *Undesignated* | | |
| Undesignated funds | 16,123,139 | 14,584,143 |
| *Specific Purpose* | | |
| Specific purposes funds | 1,145,087 | 514,657 |
| *Insurance* | | |
| Insurance investments | 419,194 | 429,408 |
| | $ 29,068,196 | $ 28,649,793 |

There were no expenditures made from the Board Designated Funds during the years ended June 30, 2022 and 2021.

**NOTE 6 – INVESTMENTS (continued):**

The assets are invested as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| *Board Designated Funds* | | |
| Cash and money markets | $ 211,554 | $ 42,466 |
| Fixed income securities | 3,136,181 | 3,549,183 |
| Equity securities | 8,033,041 | 9,529,936 |
| | 11,380,776 | 13,121,585 |
| *Undesignated* | | |
| Cash and money markets | 31,289 | 4,294,944 |
| Fixed income securities | 4,447,080 | 7,584,809 |
| Equity securities | 11,644,770 | 2,704,390 |
| | 16,123,139 | 14,584,143 |
| *Special Purpose* | | |
| Cash and money markets | 494,591 | 514,657 |
| Fixed income securities | 192,383 | - |
| Equity securities | 458,113 | - |
| | 1,145,087 | 514,657 |
| *Insurance* | | |
| Insurance investments | 419,194 | 429,408 |
| | $ 29,068,196 | $ 28,649,793 |

## NOTE 7 – PROPERTY, PLANT AND EQUIPMENT:

Acquisitions greater than $500 and with an expected life of one year or more are capitalized at cost. When property is donated, it is capitalized at fair value at the date of the gift. Interest paid during the construction period of an asset is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

| | |
|---|---|
| Buildings and improvements | Principally 5 to 40 years |
| Furniture, fixtures, equipment and vehicles | Principally 3 to 25 years |

Property, plant and equipment are summarized as follows as of:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Land | $ 4,153,286 | $ 4,153,286 |
| Land improvements | 910,581 | 895,058 |
| Master plan | 11,703 | 11,703 |
| Buildings and improvements | 121,348,689 | 111,889,122 |
| Furniture, fixtures, equipment and vehicles | 9,712,433 | 8,113,723 |
| | 136,136,692 | 125,062,892 |
| Less: accumulated depreciation | (65,665,058) | (61,057,599) |
| Subtotal | 70,471,634 | 64,005,293 |
| Construction-in-progress | 1,382,017 | 8,408,389 |
| Total | $ 71,853,651 | $ 72,413,682 |

During the years ended June 30, 2022 and 2021, interest costs were capitalized in the amount of $59,369 and $69,249, respectively.

## NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

Hillcrest has adopted the requirements of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. This Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. These additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

This Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. It also specifies that transaction costs should not be considered in the determination of fair value. According to this Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

This Topic establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

As required by this Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Fair value for Level 3 insurance investments is determined by the estimated equity value at year end. Fair value for Level 3 derivative instruments is determined using a derivative product agreement by using pricing models to calculate the discounted present value of cash flows derived from forward curves, correlation and volatility levels based upon observable market inputs and/or good faith estimates.

The fair value for Level 3 liabilities is determined by calculating the present value of cash flows expected to be paid out, using various discount rates and life expectancy tables.

## NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

The fair value of financial assets and liabilities measured on a recurring basis as of June 30 are as follows:

| | Fair Value Measurements at Reporting Date Using: | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2022 | | | | |
| Assets: | | | | |
| Investments | | | | |
| Cash and money markets | $ 737,434 | $ 737,434 | $ - | $ - |
| Mutual funds: | | | | |
| Bond funds | 7,775,644 | 7,775,644 | - | - |
| Large blend equity funds | 11,900,577 | 11,900,577 | - | - |
| Large value equity funds | 3,807,554 | 3,807,554 | - | - |
| Large growth equity funds | 3,384,449 | 3,384,449 | - | - |
| Mid growth equity funds | 1,043,344 | 1,043,344 | - | - |
| Insurance investments | 419,194 | - | - | 419,194 |
| Total investments | 29,068,196 | 28,649,002 | - | 419,194 |
| Endowment | | | | |
| Cash and money markets | 6,616 | 6,616 | - | - |
| Mutual funds: | | | | |
| Bond funds | 645,513 | 645,513 | - | - |
| Large blend equity funds | 889,116 | 889,116 | - | - |
| Large value equity funds | 309,717 | 309,717 | - | - |
| Large growth equity funds | 283,872 | 283,872 | - | - |
| Mid growth equity funds | 74,675 | 74,675 | - | - |
| Total endowment | 2,209,509 | 2,209,509 | - | - |
| Assets whose use is limited | | | | |
| Cash and money markets | 185,506 | 185,506 | - | - |
| Mutual funds: | | | | |
| Bond funds | 453,514 | 453,514 | - | - |
| Large blend equity funds | 131,253 | 131,253 | - | - |
| Large value equity funds | 51,663 | 51,663 | - | - |
| Large growth equity funds | 46,435 | 46,435 | - | - |
| Mid growth equity funds | 15,909 | 15,909 | - | - |
| Total assets whose use is limited | 884,280 | 884,280 | - | - |
| Derivative instruments | 2,808,345 | - | - | 2,808,345 |
| Total assets | $ 34,970,330 | $ 31,742,791 | $ - | $ 3,227,539 |
| Liabilities: | | | | |
| Annuity payment liability | $ 685,022 | $ - | $ - | $ 685,022 |

## NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

| | Fair Value Measurements at Reporting Date Using: | | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2021 | | | | |
| Assets: | | | | |
| Investments | | | | |
| Cash and money markets | $ 4,852,067 | $ 4,852,067 | $ - | $ - |
| Mutual funds: | | | | |
| Bond funds | 11,133,992 | 11,133,992 | - | - |
| Large blend equity funds | 7,032,764 | 7,032,764 | - | - |
| Large value equity funds | 2,287,137 | 2,287,137 | - | - |
| Large growth equity funds | 2,353,454 | 2,353,454 | - | - |
| Mid growth equity funds | 560,971 | 560,971 | - | - |
| Insurance investments | 429,408 | - | - | 429,408 |
| Total investments | 28,649,793 | 28,220,385 | - | 429,408 |
| Endowment | | | | |
| Cash and money markets | 4,766 | 4,766 | - | - |
| Mutual funds: | | | | |
| Bond funds | 778,275 | 778,275 | - | - |
| Large blend equity funds | 1,190,990 | 1,190,990 | - | - |
| Large value equity funds | 375,908 | 375,908 | - | - |
| Large growth equity funds | 378,113 | 378,113 | - | - |
| Mid growth equity funds | 108,070 | 108,070 | - | - |
| Total endowment | 2,836,122 | 2,836,122 | - | - |
| Assets whose use is limited | | | | |
| Cash and money markets | 940,528 | 940,528 | - | - |
| Mutual funds: | | | | |
| Bond funds | 737,529 | 737,529 | - | - |
| Large blend equity funds | 231,873 | 231,873 | - | - |
| Large value equity funds | 83,622 | 83,622 | - | - |
| Large growth equity funds | 87,598 | 87,598 | - | - |
| Mid growth equity funds | 21,840 | 21,840 | - | - |
| Total assets whose use is limited | 2,102,990 | 2,102,990 | - | - |
| Derivative instruments | 1,036,096 | - | - | 1,036,096 |
| Total assets | $ 34,625,001 | $ 33,159,497 | $ - | $ 1,465,504 |
| Liabilities: | | | | |
| Annuity payment liability | $ 716,907 | $ - | $ - | $ 716,907 |

## NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3 measurements, consist of the following:

| | Insurance investments | Derivative instruments |
|---|---|---|
| Balance at July 1, 2020 | $ 422,767 | $ - |
| Deposits | - | 631,000 |
| Unrealized gains | 6,641 | 405,096 |
| Balance at June 30, 2021 | 429,408 | 1,036,096 |
| Deposits | - | - |
| Unrealized gains (losses) | (10,214) | 1,772,249 |
| Balance at June 30, 2022 | $ 419,194 | $ 2,808,345 |

Liabilities measured at fair value on a recurring basis using significant unobservable inputs, Level 3 measurements, consist of the following:

| | Annuity payment liability |
|---|---|
| Balance at July 1, 2020 | $ 798,893 |
| New annuities | 7,329 |
| Payments made to annuitants | (133,451) |
| Revenue on expired contracts | (55,250) |
| Net change in present value of annuities | 99,386 |
| Balance at June 30, 2021 | 716,907 |
| New annuities | 7,329 |
| Payments made to annuitants | (131,868) |
| Revenue on expired contracts | (16,247) |
| Net change in present value of annuities | 108,901 |
| Balance at June 30, 2022 | $ 685,022 |

## NOTE 9 – DERIVATIVE INVESTMENTS:

Hillcrest makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate cap agreements are used to convert Hillcrest's variable rate 2020 Series Bonds to a fixed rate. Changes in the fair value of these instruments are recognized as nonoperating unrealized investment gains or losses in the statements of activities.

