
# THE CALIFORNIA HOME FOR THE AGED, INC. D/B/A CALIFORNIA ARMENIAN HOME

### FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

**MAY 31, 2018 AND 2017**



# T A B L E O F C O N T E N T S

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To the Board of Directors

The California Home for the Aged, Inc. d/b/a California Armenian Home Fresno, California

###  INDEPEND ENT AUD ITORS’ REPORT

We have audited the accompanying financial statements of *The California Home for the Aged, Inc., d/b/a California Armenian Home* (a non-profit health care entity), which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of operations, changes in net assets, 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 auditors’ 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *The California Home for the Aged, Inc., d/b/a California Armenian Home* as of May 31, 2018 and 2017, and the results of its operations, 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.

### Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of operations – The Vineyards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.



September 11, 2018

St. Louis, Missouri Certified Public Accountants

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**THE CALIFORNIA HOME FOR THE AGED, INC. D/B/A CALIFORNIA ARMENIAN HOME STATEMENTS OF FINANCIAL POSITION**

### MAY 31, 2018 AND 2017

**ASSETS**

**2018 2017**

|  |  |  |
| --- | --- | --- |
| Current Assets Cash | $ 1,574,925 | $ 1,963,792 |
| Short-term operating investments | 13,469,372 | 14,650,263 |
| Accounts receivable, net of allowance for doubtful |  |  |
| accounts of $85,619 in 2018 and $75,169 in 2017 | 1,539,778 | 1,448,280 |
| Pledges receivable | 145,341 | 1,000,000 |
| Prepaid expenses | 62,946 | 115,307 |
| Inventories | 91,538 | 84,048 |
| Other current assets |  15,822 |  6,172 |
| Total Current Assets |  16,899,722 |  19,267,862 |
| Property and Equipment |  |  |
| Land | 44,701 | 24,074 |
| Construction in progress | 707,312 | 21,744,801 |
| Land improvements | 5,668,074 | 1,961,619 |
| Furniture and equipment | 4,533,967 | 2,637,885 |
| Buildings and improvements |  41,057,384 |  12,345,194 |
| Total Property and Equipment | 52,011,438 | 38,713,573 |
| Accumulated depreciation |  (10,502,199) |  (9,321,698) |
| Net Property and Equipment |  41,509,239 |  29,391,875 |
| Donor Advised Investment Fund (Restricted) |  1,845,083 |  1,578,471 |
| Deposits and Other Assets |  500 |  500 |
| Interest Rate Swap Agreement Asset |  1,187,810 |  255,039 |
| Total Assets | **$ 61,442,354** | **$ 50,493,747** |

### LIABILITIES AND NET ASSETS

Current Liabilities

|  |  |  |
| --- | --- | --- |
| Accounts and construction payable | $ 712,394 | $ 3,015,150 |
| Accrued payroll and related liabilities | 786,365 | 834,913 |
| Other accrued liabilities | 21,239 | 398,266 |
| Retainage liabilitiy | 8,475 | 1,778,207 |
| Other current liabilities |  160,293 |  22,207 |
| Total Current Liabilities |  1,688,766 |  6,048,743 |

Long-term Liabilities

Expansion loan, net of unamortized debt issuance cost

|  |  |  |
| --- | --- | --- |
| of $156,001 in 2018 and $241,093 in 2017 |  25,283,739 |  8,056,282 |
| Total Long-term Liabilities |  25,283,739 |  8,056,282 |

Net Assets

|  |  |  |
| --- | --- | --- |
| Unrestricted | 32,479,425 | 33,779,701 |
| Temporarily restricted |  1,990,424 |  2,609,021 |
| Total Net Assets |  34,469,849 |  36,388,722 |

Total Liabilities and Net Assets **$ 61,442,354 $ 50,493,747**

*The notes to the financial statements are an integral part of these statements.* 3

