



**INDEPENDENT AUDITORS' REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**



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

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## **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, 2019 and 2018, and the related statements of activities, functional expenses 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.

### **Auditors' 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, 2019 and 2018, 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.

## **Emphasis of Matters**

### *Change in Accounting Principle*

As discussed in Note 2 to the financial statements, in 2019 and 2018, Brethren Hillcrest Homes adopted new accounting guidance related to not-for-profit entities and revenue recognition from contracts with customers. Our opinion is not modified with respect to this matter.

### *Restatement of Previously Issued Financial Statements*

As discussed in Note 2 to the financial statements, the 2018 financial statements have been restated to reclassify net asset and internal borrowings activity. Our opinion is not modified with respect to this matter.

*Hansen Hunter & Co. P.C.*

September 27, 2019

**BRETHREN HILLCREST HOMES**  
**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	June 30,	
	2019	2018
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,790,635	\$ 9,997,086
Accounts receivable, net	521,737	423,147
Entrance fees receivable	995,200	940,143
Inventory	45,315	49,335
Prepaid expenses and deposits	264,647	212,964
Total current assets	6,617,534	11,622,675
<b>Non-current assets</b>		
Endowment	431,719	382,274
Assets whose use is limited	5,924,383	5,195,645
Investments	17,862,937	11,484,362
Property, plant and equipment, net	70,220,948	70,550,980
<b>Total assets</b>	<b>\$ 101,057,521</b>	<b>\$ 99,235,936</b>

*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,	
	2019	2018
<b>Current liabilities</b>		
Accounts payable	\$ 701,883	\$ 522,587
Accrued expenses	1,014,638	938,171
Refundable deposits	686,244	48,595
Prepaid resident service fees	66,349	42,359
Current portion of bonds payable	1,280,000	1,230,000
Current portion of finance lease liability	143,268	233,899
Current portion of note payable	30,816	30,816
Construction payable	391,642	217,932
Interest payable	203,733	209,798
	<b>4,518,573</b>	<b>3,474,157</b>
<b>Non-current liabilities</b>		
Bonds payable, net of current portion	31,770,000	33,050,000
Unamortized premium and debt issuance costs	535,425	567,076
	<b>32,305,425</b>	<b>33,617,076</b>
Finance lease liability, net of current portion	149,106	531,322
Note payable, net of current portion	365,486	397,694
Other long-term liability	161,458	177,604
Annuities payable	917,707	952,900
Repayable entrance fees	477,130	477,130
Deferred revenue from entrance fees	31,871,648	30,742,146
	<b>70,766,533</b>	<b>70,370,029</b>
<b>Net assets</b>		
Without donor restrictions	18,751,673	17,023,627
With donor restrictions	11,539,315	11,842,280
	<b>30,290,988</b>	<b>28,865,907</b>
<b>Total liabilities and net assets</b>	<b>\$ 101,057,521</b>	<b>\$ 99,235,936</b>

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

# BRETHREN HILLCREST HOMES

## STATEMENTS OF ACTIVITIES

	Years Ended June 30,	
	2019	2018
<b>Changes in net assets without donor restrictions:</b>		
<b>Revenues</b>		
Residential Living	\$ 12,534,577	\$ 12,556,118
Birch Court	2,316,091	2,066,085
Woods Assisted Living	795,073	745,000
Southwoods Lodge	1,613,297	1,502,257
Woods Health Services	4,428,858	5,153,660
Telephone system	259,031	257,604
Rentals	120,083	95,813
Other revenue	1,773,385	1,674,097
Contributions	61,709	51,328
Investment return, net	738,287	520,409
Gain on disposal of fixed assets	83,695	-
Net assets released from restrictions	944,510	1,121,446
	<b>25,668,596</b>	<b>25,743,817</b>
<b>Expenses</b>		
Residential Living	8,237,780	8,217,010
Birch Court	746,507	589,539
Woods Assisted Living	262,962	248,004
Southwoods Lodge	823,087	781,689
Woods Health Services	3,859,096	3,851,235
Marketing and development	1,075,020	1,086,014
Management and general	2,168,892	2,214,766
Interest	1,678,726	1,740,866
Depreciation	4,312,207	3,947,735
Insurance	389,350	372,360
Telephone system	105,918	228,170
Bad debt expense	8,700	28,673
Inter-fund interest	272,305	114,337
	<b>23,940,550</b>	<b>23,420,398</b>
<b>Change in net assets without donor restrictions</b>	<b>1,728,046</b>	<b>2,323,419</b>

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

**BRETHREN HILLCREST HOMES**

**STATEMENTS OF ACTIVITIES**

(Continued)

