The Reutlinger Community

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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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
The Reutlinger Community
Danville, California

We have audited the accompanying financial statements of The Reutlinger Community (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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Reutlinger Community, 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.

November 30, 2018

The Reutlinger Community

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2018		June 30, 2017
Current assets			
Cash and cash equivalents	$	237,651	$ 7,279
Investments		9,787,011	10,499,913
Accounts receivable - resident and third party payors, net		1,388,952	1,466,382
Inventories		37,439	61,879
Prepaid expenses		72,624	304,878
Total current assets		11,523,677	12,340,331
Property, buildings and equipment			
Land		1,855,512	1,855,512
Land improvements		56,821	20,847
Buildings and improvements		28,884,242	28,410,590
Equipment and furnishings		3,838,970	3,717,396
		34,635,545	34,004,345
Less: accumulated depreciation		(14,122,138)	(12,940,918)
		20,513,407	21,063,427
Construction in progress		121,428	153,961
Net property, buildings and equipment		20,634,835	21,217,388
Other assets			
Contribution receivable - beneficial interest in testamentary trust		2,689,962	2,681,784
Total other assets		2,689,962	2,681,784
Total assets	$	34,848,474	$ 36,239,503

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

The Reutlinger Community

STATEMENTS OF FINANCIAL POSITION
(Continued)

LIABILITIES AND NET ASSETS

	June 30, 2018	June 30, 2017
Current liabilities		
Bank overdraft	$ -	$ 104,271
Accounts payable, trade	724,525	372,362
Accrued compensation and other liabilities	836,581	807,042
Unearned revenue	-	25,000
Deferred revenue	109,173	32,574
Community fee payable	-	9,400
Resident deposits	500	-
Mortgage payable, current portion	247,181	237,860
Total current liabilities	1,917,960	1,588,509
Deferred revenue from entrance fees	87,580	5,000
Long-term liabilities		
Mortgage payable, net of current portion	5,854,955	6,106,267
Debt issuance costs	(207,665)	(219,531)
Total long-term liabilities	5,647,290	5,886,736
Total liabilities	7,652,830	7,480,245
Net assets		
Unrestricted:		
Undesignated net assets	16,718,701	18,710,078
Board designated net assets	4,693,953	3,706,296
Total unrestricted net assets	21,412,654	22,416,374
Temporarily restricted	5,499,480	6,059,374
Permanently restricted	283,510	283,510
Total net assets	27,195,644	28,759,258
Total liabilities and net assets	$ 34,848,474	$ 36,239,503

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

The Reutlinger Community

STATEMENTS OF ACTIVITIES

	Years Ended June 30, 2018	2017
Changes in unrestricted net assets:		
Resident revenues and other support		
Patient and resident services	$ 15,649,022	$ 16,534,231
Amortization of entrance fees	24,420	-
Contributions	240,629	343,178
Interest and dividend income	253,420	242,353
Unrealized gain on investments	425,631	716,949
Other revenues	210,277	202,061
	16,803,399	18,038,772
Net assets released from restriction	740,882	1,754,347
Total resident revenues and other support	17,544,281	19,793,119
Operating expenses		
Skilled nursing	2,368,893	2,425,840
Assisted living	2,378,223	2,255,761
Maintenance	990,427	938,741
Housekeeping and laundry	585,999	589,532
Dietary	2,478,923	2,290,647
Activities and social services	852,142	849,881
Staff development	76,267	90,749
Employee benefits	3,764,358	3,634,298
Administration	2,302,475	2,225,378
Ancillary	1,007,619	1,076,346
Other expenses	54,570	37,329
Total operating expenses	16,859,896	16,414,502

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

The Reutlinger Community

STATEMENTS OF ACTIVITIES
(Continued)

