



**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017



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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Brethren Hillcrest Homes (a California not-for-profit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 audit 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.



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

Opinion

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, 2018 and 2017, 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.

Hansen Hunter & Co. P.C.

October 11, 2018

BRETHREN HILLCREST HOMES
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2018	2017
Current assets		
Cash and cash equivalents	\$ 9,997,086	\$ 8,713,952
Accounts receivable, net	423,147	776,120
Entrance fees receivable	940,143	1,142,239
Interest receivable	-	7,866
Inventory	49,335	48,385
Prepaid expenses and deposits	212,964	269,497
	<u>11,622,675</u>	<u>10,958,059</u>
Non-current assets		
Assets whose use is limited	21,917,123	21,692,711
Investments	2,478,158	423,481
Property, plant and equipment, net	68,480,980	68,410,388
	<u>68,480,980</u>	<u>68,410,388</u>
Total assets	<u>\$ 104,498,936</u>	<u>\$ 101,484,639</u>

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,	
	2018	2017
Current liabilities		
Accounts payable	\$ 522,587	\$ 656,743
Accrued expenses	971,582	977,100
Refundable deposits	48,595	31,245
Prepaid resident service fees	42,359	79,201
Current portion of bonds payable	1,230,000	1,185,000
Current portion of finance lease liability	233,899	146,491
Current portion of note payable	30,816	30,816
Construction payable	217,932	-
Interest payable	209,798	215,642
	3,507,568	3,322,238
Non-current liabilities		
Bonds payable, net of current portion	33,050,000	34,280,000
Unamortized premium and debt issuance costs	567,076	598,727
	33,617,076	34,878,727
Finance lease liability, net of current portion	531,322	535,373
Note payable, net of current portion	397,694	429,275
Other long-term liability	177,604	193,750
Annuities payable	952,900	1,008,241
Repayable entrance fees	477,130	828,497
Deferred revenue from entrance fees	30,742,146	28,250,684
	70,403,440	69,446,785
Net assets		
Unrestricted	24,576,156	22,213,737
Temporarily restricted	2,477,891	2,687,613
Permanently restricted	7,041,449	7,136,504
	34,095,496	32,037,854
Total liabilities and net assets	\$ 104,498,936	\$ 101,484,639

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

BRETHREN HILLCREST HOMES

STATEMENTS OF ACTIVITIES

	Years Ended June 30,	
	2018	2017
Revenues		
Residential Living	\$ 12,556,118	\$ 11,863,502
Birch Court	2,066,085	1,901,744
Woods Assisted Living	745,000	684,464
Southwoods Lodge	1,502,257	1,481,927
Woods Health Services	5,153,660	5,897,673
Telephone system	257,604	153,747
Rentals	95,813	69,317
Other revenue	1,674,097	1,738,261
Donations	51,328	229,058
Investment income, net	369,146	183,611
Net realized gains (losses) on investments	1,179,309	65,264
Net assets released from restrictions	1,121,446	401,321
Total revenues	26,771,863	24,669,889
Expenses		
Residential Living	8,217,010	7,882,263
Birch Court	589,539	499,083
Woods Assisted Living	248,004	302,484
Southwoods Lodge	781,689	754,611
Woods Health Services	3,851,235	4,065,650
Marketing and development	1,086,014	1,178,988
Management and general	2,214,766	2,081,871
Interest	1,740,866	1,763,465
Depreciation	3,947,735	3,554,578
Insurance	372,360	368,332
Telephone system	228,170	249,245
Bad debt expense	28,673	224,575
Inter-fund interest	114,337	117,029
Total expenses	23,420,398	23,042,174

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

BRETHREN HILLCREST HOMES**STATEMENTS OF ACTIVITIES**

(Continued)