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| **THE CALIFORNIA HOME FOR THE AGED, INC.** |
| **D/B/A CALIFORNIA ARMENIAN HOME** |
| **STATEMENTS OF OPERATIONS** |
| **MAY 31, 2018 AND 2017** |
|  |  | **2018** |  |  | **2017** |  |
| Health Care Revenue |
| Skilled nursing care revenue, net | $ | 11,167,584 | $ |  | 11,308,218 |  |
| Residential care revenue |  | 1,344,302 |  |  | 796,065 |  |
| Other healthcare revenue |  |  41,299 |  |  |  28,571 |  |
| Total Health Care Revenue |  |  12,553,185 |  |  |  12,132,854 |  |
| Health Care Expenses |
| Nursing services |  | 4,998,180 |  |  | 5,529,199 |  |
| Plant operations |  | 2,265,784 |  |  | 1,378,535 |  |
| Housekeeping |  | 492,683 |  |  | 460,003 |  |
| Laundry and linen |  | 238,500 |  |  | 249,446 |  |
| Dietary |  | 1,240,076 |  |  | 1,062,495 |  |
| Social services |  | 142,805 |  |  | 199,546 |  |
| Activities |  | 239,858 |  |  | 210,881 |  |
| Education |  | 87,228 |  |  | 96,139 |  |
| Administration |  | 2,360,782 |  |  | 2,350,958 |  |
| Medical records |  | 130,708 |  |  | 137,140 |  |
| Ancillary |  | 1,380,462 |  |  | 1,274,534 |  |
| Residential care |  | 415,687 |  |  | 666,102 |  |
| Assisted living |  | 237,608 |  |  | - |  |
| Marketing |  | 432,310 |  |  | - |  |
| Security |  |  78,928 |  |  |  - |  |
| Total Health Care Expenses |  |  14,741,599 |  |  |  13,614,978 |  |
| Loss from Healthcare Operations |  | (2,188,414) |  |  | (1,482,124) |  |
| Other Revenue (Expense) |
| Unrestricted contributions, including in-kind |  | 262,725 |  |  | 10,118,956 |  |
| Unrestricted investment income |  | 114,697 |  |  | 14,475 |  |
| Unrealized gain on swap agreements |  | 932,771 |  |  | 255,039 |  |
| Amortization of debt issuance costs |  | (85,092) |  |  | (99,273) |  |
| Other income (expense) |  | 22,928 |  |  | 112,692 |  |
| Fundraising expenses |  | (136,046) |  |  | (60,530) |  |
| Vineyards preopening expenses |  | (791,575) |  |  | - |  |
| Interest expense |  | (388,177) |  |  | - |  |
| Total Other Revenue (Expense) |  |  (67,769) |  |  |  10,341,359 |  |
| Operating Income (Loss) |  | (2,256,183) |  |  | 8,859,235 |  |
| Net Assets Released from Restrictions |  |  955,907 |  |  |  225,841 |  |
| Increase (Decrease) in Unrestricted Net Assets | **$**  | **(1,300,276)** | **$** |  | **9,085,076** |  |

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| **THE CALIFORNIA HOME FOR THE AGED, INC.** |
| **D/B/A CALIFORNIA ARMENIAN HOME** |
| **STATEMENTS OF CHANGES IN NET ASSETS** |
| **MAY 31, 2018 AND 2017** |
| **Temporarily** |
|  |  | **Unrestricted** |  | **Restricted** |  |  | **Total** |
| Net Assets at May 31, 2016 |  |  |  | $ | 24,694,625 | $ | 1,493,261 | $ | 26,187,886 |
| Operating Income |  |  8,859,235 |  |   | - |  |  8,859,235 |
| Net Assets Released from Restriction for: |
| Donor advised investment f | und | 198,532 |  | (198,532) |  | - |
| Furnishing purchases |  | 7,860 |  | (7,860) |  | - |
| Expansion project expenses | 17,099 |  | (17,099) |  | - |
| Residential activities |  |  2,350 |  |  (2,350) |  |  - |
| Total Net Assets Released from | Restriction |  225,841 |  |  (225,841) |  |  - |
| Contributions |  |  - |  |  1,166,413 |  |  1,166,413 |
| Investment income |  |  - |  |  175,188 |  |  175,188 |
| . |
| Increase in Net Assets |  |  9,085,076 |  |  1,115,760 |  |  10,200,836 |
| Net Assets at May 31, 2017 |  | 33,779,701 |  | 2,609,021 |  | 36,388,722 |
| Operating Loss |  |  (2,256,183) |  |   | - |  |  (2,256,183) |
| Net Assets Released from Restriction for: |
| Pledges receivable |  | 854,659 |  | (854,659) |  | - |
| Furnishing purchases |  | 16,140 |  | (16,140) |  | - |
| Expansion project expenses | 70,698 |  | (70,698) |  | - |
| Residential activities |  |  14,410 |  |  (14,410) |  |  - |
| Total Net Assets Released from | Restriction |  955,907 |  |  (955,907) |  |  - |
| Contributions |  |  - |  |  130,698 |  |  130,698 |
| Investment income |  |  - |  |  206,612 |  |  206,612 |
| Decrease in Net Assets |  |  (1,300,276) |  |  (618,597) |  |  (1,918,873) |
| Net Assets at May 31, 2018 |  |  |  | **$** |  **32,479,425** | **$** |  **1,990,424** | **$** |  **34,469,849** |