	Years Ended June 30,	
	<u>2019</u>	<u>2018</u>
<b>Changes in net assets with donor restrictions:</b>		
Contributions	\$ 393,580	\$ 814,556
Inter-fund interest income	328,846	114,337
Investment return, net	21,267	9,341
Present value adjustment of gift annuities payable	(102,148)	(121,565)
Net assets released from restriction	<u>(944,510)</u>	<u>(1,121,446)</u>
Change in net assets with donor restrictions	<u>(302,965)</u>	<u>(304,777)</u>
<b>Change in total net assets</b>	<u>1,425,081</u>	<u>2,018,642</u>
<b>Net assets, beginning of year</b>	<u>28,865,907</u>	<u>26,847,265</u>
<b>Net assets, end of year</b>	<u>\$ 30,290,988</u>	<u>\$ 28,865,907</u>

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



**BRETHREN HILLCREST HOMES**

**STATEMENTS OF FUNCTIONAL EXPENSES**

	For the Year Ended June 30, 2019			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 7,069,466	\$ 1,183,294	\$ 198,599	\$ 8,451,359
Payroll taxes, benefits and related costs	2,475,128	292,115	49,249	2,816,492
Health services	625,557	-	-	625,557
Resident activities and related costs	141,639	-	22,490	164,129
Food	1,239,013	23,952	2,347	1,265,312
Marketing and development	251,066	9,937	-	261,003
Office expenses	185,307	74,228	5,005	264,540
Employee training	45,041	13,772	248	59,061
Legal and professional fees	738,282	273,827	36,237	1,048,346
Accounting services	-	41,686	-	41,686
Insurance	-	389,350	-	389,350
Maintenance	900,490	1,410	-	901,900
Utilities	906,942	-	-	906,942
Interest	1,663,984	14,742	-	1,678,726
Depreciation	4,312,207	-	-	4,312,207
Telephone, television and internet system	106,495	620	-	107,115
Bad debt expense	8,700	-	-	8,700
Inter-fund interest	-	272,305	-	272,305
Taxes and licenses	249,615	99,735	16,470	365,820
	<u>\$ 20,918,932</u>	<u>\$ 2,690,973</u>	<u>\$ 330,645</u>	<u>\$ 23,940,550</u>

*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, 2018			
	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 7,010,374	\$ 1,112,650	\$ 214,072	\$ 8,337,096
Payroll taxes, benefits and related costs	2,562,071	261,890	57,451	2,881,412
Health services	547,739	-	-	547,739
Resident activities and related costs	158,181	-	20,785	178,966
Food	1,197,921	11,882	2,585	1,212,388
Marketing and development	227,525	11,726	-	239,251
Office expenses	192,387	54,897	5,486	252,770
Employee training	16,268	12,396	3,028	31,692
Legal and professional fees	640,258	201,497	24,225	865,980
Accounting services	-	62,465	-	62,465
Insurance	250	372,110	-	372,360
Maintenance	928,059	17,610	-	945,669
Utilities	873,724	-	-	873,724
Interest	1,711,605	29,261	-	1,740,866
Depreciation	3,947,735	-	-	3,947,735
Telephone, television and internet system	230,066	1,291	-	231,357
Bad debt expense	28,673	173,877	-	202,550
Inter-fund interest	-	114,337	-	114,337
Taxes and licenses	231,636	138,892	11,513	382,041
	\$ 20,504,472	\$ 2,576,781	\$ 339,145	\$ 23,420,398

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

**BRETHREN HILLCREST HOMES****STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Cash received from residents	\$ 18,852,026	\$ 18,971,004
Non-refundable entrance fees received	6,156,552	8,034,178
Contributions	58,509	44,838
Investment income received	556,237	1,565,662
Interest paid	(1,716,442)	(1,778,361)
Cash paid to suppliers and employees	<u>(16,766,322)</u>	<u>(17,655,528)</u>
Net cash provided by operating activities	<u>7,140,560</u>	<u>9,181,793</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(4,104,027)	(3,571,312)
Proceeds from sale of assets	266,156	-
(Purchases) sales of assets whose use is limited	(673,192)	(240,263)
(Purchases) sales of investments	(6,230,804)	(3,014,972)
(Purchases) sales of endowment	<u>(49,445)</u>	<u>(12,900)</u>
Net cash used in investing activities	<u>(10,791,312)</u>	<u>(6,839,447)</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for:		
Investment in donor restricted assets	370,006	769,775
Investment subject to annuity agreements	38,520	35,903
Other financing activities:		
Entrance fees repaid	(224,000)	(371,861)
Debt principal payments	(1,230,000)	(1,185,000)
Finance lease payments	(179,630)	(146,491)
Payments on construction payable	(178,308)	-
Payments on annuity obligations	<u>(152,287)</u>	<u>(161,538)</u>
Net cash used in financing activities	<u>(1,555,699)</u>	<u>(1,059,212)</u>
<b>Net change in cash and cash equivalents</b>	<b>(5,206,451)</b>	<b>1,283,134</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>9,997,086</u>	<u>8,713,952</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 4,790,635</u></u>	<u><u>\$ 9,997,086</u></u>