	Years Ended June 30, 2018	2017
Other expenses		
Equipment leases	$ 64,267	$ 87,474
Property tax and insurance	137,694	139,829
Fund expenses	51,876	152,431
Interest	253,048	262,183
Depreciation	1,181,220	1,098,249
Total other expenses	1,688,105	1,740,166
Total expenses	18,548,001	18,154,668
Change in unrestricted net assets	(1,003,720)	1,638,451
Changes in temporarily restricted net assets:		
Contributions	159,134	324,523
Net assets released from restriction	(740,882)	(1,754,347)
Adjustment to contribution receivable	21,854	(8,803)
Change in temporarily restricted net assets	(559,894)	(1,438,627)
Change in total net assets	(1,563,614)	199,824
Net assets, beginning of year	28,759,258	28,559,434
Net assets, end of year	$ 27,195,644	$ 28,759,258

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

The Reutlinger Community

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2018	2017
Cash flows from operating activities		
Cash received from residents	$ 15,988,328	$ 16,213,257
Entrance fees received	107,000	-
Contributions received	391,585	675,162
Investment income received	253,420	242,353
Interest paid	(244,182)	(253,316)
Cash paid to suppliers	(16,426,041)	(17,188,324)
Net cash provided by (used in) operating activities	70,110	(310,868)
Cash flows from investing activities		
Net purchases of fixed assets	(564,334)	(2,260,991)
Net withdrawals from investments	1,138,533	350,951
Net cash provided by (used in) investing activities	574,199	(1,910,040)
Cash flows from financing activities		
Contributions restricted to purchase of property and equipment	-	1,300
Contribution receivable - beneficiary interest in testamentary trust - restricted to purchase of property and equipment	-	2,050,000
Bank overdraft	(104,271)	104,271
Principal payments on mortgage payable	(238,991)	(229,856)
Payment on accounts payable: short-term financing of fixed asset purchases	(70,675)	-
Net cash provided by (used in) financing activities	(413,937)	1,925,715
Net change in cash	230,372	(295,193)
Cash, beginning of year	7,279	302,472
Cash, end of year	$ 237,651	$ 7,279

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

The Reutlinger Community

STATEMENTS OF CASH FLOWS
(Continued)

	Years Ended June 30, 2018	Years Ended June 30, 2017
Cash flows from operating activities		
Change in net assets	$ (1,563,614)	$ 199,824
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of entrance fees	(24,420)	-
Depreciation expense	1,181,220	1,098,249
Amortization of debt issuance costs, included in interest	11,867	11,867
Mortgage premium amortization	(3,000)	(3,000)
Unrealized gain on investments	(425,631)	(716,949)
Contributions restricted to purchase of property and equipment	-	(1,300)
Entrance fees received	107,000	-
(Increase) decrease in operating assets:		
Accounts receivable	77,430	(462,894)
Inventories	24,439	14,358
Prepaid expenses	232,254	(6,231)
Contribution receivable - beneficiary interest in testamentary trust	(8,178)	8,761
Increase (decrease) in operating liabilities:		
Accounts payable, trade	388,505	(101,161)
Accrued compensation and other liabilities	29,539	9,384
Accrued quality assurance fees	-	(302,835)
Unearned revenue	(25,000)	25,000
Deferred revenue	76,599	(85,141)
Community fee payable	(9,400)	1,200
Resident deposits	500	-
Net cash provided by (used in) operating activities	$ 70,110	$ (310,868)
Supplemental disclosures:		
Non-cash investing and financing activities:		
Fixed assets included in accounts payable	$ 34,333	$ 70,675
Inventories included in accounts payable	$ -	$ 28,002

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Business

The Reutlinger Community (the Community) is a California not-for-profit public benefit corporation. The Community owns and operates a 60-bed skilled nursing and 116-unit assisted living and memory care facility in Danville, California. Beginning December 5, 2016, the Community was certified by the State of California Department of Social Services with a provisional license to operate as a Continuing Care Retirement Community (CCRC) and enter into continuing care contracts with the residents of the Community.

