

Sierra View Homes

(A Not-For-Profit Corporation)

Financial Statements

December 31, 2018

Sierra View Homes

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Independent Auditor's Report

To the Board of Directors, Sierra View Homes
Reedley, California

Report on the Financial Statements

I have audited the accompanying financial statements of Sierra View Homes, which comprise the balance sheet as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra View Homes as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



January 28, 2019

Sierra View Homes

Balance Sheet

December 31, 2018

ASSETS

Current assets:

Cash	\$2,163,196
Accounts receivable, net of \$50,000 allowance for doubtful collections	1,151,335
Prepaid expenses	63,963
Marketable short-term investments	1,521,237
Restricted assets, certificate debt trust agreement (for use in current debt payments)	314,749
Total current assets	5,214,480

Property and equipment:

Land, buildings, and improvements	20,067,855
Equipment, furniture, and fixtures	2,374,465
Transportation equipment	131,665
Less accumulated depreciation	(9,086,353)
Total property and equipment	13,487,632

Other assets:

Restricted assets, certificate debt trust agreement (reserve account until debt matures)	382,785
Investments in captive insurance companies	122,084
Total other assets	504,869

Total assets	\$19,206,981
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The accompanying notes are an integral part of these financial statements.

Sierra View Homes

Balance Sheet

December 31, 2018

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$261,771
Wages and related benefits payable	390,453
Resident prepayments for services	111,076
Interest payable	122,786
Current portion of long-term debt	423,782
Total current liabilities	1,309,868

Long-term liabilities:

Other accrued liabilities	2,611
Deferred revenue from advance care fees	248,224
Long-term debt:	
2016 certificate debt, Series A	9,750,000
2016 certificate debt, Series B (net of current portion of \$380,000)	1,435,000
California Health Facilities Financing Authority (net of current portion of \$43,782)	261,330
Debt issuance premium (certificate debt), net of accumulated amortization	528,602
Debt issuance costs, net of accumulated amortization	(499,470)
Total long-term debt	11,475,462

Total long-term liabilities	11,726,297
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Total liabilities	13,036,165
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Net assets: Without donor restrictions (<i>see Note below</i>)	6,170,816
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Total liabilities and net assets	\$19,206,981
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Note on new accounting standards: Net assets are now classified as either with or without donor restrictions. The Organization has only net assets without donor restrictions.

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

Sierra View Homes

Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2018

Revenue without donor restrictions:

Skilled nursing services (<i>see Note below</i>)	\$5,625,088
Assisted and independent living revenue	3,380,760
Other operating revenue	135,391
Investment loss (including realized and unrealized losses of \$111,744)	(30,365)
Charitable contributions	54,114
Total revenue without donor restrictions	9,164,988

Expenses without donor restrictions (*see Note below*)

	Program Services	Support Services	
Nursing services	\$4,342,631	–	4,342,631
Dietary services	1,015,827	–	1,015,827
Operation and maintenance	712,790	–	712,790
Administration	–	678,342	678,342
Housekeeping, laundry, and linen	433,101	–	433,101
Activities and social services	167,151	–	167,151
Education	63,254	–	63,254
Depreciation	679,606	5,163	684,769
Interest, net of debt premium and loan cost amortization	380,307	–	380,307
Insurance and property taxes	153,730	8,144	161,874
Bad debts (<i>see Note below</i>)	34,317	–	34,317
Total expenses without donor restrictions	7,982,714	691,649	8,674,363

Increase in net assets

490,625

Beginning net assets

5,680,191

Ending net assets

\$6,170,816

Note on new accounting standards: The statement of activities now presents bad debt expense in the expense section (previously it was presented as a reduction in skilled nursing services revenue). Also, expenses are now reported by program services and support services. Additionally, the Statement of Functional Expenses has been added (see Page 5) to report these program and support services by natural classification.

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

Sierra View Homes
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services			Support Services - Management and General	Total
	Skilled Nursing	Assisted and Independent Living	Total		
Salaries, wages, and related employee expenses	\$3,321,406	\$1,502,342	\$4,823,748	\$453,690	\$5,277,438
Depreciation	197,162	482,444	679,606	5,163	684,769
Medical therapists, consultants, and related expenses	656,140	–	656,140	–	656,140
Dietary food and supplies	289,554	218,435	507,989	–	507,989
Interest	79,258	301,049	380,307	–	380,307
Supplies	242,039	68,418	310,457	32,685	343,142
Telephone and utilities	108,670	118,452	227,122	13,686	240,808
Insurance and property taxes	99,031	54,699	153,730	8,144	161,874
Outside service providers	62,709	44,975	107,684	50,408	158,092
Office and other operating expenses	1,700	7,569	9,269	127,873	137,142
Licenses	44,647	2,492	47,139	–	47,139
Repairs and maintenance	15,516	29,690	45,206	–	45,206
Bad debts	34,317	–	34,317	–	34,317
Total functional expenses	\$5,152,149	\$2,830,565	\$7,982,714	\$691,649	\$8,674,363