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

**BRETHREN HILLCREST HOMES**

**STATEMENTS OF CASH FLOWS**

(Continued)

	Years Ended June 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,425,081	\$ 2,018,642
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of entrance fees	(4,858,107)	(5,320,126)
Amortization of gift annuities	102,148	121,565
Depreciation	4,312,207	3,947,735
Amortization of debt issuance costs	21,359	21,359
Amortization of note payable	(30,816)	(30,816)
Amortization of other long-term liability	(16,146)	(16,146)
Amortization of long-term debt premium	(53,010)	(53,010)
Restricted contributions	(393,580)	(814,556)
Net unrealized (gain) loss on investments	(203,317)	1,028,046
Gain on asset disposal	(83,695)	-
Other change in annuities payable	-	(6,490)
Non-refundable entrance fees received	6,156,552	8,034,178
Donated assets	(3,200)	-
 (Increase) decrease in operating assets:		
Accounts receivable	(98,590)	352,973
Interest receivable	-	7,866
Inventory	4,020	(950)
Prepaid expenses and deposits	(51,683)	56,533
 Increase (decrease) in operating liabilities:		
Accounts payable	179,296	(134,156)
Accrued expenses	76,467	(5,518)
Refundable deposits	637,649	17,350
Prepaid residential fees	23,990	(36,842)
Interest payable	(6,065)	(5,844)
 <b>Net cash provided by operating activities</b>	<b>\$ 7,140,560</b>	<b>\$ 9,181,793</b>
 <b><u>Supplemental disclosures of cash flow information:</u></b>		
Noncash investing and financing activities:		
Donated assets	\$ 3,200	\$ -
Right-of-use asset and finance lease liability remeasurement	\$ (293,217)	\$ 229,848
Fixed asset additions included in construction payable	\$ 352,018	\$ 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. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). (ASC) 958-205 was effective July 1, 2018.

Under the provisions of the Guide, 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 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 the funds be maintained in perpetuity.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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

***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 \$30,399 and \$30,000 at June 30, 2019 and 2018, respectively. Accounts receivable over 90 days old were \$58,926 and \$78,071 at June 30, 2019 and 2018, 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 bonds are net with the related bonds and amortized to interest expense over the term of the debt.

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

***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.

# BRETHREN HILLCREST HOMES

## NOTES TO FINANCIAL STATEMENTS

(Continued)

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

***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>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 30,742,146	\$ 28,250,684
Sale of contracts	6,211,609	7,832,082
Refunds	(224,000)	(20,494)
Amortization of continuing care contracts	<u>(4,858,107)</u>	<u>(5,320,126)</u>
Balance, end of year	<u>\$ 31,871,648</u>	<u>\$ 30,742,146</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, 2019 and 2018, were \$12,918,985 and \$13,602,068, respectively. Based on the past five years, actual refunds have averaged \$416,166 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, 2019 and 2018. The total liability for the repayable entrance fee contract was \$477,130 at June 30, 2019 and 2018.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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

***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.

***Revenue Recognition*** – Residents pay monthly room and board fees and monthly care fees. Hillcrest rents the units to eligible residents under rental agreements. Room and board revenue and resident care fee revenue attributable to the agreement is recorded when due from residents and is recognized monthly as it is earned. Resident fees applying to future periods are recorded as deferred revenue when received and reflected as revenue in the year it is earned.

***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 \$179,722 and \$256,448 for the years ended June 30, 2019 and 2018, respectively. Net resident revenues from Medi-Cal were \$1,543,402 and \$1,972,867 for the years ended June 30, 2019 and 2018, respectively. Upon audit by the State or Medicare, there is a possibility of adjustment to costs reimbursed.

***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.

***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.



## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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

***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, 2019 and 2018, 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 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.

***Financial Instruments*** - Hillcrest's financial instruments consist of accounts and entrance fees receivable, deposits, assets whose use is limited, endowment, 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.

***Advertising*** - Advertising and marketing costs are charged to expense at the time they are incurred. Total advertising expense was \$119,584 and \$120,862 for the years ended June 30, 2019 and 2018, respectively.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

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

**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:

<u>Expense</u>	<u>Method of Allocation</u>
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) 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, 2019.