Fair values of derivative instruments at June 30, are as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Derivatives not designated as hedging instruments, interest rate contracts | | |
| Effective February 1, 2021, interest rate cap derivative that matures August 1, 2030 from SMBC Capital Markets, Inc. at a variable interest rate based on a percentage of LIBOR, with a cap rate of 1.31% per annum. The notional amount of the interest rate cap derivative was $4,345,000 at June 30, 2022 and 2021. | $ 467,766 | $ 168,722 |
| Effective March 1, 2022, interest rate cap derivative that matures August 1, 2032 from SMBC Capital Markets, Inc. at a variable interest rate based on a percentage of LIBOR, with a cap rate of 1.23% per annum. The notional amount of the interest rate cap derivative was $22,898,150 and $23,229,950 at June 30, 2022 and 2021, respectively. | 2,340,579 | 867,275 |
| Effective, August 3, 2020, interest rate cap derivative that matured March 1, 2022 from SMBC Capital Markets, Inc. at a variable interest rate based on a percentage of LIBOR, with a cap rate of 0.75% per annum. The notional amount of the interest rate cap derivative was $0 and $30,655,000 at June 30, 2022 and 2021, respectively. | - | 99 |
| | $ 2,808,345 | $ 1,036,096 |

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**
**JUNE 30, 2022 AND 2021**
(Continued)

**NOTE 10 – BONDS PAYABLE:**

Bonds payable consisted of the following as of:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| California Municipal Finance Authority (Series 2020) | $ 39,590,000 | $ 37,249,483 |
| Less: unamortized debt issuance costs | (584,312) | (520,982) |
| Less: current portion | (1,705,000) | (1,670,000) |
| | $ 37,300,688 | $ 35,058,501 |

***Series 2020 Bonds***

On July 31, 2020, the Series 2014 Bonds were defeased with proceeds of a Series 2020 Bond issuance. On July 31, 2020, the California Municipal Finance Authority issued $10,600,000 Series 2020A Maximum Principal Amount Variable Rate Revenue Bonds and $32,010,000 2020B Taxable Revenue Refunding Bonds.

The proceeds from the Series 2020A Bonds are to be used for the Hawthorne Avenue project. The construction draw period ends July 31, 2023. The proceeds from the Series 2020B Bonds were used to defease the Series 2014 Bonds, as described below.

On July 31, 2020, a portion of the proceeds of the issuance of the Series 2020B Bonds, together with the amounts on deposit in the 2014 Certificates of Participation Reserve fund and Revenue/Sinking funds established under the 2014 trust agreement, were used to purchase certain defeasance securities to be deposited in the Escrow Deposit fund established under the escrow deposit agreement. Hillcrest irrevocably placed the defeasance securities with an escrow agent in the Escrow Deposit fund to be used solely for satisfying scheduled payments of both the interest and principal of the defeased Series 2014 Bonds. Hillcrest believes that the defeasance securities placed in the Escrow Deposit fund will be sufficient to satisfy all future debt service requirements for the defeased Series 2014 Bonds.

As a result of the deposits made, Hillcrest has been released of the lien and security interests of the Series 2014 Bonds and the Series 2014 Bonds are no longer outstanding.

As a result of the Series 2014 Bonds defeasance, the funds held by trustee in the amount of $3,525,538 were used to purchase certain defeasance securities to be deposited in the Escrow Deposit fund established under the escrow deposit agreement. The amount is included in loss on bond defeasance in the accompanying statements of activities.

**NOTE 10 – BONDS PAYABLE (continued):**

In July 2021, the Board of Directors approved management to proceed with reissuing the Series 2020 A and B Bonds. In September 2021, Hillcrest completed the reissuance process and entered into First Supplemental Bond Indenture agreements dated September 1, 2021. Effective as of September 21, 2021, the initial private placement rate period ending date on the Series 2020A Bonds was extended from July 31, 2030 to June 30, 2036. The variable interest on the Series 2020A Bonds was decreased from 2.05% base to 1.75% base. In addition, certain terms of the variable interest rates were amended to mean either LIBOR, SOFR or the SIFMA Index, as selected. Effective as of September 21, 2021, the initial private placement rate period ending date on the Series 2020B Bonds was extended from July 31, 2032 to June 30, 2036. The variable interest on the Series 2020B Bonds was decreased from 2.05% base to 1.75% base. In addition, certain terms of the variable interest rates were amended to mean either LIBOR, SOFR or the SIFMA Index, as selected.

Interest is payable monthly on the Series 2020 Bonds beginning September 1, 2020 at variable interest rates. The Series 2020A Bonds are payable beginning September 1, 2020, with monthly payments scheduled through August 1, 2050.

The Series 2020B Bonds are payable beginning September 1, 2020, with monthly payments scheduled through June 1, 2036. The Series 2020 Bonds are secured by a pledge of Hillcrest's gross revenues, and further secured by a first deed of trust on Hillcrest's real property, rents and leases, personal property and fixtures. Annual principal payments on the Series 2020A and B Bonds range from $1,355,000 to $5,245,000. Future annual principal payments related to these bonds are as follows:

| Years Ended June 30, | | Amount |
|---|---|---|
| 2023 | $ | 1,705,000 |
| 2024 | | 6,950,000 |
| 2025 | | 1,935,000 |
| 2026 | | 1,985,000 |
| 2027 | | 2,035,000 |
| Thereafter | | 24,980,000 |
| | $ | 39,590,000 |

Upon satisfaction of the conditions of the bond trust indenture, Hillcrest had the option to reissue and exchange the Series 2020B Bonds for Bonds that bear interest that is excludable from gross income of the owners thereof for federal income tax purposes subsequent to March 1, 2022. As of May 16, 2022 pursuant to Section 222 of the Bond Indenture, Hillcrest converted all of the outstanding Original Series 2020B bonds to bear interest that is excludable from gross income for federal tax purposes. For federal income tax purposes, the conversion is treated as a reissuance and a current refunding of the Original Series 2020B Bonds.