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

Sierra View Homes

Statement of Cash Flows

For the Year Ended December 31, 2018

Cash flows from operating activities:

Cash received from patients and residents	\$8,650,054
Cash paid to suppliers and employees	(7,435,575)
Interest paid	(383,523)
Cash received from other operating revenue	135,391
Investment income received	81,379
Charitable contributions received in cash	54,114
Net cash provided by operating activities	1,101,840

Cash flows from investing activities:

Property and equipment purchases	(537,942)
Purchase and maturity of investments and of restricted assets	(105,137)
Net cash used in investing activities	(643,079)

Cash flows from financing activities: Principal payments on long-term debt	(424,884)
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Net increase in cash 33,877

Cash at beginning of year 2,129,319

Cash at end of year **\$2,163,196**

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

Sierra View Homes

Notes to the Financial Statements

December 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies used in preparing the financial statements follows:

Organization and consolidation

Sierra View Homes, along with its wholly-owned subsidiary Sierra View Residences, LLC, are not-for-profit California entities (the Organization) providing care for the elderly. The Organization owns and operates a skilled nursing facility with 59 licensed beds, an independent living facility with 115 apartments (operated by Sierra View Residences, LLC), and a residential care (assisted living) facility with 78 licensed beds, all located in Reedley, California. All significant transactions between these entities have been eliminated in the financial statements.

New accounting standards adopted

As indicated on the face of the financial statements, new accounting standards were adopted this year. One standard applies to not-for-profits specifically. The other standard applies to revenue recognition and reporting (this standard did not have a material affect on the Organization). The major presentation changes occur on pages 3 through 5 of these financial statements.

Continuing care retirement community (CCRC)

The Organization is licensed as a CCRC for its assisted living and skilled nursing facilities. It is contractually obligated to provide care in assisted living and skilled nursing to those current independent living residents who join the CCRC and pay an advance care fee (currently \$3,000).

Upon entry into the assisted living or skilled nursing facilities, the advance care fee is applied as a payment against the service fees and recognized as revenue at that time. The resident then pays regular service fees while under care.

The advance care fee is treated as a liability (deferred revenue) at the time received. The advance care fee entitles a resident to receive services in the future. However, this advance care fee is not a payment for lifetime care. Consequently, the Organization does not incur a liability related to an obligation to provide future services to residents. (That is, it expects regular service fees for these residents to exceed costs of care.)

For those who leave the facility without using the assisted living or skilled nursing facilities, the advance care fee is recognized as revenue at the time when they leave.

Use of estimates

Preparing financial statements requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues, and expenses during the reporting period. Actual results could differ from the estimates and assumptions used in preparing these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of cash flows

The Organization includes cash on hand, cash in financial institutions, and certificates of deposit with financial institutions that mature within three months as cash. During the current year, a new accounting standard no longer requires a reconciliation of increase in net assets to cash flows from operating activities.

Revenue and receivables

Skilled nursing patient service revenue is recorded in the period that services are provided. Payments for services rendered under Medicare and Medi-Cal programs are covered by cost-based or contractual arrangements. Rent from apartment and assisted living units is recorded in the month the rent is due. Payment is due when amounts are billed. An allowance for doubtful collections is recorded when management believes certain receivables may not be fully collectible. Generally, this is done with specific known troubled accounts. The December 31, 2017 balance sheet items related to transactions with customers are as follows:

Accounts receivable, net of \$45,364 for doubtful collections (an asset)	\$646,268
Deferred revenue from advance care fees (a liability)	210,027

Property and equipment

Property and equipment are stated at cost, including capitalized interest. Additions, improvements, and major renewals are capitalized. Maintenance and repairs are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. These lives range from five to forty years. Architect fees relating to a planned expansion of the dining room have been capitalized and amount to \$132,999.

Net assets, and, contributions and gifts

Contributions and gifts are not a significant source of revenue for the Organization. The Organization has no donor restrictions on its financial assets or net assets that limit use for general expenditures.

Income taxes

The Organization is exempt from Federal and State income taxes by authority of Internal Revenue Code Section 501(c)(3). It files Form 990 and related state tax returns with the taxing authorities. The statute of limitations for these tax returns has expired for years ended December 31, 2014 and prior. Years ending after that date are still open to examination by the taxing authorities.