**Adoption of Accounting Standards Change** – During the year ended June 30, 2019, Hillcrest adopted new accounting guidance related to not-for-profit entities and revenue recognition from contracts with customers. The new guidance related to not-for-profit entities addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Hillcrest has adjusted the presentation of these items accordingly. The guidance has been applied retrospectively to all periods presented. The new guidance related to revenue recognition from contracts with customers has not resulted in any change in presentation from prior periods.

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

*Restatement of Previously Issued Financial Statements* – The financial statements for the year ended June 30 2018, have been restated to transfer the land investment from restricted funds (endowment and special purpose funds) to the general fund, and restate the internal borrowings notes receivable and payable. Also, as a result of the transfer, the land is no longer held as an investment and should no longer be carried at the appraised value; therefore, the land was restated to the original cost basis. The change has been applied retrospectively to all periods presented. As of June 30, 2018, the value of the land was decreased by \$5,263,000. As of June 30, 2018, net assets without donor restrictions has been decreased by \$7,552,529 and net assets with donor restrictions has been increased by \$2,322,940 for the effect of retrospective application, for a total decrease in total net assets of \$5,229,589. For the year ended June 30, 2018, the change in net assets without donor restrictions was decreased by \$39,000.

**NOTE 3 – LIQUIDITY AND AVAILABILITY:**

The table below represents financial assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$	4,790,635
Accounts receivable, net		521,737
Entrance fees receivable		995,200
Undesignated investments		7,681,348
	\$	13,988,920

Hillcrest tracks cash on a monthly basis and it is reviewed by the Board on a quarterly basis. Hillcrest’s goal is to maintain financial assets to meet a minimum of 250 days of operating expenses (approximately \$13,400,000) 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 \$9,411,484 of board designated investments available if deemed necessary by the Board. 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,	
<i>Endowment Funds</i>	2019	2018
Cash and money markets	\$ 29,305	\$ 1,058
Fixed income securities	101,219	94,880
Equity securities	301,195	286,336
	\$ 431,719	\$ 382,274

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**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,	
	2019	2018
<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	339,720	324,657
	3,273,820	3,258,757
<i><u>Gift Annuities</u></i>		
Gift annuities funds	1,848,676	1,815,926
<i><u>Hawthorne Avenue</u></i>		
Hawthorne Avenue deposits	641,799	-
<i><u>Resident Association</u></i>		
Resident association funds	160,088	120,962
	\$ 5,924,383	\$ 5,195,645

The assets are invested as follows:

	June 30,	
	2019	2018
<i><u>Funds Held by Trustee</u></i>		
Cash and money markets	\$ 3,273,820	\$ 3,258,757
<i><u>Gift Annuities</u></i>		
Cash and money markets	48,294	72,837
Fixed income securities	1,128,269	1,111,962
Equity securities	672,113	631,127
	1,848,676	1,815,926
<i><u>Hawthorne Avenue</u></i>		
Cash	641,799	-
<i><u>Resident Association</u></i>		
Cash	160,088	120,962
	\$ 5,924,383	\$ 5,195,645

As discussed in Note 2 to the financial statements, the assets whose use is limited balances reported above as of June 30, 2018, were restated.

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**NOTE 6 – INVESTMENTS:**

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

	June 30,	
	2019	2018
<i><u>Board Designated Funds</u></i>		
Land savings fund	\$ 4,904,886	\$ 4,647,182
Operating and capital reserve	2,058,022	1,949,918
Restoration fund	2,448,576	1,954,078
	9,411,484	8,551,178
<i><u>Undesignated</u></i>		
Undesignated funds	7,681,348	2,025,169
<i><u>Specific Purpose</u></i>		
Specific purposes funds	373,253	455,026
<i><u>Insurance</u></i>		
Insurance investments	396,852	452,989
	\$ 17,862,937	\$ 11,484,362

The Board Designated Land savings funds are fully funded and will be used to repurchase restricted net asset investments. There were no expenditures made from the Board Designated Land savings funds during the year ended June 30, 2019.

The assets are invested as follows:

	June 30,	
	2019	2018
<i><u>Board Designated Funds</u></i>		
Cash and money markets	\$ 49,083	\$ 28,989
Fixed income securities	2,301,523	2,070,507
Equity securities	7,060,878	6,451,682
	9,411,484	8,551,178
<i><u>Undesignated</u></i>		
Cash and money markets	34,941	34,871
Fixed income securities	7,646,407	1,990,298
	7,681,348	2,025,169
<i><u>Specific Purpose</u></i>		
Cash	373,253	455,026
<i><u>Insurance</u></i>		
Insurance investments	396,852	452,989
	\$ 17,862,937	\$ 11,484,362

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**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
Equipment and vehicles	Principally 3 to 25 years