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| **THE CALIFORNIA HOME FOR THE AGED, INC.** |
| **D/B/A CALIFORNIA ARMENIAN HOME** |
| **STATEMENTS OF CASH FLOWS** |
| **FOR THE YEARS ENDED MAY 31, 2018 AND 2017** |
|  |  | **2018** |  |  | **2017** |
| Operating Activities |
| Increase (decrease) in net assets |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | (1,918,873) | $ | 10,200,836 |
| Adjustments to reconcile increase (decrease) in net assets |
| to net cash provided by (used in) operating activities: |
| Depreciation |  | 1,180,499 |  | 576,801 |
| Loss on disposal of property and equ | ipment |  | - |  | 812 |
| Provisions for bad debt |  | 10,450 |  | (64,831) |
| Amortization of debt issuance co | sts | 85,092 |  | 99,273 |
| (Increase) decrease in fair value of investments | (201,885) |  | (161,880) |
| Unrealized gain on interest rate swap agreements | (932,771) |  | (255,039) |
| (Increase) decrease in operating assets: |
| Accounts receivable |  | (101,948) |  | (57,314) |
| Pledges receivable |  | 854,659 |  | (1,000,000) |
| Prepaid expenses |  | 52,361 |  | (47,217) |
| Inventories |  | (7,490) |  | (10,808) |
| Other |  | (9,650) |  | 5,839 |
| Increase (decrease) in operating liabilities: |
| Accounts and construction payable | (2,302,756) |  | 2,242,465 |
| Accrued payroll and related liabiliti | es | (48,548) |  | 232,893 |
| Accrued contingency |  | (377,027) |  | 369,049 |
| Retainage liability |  | (1,769,732) |  | 1,778,207 |
| Other |  |  138,086 |  |  (568) |
| Total Adjustments |  |  (3,430,660) |  |  3,707,682 |
| Net Cash Provided by (Used in) Operati | ng Activities |  (5,349,533) |  |  13,908,518 |
| Investing Activities |
| Purchasing of property and equipme | nt | (12,594,586) |  | (280,733) |
| Additions to construction in progres | s | (703,277) |  | (18,552,162) |
| Purchases of investments and earnings rein | vestment | (3,669,979) |  | (14,387,520) |
| Proceeds from the sale and maturity of investments |  4,786,143 |  |  9,000,100 |
| Net Cash Used in Investing Activities |  (12,181,699) |  |  (24,220,315) |
| . |
| Financing Activities |
| Proceeds from expansion loan |  | 17,142,365 |  | 8,297,375 |
| Addition to debt issuance costs |  |  |  - |  |  (340,366) |
| Net Cash Provided by Financing Activities |  17,142,365 |  |  7,957,009 |
| Net Decrease in Cash |  | (388,867) |  | (2,354,788) |
| Cash at Beginning of Year |  |  1,963,792 |  |  4,318,580 |
| Cash at End of Year |  |  |  |  |  |  |  |  |  |  |  |  |  | **$** |  **1,574,925** | **$** |  **1,963,792** |

