



The Reutlinger
Community

**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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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, 2019 and 2018, 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.

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 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.



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 The Reutlinger Community, 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 Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, The Reutlinger Community adopted new accounting guidance related to not-for-profit entities. Our opinion is not modified with respect to this matter.

Hansen Hunter & Co. P.C.

October 31, 2019

The Reutlinger Community

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2019	2018
Current assets		
Cash and cash equivalents	\$ 178,071	\$ 237,651
Investments	9,763,038	9,787,011
Accounts receivable - resident and third party payors, net	2,406,291	1,388,952
Inventories	31,006	37,439
Prepaid expenses	98,451	72,624
	<u>12,476,857</u>	<u>11,523,677</u>
Property, buildings and equipment		
Land	1,855,512	1,855,512
Land improvements	74,646	56,821
Buildings and improvements	29,878,871	28,884,242
Equipment and furnishings	3,871,312	3,838,970
	<u>35,680,341</u>	<u>34,635,545</u>
Less: accumulated depreciation	(15,306,668)	(14,122,138)
	<u>20,373,673</u>	<u>20,513,407</u>
Construction in progress	121,428	121,428
	<u>20,495,101</u>	<u>20,634,835</u>
Other assets		
Contribution receivable - beneficial interest in testamentary trust	1,754,994	2,689,962
	<u>1,754,994</u>	<u>2,689,962</u>
Total assets	<u>\$ 34,726,952</u>	<u>\$ 34,848,474</u>

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,	
	2019	2018
Current liabilities		
Accounts payable, trade	\$ 758,835	\$ 724,525
Accrued compensation and other liabilities	925,766	836,581
Deferred revenue	50,258	109,173
Resident deposits	-	500
Mortgage payable, current portion	256,867	247,181
	<u>1,991,726</u>	<u>1,917,960</u>
Deferred revenue from entrance fees	<u>113,617</u>	<u>87,580</u>
Long-term liabilities		
Mortgage payable, net of current portion	5,593,781	5,854,955
Debt issuance costs	(195,798)	(207,665)
	<u>5,397,983</u>	<u>5,647,290</u>
Total liabilities	<u>7,503,326</u>	<u>7,652,830</u>
Net assets		
Without donor restrictions:		
Undesignated net assets	17,446,234	16,718,701
Board designated net assets	4,708,817	4,693,953
	<u>22,155,051</u>	<u>21,412,654</u>
With donor restrictions	<u>5,068,575</u>	<u>5,782,990</u>
	<u>27,223,626</u>	<u>27,195,644</u>
Total liabilities and net assets	<u>\$ 34,726,952</u>	<u>\$ 34,848,474</u>

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

The Reutlinger Community

STATEMENTS OF ACTIVITIES

	Years Ended June 30,	
	2019	2018
Changes in net assets without donor restrictions:		
Resident revenues and other support		
Patient and resident services	\$ 16,622,843	\$ 15,649,022
Amortization of entrance fees	21,846	24,420
Contributions	850,639	240,629
Investment return, net	482,617	679,051
Other revenues	226,628	210,277
Net assets released from restriction	1,252,767	740,882
 Total resident revenues and other support	 19,457,340	 17,544,281
 Operating expenses		
Skilled nursing	2,711,120	2,368,893
Assisted living	2,596,315	2,378,223
Maintenance	1,051,434	990,427
Housekeeping and laundry	601,397	585,999
Dietary	2,349,527	2,478,923
Activities and social services	842,671	852,142
Staff development	84,012	76,267
Employee benefits	3,358,741	3,764,572
Administration	2,731,279	2,302,261
Ancillary	1,036,771	1,007,619
Other expenses	20,836	54,570
 Total operating expenses	 17,384,103	 16,859,896

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

The Reutlinger Community

STATEMENTS OF ACTIVITIES

(Continued)

	Years Ended June 30,	
	2019	2018
Other expenses		
Equipment leases	\$ 57,800	\$ 64,267
Property tax and insurance	100,456	137,694
Fundraising	29,242	-
Fund expenses	-	51,876
Interest	243,551	253,048
Depreciation	1,196,795	1,181,220
 Total other expenses	 1,627,844	 1,688,105
 Total expenses	 19,011,947	 18,548,001
 Change in net assets without donor restrictions from operations	 445,393	 (1,003,720)
 Non-operating		
Gain on involuntary conversion	297,004	-
 Change in net assets without donor restrictions	 742,397	 (1,003,720)
 Changes in net assets with donor restrictions:		
Contributions	511,320	159,134
Net assets released from restriction	(1,252,767)	(740,882)
Adjustment to contribution receivable	27,032	21,854
 Change in net assets with donor restrictions	 (714,415)	 (559,894)
 Change in total net assets	 27,982	 (1,563,614)
 Net assets, beginning of year	 27,195,644	 28,759,258
 Net assets, end of year	 \$ 27,223,626	 \$ 27,195,644