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

	June 30,	
	<u>2019</u>	<u>2018</u>
Land	\$ 4,153,286	\$ 4,153,286
Land improvements	845,148	834,403
Master plan	11,703	11,703
Buildings and improvements	109,165,961	105,209,887
Furniture, fixtures, equipment and vehicles	<u>6,685,001</u>	<u>6,394,120</u>
	120,861,099	116,603,399
Less: accumulated depreciation	<u>(51,771,271)</u>	<u>(48,128,085)</u>
Subtotal	69,089,828	68,475,314
Construction-in-progress	<u>1,131,120</u>	<u>2,075,666</u>
Total	<u>\$ 70,220,948</u>	<u>\$ 70,550,980</u>

As discussed in Note 2 to the financial statements, the land balance reported above as of June 30, 2018, was restated.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### **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.

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**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:

	<b>Fair Value Measurements at Reporting Date Using:</b>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
<u>June 30, 2019</u>				
<u>Assets:</u>				
Investments				
Cash and money markets	\$ 457,277	\$ 457,277	\$ -	\$ -
Mutual funds:				
Bond funds	9,947,930	9,947,930	-	-
Large blend equity funds	4,066,738	4,066,738	-	-
Large value equity funds	1,573,575	1,573,575	-	-
Large growth equity funds	1,159,345	1,159,345	-	-
Mid growth equity funds	261,220	261,220	-	-
Insurance investments	396,852	-	-	396,852
Total investments	<u>17,862,937</u>	<u>17,466,085</u>	<u>-</u>	<u>396,852</u>
Endowment				
Cash and money markets	29,305	29,305	-	-
Mutual funds:				
Bond funds	101,219	101,219	-	-
Large blend equity funds	176,231	176,231	-	-
Large value equity funds	65,119	65,119	-	-
Large growth equity funds	49,119	49,119	-	-
Mid growth equity funds	10,726	10,726	-	-
Total endowment	<u>431,719</u>	<u>431,719</u>	<u>-</u>	<u>-</u>
Assets whose use is limited				
Cash and money markets	4,124,001	4,124,001	-	-
Mutual funds:				
Bond funds	1,128,269	1,128,269	-	-
Large blend equity funds	359,432	359,432	-	-
Large value equity funds	166,016	166,016	-	-
Large growth equity funds	119,809	119,809	-	-
Mid growth equity funds	26,856	26,856	-	-
Total assets whose use is limited	<u>5,924,383</u>	<u>5,924,383</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 24,219,039</u>	<u>\$ 23,822,187</u>	<u>\$ -</u>	<u>\$ 396,852</u>
<u>Liabilities:</u>				
Annuity payment liability	<u>\$ 917,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 917,707</u>



**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

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

	<b>Fair Value Measurements at Reporting Date Using:</b>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
<u>June 30, 2018</u>				
<u>Assets:</u>				
Investments				
Cash and money markets	\$ 518,886	\$ 518,886	\$ -	\$ -
Mutual funds:				
Bond funds	4,060,805	4,060,805	-	-
Large blend equity funds	3,832,150	3,832,150	-	-
Large value equity funds	1,465,719	1,465,719	-	-
Large growth equity funds	1,117,674	1,117,674	-	-
Other equities	12,024	12,024	-	-
Hedge funds	24,115	24,115	-	-
Insurance investments	452,989	-	-	452,989
Total investments	<u>11,484,362</u>	<u>11,031,373</u>	<u>-</u>	<u>452,989</u>
Endowment				
Cash and money markets	1,058	1,058	-	-
Mutual funds:				
Bond funds	94,880	94,880	-	-
Large blend equity funds	171,156	171,156	-	-
Large value equity funds	64,922	64,922	-	-
Large growth equity funds	50,258	50,258	-	-
Total endowment	<u>382,274</u>	<u>382,274</u>	<u>-</u>	<u>-</u>
Assets whose use is limited				
Cash and money markets	3,452,556	3,452,556	-	-
Mutual funds:				
Bond funds	1,111,962	1,111,962	-	-
Large blend equity funds	330,665	330,665	-	-
Large value equity funds	168,469	168,469	-	-
Large growth equity funds	131,993	131,993	-	-
Total assets whose use is limited	<u>5,195,645</u>	<u>5,195,645</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 17,062,281</u>	<u>\$ 16,609,292</u>	<u>\$ -</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 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
Balance at July 1, 2017	\$ 423,481
Unrealized gain on investments	29,508
Balance at June 30, 2018	452,989
Unrealized loss on investments	(56,137)
Balance at June 30, 2019	\$ 396,852

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, 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
New annuities	38,520
Payments made to annuitants	(152,287)
Revenue on expired contracts	(23,574)
Net change in present value of annuities	102,148
Balance at June 30, 2019	\$ 917,707