*The notes to the financial statements are an integral part of these statements.* 6

# NOTE 1 ORGANIZATION

*The California Home for the Aged, Inc., d/b/a California Armenian Home (the “Home”),* began providing quality compassionate nursing care in 1952. Located in Fresno, California, the Home is fully licensed for residential and skilled nursing care and is certified by Medi-Cal and rated as a five star facility by Medicare. The Home is organized as a not-for-profit corporation. The activities of the Home are supported by the volunteers and fundraising efforts of the Ani Guild and the Home Guild.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

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

### Operating Activities

In the Statement of Activities, operations are defined as all direct mission type revenue and expenses. The other revenue and expenses for contributions, investments, unrealized gains and losses, unusual type items, and financing type activities are not included.

### Use of 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 amounts reported 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

### Cash

Cash is limited to checking accounts. Interest bearing savings accounts, money market accounts, and time deposit accounts are reported as investments.

### Concentrations of Credit Risks

The Home maintains cash and investment balances at various financial institutions. At various times throughout the years ended May 31, 2018 and 2017, the Home had balances in excess of the federally insured limits. Management does not feel the solvency of the financial institutions is of concern.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Accounts Receivable

Accounts receivable represents the estimated net realizable value of amounts due from patients, residents, and third party payors. The two largest payor classes represent approximately 60% and 74% of the Home’s gross accounts receivable as of May 31, 2018 and 2017, respectively.

Management performs on-going evaluations of contractual allowances and collectability of patient and resident accounts receivable. A provision for estimated third party payor contractual adjustments and an allowance for uncollectible accounts are provided in the period the related services are rendered. Management believes the allowances are adequate.

### Inventories

Inventories consist of medical supplies and are stated at cost using the first-in-first-out (FIFO) method.

### Investments

*Short-Term Operating Investments –* Short-term investments consist of certificates of deposits, which are carried at cost plus accrued interest, and money market accounts, which are stated at fair value.

Investments are stated at current market value. Investment income, gains, and losses, including net realized and unrealized appreciation (depreciation) in market value of investments restricted by donors, are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

### Donor Advised Fund

The Home maintains a donor advised fund in which the donor has advisory privileges with respect to the investment and use of the assets. The funds are to be used primarily for capital improvement projects. The Home has accounted for the funds as temporarily restricted assets. As capital projects are identified, the Home obtains the donor’s approval to use the funds prior to distribution. There were no distributions from the fund for the years ended May 31, 2018 and 2017.

The donor advised fund is held in a separate investment account and consists of the following at May 31, 2018 and 2017:

### 2018 2017

|  |  |  |
| --- | --- | --- |
| Money Market Accounts | $ 153,738 | $ 93,661 |
| Mutual Funds |  1,691,345 |  1,484,810 |
|  | **$ 1,845,083** | **$ 1,578,471** |

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment is recorded at cost. The Home’s policy is to capitalize items with a cost of

$1,000 or greater. Depreciation expense is provided on the straight-line basis over the estimated useful lives of the assets which are as follows.

Land improvements 10 to 40 years

Furniture and equipment 3 to 10 years Buildings and improvements 10 to 50 years

### Skilled Nursing Care Revenue

Skilled nursing care revenue is reported at the estimated net realizable amounts from patients and third party payors for services rendered.

Revenue under third party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third party payor contractual adjustments and settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

### Contributions

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Temporarily restricted contributions, which are both received and released within the same year, are recorded as an increase in temporarily restricted net assets and as assets released from restrictions.

### Contributed Services

A substantial number of Ani Guild and Home Guild volunteers have made significant contributions of their time to the Home. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition as contributed services.

### Derivative Financial Instruments

The Home makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert the Home’s floating rate long-term debt to a fixed rate (Note 5). The differentials paid or received on interest rate swap agreements are accrued and recognized as adjustments to interest expense; gains and losses realized upon settlements of these agreements are deferred until the underlying hedged instrument is settled.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Statements of Cash Flows

During the years ended May 31, 2018 and 2017, $618,495 and $25,731, of interest expense, respectively, was financed into the building expansion loan. No cash was paid for interest or taxes for each of the years ended May 31, 2018 and 2017.