Sierra View Homes

Notes to the Financial Statements

December 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and investment income

Investment income in the statement of activities includes interest, dividends, and gains and losses from investments. Investments are, initially, recorded at cost. They are adjusted to market value if the difference between market value and cost is significant. Unrealized gains and losses resulting from this adjustment are included in investment income. Realized gains and losses (which arise when the investments are sold and are measured using original cost) are also included in investment income.

Cost allocations to program services and support services

The financial statements report certain types of expenses that relate to one or more program or support functions of the Organization. These expenses include dietary, and operations and maintenance, expenses allocated to different program services (dietary - based on meals served; operations - estimated staff time in or specific costs used in each facility). Other support services (for example, telephone, utilities, minor supplies) are allocated either by specific use or estimates of time and costs used in those program services.

INVESTMENTS

Marketable short-term investments

Bank certificates of deposit	\$401,076
Equity stocks of utility	20,481
Everence Trust Company investments (mutual funds)	1,099,680
Total marketable short-term investments	\$1,521,237

The cost and market value of marketable short-term investments are about the same except for the Everence Trust Company investments.

Accounting standards establish disclosures about fair value measurements. The standards apply to recurring and nonrecurring financial and nonfinancial assets and liabilities that require or permit fair value measurements. Among the required disclosures is the fair value hierarchy of inputs a company uses to value an asset or a liability. The Organization has only one input, termed Level 1 - quoted prices in active markets for identical assets and liabilities. The Everence Trust Company investments are reflected at quoted prices in active markets on national stock exchanges (Level 1 input). The market value of these investments is \$16,953 less than original cost (cost being \$1,116,633).

Investments in captive insurance companies

The Organization invested in two captive insurance companies. These companies provide workers compensation and general liability insurance. The Organization, along with other similar facilities, formed these insurance companies in an effort to control insurance costs. These investments were recorded at cost, reduced by subsequent capital contributions returned by the companies.

Sierra View Homes

Notes to the Financial Statements

December 31, 2018

RESTRICTED ASSETS, CERTIFICATE DEBT TRUST AGREEMENT

The 2016 certificate debt agreement requires the Organization to maintain reserve deposit accounts with The Bank of New York Mellon Trust Company. One reserve account is used to pay annual interest and principal on the debt. The other reserve account (\$382,785) is held until close to maturity of the certificate debt (2040).

LONG-TERM DEBT

Long-term debt, along with issuance premium and issuance costs, is listed on the balance sheet in detail. Other information regarding that debt is as follows:

2016 Certificates of Participation Series A and B (certificate debt)

Series A starts principal payments in 2023 and is due in 2040; Series B started principal payments in 2017 and is due in 2023; secured by real and other property; principal payable in one annual installment; interest payable in semi-annual installments at an effective rate of 2.98% per year for Series A and 2.08% per year for Series B; subject to numerous covenants (including working capital and days cash on hand), restrictions, and reporting requirements.

California Health Facilities Financing Authority

Due August 2024; note payable in monthly principal and interest installments of \$5,007 at an effective interest rate of 3.0% per year; secured by real property.

Debt issuance premium and debt issuance costs, net of accumulated amortization

These amounts arose when the debts were issued and are being amortized over the lives of the related debt.

Principal payments of long-term debt for the next five years by year and (amount)

2019 (\$423,782); 2020 (\$437,965); 2021 (\$444,576); 2022 (\$456,236); 2023 (\$467,947).

LETTER OF CREDIT

The Organization has a letter of credit with a bank in the amount of \$300,000. No amount was outstanding at December 31, 2018.

RETIREMENT PLAN

The Organization has a retirement plan for its employees known as a 403(b) plan (the Internal Revenue Code section designation). The plan applies to eligible employees. The Organization can contribute up to a maximum of 4% of an eligible employee's wages, and expense for the year was \$62,428.

Sierra View Homes
Notes to the Financial Statements
December 31, 2018

CONCENTRATIONS

Financial instruments that may subject the Organization to concentrations of credit risk consist principally of temporary cash investments and accounts receivable.

The Organization maintains significant cash deposits at December 31, 2018, with the following financial institutions:

Bank of America	\$315,933
Rabobank	2,013,650
Nationwide Life and Annuity	234,439

Accounts receivable are for services provided to patients and residents in Reedley, California. The receivables are due from Medicare, Medi-Cal, and private patients and are, generally, unsecured.

Approximately 45% of the Organization's total revenue without donor restrictions comes from Medicare and Med-Cal programs operated by Federal and California government agencies.

SUBSEQUENT EVENTS

The Organization evaluated subsequent events through the date the financial statements were available to be issued, which was January 28, 2019. There were no subsequent events that required recognition or disclosure in these financial statements.