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. 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 9 – BONDS PAYABLE:**

Bonds payable consisted of the following as of:

	June 30,	
	2019	2018
City of La Verne Certificates of Participation (Series 2014)	\$ 33,050,000	\$ 34,280,000
Plus: unamortized premium	896,753	949,763
Less: unamortized debt issuance costs	(361,328)	(382,687)
Less: current portion	<u>(1,280,000)</u>	<u>(1,230,000)</u>
	<u>\$ 32,305,425</u>	<u>\$ 33,617,076</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 9 – 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:			
2020	5%	\$	1,280,000
2021	5%		1,345,000
2022	5%		1,410,000
2023	5%		1,480,000
2024	5%		1,555,000
Thereafter	5%		25,980,000
		\$	<u>33,050,000</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, 2019.

#### **NOTE 10 – 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 and upon further evaluation, Hillcrest decreased the right-of-use asset and finance lease liability by \$293,217.

The contract requires equal monthly payments of approximately \$20,000, 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 statements of financial position. Amortization of the right-of-use asset was recorded in the amount of \$60,895 and \$104,962 for the years ended June 30, 2019 and 2018, 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 \$14,742 and \$29,261 for the years ended June 30, 2019 and 2018, respectively, and is included with interest expense on the accompanying statements of activities.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### **NOTE 10 – FINANCE LEASE (continued):**

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

2020	\$	152,356
2021		<u>152,356</u>
Total required lease payments		304,712
Less: interest		<u>(12,338)</u>
Present value of required lease payments	\$	<u><u>292,374</u></u>

#### **NOTE 11 – 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 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:

2020	\$	30,816
2021		30,816
2022		30,816
2023		30,816
2024		30,816
Thereafter		<u>242,222</u>
	\$	<u><u>396,302</u></u>

#### **NOTE 12 – 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.

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**NOTE 13 – NET ASSETS:**

Net assets with donor restrictions were as follows as of:

	June 30,	
	2019	2018
Specific purpose:		
Minnie A. Trout Health Services Education	\$ 88,083	\$ 79,772
C.O.B. Ministers and Missionaries	172,855	191,153
LKB Professional Development	337	-
Christian Service	131,982	128,690
Woods Discretionary	110	21,353
Nurses Training – Bowser	-	8,231
Benevolence	3,075,629	3,065,964
Good Samaritan	2,972	-
Village Tower	25,226	25,078
Woods Capital	13	198,151
Book House	594	847
Cultural Arts Society	21,866	14,302
Business Associates Breakfast	5,197	5,279
Village Center Lift	-	1,528
Residents' Association	23,127	31,918
Gift Shop	6,795	11,515
Total specific purpose	3,554,786	3,783,781
Perpetual (donor restricted endowment funds):		
Benevolence endowment	6,400,667	6,372,611
Benevolence annuity	(53,895)	48,254
Woods discretionary	41,652	41,652
Minnie A. Trout Health Services Education Fund	194,579	194,579
C.O.B. Ministers and Missionaries	152,883	152,883
Good Samaritan endowment	1,120,201	1,120,078
LKB Professional Development	128,442	128,442
Total perpetual	7,984,529	8,058,499
	\$ 11,539,315	\$ 11,842,280

As discussed in Note 2 to the financial statements, the net assets with donor restrictions reported above as of June 30, 2018, were restated.

**BRETHREN HILLCREST HOMES**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**NOTE 13 – NET ASSETS (continued):**

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

	Years Ended June 30,	
	2019	2018
C.O.B. Ministers and Missionaries	\$ 28,428	\$ -
Woods Discretionary	22,800	-
Nurses Training – Bowser	8,259	-
Benevolence	294,580	252,484
Good Samaritan	229,126	85,247
Village Tower	285	-
Woods Capital	295,827	733,871
Book House	279	12,086
Chaplain’s Foundation – Myrna Wheeler	607	-
Cultural Arts Society	8,510	13,061
Business Associates Breakfast	82	3,917
Village Center Lift	1,528	-
AFC	-	20,780
Residents’ Association	8,791	-
Gift Shop	45,408	-
	<u>\$ 944,510</u>	<u>\$ 1,121,446</u>

Net assets without donor restrictions were as follows as of:

	June 30,	
	2019	2018
Undesignated	\$ 9,340,189	\$ 8,472,449
Board designated		
Operations and capital	2,058,022	1,949,918
Repurchase of restricted net asset investments	4,904,886	4,647,182
Repayment of restricted net asset loans	2,448,576	1,954,078
	<u>\$ 18,751,673</u>	<u>\$ 17,023,627</u>

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 may rescind the designation of these amounts at any time.