	Years Ended June 30,	
	2018	2017
Change in unrestricted net assets from operations	\$ 3,351,465	\$ 1,627,715
Unrealized gain (loss) on investments	(1,028,046)	793,996
Unrealized gain (loss) on land investment	39,000	1,794,000
Gain on nonmonetary transaction	-	181,718
Change in unrestricted net assets	<u>2,362,419</u>	<u>4,397,429</u>
Changes in temporarily restricted net assets:		
Contributions	788,046	632,848
Inter-fund interest income	114,337	117,029
Investment income	9,341	-
Present value adjustment of gift annuities payable	-	(71,184)
Net assets released from restriction	<u>(1,121,446)</u>	<u>(401,321)</u>
Change in temporarily restricted net assets	<u>(209,722)</u>	<u>277,372</u>
Changes in permanently restricted net assets:		
Contributions	26,510	219,256
Present value adjustment of gift annuities payable	<u>(121,565)</u>	<u>(71,184)</u>
Change in permanently restricted net assets	<u>(95,055)</u>	<u>148,072</u>
Change in total net assets	<u>2,057,642</u>	<u>4,822,873</u>
Net assets, beginning of year	<u>32,037,854</u>	<u>27,214,981</u>
Net assets, end of year	<u>\$ 34,095,496</u>	<u>\$ 32,037,854</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2018	2017
Cash flows from operating activities		
Cash received from residents	\$ 18,971,004	\$ 17,782,734
Non-refundable entrance fees received	8,034,178	5,618,359
Contributions	44,838	58,177
Investment income received	1,565,662	255,949
Interest expense paid	(1,778,361)	(1,799,370)
Cash paid to suppliers and employees	<u>(17,655,528)</u>	<u>(17,341,181)</u>
Net cash provided by operating activities	<u>9,181,793</u>	<u>4,574,668</u>
Cash flows from investing activities		
Capital expenditures	(3,571,312)	(2,234,583)
Change in assets whose use is limited	(1,230,755)	(1,053,469)
Change in investments	<u>(2,037,380)</u>	<u>(4,316)</u>
Net cash used in investing activities	<u>(6,839,447)</u>	<u>(3,292,368)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment in endowment	5,474	115,471
Investment in temporarily restricted assets	764,301	632,848
Investment subject to annuity agreements	35,903	16,820
Other financing activities:		
Entrance fees repaid	(371,861)	(832,845)
Debt principal payments	(1,185,000)	(1,150,000)
Finance lease payments	(146,491)	(23,705)
Payments on annuity obligations	<u>(161,538)</u>	<u>(181,049)</u>
Net cash used in financing activities	<u>(1,059,212)</u>	<u>(1,422,460)</u>
Net change in cash and cash equivalents	1,283,134	(140,160)
Cash and cash equivalents, beginning of year	<u>8,713,952</u>	<u>8,854,112</u>
Cash and cash equivalents, end of year	<u>\$ 9,997,086</u>	<u>\$ 8,713,952</u>

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

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

(Continued)

	Years Ended June 30,	
	2018	2017
Change in net assets	\$ 2,057,642	\$ 4,822,873
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of entrance fees	(5,320,126)	(5,178,794)
Amortization of gift annuities	121,565	142,368
Depreciation	3,947,735	3,554,578
Amortization of debt issuance costs	21,359	21,359
Amortization of note payable	(30,816)	(10,272)
Amortization of other long-term liability	(16,146)	(16,146)
Amortization of long-term debt premium	(53,010)	(53,010)
Restricted contributions	(814,556)	(852,104)
Net unrealized loss (gain) on investments	989,046	(2,587,996)
Loss on asset disposal	-	7,466
Other change in annuities payable	(6,490)	(71,051)
Non-refundable entrance fees received	8,034,178	5,618,359
Gain on nonmonetary transaction	-	(181,718)
Donated assets	-	(99,830)
(Increase) decrease in operating assets:		
Accounts receivable	352,973	256,749
Interest receivable	7,866	(392)
Inventory	(950)	3,028
Prepaid expenses and deposits	56,533	15,635
Increase (decrease) in operating liabilities:		
Accounts payable	(134,156)	(9,395)
Accrued expenses	(5,518)	29,028
Refundable deposits	17,350	3,050
Prepaid residential fees	(36,842)	(834,863)
Interest payable	(5,844)	(4,254)
Net cash provided by operating activities	\$ 9,181,793	\$ 4,574,668

Supplemental disclosures of cash flow information:

Noncash investing and financing activities:

Donated assets	\$ -	\$ 159,965
Fixed assets obtained through financing lease	\$ 229,848	\$ 705,570
Fixed assets obtained through nonmonetary exchange	\$ -	\$ 657,363
Fixed asset additions included in construction payable	\$ 217,932	\$ -

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

BRETHREN HILLCREST HOMES

NOTES TO 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.

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 \$30,000 and \$63,000 at June 30, 2018 and 2017, respectively. Accounts receivable over 90 days old were \$78,071 and \$208,774 at June 30, 2018 and 2017, respectively.

Inventory Valuation - Inventory, which consists of dietary supplies, is recorded at cost based on the first-in/first-out method.

Debt Issuance Costs - Costs related to the issuance of the Certificates of Participation are net with the Certificates and amortized to interest expense over the term of the debt.

Debt Premium – The debt premium is net with the related Certificates of Participation and amortized over the term of the debt.

Assets Whose Use is Limited - Assets whose use is limited consist of cash, money market funds, land and other investments. These assets are limited as to their use by the board of directors, donor designations, or the Certificates of Participation 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.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Investments (continued) - Realized gains and losses on dispositions are based on the sale proceeds versus the cost basis of the securities sold. Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to unrestricted net assets.