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

The Reutlinger Community

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2019	2018
Cash flows from operating activities		
Cash received from residents	\$ 16,073,856	\$ 15,988,328
Entrance fees received	85,000	107,000
Contributions received	2,296,927	391,585
Investment income received	256,192	253,420
Interest paid	(234,684)	(244,182)
Cash paid to suppliers	(17,532,646)	(16,426,041)
	944,645	70,110
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchases of property, buildings and equipment	(931,050)	(564,334)
Withdrawals from investments	250,398	1,138,533
Net insurance proceeds	(3,635)	-
	(684,287)	574,199
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Bank overdraft	-	(104,271)
Principal payments on mortgage payable	(248,488)	(238,991)
Payment on accounts payable: short-term financing of property, buildings and equipment purchases	(34,333)	(70,675)
Entrance fees refunded	(37,117)	-
	(319,938)	(413,937)
Net cash provided by (used in) financing activities		
Net change in cash	(59,580)	230,372
Cash, beginning of year	237,651	7,279
Cash, end of year	\$ 178,071	\$ 237,651

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

The Reutlinger Community

STATEMENTS OF CASH FLOWS

(Continued)

	Years Ended June 30,	
	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 27,982	\$ (1,563,614)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of entrance fees	(21,846)	(24,420)
Depreciation expense	1,196,795	1,181,220
Amortization of debt issuance costs, included in interest	11,867	11,867
Mortgage premium amortization	(3,000)	(3,000)
Unrealized gain on investments	(226,425)	(425,631)
Gain on involuntary conversion	(297,004)	-
Entrance fees received	85,000	107,000
(Increase) decrease in operating assets:		
Accounts receivable	(716,700)	77,430
Inventories	6,433	24,439
Prepaid expenses	(25,827)	232,254
Contribution receivable - beneficiary interest in testamentary trust	934,968	(8,178)
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(57,368)	388,505
Accrued compensation and other liabilities	89,185	29,539
Unearned revenue	-	(25,000)
Deferred revenue	(58,915)	76,599
Community fee payable	-	(9,400)
Resident deposits	(500)	500
Net total adjustments	916,663	1,633,724
Net cash provided by (used in) operating activities	\$ 944,645	\$ 70,110
Supplemental disclosures:		
Non-cash investing and financing activities:		
Property, buildings and equipment included in accounts payable	\$ 126,011	\$ 34,333
Cash paid during the year for interest	\$ 234,684	\$ 244,182
Cash paid during the year for taxes	\$ -	\$ -

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

The Reutlinger Community

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,	
	2019	2018
Private and other	65%	65%
Medicare	17	19
Medi-Cal	18	16
	<u>100%</u>	<u>100%</u>

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. 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 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 the Community. The Community'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 the Community or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 - Summary of Significant Accounting Policies (continued)

Board Designated Amounts

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

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. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in net assets without donor restrictions, unless its use is restricted by explicit donor stipulations or law.

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.

The market value of the funds was approximately \$2,151,224 and \$2,185,311 at June 30, 2019 and 2018, respectively. During the years ended June 30, 2019 and 2018, the Community received \$96,516 and \$96,815, 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 \$111,566 and \$76,332 at June 30, 2019 and 2018, respectively. Accounts receivable over 90-days old at June 30, 2019 and 2018, were \$270,919 and \$408,365, respectively.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 - Summary of Significant Accounting Policies (continued)

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, 2019 and 2018, which is \$1,754,994 and \$2,689,962, 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 net realizable value, which is the expected selling price in the ordinary course of business minus any costs of completion, disposal and transportation.

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.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 - Summary of Significant Accounting Policies (continued)

Collections (continued)

Collection items, which have been acquired through contributions since the Community's inception, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in assets without restriction 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.

Continuing care contracts

The Community was certified by the State of California Department of Social Services with a provisional license to operate as a CCRC. During the year ended June 30, 2019, a permanent license was issued. The Community has calculated the present value of the net cost of future services and the use of facilities to be provided to current residents and has compared that amount to expected patient and resident service income from continuing care contracts. 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 year ended June 30, 2019, the calculation resulted in no future service liability. The discount rate used was 5%.

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

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.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 - Summary of Significant Accounting Policies (continued)

Contributions (continued)

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 statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction. 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.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the asset must be used, the contribution is recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions. Expenses incurred to prepare and sell the donated property are capitalized. Proceeds from the sale of the property are netted against the cost basis, including capitalized costs, and a realized gain or loss is recorded when the asset is sold.