Based on revenue sources, the following percentages are the major sources of skilled nursing and assisted living care revenue:

	Years Ended June 30,	
	2018	2017
Private and other	65%	62%
Medicare	19	19
Medi-Cal	16	19
	100%	100%

NOTE 2 - Summary of Significant Accounting Policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and general operating funds held in checking, savings and money market accounts. The Community considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Funds established at other organizations

Certain funds were established at the Jewish Community Foundation by third party contributors for the benefit of the Community. The funds are under the administration of the Jewish Community Foundation and it has variance power as defined under Generally Accepted Accounting Principles; therefore, the asset values are not carried on the financial statements of the Community.

NOTE 2 - Summary of Significant Accounting Policies (continued)

Funds established at other organizations (continued)

The market value of the funds was approximately $2,185,311 and $2,195,607 at June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the Community received $96,815 and $109,509, respectively, from the funds.

Accounts receivable

Receivables for revenue from services to residents are recorded at the estimated net realizable amounts from third-party payors based on contractual agreements. An allowance for doubtful accounts is established based upon management's estimate of uncollectible accounts receivable. Accounts receivable are charged against the allowance when all third-party payor options have been exhausted. Subsequent recoveries of bad debts are credited to the allowance. The balance of the allowance account was $76,332 and $44,636 at June 30, 2018 and 2017, respectively. Accounts receivable over 90-days old at June 30, 2018 and 2017, were $408,365 and $267,290, respectively.

Contribution receivable – beneficial interest in testamentary trust

The Community has been named as a final beneficiary of the following trust established by donors.

As of June 30, 2015, all other obligations of the trust have been met and the remaining trust property, including any income that has accrued, is to be distributed to the Community. The distributions may only be used for the construction or reconstruction of a building or part of a building that shall be named after the donor. The construction project must be approved by the trustee. If the trustee and the Community cannot come to an agreement on a construction project, the trustee shall identify an alternative capital project or program assistance within the Community, taking into account the needs of the Community and the funds available. The contribution was recorded at the fair value of total property in the trust, less approved distributions received during the year, as of June 30, 2018 and 2017, which is $2,689,962 and $2,681,784, respectively, and is reflected on the accompanying statements of financial position as contribution receivable – beneficial interest in testamentary trust.

Inventories

Inventories, consisting of food, supplies and linen, are stated at the lower of cost (first-in, first-out) or market value.

NOTE 2 - Summary of Significant Accounting Policies (continued)

Property, buildings and equipment

Property, buildings and equipment acquisitions in excess of $1,000 are capitalized and recorded at cost. Expenditures for replacements and betterments are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives are as follows:

Land improvements	15 years
Buildings & improvements	7 – 36 years
Equipment & furnishings	5 – 25 years

Debt issuance costs and loan premium

Costs incurred in connection with the issuance of debt are deferred and are being amortized over the term of the related financing agreement.

The premium associated with the issuance of debt is deferred and is being amortized over the term of the related financing agreement.

Collections

The Community operates a Judaica museum (“Museum”). The Museum’s collection consists of art objects that are held for educational and curatorial purposes. Each of the items is cataloged and preserved. Activities to verify the existence of the items and to assess the condition of each item are performed continuously.

Collection items, which have been acquired through contributions since the Community’s inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted assets in the year in which the items are acquired. To date, the Community has not made any purchases of art objects for the collection. Contributed collection items are not reflected in the financial statements.

Donated services

Significant amounts of time from a large number of individuals have been donated to the Community. The financial statements do not reflect the value of those donated services, although substantial, as no reliable basis exists for reasonably determining their value.

NOTE 2 - Summary of Significant Accounting Policies (continued)

Continuing care contracts

The Community is certified by the State of California Department of Social Services with a provisional license to operate as a CCRC. After the provisional license period and a permanent license is issued, the Community will annually calculate the present value of the costs of future services and the use of facilities to be provided to current residents and compares that amount to expected patient and resident service income from continuing care contracts. The calculation will be based on actuarial future cash flow, which is based on the present value of cash outflows and inflows and adjusted for certain non-cash items as compared to the balance of unearned continuing care contracts. As of June 30, 2018, the calculation has not yet been performed.