Investment income is recorded net of related fees totaling \$15,203 and \$53,839 for the years ended June 30, 2018 and 2017, respectively.

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by the Revenue Recognition Topic of the FASB Accounting Standards Codification. 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 deferred revenue. Current year activity of the unamortized portion of entrance fees is summarized as follows:

	<u>Years Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 28,250,684	\$ 28,466,259
Sale of contracts	7,832,082	5,481,064
Refunds	(20,494)	(517,845)
Amortization of continuing care contracts	<u>(5,320,126)</u>	<u>(5,178,794)</u>
Balance, end of year	<u>\$ 30,742,146</u>	<u>\$ 28,250,684</u>

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. 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, 2018 and 2017, were \$13,602,068 and \$12,377,516, respectively. Based on the past five years, actual refunds have averaged \$446,480 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 were one and two repayable contracts, as of June 30, 2018 and 2017, respectively. The total liability for the repayable entrance fee contract was \$477,130 and \$828,497 at June 30, 2018 and 2017, respectively.

Net Asset Classes - Hillcrest classifies its net assets into three categories: unrestricted, temporarily restricted and permanently restricted.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Net Asset Classes (continued) - Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the lapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

Board Designated Amounts - Directors have designated certain unrestricted amounts for specific purposes. Amounts designated for operations and capital purposes were \$1,949,918 and \$1,849,329 at June 30, 2018 and 2017, respectively. Amounts designated for benevolent purposes were \$4,647,182 and \$4,427,633 at June 30, 2018 and 2017, respectively. Amounts designated for repayment of restricted net asset loans were \$1,954,078 and \$1,731,700 at June 30, 2018 and 2017, respectively. Inasmuch as these amounts have no donor restrictions, they are included in unrestricted net assets on the accompanying statements of financial position. The Board may rescind the designation of these amounts at any time.

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 \$256,448 and \$432,804 for the years ended June 30, 2018 and 2017, respectively. Net resident revenues from Medi-Cal were \$1,972,867 and \$1,849,656 for the years ended June 30, 2018 and 2017, respectively. Upon audit by the State or Medicare, there is a possibility of adjustment to costs reimbursed.

Contributions – Hillcrest accounts for contributions in accordance with the recommendations of the Revenue Recognition Topic of the FASB Accounting Standards Codification. In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Donor-restricted contributions and related gain and investment income are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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.

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, 2018 and 2017, 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 fund raising 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 unrestricted net asset 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.

Financial Instruments - Hillcrest's financial instruments consist of accounts and entrance fees receivable, deposits, assets whose use is limited, investments, accounts payable, accrued expenses, refundable deposits, construction payable, interest payable, bonds payable, finance lease liability, 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.

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.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

Advertising - Advertising and marketing costs are charged to expense at the time they are incurred. Total advertising expense was \$120,862 and \$185,269 for the years ended June 30, 2018 and 2017, respectively.

Functional Expenses - The expenses of Hillcrest are presented according to their functional classification in the accompanying statements of activities. Fundraising expense was \$339,148 and \$317,970 for the years ended June 30, 2018 and 2017, respectively.

Income Taxes – Hillcrest is a tax-exempt organization pursuant to Internal Revenue Code (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 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 as of June 30, 2018.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – 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,	
	<u>2018</u>	<u>2017</u>
<i><u>Funds Held by Trustee</u></i>		
Certificates of Participation Reserve fund	\$ 2,934,100	\$ 2,934,100
Certificates of Participation Revenue/Sinking funds	324,657	316,829
	<u>3,258,757</u>	<u>3,250,929</u>
<i><u>Board Designated Funds</u></i>		
Benevolence	4,647,182	4,427,633
Operating and capital reserve	1,949,918	1,849,329
Restoration fund	1,954,078	1,731,700
	<u>8,551,178</u>	<u>8,008,662</u>
<i><u>Endowment Funds</u></i>		
Endowment funds	<u>5,062,736</u>	<u>5,024,876</u>
<i><u>Gift Annuities</u></i>		
Gift annuities funds	<u>1,815,926</u>	<u>1,870,679</u>
<i><u>Specific Purpose</u></i>		
Specific purposes funds	<u>3,107,564</u>	<u>3,490,012</u>
<i><u>Resident Association</u></i>		
Resident association funds	<u>120,962</u>	<u>47,553</u>
	<u>\$ 21,917,123</u>	<u>\$ 21,692,711</u>

The Board Designated Funds are fully funded and will be used to help residents at Brethren Hillcrest Homes who need assistance to afford their monthly fees if approved by the Benevolence Committee.