### Income Taxes

The Home is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and by the California Franchise Tax Board pursuant to section 23701(d) of the Revenue and Taxation Code.

### Income Taxes (Continued)

The Home follows “FASB ASC 740-10, Income Taxes – Overall”. Under that guidance, the Home may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Home and positions related to the potential sources of unrelated business taxable income (“UBIT”). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Home has assessed its federal and state tax positions and determined that there were no unrelated business income taxes and no uncertainties or possible related effects that need to be recorded as of or for the year ended May 31, 2018. The 2014, 2015, 2016, and 2017 federal tax returns of the Home are subject to examination by the taxing authorities generally for three years after they were filed.

### Recent Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) is the sole source of authoritative non-governmental GAAP.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers,* to improve the consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. In August 2015, the FASB issued ASU 2015-14 deferring the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018. The Home is currently evaluating the impact that this guidance will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments, in addition to certain disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Home is currently evaluating the impact that this guidance will have on its financial statements, and expects that the impact will be immaterial.

# NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Recent Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which makes several changes to the current reporting model for nonprofit entities, including the number of net asset classifications, the classification and disclosure of underwater endowments, functional expense disclosures, and other changes. The standard is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Home is currently evaluating the impact that this guidance will have on its financial statements.

# NOTE 3 HEALTHCARE PATIENT SERVICE REVENUE

The Home has agreements with third party payors that provide for payments to the Home at amounts different from its established rates. A summary of the payment arrangements with major third party payors are as follows:

**Medicare** – Payments for skilled nursing facility services rendered to Medicare program beneficiaries are based on prospectively determined daily rates which vary according to a patient diagnostic classification system. The Home is paid for certain reimbursable services at the approved rate with final settlement determined after submission of the annual cost report and audit thereof by the Medicare fiscal intermediary. Cost reports through May 31, 2017 were under audit as of May 31, 2018. Revenue from the Medicare program amounted to approximately 42% and 37% of the Home’s net health care revenue for 2018 and 2017 respectively.

**Medi-Cal** – Payments for skilled nursing facility services rendered to Medi-Cal program beneficiaries are based on an annually established daily reimbursement rate for eligible stays. The rate is adjusted annually as of August 1. The final settlement is determined after submission of an annual cost report and audits thereof by Medi-Cal. Cost reports through May 31, 2017 were under audit as of May 31, 2018. Revenue from the Medi-Cal program amounted to approximately 43% and 51% of the Home’s net health care revenue for 2018 and 2017, respectively.

**Other** – Payments for services rendered to private pay and other patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations, which provide for various discounts from the established rates.

# NOTE 4 FAIR VALUE MEASUREMENTS

“FASB Accounting Standards Codification 820-10, Fair Value Measurements and Disclosures” establishes a framework for measuring fair value and establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management’s assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This hierarchy consists of three broad levels:

Level I – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level II – Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III – Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Home’s own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2018 and 2017.

*Certificates of deposit and money market funds:* Valued at cost plus accrued interest which approximates fair value.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Home are open-end mutual funds that are registered with the Securities and Exchange Commission. The mutual funds held by the Home are deemed to be actively traded.

*Interest rate swap agreements:* Valued at fair value primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, treasury yields, volatilities, credit spreads, maturity, and recovery rates.

# NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis at May 31, 2018, are as follows:

Assets Fair Value Level I Level II Level III

|  |  |  |  |
| --- | --- | --- | --- |
| Certificates of deposit | $ 7,011,503 | $ 7,011,503 | $ - $ - |
| Money market funds | 6,611,607 | 6,611,607 | - - |
| Mutual funds | 1,691,345 | 1,691,345 | - - |
| Interest rate swaps |  1,187,810 |  - |  1,187,810 - |

Total assets **$16,502,265 $ 15,314,455 $ 1,187,810 $ -**

Fair values of assets measured on a recurring basis May 31, 2017, are as follows:

Assets Fair Value Level I Level II Level III

|  |  |  |  |
| --- | --- | --- | --- |
| Certificates of deposit | $ 2,000,150 | $ 2,000,150 | $ - $ - |
| Money market funds | 12,743,774 | 12,743,774 | - - |
| Mutual funds | 1,484,810 | 1,484,810 | - - |
| Interest rate swaps |  255,039 |  - |  255,039 - |

## Total $ 16,483,773 $ 16,228,734 $ 255,039 $ -

**NOTE 5 DERIVATIVE TRANSACTIONS**

The Home has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate long-term debt. At May 31, 2018, the Home had five interest rate swap agreements with a bank. Four of the interest rate swaps cover an aggregate $5,000,000, individually representing $1,250,000, with fixed interest rates ranging from 1.46% to 1.75%, maturing at various dates ranging from April 1, 2022 to April 1, 2025. One interest rate swap covers

$15,000,000 with a fixed interest rate of 1.87%, maturing April 1, 2026. The agreements effectively change the Home’s interest rate exposure on its floating interest rate loan (see Note 6) to a fixed rate. The Home is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Home does not anticipate nonperformance by the counterparties.

The Home follows “FASB ASC 815-10-35, Subsequent Measurement.” Under that guidance, derivative investments must be measured at fair value.

The Home recognized unrealized gain on the aggregate change in fair market value of the swaps of $932,771 and $255,039 during the years ended May 31, 2018 and 2017, respectively. The aggregate fair market value of the swaps totaled $1,187,810 and $255,039 at May 31, 2018 and 2017, respectively.

# NOTE 6 LONG-TERM DEBT

The Home follows “FASB ASC 835-30, Imputation of Interest.” Under that guidance, debt issuance costs related to a note are reported as a direct deduction from the face amount of the note.

Long-term debt as of May 31, 2018 and 2017 consisted of the following:

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Building expansion loan payable to Bank of the West, dated April 5, 2016 | $ 25,439,740 | $ 8,297,375 |
| Less: Unamortized debt issuance cost |  156,001 |  241,093 |
| Total | **$ 25,283,739** | **$ 8,056,282** |

Interest on the loan is payable on the first day of each month, commencing in May of 2016. Interest was not paid until the loan was first drawn on in January of 2017. Interest is payable at a rate equal one month LIBOR rate plus 2.25%. Interest expense related to this debt totaled $388,177 and

$28,908 for the years ended May 31, 2018 and 2017, respectively. Additional pre-opening interest was included in construction in progress and capitalized when the Vineyards buildings were placed in service during January of 2018. The loan is scheduled to mature on April 5, 2020, but the Home has the option to extend the maturity date for six years with advance notice and compliance with debt covenants. There is no repayment penalty should the Home decide to pay the loan in advance.

Maturities of long-term debt over the next three years and in the aggregate are as follows: May 31,

2018 $ -

2019 -

2020 25,439,740

Total **$ 25,439,740**

### Debt Issuance Costs

Debt issuance costs of $340,366 incurred in obtaining financing for the expansion are being amortized over the life of the debt. Total amortization related to debt issuance costs included in other income and expense is $184,365 for the year ended May 31, 2018. See Note 12, Commitments and Contingencies for details of construction loan.

# NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

### 2018 2017

|  |  |  |
| --- | --- | --- |
| Acquisition and improvement of property and equipment | $ 1,845,083 | $ 1,594,611 |
| Resident care and enrichment | - | 9,410 |
| Pledges receivable | 145,341 | 1,000,000 |
| PA system |  -  |  5,000 |

**$ 1,990,424 $ 2,609,021**

**NOTE 8 INVESTMENT INCOME**

Investment income for unrestricted net assets, reported in the statements of operations, consisted of the following:

### 2018 2017

Interest income and dividends **$ 114,697 $ 14,475**

Investment income for temporarily restricted net assets, reported in the statements of changes in net assets, consisted of the following:

### 2018 2017

|  |  |  |
| --- | --- | --- |
| Interest income and dividends | $ 4,727 | $ 19,909 |
| Realized and unrealized gains and (losses) – net |  201,885 |  155,279 |
|  | **$ 206,612** | **$ 175,188** |

**NOTE 9 FUNCTIONAL CLASSIFICATION OF EXPENSES**

The functional expenses for the years ended May 31, 2018 and 2017 are as follows:

### 2018 2017

Program Services $ 12,096,237 $ 11,363,293 Supporting Services

|  |  |  |
| --- | --- | --- |
| Management and general | 3,919,453 | 2,350,958 |
| Fundraising |  147,811 |  60,530 |

**$ 16,163,501 $ 13,774,781**

**NOTE 10 PENSION PLAN**

The Home sponsors a 403(b) plan which covers substantially all employees that meet certain requirements. The plan provides that employees may elect to have a portion of their salary deferred and contributed to the plan. All employee contributions are vested immediately. The Home does not make any employer contributions. The Plan meets the Department of Labors “Safe Harbor” rules under 29CFR Section 2510.3-2(f), which exempts the Home from filing Form 5500 for the plan.

# NOTE 11 RISK AND UNCERTAINTIES

The Home invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Home’s investment accounts, and the amounts reported in the balance sheet.

# NOTE 12 CONTINGENCIES

Subsequent to May 31, 2016, the Home became aware of potential wage and hour violations and proactively offered settlements to affected employees. During the years ended May 31, 2018 and May 31, 2017, settlements totaling $399,174 and $507,063, respectively, were paid out to employees related to these potential violations. For the years ended May 31, 2018 and 2017,

$21,239 and $398,266, respectively, were accrued related to these settlements.

# NOTE 13 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation. Total assets, total liabilities, and the total increase to net assets was not affected.

# NOTE 14 SUBSEQUENT EVENTS

Subsequent to the year ended May 31, 2018, the Home entered into negotiations with a financial institution to refinance the building expansion loan and issue tax exempt bonds. Through the date of the independent auditors’ report, final terms of a refinance agreement have not been determined.

Management has evaluated subsequent events through the date of the independent auditors’ report, the date the financial statements were available to be issued.

**THE CALIFORNIA HOME FOR THE AGED, INC. D/B/A CALIFORNIA ARMENIAN HOME SCHEDULES OF OPERATIONS - THE VINEYARDS**

### MAY 31, 2018 AND 2017

**2018 2017**

|  |  |  |
| --- | --- | --- |
| Health Care RevenueIndependent living revenue, net | $ 364,617 | $ - |
| Assisted living revenue, net | 216,621 | - |
| Memory care revenue, net | 16,113 | - |
| Other healthcare revenue |  11,441 |  - |
| Total Health Care Revenue |  608,792 |  - |
| Health Care Expenses |  |  |
| Plant operations | 801,994 | - |
| Housekeeping | 38,966 | - |
| Dietary | 250,711 | - |
| Activities | 45,516 | - |
| Administration | 441,791 | - |
| Ancillary | 10,557 | - |
| Assisted living | 237,608 | - |
| Marketing | 432,310 | - |
| Security |  78,928 |  - |
| Total Health Care Expenses |  2,338,381 |  - |
| Loss from Healthcare Operations | (1,729,589) | - |
| Other Revenue (Expense) |  |  |
| Unrestricted contributions, including in-kind | 46,801 | - |
| Unrestricted investment income | 15,982 | - |
| Unrealized gain on swap agreements | 932,771 | - |
| Amortization of debt issuance costs | (85,092) | - |
| Other income (expense) | 11,897 | - |
| Fundraising expenses | (432) | - |
| Vineyards preopening expenses | (791,575) | - |
| Interest expense | (388,177) | - |
| Total Other Revenue (Expense) |  (257,825) |  - |
| Operating Loss | (1,987,414) | - |
| Net Assets Released from Restrictions |  34,040 |  - |
| Increase (Decrease) in Unrestricted Net Assets | **$ (1,953,374)** | **$ -** |

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