As discussed in Note 2 to the financial statements, the net assets without donor restrictions reported above as of June 30, 2018, were restated.

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### **NOTE 14 – DONOR-DESIGNATED ENDOWMENTS:**

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 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 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 is that all investment income from the endowment funds are 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 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.

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

	<u>Years Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 8,058,499	\$ 8,153,554
Contributions	28,178	26,510
Present value adjustment of gift annuities payable	<u>(102,148)</u>	<u>(121,565)</u>
Balance, end of year	\$ <u>7,984,529</u>	\$ <u>8,058,499</u>

There are no endowment net assets without donor restrictions for the years ended June 30, 2019 and 2018.



# BRETHREN HILLCREST HOMES

## NOTES TO FINANCIAL STATEMENTS

(Continued)

### **NOTE 14 – DONOR-DESIGNATED ENDOWMENTS (continued):**

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,	
	<u>2019</u>	<u>2018</u>
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, 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	\$ 4,109,021	\$ 4,109,021
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	<u>3,190,627</u>	<u>3,285,322</u>
	<u>\$ 10,866,852</u>	<u>\$ 10,961,547</u>

### **NOTE 15 – LEASE INCOME:**

Hillcrest purchased approximately nine acres of open land in December 2001 for \$2,070,000. Hillcrest leases a portion of the land for commercial use. Also, Hillcrest leases two units on a month-to-month basis. Monthly lease payments on these leases range from \$1,850 to \$6,755. The amount of lease revenue recognized in connection with the leases for the years ended June 30, 2019 and 2018, was \$106,775 and \$79,145, respectively.

# BRETHREN HILLCREST HOMES

## NOTES TO FINANCIAL STATEMENTS

(Continued)

### **NOTE 16 – 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% on behalf of each eligible employee for the years ended June 30, 2019 and 2018. Hillcrest's total cost for this pension plan was \$387,499 and \$381,771 for the years ended June 30, 2019 and 2018, respectively.

### **NOTE 17 – RELATED PARTIES:**

Hillcrest purchased general and professional liability insurance with premiums of \$163,447 and \$143,163 for the years ended June 30, 2019 and 2018, respectively. The insurance was purchased from an insurance company of which Hillcrest is a shareholder. At June 30, 2019 and 2018, Hillcrest's investment in this insurance company was \$330,909 and \$391,341, 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 \$21,939 and \$40,316 for the years ended June 30, 2019 and 2018, respectively.

Hillcrest purchased workers' compensation insurance with premiums of \$557,262 and \$655,881 for the years ended June 30, 2019 and 2018, 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 18 – 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, 2019 and 2018:

	Years Ended June 30,	
	2019	2018
Nursing facility	\$ 188,414	\$ 186,436
Assisted living	79,046	3,541
Residential living	27,120	60,731
Related to contract residents	294,580	250,708
Related to community residents	411,484	503,383
Total	\$ 706,064	\$ 754,091

## BRETHREN HILLCREST HOMES

### NOTES TO FINANCIAL STATEMENTS

(Continued)

#### **NOTE 19 – 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, 2019 and its projected operating expenses for the following fiscal year, Hillcrest was required to have approximately \$5,500,000 in liquid reserves as of June 30, 2019. Hillcrest’s liquid reserves as of June 30, 2019, were sufficient to meet this requirement.

#### **NOTE 20 – COMMITMENTS:**

On June 21, 2017, Hillcrest entered into a construction contract totaling \$1,042,736 for the remodel of its skilled nursing facility. The contract was amended to include \$721,388 of change orders, to reach a revised contract total of \$1,764,124. Construction began during the year ended June 30, 2018. As of June 30, 2019, \$1,764,124 had been incurred on the contract, and \$391,642 was due and is included as construction payable on the accompanying statements of financial position.

#### **NOTE 21 – 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.

#### **NOTE 22 – SUBSEQUENT EVENTS:**

Hillcrest did not have any subsequent events through September 27, 2019, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended June 30, 2019.