There were no expenditures made from the Board Designated Benevolence funds during the year ended June 30, 2018.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – ASSETS WHOSE USE IS LIMITED (continued):

The assets are invested as follows:

	June 30,	
	2018	2017
<i><u>Funds Held by Trustee</u></i>		
Cash and money markets	\$ 3,258,757	\$ 3,250,929
<i><u>Board Designated Funds</u></i>		
Cash and money markets	28,989	414,469
Fixed income securities	2,070,507	1,449,104
Equity securities	6,451,682	6,145,089
	8,551,178	8,008,662
<i><u>Endowment Funds</u></i>		
Cash and money markets	1,058	369,374
Fixed income securities	94,880	-
Equity securities	286,336	-
Land	4,680,462	4,655,502
	5,062,736	5,024,876
<i><u>Gift Annuities</u></i>		
Cash and money markets	72,837	29,816
Fixed income securities	1,111,962	1,007,326
Equity securities	631,127	833,537
	1,815,926	1,870,679
<i><u>Specific Purpose</u></i>		
Cash	455,026	851,514
Land	2,652,538	2,638,498
	3,107,564	3,490,012
<i><u>Resident Association</u></i>		
Cash	120,962	47,553
	\$ 21,917,123	\$ 21,692,711

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 4 – 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
Equipment and vehicles	Principally 3 to 25 years

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

	June 30,	
	<u>2018</u>	<u>2017</u>
Land	\$ 2,083,286	\$ 2,077,397
Land improvements	834,403	833,858
Master plan	11,703	11,703
Buildings and improvements	105,209,887	101,906,788
Furniture, fixtures, equipment and vehicles	6,394,120	5,796,367
	<u>114,533,399</u>	<u>110,626,113</u>
Less: accumulated depreciation	<u>(48,128,085)</u>	<u>(44,287,065)</u>
Subtotal	66,405,314	66,339,048
Construction-in-progress	<u>2,075,666</u>	<u>2,071,340</u>
Total	<u>\$ 68,480,980</u>	<u>\$ 68,410,388</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – 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.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – 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:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	Fair Value			
<u>June 30, 2018</u>				
<u>Assets:</u>				
Investments				
Cash and money markets	\$ 34,871	\$ 34,871	\$ -	\$ -
Mutual funds - bond funds	1,990,298	1,990,298	-	-
Insurance investments	452,989	-	-	452,989
Total investments	<u>2,478,158</u>	<u>2,025,169</u>	<u>-</u>	<u>452,989</u>
Assets whose use is limited				
Cash and money markets	3,937,629	3,937,629	-	-
Mutual funds:				
Bond funds	3,277,349	3,277,349	-	-
Large blend equity funds	4,333,971	4,333,971	-	-
Large value equity funds	1,699,110	1,699,110	-	-
Large growth equity funds	1,299,925	1,299,925	-	-
Other equities	12,024	12,024	-	-
Hedge funds	24,115	24,115	-	-
Land investment	7,333,000	-	7,333,000	-
Total assets whose use is limited	<u>21,917,123</u>	<u>14,584,123</u>	<u>7,333,000</u>	<u>-</u>
Total assets	<u>\$ 24,395,281</u>	<u>\$ 16,609,292</u>	<u>\$ 7,333,000</u>	<u>\$ 452,989</u>
<u>Liabilities:</u>				
Annuity payment liability	<u>\$ 952,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 952,900</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – 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)
<u>June 30, 2017</u>				
<u>Assets:</u>				
Investments				
Insurance investments	\$ 423,481	\$ -	\$ -	\$ 423,481
Total investments	<u>423,481</u>	<u>-</u>	<u>-</u>	<u>423,481</u>
Assets whose use is limited				
Cash and money markets	4,963,655	4,963,655	-	-
Large cap equities	2,854,122	2,854,122	-	-
Mid cap equities	255,315	255,315	-	-
Small cap equities	183,794	183,794	-	-
Other equities	4,033	4,033	-	-
International equities	2,425,306	2,425,306	-	-
Fixed income –				
corporate/government	2,456,430	2,456,430	-	-
Real estate funds	256,322	256,322	-	-
Hedge funds	711,605	711,605	-	-
Commodities	288,129	288,129	-	-
Land investment	<u>7,294,000</u>	<u>-</u>	<u>7,294,000</u>	<u>-</u>
Total assets whose use is limited	<u>21,692,711</u>	<u>14,398,711</u>	<u>7,294,000</u>	<u>-</u>
Total assets	\$ <u>22,116,192</u>	\$ <u>14,398,711</u>	\$ <u>7,294,000</u>	\$ <u>423,481</u>
<u>Liabilities:</u>				
Annuity payment liability	\$ <u>1,008,241</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,008,241</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – 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
Balance at July 1, 2016	\$ 378,466
Unrealized gains on investments	45,015
Balance at June 30, 2017	423,481
Unrealized gains on investments	29,508
Balance at June 30, 2018	\$ 452,989