The bond trust indenture requires Hillcrest to comply with various covenants, conditions and restrictions. A Debt Service Coverage Ratio of 1.20 is required at the end of each fiscal year. A Days Cash On Hand covenant requires 150 days of Cash on Hand each June 30 and December 31. Both of these covenants have been met as of June 30, 2022.

## NOTE 11 – FINANCE LEASE:

On October 1, 2016, Hillcrest entered into a five-year contract for cable and internet services. As part of the contract, certain infrastructure to support these services was installed on Hillcrest's property. Since ownership of the equipment transferred to Hillcrest, it was determined that the portion of the monthly payments related to the equipment met the definition of a finance lease. The contract required equal monthly payments of approximately $20,000, which cover the cost of the installed equipment as well as the ongoing services. During the year ending June 30, 2022 the contract expired and ownership of the equipment transferred to Hillcrest.

The right-of-use asset of $608,954 is reported in property, plant and equipment, net on the accompanying statements of financial position. Accumulated amortization of the right-of-use asset was $0 and $289,253 at June 30, 2022 and 2021, respectively. Amortization of the right-of-use asset was recorded in the amount of $0 and $60,895 for the years ended June 30, 2022 and 2021, respectively, and is included with depreciation expense on the accompanying statements of activities. Interest expense related to the finance lease was recorded in the amount of $0 and $3,250 for the years ended June 30, 2022 and 2021, respectively, and is included with interest expense on the accompanying statements of activities.

## NOTE 12 – NOTE PAYABLE:

During the year ended June 30, 2017, Hillcrest entered into an agreement to provide housing to two individuals in exchange for a piece of property located adjacent to Hillcrest. In connection with the agreement, Hillcrest signed a note payable to the recipients in the amount of $470,363. As of June 30, 2022 and 2021, the note payable was $294,754 and $329,426, respectively. The note payable indicates that in lieu of making monthly payments on the note, Hillcrest will be credited with the value of the housing, as well as any additional services, provided to the note holders. The monthly value is at least $2,568 for the housing, excluding other services. In the event that the note holders are no longer receiving housing or services, Hillcrest will begin making monthly payments of at least $2,568. The note bears no interest and is due on May 1, 2032.

Future required payments on the note payable are as follows for the years ended June 30:

| | | |
|---|---|---|
| 2023 | $ | 30,816 |
| 2024 | | 30,816 |
| 2025 | | 30,816 |
| 2026 | | 30,816 |
| 2027 | | 30,816 |
| Thereafter | | 140,674 |
| | $ | 294,754 |

## NOTE 13 – OTHER LONG-TERM LIABILITY:

On June 8, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to "B" Street, which runs along the eastern side of Hillcrest. The City of La Verne contributed $82,117 of improvement costs to Hillcrest. Rather than requiring Hillcrest to pay cash to the City, the parties agreed that Hillcrest would set aside six residential units for "very low-income housing" for a term of 15 years per unit or a combination of very low-income housing and three lower-income housing units for every two very low-income housing units not occupied. During the year ended June 30, 2008, Hillcrest and the City of La Verne agreed to extend this agreement. The City contributed an additional $296,000 for improvements to Benton Street, and Hillcrest has set aside the agreed-upon units for an additional 15 years beyond the original agreement. Hillcrest has recorded the cost in fixed assets, and established a corresponding liability which is amortized over the 15 year term.

## NOTE 14 – LOAN PAYABLE:

On April 22, 2020, Hillcrest was granted a loan from City National Bank in the aggregate amount of $1,824,100, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted March 27, 2020.

The loan, which was in the form of a Note dated April 16, 2020, was set to mature on April 16, 2022. The loan was permitted to be prepaid by Hillcrest at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, certain amounts of the loan were subject to be applied for and be granted forgiveness if employee retention conditions are met and they are used for qualifying expenses, which includes payroll costs, mortgage interest, business rent or lease costs and eligible business utility costs as described in the CARES Act. The portion of the grant that is not forgiven bears interest at a rate of 1.00%, and was set to be payable monthly commencing on November 16, 2020. In October 2020, the Paycheck Protection Flexibility Act of 2020 extended the deferral period for monthly payments to ten months after the end of the Company's covered period or the date that the Small Business Administration ("SBA") remits the borrower's loan forgiveness amount to the lender, whichever date occurs first.