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, 2019	Year ended June 30, 2018
Balance, beginning of year	\$ 87,580	\$ 5,000
Sale of contracts	104,920	107,000
Amortization of continuing care contracts	<u>(78,883)</u>	<u>(24,420)</u>
Balance, end of year	\$ <u>113,617</u>	\$ <u>87,580</u>

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, 2019 and 2018, were \$104,765 and \$84,249, respectively. Based on the past five years, actual refunds have averaged \$25,355 per year.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 - Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as they are incurred. Advertising costs for the years ended June 30, 2019 and 2018, were \$214,515 and \$129,864, 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.

Functional expenses

The costs of providing the various programs and other activities of the Community have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs 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>
Salaries and benefits	Time and effort
Supplies	Direct
Services and other professional fees	Direct
Other expenses	Direct
Occupancy costs	Square footage
Depreciation	Square footage
Interest	Square footage

Adoption of Accounting Standards Changes

During the year ended June 30, 2019, the Community adopted new accounting guidance, ASU 2016-14, related to not-for-profit entities. 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. The Community has adjusted the presentation of these items accordingly. The Community elected not to present the functional expense schedule for the year ended June 30, 2018. The guidance has been applied retrospectively to all periods presented.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

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	\$	178,071
Investments without donor restrictions		<u>6,449,458</u>
	\$	<u><u>6,627,529</u></u>

The Community’s goal is to maintain financial assets to meet a minimum of 130 days of operating expenses (approximately \$6,191,598) and have sufficient funds available to meet required debt service payments, as required under the terms of the mortgage. As part of its liquidity plan, excess cash is invested in financial instruments, as disclosed in Note 7.

NOTE 4 - 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 5 - 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, 2019.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 - Cash and Investments

At June 30, 2019, investments consisted of money market funds in the amount of \$440,415 and mutual funds in the amount of \$9,322,623. 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.

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

	June 30,	
	2019	2018
<u>Cash and cash equivalents</u>		
Unrestricted	\$ 178,071	\$ 237,651
	\$ 178,071	\$ 237,651
<u>Investments</u>		
Unrestricted	\$ 1,740,641	\$ 2,000,030
Board designated	4,708,817	4,693,953
Donor restricted	3,030,070	2,809,518
Endowment	283,510	283,510
	\$ 9,763,038	\$ 9,787,011

NOTE 7 - 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:

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 7 - 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, 2019 and 2018:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2019</u>				
<u>Assets:</u>				
Investments				
Cash & money market funds	\$ 440,415	\$ 440,415	\$ -	\$ -
Short-term funds	1,448,881	1,448,881	-	-
Bonds	2,382,639	2,382,639	-	-
High-yield funds	434,489	434,489	-	-
Stock market index funds	4,850,572	4,850,572	-	-
Commodity funds	206,042	206,042	-	-
	<u>\$ 9,763,038</u>	<u>\$ 9,763,038</u>	<u>\$ -</u>	<u>\$ -</u>

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 7 - Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
<u>June 30, 2018</u>				
<u>Assets:</u>				
Investments				
Cash & 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	-	-
	<u>\$ 9,787,011</u>	<u>\$ 9,787,011</u>	<u>\$ -</u>	<u>\$ -</u>

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.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 8 - Mortgage Payable

Mortgage payable consists of the following:

	June 30,	
	2019	2018
First Republic Bank Mortgage	\$ 5,801,398	\$ 6,049,886
Less: current portion of long-term debt	(256,867)	(247,181)
	5,544,531	5,802,705
Less: unamortized debt issuance costs	(195,798)	(207,665)
Plus: unamortized premium	49,250	52,250
	\$ 5,397,983	\$ 5,647,290

Future annual principal payments are as follows for the year ending June 30:

2020	\$ 256,867
2021	266,933
2022	277,393
2023	288,263
2024	299,559
Thereafter	4,412,383
	\$ 5,801,398

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, 2019. 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.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - Net Assets

Net assets with donor restrictions for the years ended June 30 are as follows:

	2019	2018
Subject to expenditure for specified purpose:		
Patient Care, Resident Activities, Capital		
Improvements, Employee Appreciation	\$ 2,876,442	\$ 2,809,518
Renew Reutlinger	1,908,623	2,689,962
	4,785,065	5,499,480
Endowment in perpetuity	283,510	283,510
Total	\$ 5,068,575	\$ 5,782,990

Changes to net assets subject to expenditure for specified purposes during fiscal years ended June 30, 2019 and 2018, are as follows:

	Patient Care, Resident Activities, Capital Improvements, Employee Appreciation	Renew Reutlinger	Total
Balance at June 30, 2017	\$ 3,282,878	\$ 2,776,496	\$ 6,059,374
Contributions	159,134	1,300	159,134
Releases	(632,494)	(108,388)	(740,882)
Adjustment to contribution receivable	-	20,554	21,854
Balance at June 30, 2018	2,809,518	2,689,962	5,499,480
Contributions	511,320	-	511,320
Releases	(444,396)	(808,371)	(1,252,767)
Adjustment to contribution receivable	-	27,032	27,032
Balance at June 30, 2019	\$ 2,876,442	\$ 1,908,623	\$ 4,785,065

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 net assets without donor restriction, unless their use is restricted by explicit donor stipulations or law.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 10 – Endowment Funds

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 endowment 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.