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, 2016	\$ 1,144,803
New annuities	76,955
Payments made to annuitants	(181,049)
Revenue on expired contracts	(174,836)
Net change in present value of annuities	142,368
Balance at June 30, 2017	1,008,241
New annuities	35,903
Payments made to annuitants	(161,538)
Revenue on expired contracts	(51,271)
Net change in present value of annuities	121,565
Balance at June 30, 2018	\$ 952,900

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets valued using Level 2 inputs are based on appraisals. Fair value for Level 3 assets is determined by the estimated equity value at year end. 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.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 – BONDS PAYABLE:

Bonds payable consisted of the following as of:

	June 30,	
	2018	2017
City of La Verne Certificates of Participation (Series 2014)	\$ 34,280,000	\$ 35,465,000
Plus: unamortized premium	949,763	1,002,773
Less: unamortized debt issuance costs	(382,687)	(404,046)
Less: current portion	<u>(1,230,000)</u>	<u>(1,185,000)</u>
	<u>\$ 33,617,076</u>	<u>\$ 34,878,727</u>

On July 10, 2014, Hillcrest refinanced its City of La Verne Certificates of Participation, Series 2003, with new Certificates of Participation (the Certificates) in the amount of \$38,660,000. The Certificates consist of the following:

- \$16,025,000 of serial certificates, accruing interest at fixed rates ranging from 2% to 5%
- \$5,675,000 of term certificates due on May 15, 2029, accruing interest at 5%
- \$16,960,000 of term certificates due on May 15, 2036, accruing interest at 5%

The Certificates require annual principal payments (including mandatory requirements) ranging from \$930,000 to \$2,790,000. Interest is payable semi-annually on May 15 and November 15. The Certificates 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. The certificates with a payment date on or after May 15, 2023, are subject to optional prepayment.

The term certificates are subject to mandatory prepayment prior to their stated due dates, as follows:

May 15,	Payment
2027	\$ 1,800,000
2028	1,890,000
2029	1,985,000
2030	2,085,000
2031	2,190,000
2032	2,295,000
2033	2,410,000
2034	2,530,000
2035	2,660,000
2036	<u>2,790,000</u>
	<u>\$ 22,635,000</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – BONDS PAYABLE (continued):

The following table sets forth the principal amounts required to be made available at the principal payment date, with respect to the Certificates:

Years Ended	Interest Rates		Principal
June 30:			
2019	4%	\$	1,230,000
2020	5%		1,280,000
2021	5%		1,345,000
2022	5%		1,410,000
2023	5%		1,480,000
Thereafter	5%		27,535,000
		\$	<u>34,280,000</u>

Hillcrest has secured an investment grade rating from Fitch Ratings, Inc. of “BBB-” for the Certificates. The sale agreement 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, 2018.

NOTE 7 – 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 transfers to Hillcrest, it was determined that the portion of the monthly payments related to the equipment meets the definition of a finance lease. Using a discount rate of 4%, and an estimate of the capital cost of the infrastructure, Hillcrest recorded both a finance lease liability and the related right-of-use asset in the amount of \$705,570 during the year ended June 30, 2017. During the year ended June 30, 2018, the contract was modified. As a result, Hillcrest increased the original right-of-use asset and finance lease liability by \$229,848.

The contract requires equal monthly payments of approximately \$22,000, which cover the cost of the installed equipment as well as the ongoing services.

The right-of-use asset is reported in property, plant and equipment, net on the accompanying statement of financial position. Amortization of the right-of-use asset was recorded in the amount of \$104,962 and \$52,918 for the years ended June 30, 2018 and 2017, 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 \$29,261 and \$15,769 for the years ended June 30, 2018 and 2017, respectively, and is included with interest expense on the accompanying statements of activities.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 7 – FINANCE LEASE (continued):

Future required payments on the finance lease liability are as follows for the years ended June 30:

2019	\$	260,250
2020		260,250
2021		260,250
2022		<u>34,708</u>
Total required lease payments		815,458
Less: interest		<u>(50,237)</u>
Present value of required lease payments	\$	<u><u>765,221</u></u>

NOTE 8 – 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. 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 \$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:

2019	\$	30,816
2020		30,816
2021		30,816
2022		30,816
2023		30,816
Thereafter		<u>274,430</u>
	\$	<u><u>428,510</u></u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 9 – 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 10 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2018	2017
Fine Arts, Video, Naming	\$ 41,444	\$ 41,444
Minnie A. Trout Health Services Education	2,657	2,419
C.O.B. Ministers and Missionaries	118,043	117,854
Christian Service	110,209	110,209
Woods discretionary	6,431	6,380
Nurses training – Bowser	12,939	12,939
Entrance fee – Fasnacht	31,988	31,988
Benevolence	1,551,757	1,680,126
Village Tower	31,132	31,132
Dean Kieffaber Chapel	736	736
Good Samaritan	859,283	691,282
Woods capital	198,151	469,714
Book House	485	5,571
Chaplain’s foundation – Myrna Wheeler	2,237	2,237
Channel 3	15,564	15,564
Cultural arts society	22,159	13,994
Business associates breakfast	5,279	4,198
Village center lift	1,528	1,528
AFC	7,763	6,543
Meeting house sound system	650	650
Residents’ Association	31,917	15,735
LKB professional development	169	-
Annuity contracts available for general purposes	(574,630)	(574,630)
	\$ 2,477,891	\$ 2,687,613

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS (continued):

Temporarily restricted net assets were released for the following purposes:

	June 30,	
	2018	2017
Benevolent purposes	\$ 252,484	\$ 333,115
Good Samaritan purposes	85,247	39,266
Woods capital	733,871	2,902
Book House	12,086	10,555
Business associates breakfast	3,917	2,289
AFC	20,780	-
Cultural arts society	13,061	13,194
Total	\$ <u>1,121,446</u>	\$ <u>401,321</u>

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS:

Investment income from permanently restricted net assets is available for the following purposes:

	June 30,	
	2018	2017
Benevolence endowment	\$ 5,876,866	\$ 5,870,771
Benevolence annuity	48,254	169,819
Woods discretionary	38,630	38,630
Minnie A. Trout Health Services Education Fund	180,463	180,463
C.O.B. Ministers and Missionaries	143,257	143,257
Good Samaritan endowment	625,537	605,122
LKB professional development	128,442	128,442
Total	\$ <u>7,041,449</u>	\$ <u>7,136,504</u>

Hillcrest has borrowed from the temporarily and permanently restricted net assets to fund construction of new facilities since 2003. Hillcrest pays three percent simple interest on the borrowed funds.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 12 – DONOR-DESIGNATED ENDOWMENTS:

Hillcrest’s endowments consist of the Benevolence and Good Samaritan endowments 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 Trustees 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 permanently restricted net assets 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 is that all investment income from the endowment funds are available for transfer to the temporarily 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 investment and spending policies 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.

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,502,403</u>	\$ <u>6,502,403</u>

Changes in endowment net assets as of June 30, 2018, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,475,893</u>	\$ <u>6,475,893</u>
Contributions	<u>-</u>	<u>-</u>	<u>26,510</u>	<u>26,510</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,502,403</u>	\$ <u>6,502,403</u>

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 12 – DONOR-DESIGNATED ENDOWMENTS (continued):

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,475,893</u>	\$ <u>6,475,893</u>

Changes in endowment net assets as of June 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 6,256,637	\$ 6,256,637
Contributions	<u>-</u>	<u>-</u>	<u>219,256</u>	<u>219,256</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,475,893</u>	\$ <u>6,475,893</u>

NOTE 13 – LEASE INCOME:

Hillcrest purchased approximately nine acres of open land in December 2001 for \$2,069,350. Hillcrest leases a portion of the land for commercial use. Also, Hillcrest occasionally leases empty units on a short-term basis. Monthly lease payments on these leases range from \$1,069 to \$4,500. The amount of lease revenue recognized in connection with the leases for the years ended June 30, 2018 and 2017, was \$93,778 and \$52,430, respectively.

NOTE 14 – 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 5% and 4.5% on behalf of each eligible employee for the years ended June 30, 2018 and 2017, respectively. Hillcrest's total cost for this pension plan was \$381,771 and \$322,690 for the years ended June 30, 2018 and 2017, respectively.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 15 – RELATED PARTIES:

Hillcrest purchased general and professional liability insurance with premiums of \$143,163 and \$146,576 for the years ended June 30, 2018 and 2017, respectively. The insurance was purchased from an insurance company of which Hillcrest is a shareholder. At June 30, 2018 and 2017, Hillcrest's investment in this insurance company was \$391,341 and \$366,142, 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 \$40,316 and \$51,011 for the years ended June 30, 2018 and 2017.