In April 2021, the loan was 100% forgiven by the SBA. As a result, Hillcrest recorded a gain on extinguishment of the loan in the amount of $1,842,968, included in gain on forgiveness of loan in the accompanying statements of activities.

**NOTE 15 – NET ASSETS:**

Net assets with donor restrictions were as follows as of:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Specific purpose: | | |
| Minnie A. Trout Health Services Education | $ 113,105 | $ 114,919 |
| C.O.B. Ministers and Missionaries | 199,596 | 199,832 |
| Christian Service | 140,971 | 140,725 |
| Woods Capital and Discretionary | 277,176 | 146,957 |
| Benevolence | 3,254,970 | 3,388,796 |
| Village Tower | 26,531 | 26,098 |
| Cultural Arts Society | 13,455 | 17,428 |
| Business Associates Breakfast | 5,199 | 5,199 |
| Welch Tribute | 2,598 | 2,598 |
| Residents' Association | 33,528 | 39,529 |
| Gift Shop | 19,008 | 13,418 |
| Reforestation Project | 24,955 | 12,238 |
| Scrubs for Health Services | 1,646 | 2,359 |
| LKB Professional Development | - | 5,869 |
| Chaplaincy | 841 | 73 |
| Charitable Gift Annuities | 144,177 | 253,078 |
| Cultural Arts Society Events | 850 | - |
| DEI | 2,660 | - |
| Total specific purpose | 4,261,266 | 4,369,116 |
| Perpetual (donor restricted endowment funds): | | |
| Benevolence endowment | 5,764,614 | 6,004,248 |
| Woods Capital and Discretionary | 37,398 | 39,064 |
| Minnie A. Trout Health Services Education Fund | 178,784 | 182,491 |
| C.O.B. Ministers and Missionaries | 209,414 | 143,386 |
| Good Samaritan endowment | 1,411,168 | 1,512,077 |
| LKB Professional Development | 105,889 | 120,463 |
| Chaplaincy | 1,317 | 1,500 |
| Welch Tribute | 44,519 | - |
| Total perpetual | 7,753,103 | 8,003,229 |
| | $ 12,014,369 | $ 12,372,345 |

**NOTE 15 – NET ASSETS (continued):**

Net assets were released from donor restrictions for the following purposes for the years ended:

| | Years Ended June 30, 2022 | Years Ended June 30, 2021 |
|---|---|---|
| Woods Capital and Discretionary | $ 1,090 | $ 26,836 |
| Nurses Training – Bowser | - | - |
| Benevolence | 255,332 | 250,504 |
| Good Samaritan | 150,981 | 55,812 |
| Book House | - | 834 |
| Cultural Arts Society | 5,422 | 7,369 |
| Welch Tribute | (100) | 902 |
| Gift Shop | 34,721 | 22,112 |
| Reforestation Project | 19,321 | 13,216 |
| Scrubs for Health Services | 1,713 | 2,741 |
| COVID-19 Relief | 18,889 | 661,380 |
| LKB Professional Development | 5,290 | - |
| Resident Association | 6,001 | - |
| MV Dining | 100,000 | - |
| DEI | 340 | - |
| Total | $ 599,000 | $ 1,041,706 |

Net assets without donor restrictions were as follows as of:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Undesignated | $ 12,625,287 | $ 12,247,129 |
| Board Designated | | |
| Operations and Capital | 11,380,776 | 13,121,585 |
| | $ 24,006,063 | $ 25,368,714 |

Board of Directors have designated certain undesignated amounts for specific purposes. Inasmuch as these amounts have no donor restrictions, they are included in net assets without donor restrictions on the accompanying statements of financial position. The Board of Directors may rescind the designation of these amounts at any time.

## NOTE 16 – DONOR-DESIGNATED ENDOWMENT NET ASSETS:

Hillcrest's endowments consist of the Benevolence and Good Samaritan endowments and other perpetual funds established to provide assistance to residents. The endowments include donor restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Hillcrest has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Hillcrest classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The policy of the board of directors is that all investment income from the endowment funds is available for transfer to the donor restricted fund with the same donor designation. In accordance with UPMIFA, Hillcrest considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Hillcrest and (7) Hillcrest's investment policy.

Hillcrest has adopted an investment policy for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Hillcrest must hold in perpetuity or for a donor-specified period.

Changes in endowment net assets were as follows for the years ended:

| | Years Ended June 30, 2022 | Years Ended June 30, 2021 |
|---|---|---|
| Balance, beginning of year | $ 8,003,229 | $ 7,969,863 |
| Contributions | 131,481 | 33,366 |
| Investment return, net | (381,607) | - |
| Distributions | - | - |
| Balance, end of year | $ 7,753,103 | $ 8,003,229 |

There are no endowment net assets without donor restrictions for the years ended June 30, 2022 and 2021.