A continuing care contract entitles a resident to reside in a specific unit and to use the services of the Community during his or her lifetime. Under the continuing care contract term, residents are charged monthly fees based on rates for basic services, continuing care charges and level of care fees, as approved by the Board of Directors.

Patient and resident services

Patient and resident's monthly fees and nursing services revenue are recognized according to contracted rates and in the period when the service is provided.

Contributions

The Community 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 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 accompanying statements of activities as net assets released from restrictions. Restricted contributions received whose restrictions are met in the same reporting period are recorded as unrestricted support.

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. Residents' entrance fees are amortized to income ratably over the expected lives of the residents, beginning with the date of each resident's continuing care agreement. The period of amortization is adjusted annually based on the estimated remaining life expectancy of each individual or joint and last survivor life expectancy of the pair of residents occupying the same unit. The unamortized portion is shown on the balance sheet as deferred revenue. The unamortized portion of entrance fees is summarized as follows:

		Year ended June 30, 2018
Balance, beginning of year	$	5,000
Sale of contracts		107,000
Amortization of continuing care contracts		(24,420)
Balance, end of year	$	87,580

The Community is obligated to refund a portion of entrance fees to residents who withdraw before 48 months. If the resident withdraws within three months, the entire entrance fee is refunded, less any services rendered. Contracts that are cancelled after the third month are refundable over 48 months, with the refundable amount reduced by two and one-twelfth percent per month or partial month.

Unamortized entrance fees still within a potentially refundable declining period at June 30, 2018 and 2017, were $84,249 and $5,000, respectively. Based on the past five years, actual refunds have averaged $14,900 per year.

Advertising

Advertising costs are expensed as they are incurred. Advertising costs for the years ended June 30, 2018 and 2017, were $129,864 and $125,037, respectively.

Financial instruments

The Community's financial instruments consist of investments, resident and third-party receivables, contribution receivable – beneficial interest in testamentary trust, accounts payable, accrued expenses and a mortgage payable. It is management's opinion that the Community is not exposed to significant interest rate or credit risk arising from these instruments. Unless specifically noted, the fair value of these financial instruments approximates their carrying values.

NOTE 2 - Summary of Significant Accounting Policies (continued)

Functional expenses

The expenses of the Community are presented according to their functional classification in the accompanying statements of activities.

Reclassification

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

NOTE 3 - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 4 - Tax Status

The Community is a tax-exempt organization pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and applicable state laws; therefore, no provision for income taxes has been made in the accompanying financial statements.

The Community 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. The Community is liable for taxes to the extent of any unrelated business income as defined by the IRS regulations. The Community 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.

NOTE 5 - Cash and Investments

At June 30, 2018, investments consisted of money market funds in the amount of $736,618 and mutual funds in the amount of $9,050,393. At June 30, 2017, investments consisted of money market funds in the amount of $21,636 and mutual funds in the amount of $10,478,277.

The use of some cash and investment balances is restricted by board or donor designation as follows:

	June 30, 2018	June 30, 2017
Cash and cash equivalents		
Unrestricted	$ 237,651	$ 7,279
	$ 237,651	$ 7,279
Investments		
Unrestricted	$ 2,000,030	$ 3,132,517
Board restricted	4,693,953	3,706,296
Temporarily restricted	2,809,518	3,377,590
Permanently restricted	283,510	283,510
	$ 9,787,011	$ 10,499,913

NOTE 6 - Fair Value of Financial Instruments

The Community 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:

NOTE 6 - Fair Value of Financial Instruments (continued)

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.