Hillcrest purchased workers' compensation insurance with premiums of \$655,881 and \$742,565 for the years ended June 30, 2018 and 2017, 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 16 – 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, 2018 and 2017:

	Years Ended June 30,	
	2018	2017
Nursing facility	\$ 186,436	\$ 174,691
Assisted living	3,541	125,688
Residential living	60,731	27,271
Related to contract residents	250,708	327,650
Related to community residents	503,383	506,282
Total	\$ 754,091	\$ 833,932

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 17 – 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” (unrestricted 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, 2018, and its projected operating expenses for the following fiscal year, Hillcrest was required to have approximately \$5,600,000 in liquid reserves as of June 30, 2018. Hillcrest’s liquid reserves as of June 30, 2018, were sufficient to meet this requirement.

NOTE 18 – COMMITMENTS:

On June 21, 2017, Hillcrest entered into a construction contract totaling \$1,042,736 for the remodel of its skilled nursing facility. Construction began during the year ended June 30, 2018. As of June 30, 2018, \$396,240 had been incurred on the contract, and \$217,932 was due and is included as construction payable on the accompanying statements of financial position.

NOTE 19 – CONTINGENCY:

Hillcrest is subject to various claims for damages that are in various stages of investigation, discovery or pretrial. 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.

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.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 20 – MARKET VALUE ADJUSTMENT OF LAND:

Hillcrest holds land for investment in the endowment and specific purpose funds. The land was appraised in 2018 and 2017, at \$7,333,000 and \$7,294,000, respectively. The change in the appraised value of the land resulted in unrealized gains of \$39,000 and \$1,794,000 on the statements of activities for the years ended June 30, 2018 and 2017, respectively. Unrealized gains or losses on the land are reported as changes in unrestricted net assets on the statement of activities. The land is carried at the appraised value in assets whose use is limited.

NOTE 21 – NONMONETARY TRANSACTION:

During the year ended June 30, 2017, Hillcrest entered into an agreement to provide entrance into the community and housing for two individuals in exchange for a piece of property located adjacent to Hillcrest. The appraised value of the property was \$657,363. In connection with the agreement, Hillcrest paid \$5,000 in cash and signed a note payable to the recipients in the amount of \$470,363. 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 cost of the new property has been recorded in the amount of \$664,367, the fair value of the property received plus incidental costs, which is more clearly evident than the fair value of the consideration surrendered by Hillcrest. The difference between the fair value of the property received and the value of the signed note payable is \$181,718 and has been recorded as a realized gain on a nonmonetary transaction in the statement of activities for the year ended June 30, 2017.

NOTE 22 – SUBSEQUENT EVENTS:

Hillcrest did not have any subsequent events through October 11, 2018, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended June 30, 2018.

Supplementary Information



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

Independent Auditors' 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, 2018 and 2017, and have issued our report thereon dated October 11, 2018, 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.

October 11, 2018

BRETHREN HILLCREST HOMES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 9,997,086	\$ -	\$ -	\$ -	\$ 9,997,086
Accounts receivable, net	423,147	-	-	-	423,147
Entrance fees receivable	940,143	-	-	-	940,143
Inventory	49,335	-	-	-	49,335
Prepaid expenses and deposits	212,964	-	-	-	212,964
Prepaid interest on restricted fund loans	109,361	-	-	(109,361)	-
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Total current assets	11,732,036	-	-	(109,361)	11,622,675
Non-current assets					
Other inter-fund borrowings	3,336,811	(1,239,617)	(2,097,194)	-	-
Restricted funds loan	-	166,830	3,644,394	(3,811,224)	-
Assets whose use is limited	11,809,935	4,136,489	5,970,699	-	21,917,123
Investments	2,478,158	-	-	-	2,478,158
Property, plant and equipment, net	68,480,980	-	-	-	68,480,980
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Total assets	\$ 97,837,920	\$ 3,063,702	\$ 7,517,899	\$ (3,920,585)	\$ 104,498,936
Current liabilities					
Accounts payable	\$ 522,587	\$ -	\$ -	\$ -	\$ 522,587
Accrued expenses	971,582	-	-	-	971,582
Refundable deposits	48,595	-	-	-	48,595
Prepaid resident service fees	42,359	-	-	-	42,359
Current portion of bonds payable	1,230,000	-	-	-	1,230,000
Current portion of finance lease liability	233,899	-	-	-	233,899
Current portion of note payable	30,816	-	-	-	30,816
Construction payable	217,932	-	-	-	217,932
Interest payable	209,798	-	-	-	209,798
Deferred revenue on restricted funds loan	-	109,361	-	(109,361)	-
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Total current liabilities	3,507,568	109,361	-	(109,361)	3,507,568
Non-current liabilities					
Restricted funds loan	3,811,224	-	-	(3,811,224)	-
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Bonds payable, net of current portion	33,050,000	-	-	-	33,050,000
Unamortized premium and debt issuance costs	567,076	-	-	-	567,076
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Bonds payable, net	33,617,076	-	-	-	33,617,076
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Finance lease liability, net of current portion	531,322	-	-	-	531,322
Note payable, net of current portion	397,694	-	-	-	397,694
Other long-term liability	177,604	-	-	-	177,604
Annuities payable	-	476,450	476,450	-	952,900
Repayable entrance fees	477,130	-	-	-	477,130
Deferred revenue from advance fees	30,742,146	-	-	-	30,742,146
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Total liabilities	73,261,764	585,811	476,450	(3,920,585)	70,403,440
Net assets					
Unrestricted	24,576,156	-	-	-	24,576,156
Temporarily restricted	-	2,477,891	-	-	2,477,891
Permanently restricted	-	-	7,041,449	-	7,041,449
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Total net assets	24,576,156	2,477,891	7,041,449	-	34,095,496
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Total liabilities and net assets	\$ 97,837,920	\$ 3,063,702	\$ 7,517,899	\$ (3,920,585)	\$ 104,498,936