**NOTE 16 – DONOR-DESIGNATED ENDOWMENT NET ASSETS (continued):**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Hillcrest to retain as a fund of perpetual duration. Deficiencies of this nature exist in their donor-restricted endowment funds, which together have an original gift value of $8,003,229 and a current fair value of $7,753,103 and a deficiency of $381,607 as of June 30, 2022. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment fund and continued appropriation for certain programs that was deemed prudent by the Board.

Hillcrest has borrowed from the net assets with donor restrictions to acquire property and fund construction of new facilities since 2003. All internal borrowing transactions and balances have been eliminated on the accompanying financial statements.

Internal borrowings were as follows as of:

| | June 30, | |
|---|---|---|
| | 2022 | 2021 |
| Internal borrowings, 30-year unsecured notes receivable/payable at 3% simple interest, payable in annual principal and interest payments. At the discretion of the Board of Directors, future payments may be postponed or withheld in any given year if making such payments would harm the sustainability of Hillcrest or violate existing bond covenants. | | |
| Note receivable/payable for principal, due from the general fund to the endowment fund | $ 1,955,925 | $ 1,955,925 |
| Note receivable/payable for transfer of land, due from the general fund to the endowment fund | 3,567,204 | 3,567,204 |
| Note receivable/payable for transfer of land, due from the general fund to the special purpose fund | 3,127,856 | 3,127,856 |
| | $ 8,650,985 | $ 8,650,985 |

**NOTE 17 – PENSION PLAN:**

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate however, an employee must be 21 years of age and have been employed for one year in order to receive employer contributions. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 4.25% on behalf of each eligible employee for the years ended June 30, 2022 and 2021. Hillcrest's total cost for this pension plan was $278,179 and $258,660 for the years ended June 30, 2022 and 2021, respectively.

## NOTE 18 – RELATED PARTIES:

Hillcrest purchased general and professional liability insurance with premiums of $271,221 and $192,367 for the years ended June 30, 2022 and 2021, respectively. The insurance was purchased from an insurance company of which Hillcrest is a shareholder. At June 30, 2022 and 2021, Hillcrest's investment in this insurance company was $353,203 and $363,417, respectively. This amount is included in investments at the estimated equity value at year end. Hillcrest also received dividend payments from the company in the amount of $10,214 and $10,912 for the years ended June 30, 2022 and 2021, respectively.

Hillcrest purchased workers' compensation insurance with premiums of $524,089 and $507,525 for the years ended June 30, 2022 and 2021, respectively. The insurance was purchased through a group self-insurance program of which Hillcrest is a member. The group insurance program is governed by the California Department of Industrial Relations.

## NOTE 19 – CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between Hillcrest's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI), as well as charity care for residents. Residents' charity care is supported through Benevolence donations and earnings on endowment resources.

The following information measures the level of voluntary charity care provided for the years ended June 30:

| | 2022 | 2021 |
|---|---|---|
| Nursing facility | $ 98,516 | $ 27,381 |
| Assisted living | 53,059 | 79,268 |
| Residential living | 136,632 | 143,825 |
| Related to contract residents | 288,207 | 250,474 |
| Related to community residents | 316,577 | 93,817 |
| Total | $ 604,784 | $ 344,291 |

## NOTE 20 – SIGNIFICANT TRANSACTIONS AND EVENTS

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts Hillcrest's results is dependent on the breadth and duration of the pandemic and could be affected by other factors Hillcrest is not currently able to predict. These impacts may include, but are not limited to, additional costs for responding to COVID-19, potential shortages of healthcare personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue. Management believes Hillcrest is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at this time.

***Relief funds***

The CARES Act authorized the U.S. Department of Health and Human Services (the "HHS") to distribute relief fund grants to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. HHS has made several rounds of distributions to providers based upon a variety of factors and providers have been able to apply for additional funding. To retain the funding, providers must submit an attestation accepting certain terms and conditions.

Beginning in April 2020, Hillcrest received relief grants from CARES Act funds administered by HHS. During the years ended June 30, 2022 and 2021, Hillcrest received $0 and $668,221, respectively, of relief grants under the program.

Repayment of the relief funds is not required unless Hillcrest is not in compliance with the terms and conditions of the funding. Hillcrest recognizes relief funds as donor restricted contributions once there is reasonable assurance that the conditional applicable terms and conditions required to retain the funds have been met. During the year ended June 30, 2021, Hillcrest determined that the donor condition for the release of restrictions had been substantially met and conditional donor restricted contributions in the amounts of $646,471, of aggregate relief funds have been recognized as donor restricted contributions in the accompanying statements of activities. In fiscal year 2021, Hillcrest received PRF in excess of the amounts determined per licensed skilled number bed. At June 30, 2022 and 2021, the unrecognized amount of the PRF received in error was $59,250, included in refundable advance – HHS provider relief funds in the accompanying statements of financial position.

