

Sierra View Homes

(A Not-For-Profit Corporation)

Financial Statements

December 31, 2020

Sierra View Homes

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Jeffrey L. Carter
Certified Public Accountant
1355 11th Street
Reedley, California 93654
Telephone (559) 637-1675

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, 2020, 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, 2020, 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 27, 2021

Sierra View Homes

Balance Sheet

December 31, 2020

ASSETS

Current assets:

Cash	\$1,363,996
Accounts receivable, net of \$392,030 allowance for doubtful collections	1,685,666
Current portion, loan to Bethel Lutheran Home	59,054
Prepaid expenses	62,596
Marketable short-term investments	1,472,656
Restricted assets, certificate debt trust agreement (for use in current debt payments)	310,768
Total current assets	4,954,736

Property and equipment:

Land, buildings, and improvements	21,750,338
Equipment, furniture, and fixtures	2,677,094
Transportation equipment	131,665
Less accumulated depreciation	(10,382,778)
Total property and equipment	14,176,319

Other assets:

Loan to Bethel Lutheran Home	57,461
Restricted assets, certificate debt trust agreement (reserve account until debt matures)	388,178
Investments in captive insurance companies	122,084
Total other assets	567,723

Total assets	\$19,698,778
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The accompanying notes are an integral part of these financial statements.

Sierra View Homes

Balance Sheet

December 31, 2020

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$151,924
Wages and related benefits payable	339,670
Interest payable	118,302
Current portion of long-term debt	464,255
Total current liabilities	1,074,151

Long-term liabilities:

Other accrued liabilities	2,336
Deferred revenue from advance care fees	237,042
Long-term debt:	
2016 certificate debt, Series A	9,750,000
2016 certificate debt, Series B (net of current portion of \$390,000)	660,000
California Health Facilities Financing Authority (net of current portion of \$74,255)	846,636
Debt issuance premium (certificate debt), net of accumulated amortization	452,181
Debt issuance costs, net of accumulated amortization	(435,347)
Total long-term debt	11,273,470
Total long-term liabilities	11,512,848
Total liabilities	12,586,999
Net assets: Without donor restrictions	7,111,779
Total liabilities and net assets	\$19,698,778

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, 2020

Revenue without donor restrictions:

Skilled nursing services	\$5,235,260
Assisted and independent living revenue	3,486,052
Total revenue from patients and residents	8,721,312
Payroll protection and provider relief program income	1,304,040
Other operating revenue	142,116
Investment income (including realized and unrealized gains of \$108,967)	175,296
Charitable contributions	17,174
Total revenue without donor restrictions	10,359,938

	Program Services	Support Services	
Expenses without donor restrictions			
Nursing services	\$4,894,131	—	4,894,131
Dietary services	1,072,472	—	1,072,472
Operation and maintenance	803,632	—	803,632
Administration	—	885,460	885,460
Housekeeping, laundry, and linen	546,533	—	546,533
Activities and social services	154,195	—	154,195
Education	86,361	—	86,361
Depreciation	665,509	7,681	673,190
Interest, net of debt premium and loan cost amortization	374,131	—	374,131
Bad debts	235,923	—	235,923
Insurance and property taxes	141,500	8,580	150,080
Total expenses without donor restrictions	8,974,387	901,721	9,876,108

Increase in net assets	483,830
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Beginning net assets	6,627,949
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Ending net assets	\$7,111,779
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The accompanying notes are an integral part of these financial statements.

Sierra View Homes
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services			Support Services - Management and General	Total
	Skilled Nursing	Assisted and Independent Living	Total		
Salaries, wages, and related employee expenses	\$4,079,823	\$1,789,436	\$5,869,259	\$563,419	\$6,432,678
Depreciation	176,057	489,452	665,509	7,681	673,190
Dietary food and supplies	255,440	194,177	449,617	–	449,617
Supplies	326,105	79,715	405,820	27,917	433,737
Interest	82,144	291,987	374,131	–	374,131
Medical therapists, consultants, and related expenses	373,408	–	373,408	–	373,408
Telephone and utilities	122,052	145,667	267,719	21,259	288,978
Bad debts	235,923	–	235,923	–	235,923
Outside service providers	33,824	50,756	84,580	146,398	230,978
Insurance and property taxes	102,620	38,880	141,500	8,580	150,080
Office and other operating expenses	–	6,567	6,567	126,467	133,034
Licenses	69,968	3,149	73,117	–	73,117
Repairs and maintenance	11,313	15,924	27,237	–	27,237
Total functional expenses	\$5,868,677	\$3,105,710	\$8,974,387	\$901,721	\$9,876,108

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

Sierra View Homes

Statement of Cash Flows

For the Year Ended December 31, 2020

Cash flows from operating activities:

Cash received from patients and residents	\$8,535,128
Cash paid to suppliers and employees	(9,068,456)
Interest paid	(377,661)
Cash received from payroll protection and provider relief programs	1,304,040
Cash received from other operating revenue	142,116
Investment income received	66,329
Charitable contributions received in cash	17,174
Net cash provided by operating activities	618,670

Cash flows from investing activities:

Property and equipment purchases	(1,354,591)
Payments received from loan to Bethel Lutheran Home	63,535
Purchase and maturity of investments	359,854
Net cash used in investing activities	(931,202)

Cash flows from financing activities:

Final advance on 2019 loan from California Health Facilities Financing Authority	250,000
Principal payments on long-term debt	(448,882)
Net cash provided by financing activities	(198,882)

Net decrease in cash and restricted cash	(511,414)
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Cash and restricted cash at beginning of year	2,574,356
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Cash and restricted cash at end of year	\$2,062,942
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Cash and restricted cash at end of year above reflected in assets on the balance sheet as follows:

Cash	\$ 1,363,996
Restricted assets, certificate debt trust agreement (for use in current debt payments)	310,768
Restricted assets, certificate debt trust agreement (reserve account until debt matures)	388,178
Cash and restricted cash at end of year	\$ 2,062,942

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

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.

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.

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. Cash also includes restricted cash.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and receivables

Revenue is reported in the period services are provided by the Organization. A brief description about resident revenue follows:

Skilled nursing revenue:

These are services provided to those individuals not able to care for themselves. Payments from these services come from Medi-Cal (State of California), Medicare (Federal government), and private pay (including insurance). Medi-Cal uses a set daily rate to reimburse the organization. Medicare reimburses for the type of care provided. So the amounts for different types of Medicare services may vary. Private pay uses a set daily rate and also includes some additional amounts for prescriptions and other services not included in the set daily rate.

Medi-Cal and Medicare have complex laws and regulations covering their respective programs. In some cases, retroactive adjustments by these agencies occur, including from audits of cost reports. Where possible, those adjustments are recorded when known, or recorded in the future when final settlements are made.

Assisted and independent living revenue:

Assisted living relates to residents who need some care, but are mobile and do not need constant care or attention by Organization staff. Independent living revenue is from monthly rents of apartments. These residents can live on their own.

The Organization, generally, bills and records revenue monthly. Any discounts from stated rates are recorded in the month services are provided. This would also include reductions for residents not using a full month of services. Payments are 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.

Sierra View Homes

Notes to the Financial Statements

December 31, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and receivables (continued)

Disaggregation of revenue: below is detail of revenue by resident payor. The Organization believes resident payor detail best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors:

	Skilled Nursing	Assisted and Independent Living	Total
Medi-Cal	\$ 1,947,067	–	\$ 1,947,067
Medicare	1,904,663	–	1,904,663
Private and insurance	1,383,530	3,486,052	4,869,582
Total revenue from residents	\$ 5,235,260	\$ 3,486,052	\$ 8,721,312

The December 31, 2019 balance sheet items related to transactions with residents are as follows:

Accounts receivable, net of \$160,891 for doubtful collections (an asset)	\$1,594,131
Deferred revenue from advance care fees (a liability)	231,323

Covid-19 and the payroll protection and provider relief program income (\$1,304,040)

In response to Covid-19, the Federal government passed legislation to provide funds to various businesses, including nursing homes. The organization received funds from the payroll protection program (\$831,300) and the provider relief fund program (\$472,740). The Organization must meet certain requirements before they can keep the funds without repayment. The Organization has met those requirements and included the funds in revenue without donor restrictions this year.

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.

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, 2016 and prior. Years ending after that date are still open to examination by the taxing authorities.

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

Equity stocks of utility	\$ 20,481
Everence Trust Company investments (mutual funds)	1,452,175
Total marketable short-term investments	<u>\$1,472,656</u>

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 \$219,964 more than original cost (cost being \$1,232,211).

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.

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 (\$388,178) 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 November 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 and other property and subject to loan covenants.	\$167,635
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Due September 2039; note payable in monthly principal and interest installments of \$3,794 at an effective interest rate of 2.0% per year; secured by real and other property and subject to loan covenants.	679,001
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Total California Health Facilities Financing Authority long-term debt	\$846,636
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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)

2021 (\$464,255); 2022 (\$488,060); 2023 (\$500,409); 2024 (\$512,864); 2025 (\$464,236)

LINE OF CREDIT

The Organization has a line of credit with a bank in the amount of \$300,000. No amount was outstanding at December 31, 2020.

Sierra View Homes

Notes to the Financial Statements

December 31, 2020

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 \$59,861.

LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS FOR GENERAL EXPENDITURES

Financial assets available for general expenditures (that is, without any restrictions limiting asset use) within one year of the balance sheet date are as follows:

Cash	\$1,363,996
Accounts receivable, net of allowance for doubtful collections	1,685,666
Marketable short-term investments	1,472,656
Total financial assets available	\$4,522,318

The Organization structures its financial assets above to be available when general expenditures, liabilities, and other payment obligations come due. The Organization has no restrictions on the above financial assets. See page 12 and note "Restricted Assets, Certificate Debt Trust Agreement" for discussion on use of these reserve deposit accounts for payment of principal and interest on this certificate debt.

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, 2020, with the following financial institutions:

Bank of America	\$320,353
Mechanics Banks	912,216
Nationwide Life and Annuity	131,177

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 37% 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 27, 2021. There were no subsequent events that required recognition or disclosure in these financial statements.