See independent auditors' report on supplementary information.

BRETHREN HILLCREST HOMES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Current assets					
Cash and cash equivalents	\$ 8,713,952	\$ -	\$ -	\$ -	\$ 8,713,952
Accounts receivable, net	776,120	-	-	-	776,120
Entrance fees receivable	1,142,239	-	-	-	1,142,239
Interest receivable	7,866	-	-	-	7,866
Inventory	48,385	-	-	-	48,385
Prepaid expenses and deposits	269,497	-	-	-	269,497
Prepaid interest on restricted fund loans	109,361	-	-	(109,361)	-
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Total current assets	11,067,420	-	-	(109,361)	10,958,059
Non-current assets					
Other inter-fund borrowings	3,302,625	(1,338,640)	(1,963,985)	-	-
Restricted funds loan	-	166,830	3,644,394	(3,811,224)	-
Assets whose use is limited	11,259,591	4,472,905	5,960,215	-	21,692,711
Investments	423,481	-	-	-	423,481
Property, plant and equipment, net	68,410,388	-	-	-	68,410,388
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Total assets	<u>\$ 94,463,505</u>	<u>\$ 3,301,095</u>	<u>\$ 7,640,624</u>	<u>\$ (3,920,585)</u>	<u>\$ 101,484,639</u>
Current liabilities					
Accounts payable	\$ 656,743	\$ -	\$ -	\$ -	\$ 656,743
Accrued expenses	977,100	-	-	-	977,100
Refundable deposits	31,245	-	-	-	31,245
Prepaid resident service fees	79,201	-	-	-	79,201
Current portion of bonds payable	1,185,000	-	-	-	1,185,000
Current portion of finance lease liability	146,491	-	-	-	146,491
Current portion of note payable	30,816	-	-	-	30,816
Interest payable	215,642	-	-	-	215,642
Deferred revenue on restricted funds loan	-	109,361	-	(109,361)	-
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Total current liabilities	3,322,238	109,361	-	(109,361)	3,322,238
Non-current liabilities					
Restricted funds loan	3,811,224	-	-	(3,811,224)	-
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Bonds payable, net of current portion	34,280,000	-	-	-	34,280,000
Unamortized premium and debt issuance costs	598,727	-	-	-	598,727
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Bonds payable, net	34,878,727	-	-	-	34,878,727
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Finance lease liability, net of current portion	535,373	-	-	-	535,373
Note payable, net of current portion	429,275	-	-	-	429,275
Other long-term liability	193,750	-	-	-	193,750
Annuities payable	-	504,121	504,120	-	1,008,241
Repayable entrance fees	828,497	-	-	-	828,497
Deferred revenue from advance fees	28,250,684	-	-	-	28,250,684
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Total liabilities	<u>72,249,768</u>	<u>613,482</u>	<u>504,120</u>	<u>(3,920,585)</u>	<u>69,446,785</u>
Net assets					
Unrestricted	22,213,737	-	-	-	22,213,737
Temporarily restricted	-	2,687,613	-	-	2,687,613
Permanently restricted	-	-	7,136,504	-	7,136,504
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Total net assets	22,213,737	2,687,613	7,136,504	-	32,037,854
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Total liabilities and net assets	<u>\$ 94,463,505</u>	<u>\$ 3,301,095</u>	<u>\$ 7,640,624</u>	<u>\$ (3,920,585)</u>	<u>\$ 101,484,639</u>

See independent auditors' report on supplementary information.