## **Supplementary Information**



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

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## **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, 2019 and 2018, and have issued our report thereon dated September 27, 2019, 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 27, 2019

**BRETHREN HILLCREST HOMES**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

	Without donor restrictions	With donor restrictions	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 4,790,635	\$ -	\$ -	\$ 4,790,635
Accounts receivable, net	1,582,550	-	(1,060,813)	521,737
Entrance fees receivable	995,200	-	-	995,200
Inventory	45,315	-	-	45,315
Prepaid expenses and deposits	264,647	-	-	264,647
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	7,678,347	-	(1,060,813)	6,617,534
<b>Non-current assets</b>				
Other inter-fund borrowings	162,753	(162,753)	-	-
Restricted funds loans	-	10,866,852	(10,866,852)	-
Endowment	-	431,719	-	431,719
Assets whose use is limited	3,915,619	2,008,764	-	5,924,383
Investments	17,489,684	373,253	-	17,862,937
Property, plant and equipment, net	70,220,948	-	-	70,220,948
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 99,467,351</b>	<b>\$ 13,517,835</b>	<b>\$ (11,927,665)</b>	<b>\$ 101,057,521</b>
<b>Current liabilities</b>				
Accounts payable	\$ 701,883	\$ 1,060,813	\$ (1,060,813)	\$ 701,883
Accrued expenses	1,014,638	-	-	1,014,638
Refundable deposits	686,244	-	-	686,244
Prepaid resident service fees	66,349	-	-	66,349
Current portion of bonds payable	1,280,000	-	-	1,280,000
Current portion of finance lease liability	143,268	-	-	143,268
Current portion of note payable	30,816	-	-	30,816
Construction payable	391,642	-	-	391,642
Interest payable	203,733	-	-	203,733
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	4,518,573	1,060,813	(1,060,813)	4,518,573
<b>Non-current liabilities</b>				
Restricted funds loan	10,866,852	-	(10,866,852)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Bonds payable, net of current portion	31,770,000	-	-	31,770,000
Unamortized premium and debt issuance costs	535,425	-	-	535,425
	<hr/>	<hr/>	<hr/>	<hr/>
Bonds payable, net	32,305,425	-	-	32,305,425
	<hr/>	<hr/>	<hr/>	<hr/>
Finance lease liability, net of current portion	149,106	-	-	149,106
Note payable, net of current portion	365,486	-	-	365,486
Other long-term liability	161,458	-	-	161,458
Annuities payable	-	917,707	-	917,707
Repayable entrance fees	477,130	-	-	477,130
Deferred revenue from advance fees	31,871,648	-	-	31,871,648
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>80,715,678</b>	<b>1,978,520</b>	<b>(11,927,665)</b>	<b>70,766,533</b>
<b>Net assets</b>				
Without donor restrictions	18,751,673	-	-	18,751,673
With donor restrictions	-	11,539,315	-	11,539,315
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	18,751,673	11,539,315	-	30,290,988
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 99,467,351</b>	<b>\$ 13,517,835</b>	<b>\$ (11,927,665)</b>	<b>\$ 101,057,521</b>

*See independent auditors' report on supplementary information.*

**BRETHREN HILLCREST HOMES**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

	Without donor restrictions	With donor restrictions	Eliminations	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 9,997,086	\$ -	\$ -	\$ 9,997,086
Accounts receivable, net	1,286,172	-	(863,025)	423,147
Entrance fees receivable	940,143	-	-	940,143
Inventory	49,335	-	-	49,335
Prepaid expenses and deposits	212,964	-	-	212,964
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	12,485,700	-	(863,025)	11,622,675
<b>Non-current assets</b>				
Other inter-fund borrowings	77,530	(77,530)	-	-
Restricted funds loans	-	10,961,547	(10,961,547)	-
Endowment	-	382,274	-	382,274
Assets whose use is limited	3,258,757	1,936,888	-	5,195,645
Investments	11,029,336	455,026	-	11,484,362
Property, plant and equipment, net	70,550,980	-	-	70,550,980
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 97,402,303	\$ 13,658,205	\$ (11,824,572)	\$ 99,235,936
<b>Current liabilities</b>				
Accounts payable	\$ 522,587	\$ 863,025	\$ (863,025)	\$ 522,587
Accrued expenses	938,171	-	-	938,171
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
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	3,474,157	863,025	(863,025)	3,474,157
<b>Non-current liabilities</b>				
Restricted funds loan	10,961,547	-	(10,961,547)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Bonds payable, net of current portion	33,050,000	-	-	33,050,000
Unamortized premium and debt issuance costs	567,076	-	-	567,076
	<hr/>	<hr/>	<hr/>	<hr/>
Bonds payable, net	33,617,076	-	-	33,617,076
	<hr/>	<hr/>	<hr/>	<hr/>
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	-	952,900	-	952,900
Repayable entrance fees	477,130	-	-	477,130
Deferred revenue from advance fees	30,742,146	-	-	30,742,146
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	80,378,676	1,815,925	(11,824,572)	70,370,029
<b>Net assets</b>				
Without donor restrictions	17,023,627	-	-	17,023,627
With donor restrictions	-	11,842,280	-	11,842,280
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	17,023,627	11,842,280	-	28,865,907
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ 97,402,303	\$ 13,658,205	\$ (11,824,572)	\$ 99,235,936

*See independent auditors' report on supplementary information.*