The following table shows the Community's financial assets that were accounted for at fair value on a recurring basis as of June 30, 2018 and 2017:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Assets:				
Investments				
Cash and money market funds	$ 736,618	$ 736,618	$ -	$ -
Short-term funds	1,433,001	1,433,001	-	-
Bonds	2,212,358	2,212,358	-	-
High-yield funds	394,979	394,979	-	-
Stock market index funds	4,823,576	4,823,576	-	-
Commodity funds	186,479	186,479	-	-
	$ 9,787,011	$ 9,787,011	$ -	$ -

NOTE 6 - Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Assets:				
Investments				
Cash and money market funds	$ 21,636	$ 21,636	$ -	$ -
Short-term funds	1,693,019	1,693,019	-	-
Bonds	2,658,297	2,658,297	-	-
High-yield funds	502,771	502,771	-	-
Stock market index funds	5,422,034	5,422,034	-	-
Commodity funds	202,156	202,156	-	-
	$ 10,499,913	$ 10,499,913	$ -	$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. There were no assets valued using Level 2 or Level 3 inputs.

NOTE 7 - Mortgage Payable

Mortgage payable consists of the following:

	June 30,	
	2018	2017
First Republic Bank Mortgage	$ 6,049,886	$ 6,288,877
Less: current portion of long-term debt	(247,181)	(237,860)
	5,802,705	6,051,017
Less: unamortized debt issuance costs	(207,665)	(219,531)
Plus: unamortized premium	52,250	55,250
	$ 5,647,290	$ 5,886,736

Future annual principal payments are as follows:

2019	$ 247,181
2020	256,867
2021	266,933
2022	277,393
2023	288,263
Thereafter	4,713,249
	$ 6,049,886

The maximum amount available under this loan was $10,000,000. Subject to the limitations specified in the mortgage loan agreement, the Community was allowed to make additional draws on the loan up to the $10,000,000 limit through December 28, 2013 (the Draw period.) Payments of interest only at 4.5% were due on the first of each month during the Draw period. At the conclusion of the Draw period, $7,017,940 had been drawn by the Community. Beginning January 1, 2014, monthly principal and interest payments in the amount of $42,469 were due through the maturity date of the loan. Interest was 4.5%. During the year ended June 30, 2015, the Community entered into an amended loan agreement which reduced the interest rate to 3.85%. As of May 1, 2015, monthly principal and interest payments in the amount of $40,264 are due through the maturity date of December 1, 2035.

The mortgage is secured by the real and personal property of the Danville Facility. The mortgage has various covenants, including a debt service coverage ratio and minimum liquid assets, all of which were met for the year ended June 30, 2017. As of June 30, 2018, the Community was not in compliance with one of the covenants; however, the Community received a waiver from First Republic Bank on the covenant for the year ended June 30, 2018.

NOTE 8 - Temporarily Restricted Net Asset Activity

Temporarily restricted net asset activity for the years ended June 30, 2018 and 2017, is as follows:

	Patient Care	Property and Equipment	Total
Balance at June 30, 2016	$ 3,069,518	$ 4,428,483	$ 7,498,001
Contributions	323,223	1,300	324,523
Releases	(109,863)	(1,644,484)	(1,754,347)
Adjustment to contribution receivable	-	(8,803)	(8,803)
Balance at June 30, 2017	3,282,878	2,776,496	6,059,374
Contributions	159,134	-	159,134
Releases	(632,494)	(108,388)	(740,882)
Adjustment to contribution receivable	-	21,854	21,854
Balance at June 30, 2018	$ 2,809,518	$ 2,689,962	$ 5,499,480

Investment income or loss, as well as unrealized and realized gains and losses are included in the statements of activities as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulations or law.

NOTE 9 - Permanently Restricted Net Assets

The Community 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, the Community classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The policy of the Board of Directors is that all investment income from the endowment fund is unrestricted. In accordance with UPMIFA, the Community 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 the Community and (7) the Community's investment policy.