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 net assets with donor restrictions in the accompanying statements of financial position and income, including increases in value, is reported as net assets without donor restrictions 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 contributions with donor restrictions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2019 and 2018.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 – Endowment Funds (continued)

Changes in endowment net assets as of June 30, 2019 and 2018, are as follows:

	<u>Donor-restricted</u>
Balance at June 30, 2017	\$ 283,510
Net investment return	7,419
Net appreciation of investments	12,330
Release of net earnings	<u>(19,749)</u>
Balance at June 30, 2018	283,510
Net income on investments	55,424
Net depreciation of investments	(27,032)
Release of net earnings	<u>(28,392)</u>
Balance at June 30, 2019	\$ <u>283,510</u>

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

NOTE 11 - 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, 2019 and 2018, were \$2,840,421 and \$3,013,336, respectively. Net resident revenues from Medi-Cal for the years ended June 30, 2019 and 2018, were \$2,957,706 and \$2,410,613, respectively.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 12 – Involuntary Conversion of Property, Buildings and Equipment

In May 2019, the building experienced water damage after a temporary boiler that was in place until a permanent boiler could be installed leaked overnight, causing damage to two apartments and the rehab room. The Revenue Recognition Topic of the FASB Accounting Standards Codification requires the effect of this event to be presented as a gain or loss on involuntary conversion of fixed assets reported outside of net operating results on the accompanying statements of activities.

The table below shows the effect of this event on the Community's financial statements:

Insurance proceeds recorded during the year ended June 30, 2019	\$	231,112
Restoration costs expensed during the year ended June 30, 2019		(97,673)
Insurance proceeds recorded for business interruption for the year ended June 30, 2019		<u>163,565</u>
Total net gain on involuntary conversion of fixed assets	\$	<u>297,004</u>

NOTE 13 - 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, 2019 and 2018, were \$143,398 and \$148,477, 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 14 - 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.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 15 – 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, 2019, were sufficient to meet this requirement.

NOTE 16 - Concentration of Source of Labor Supply

The Community's nurses and other supporting services personnel (representing 72% 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 17 - 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, 2019.

While purchase obligations are generally cancellable without penalty, certain vendors charge cancellation fees. The Community has entered into a long-term, volume-based purchase agreement for electricity. Under this agreement the Community is committed to purchase a minimum monthly amount of energy at a fixed price per kilowatt hour. Cancellation of this contract would incur a significant penalty.

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 18 – Functional Expense Schedule

For the Year Ended June 30, 2019

	Skilled Nursing	Assisted Living	Tikvah	Traditions	Ancillary	Programs Subtotal	Direct Support Services	Administration	Fundraising	Total
Salaries and benefits	\$ 3,273,021	\$ 1,724,421	\$ 969,392	\$ 608,411	\$ -	\$ 6,575,245	\$ 3,174,867	\$ 1,534,934	\$ 97,285	\$ 11,382,331
Supplies	130,669	47,319	-	-	64,720	242,708	1,015,982	12,401	11,385	1,282,476
Services and other professional fees	209,864	179,931	-	11,700	972,051	1,373,546	1,592,612	1,441,649	16,118	4,423,925
Other expenses	64,814	35,191	-	-	-	100,005	77,076	147,267	1,738	326,086
Occupancy costs	22,914	58,669	30,667	13,517	1,014	126,781	27,298	2,704	-	156,783
Depreciation	175,833	450,317	235,471	103,782	7,564	972,967	203,654	20,174	-	1,196,795
Interest	35,783	91,642	47,919	21,120	1,539	198,003	41,445	4,103	-	243,551
Total expenses	\$ 3,912,898	\$ 2,587,490	\$ 1,283,449	\$ 758,530	\$ 1,046,888	\$ 9,589,255	\$ 6,132,934	\$ 3,163,232	\$ 126,526	\$ 19,011,947

The Reutlinger Community

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 19 - Subsequent Events

In September, 2019, the Board of Directors voted on and passed a resolution to release all assets designated as board-restricted from restrictions.

Subsequent to year end, the Community was in process of finalizing an affiliation transaction with Eskaton.

The Community did not have any other subsequent events through October 31, 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.