## NOTE 21 – STATUTORY RESERVES:

Hillcrest is certified as a Continuing Care Retirement Community (CCRC) by the State of California. California Health and Welfare Code section 1792 requires that a CCRC establish "liquid reserves" (undesignated cash and marketable securities) equal to the total of all principal and interest payments on long-term obligations paid during the fiscal year plus 75 days of its projected operating expenses. Based on Hillcrest's debt payments made during the year ended June 30, 2022 and its projected operating expenses for the following fiscal year, Hillcrest was required to have approximately $5,181,000 in liquid reserves as of June 30, 2022. Hillcrest's liquid reserves as of June 30, 2022, were sufficient to meet this requirement.

## NOTE 22 – CONTINGENCIES:

Hillcrest was named in a class action lawsuit claiming damages on behalf of a putative class of all current and former non-exempt, hourly employees who worked for Hillcrest during the time period from October 2014 to March 1, 2020 ("eligible class of employees"). As of June 30, 2020, Hillcrest recorded an estimated settlement payable in the amount of $425,000. During the year ended June 30, 2021, the lawsuit was settled and paid in full.

As of June 30, 2022, there is one outstanding claim that is in the early stages of litigation. All claims have been referred to Hillcrest's insurance company and legal counsel. In management's opinion, although the outcomes of these claims are unknown at this time, any losses that may occur would be covered by Hillcrest's insurance company, and therefore, should not have a material impact on Hillcrest's financial position or activities. However, there exists a risk that Hillcrest could incur a liability in the future under these matters.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare and Medi-Cal billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of statutes and regulations by health care providers, which could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Hillcrest is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Due to the impact of COVID-19 pandemic declared on March 11, 2020, the fair value of investments held by Hillcrest could fluctuate significantly subsequent to year end. At this time, the market volatility and the current situation surrounding the pandemic is uncertain. Management monitors the performance of the financial instruments, including approving changes in funds in which assets are held or invested in subsequent to year end. Management believes any decline in the fair value of these investments is temporary and will continue to monitor the situation closely.

## NOTE 23 – COMMITMENTS:

On July 30, 2020, Hillcrest entered into a construction contract related to the Hawthorne Avenue project. The contract sum, including change orders, is $6,678,082. At June 30, 2022 and 2021, the amount due on the contract was $0 and $584,083, respectively, included in the accompanying statements of financial position in construction payable. The remaining balance to finish at June 30, 2022 and 2021, was $0 and $1,421,332, respectively.

## NOTE 24 – SUBSEQUENT EVENTS:

Hillcrest did not have any subsequent events through September 30, 2022, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended June 30, 2022.

**Supplementary Information**

HH
HANSEN HUNTER & CO. P.C.
Certified Public Accountants

**Independent Auditor's Report on Supplementary Information**

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the financial statements of Brethren Hillcrest Homes (a California not-for-profit corporation) as of and for the years ended June 30, 2022 and 2021, and have issued our report thereon dated September 30, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Brethren Hillcrest Homes' management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hansen Hunter + Co. P.C.

September 30, 2022

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# BRETHREN HILLCREST HOMES

## STATEMENT OF FINANCIAL POSITION
## JUNE 30, 2022

| | Without donor restrictions | With donor restrictions | Eliminations | Total |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | $ 9,687,093 | $ - | $ - | $ 9,687,093 |
| Accounts receivable, net | 637,654 | - | - | 637,654 |
| Entrance fees receivable | 2,215,500 | - | - | 2,215,500 |
| Inventory | 57,890 | - | - | 57,890 |
| Prepaid expenses and deposits | 275,420 | - | - | 275,420 |
| Total current assets | 12,873,557 | - | - | 12,873,557 |
| **Non-current assets** | | | | |
| Other inter-fund borrowings | 131,220 | (131,220) | - | - |
| Restricted funds loans | - | 8,650,985 | (8,650,985) | - |
| Endowment | - | 2,209,509 | - | 2,209,509 |
| Assets whose use is limited | - | 884,280 | - | 884,280 |
| Investments | 27,923,109 | 1,145,087 | - | 29,068,196 |
| Derivative instruments | 2,808,345 | - | - | 2,808,345 |
| Property, plant and equipment, net | 71,853,651 | - | - | 71,853,651 |
| **Total assets** | $ 115,589,882 | $ 12,758,641 | $ (8,650,985) | $ 119,697,538 |
| **Current liabilities** | | | | |
| Accounts payable | $ 867,316 | $ - | $ - | $ 867,316 |
| Accrued expenses | 1,353,958 | - | - | 1,353,958 |
| Refundable deposits | 155,114 | - | - | 155,114 |
| Current portion of bonds payable | 1,705,000 | - | - | 1,705,000 |
| Current portion of note payable | 30,816 | - | - | 30,816 |
| Construction payable | 29,653 | - | - | 29,653 |
| Interest payable | 67,876 | - | - | 67,876 |
| Refundable advance - HHS provider relief funds | - | 59,250 | - | 59,250 |
| Total current liabilities | 4,209,733 | 59,250 | - | 4,268,983 |
| **Non-current liabilities** | | | | |
| Restricted funds loan | 8,650,985 | - | (8,650,985) | - |
| Bonds payable, net of current portion | 37,885,000 | - | - | 37,885,000 |
| Unamortized debt issuance costs | (584,312) | - | - | (584,312) |
| Bonds payable, net | 37,300,688 | - | - | 37,300,688 |
| Note payable, net of current portion | 263,938 | - | - | 263,938 |
| Other long-term liability | 113,020 | - | - | 113,020 |
| Annuities payable | - | 685,022 | - | 685,022 |
| Repayable entrance fees | 477,130 | - | - | 477,130 |
| Contract liability from advance fees | 40,568,325 | - | - | 40,568,325 |
| **Total liabilities** | 91,583,819 | 744,272 | (8,650,985) | 83,677,106 |
| **Net assets** | | | | |
| Without donor restrictions | 24,006,063 | - | - | 24,006,063 |
| With donor restrictions | - | 12,014,369 | - | 12,014,369 |
| Total net assets | 24,006,063 | 12,014,369 | - | 36,020,432 |
| **Total liabilities and net assets** | $ 115,589,882 | $ 12,758,641 | $ (8,650,985) | $ 119,697,538 |