NOTE 9 - Permanently Restricted Net Assets (continued)

The terms of the agreement on the sale of the prior facility used by the Community and previously operated by the Jewish Community Federation of the Greater East Bay required that a portion of the proceeds of the sale, consisting of a $255,000 purchase money note receivable, be deposited into a separate endowment fund to be held by the Jewish Community Foundation in perpetuity with the income to be made available for the exclusive benefit of the Community. The note has been paid in full and the proceeds and accumulated interest have been invested in the Charles Schwab account. Currently, $283,510 is carried as permanently restricted net assets in the accompanying statements of financial position and income, including increases in value, is reported as unrestricted in the accompanying statements of activities.

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Community to retain as a fund of perpetual duration. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2018 and 2017.

Changes in permanently restricted net assets as of June 30, 2018 and 2017, are as follows:

	Donor-restricted
Balance at June 30, 2016	$ 283,510
Net income on investments	6,921
Net depreciation of investments	19,358
Release of net earnings	(26,279)
Balance at June 30, 2017	283,510
Net income on investments	7,419
Net appreciation of investments	12,330
Release of net earnings	(19,749)
Balance at June 30, 2018	$ 283,510

NOTE 10 - Third-Party Payor Revenue

The Community has agreements to provide care to recipients of Medicare and Medi-Cal programs. The Community charges these residents based on normal posted rates, however, reimbursement by the Medicare and Medi-Cal programs is restricted by various reimbursement guidelines. Net revenues include contractual adjustments, which represent the difference between customary charges and actual payments by Medicare and Medi-Cal.

Net resident revenues from Medicare for the years ended June 30, 2018 and 2017, were $3,013,336 and $3,197,017, respectively. Net resident revenues from Medi-Cal for the years ended June 30, 2018 and 2017, were $2,410,613 and $3,082,667, respectively.

NOTE 11 - Employee Benefit Plan

The Community has adopted a defined contribution 403(b) pension plan (the Plan) covering all employees. Total contributions to the Plan for the years ended June 30, 2018 and 2017, were $148,477 and $128,329, respectively. The total contributions made by the Community were for the benefit of non-union employees only. All eligible employees are able to make contributions into the Plan.

NOTE 12 - Concentration of Credit Risk

The Community provides care to residents under the Medicare and Medi-Cal programs. Noridian Healthcare Solutions, LLC and the State of California Department of Health Care Services are the agencies responsible for payment for services to Medicare and Medi-Cal residents, respectively.

The Community's operations are concentrated in the skilled nursing and assisted living markets. The Community operates in a heavily regulated environment. At various times during the year and at year-end, the Community had cash balances in excess of Federal Deposit Insurance Company insurable limits. The Community invests its cash and cash equivalents with what it believes to be high quality financial institutions and thus limits credit exposure.

The Community also grants credit to private residents, on an unsecured basis.

NOTE 13 – Statutory Reserves

The Community is certified as a Continuing Care Retirement Community (CCRC) by the State of California Department of Social Services. California Code Chapter 10, Article 6, Section 1792 requires CCRC's to establish "liquid reserves" (cash, marketable securities, etc.) equal to, or greater than the annual principal and interest payments on long-term obligations due during the next fiscal year plus 75 days of the CCRC's adjusted operating expenses. The Community's liquid reserves at June 30, 2018, were sufficient to meet this requirement.

NOTE 14 - Concentration of Source of Labor Supply

The Community's nurses and other supporting services personnel (representing 68% of the total employees) are members of the SEIU UHW. The contract expired on December 31, 2017. During the year ended June 30, 2018, a new agreement was negotiated and the new contract expires on December 31, 2020. The Community's other employees are not represented by a union.

NOTE 15 - Contingency

The Community is subject to various claims for damages that arise in the normal course of business. All claims have been referred to the Community's insurance carrier and 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 the Community's insurance company, and therefore, should not have a material impact on the Community's financial position or activities.

The Community 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. Violations of these laws and regulations 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 is not aware of any actions or potential actions as of June 30, 2018.

NOTE 16 - Subsequent Events

The Community did not have any subsequent events through November 30, 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.