# BRETHREN HILLCREST HOMES

## STATEMENT OF FINANCIAL POSITION
## JUNE 30, 2021

| | Without donor restrictions | With donor restrictions | Eliminations | Total |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | $ 4,818,669 | $ - | $ - | $ 4,818,669 |
| Accounts receivable, net | 708,066 | - | - | 708,066 |
| Entrance fees receivable | 786,000 | - | - | 786,000 |
| Inventory | 48,290 | - | - | 48,290 |
| Prepaid expenses and deposits | 186,360 | - | - | 186,360 |
| Total current assets | 6,547,385 | - | - | 6,547,385 |
| **Non-current assets** | | | | |
| Other inter-fund borrowings | 135,969 | (135,969) | - | - |
| Restricted funds loans | - | 8,650,985 | (8,650,985) | - |
| Endowment | - | 2,836,122 | - | 2,836,122 |
| Assets whose use is limited | 820,283 | 1,282,707 | - | 2,102,990 |
| Investments | 28,135,136 | 514,657 | - | 28,649,793 |
| Derivative instruments | 1,036,096 | - | - | 1,036,096 |
| Property, plant and equipment, net | 72,413,682 | - | - | 72,413,682 |
| **Total assets** | $ 109,088,551 | $ 13,148,502 | $ (8,650,985) | $ 113,586,068 |
| **Current liabilities** | | | | |
| Accounts payable | $ 914,646 | $ - | $ - | $ 914,646 |
| Accrued expenses | 1,210,492 | - | - | 1,210,492 |
| Refundable deposits | 874,248 | - | - | 874,248 |
| Prepaid resident service fees | 58,552 | - | - | 58,552 |
| Current portion of bonds payable | 1,670,000 | - | - | 1,670,000 |
| Current portion of note payable | 30,816 | - | - | 30,816 |
| Construction payable | 584,083 | - | - | 584,083 |
| Interest payable | 82,913 | - | - | 82,913 |
| Refundable advance - HHS provider relief funds | - | 59,250 | - | 59,250 |
| Total current liabilities | 5,425,750 | 59,250 | - | 5,485,000 |
| **Non-current liabilities** | | | | |
| Restricted funds loan | 8,650,985 | - | (8,650,985) | - |
| Bonds payable, net of current portion | 35,579,483 | - | - | 35,579,483 |
| Unamortized debt issuance costs | (520,982) | - | - | (520,982) |
| Bonds payable, net | 35,058,501 | - | - | 35,058,501 |
| Note payable, net of current portion | 298,610 | - | - | 298,610 |
| Other long-term liability | 129,166 | - | - | 129,166 |
| Annuities payable | - | 716,907 | - | 716,907 |
| Repayable entrance fees | 477,130 | - | - | 477,130 |
| Contract liability from advance fees | 33,679,695 | - | - | 33,679,695 |
| **Total liabilities** | 83,719,837 | 776,157 | (8,650,985) | 75,845,009 |
| **Net assets** | | | | |
| Without donor restrictions | 25,368,714 | - | - | 25,368,714 |
| With donor restrictions | - | 12,372,345 | - | 12,372,345 |
| Total net assets | 25,368,714 | 12,372,345 | - | 37,741,059 |
| **Total liabilities and net assets** | $ 109,088,551 | $ 13,148,502 | $ (8,650,985) | $ 113,586,068 |