

**NORTHERN CALIFORNIA CONGREGATIONAL  
RETIREMENT HOMES, INC. AND SUPPORTING ORGANIZATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**with**

**INDEPENDENT AUDITORS' REPORT**

**and**

**SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2018**

**McGILLOWAY, RAY, BROWN & KAUFMAN  
ACCOUNTANTS & CONSULTANTS**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Northern California Congregational Retirement Homes, Inc.  
and Supporting Organization  
Carmel, California

We have audited the accompanying consolidated financial statements of Northern California Congregational Retirement Homes, Inc. (a nonprofit organization) and Supporting Organization, which comprise the statement of financial position as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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Daniel McGilloway, Jr., CPA, CVA | Gerald Ray, CPA | Patricia Kaufman, CPA, CGMA | Larry Rollins, CPA | Jesus Montemayor, CPA | Snriti Shrestha, CPA

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Sarita Shannon, CPA | Sukhdev Singh, CPA | Whitney Ernest, CPA | Devvyn MacBeth, CPA | Deanna Thomas, CPA

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern California Congregational Retirement Homes, Inc. and Supporting Organization, as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, in 2018, Northern California Congregational Retirement Homes, Inc. and Supporting Organization, adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit-Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules for the statement of financial position, consolidating schedules for the statement of activities and changes in net assets, schedule of funds and purpose, combining schedules of net assets with donor restrictions and the combining schedules of designated net assets, as listed on the table of contents, is presented for the purpose of additional analysis, and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



McGilloway, Ray, Brown & Kaufman  
Salinas, California  
April 22, 2019

**NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2018**

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<b>Assets</b>	
Cash and cash equivalents	\$ 9,527,369
Accounts receivable	55,893
Prepaid expenses	293,673
Total current assets	<u>9,876,935</u>
Investments	25,153,993
Property and equipment, net of accumulated depreciation	<u>33,210,389</u>
Total assets	<u><u>\$68,241,317</u></u>
<b>Liabilities and net assets</b>	
<b>Liabilities</b>	
Accounts payable	\$ 332,095
Accrued liabilities	674,436
Advances from applicants	1,867,927
Current portion of post-retirement obligation	19,271
Current portion of long-term debt	132,361
Total current liabilities	<u>3,026,090</u>
Long-term debt, less of current portion	3,472,443
Deferred income from entrance fees, net	30,216,424
Annuity obligations	877,698
Post-retirement obligation, less of current portion	83,344
Total liabilities	<u>37,675,999</u>
<b>Net assets</b>	
Without donor restrictions, including quasi-endowment funds \$6,520,593	24,816,980
With donor restrictions	<u>5,748,338</u>
Total net assets	<u>30,565,318</u>
Total liabilities and net assets	<u><u>\$68,241,317</u></u>

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

**NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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<b>Income from operations</b>	
Resident care fees	\$ 9,897,092
Entrance fees	3,745,133
Medical center routine services	1,561,171
Other resident services and operating income	377,231
Total income from operations	<u>15,580,627</u>
<b>Other income (loss)</b>	
Investment income, net	932,681
Net realized and unrealized (losses)	(2,419,527)
Contributions	590,688
Other income	3,543
Total other (loss) income	<u>(892,615)</u>
<b>Net assets released from restrictions</b>	
Endowment income distribution	290,408
Remainder of terminated annuity trusts	14,534
Resident entertainment	1,650
Total released from restrictions	<u>306,592</u>
Total revenue and other support	<u>14,994,604</u>
<b>Expenses</b>	
Program	
Nursing, assisted living, and medical services	4,254,205
Resident services	2,426,044
Dining services	3,944,487
Facility operations, maintenance, and utilities	2,411,659
Environmental services	1,044,760
	<u>14,081,155</u>
Management and general	2,448,632
Total expenses	<u>16,529,787</u>
Change in net assets without donor restrictions	<u>(1,535,183)</u>

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

**NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2018**

<b>Changes in net assets with donor restrictions</b>	
Investment income, net	\$ 206,058
Net realized and unrealized (losses)	(752,685)
Change in value of split interest trusts	(19,829)
Total other (loss) income	<u>(566,456)</u>
<b>Net assets released from restrictions</b>	
Endowment income distribution	(290,408)
Remainder of terminated annuity trusts	(14,534)
Resident entertainment	(1,650)
Total released from restrictions	<u>(306,592)</u>
Change in net assets with donor restrictions	<u>(873,048)</u>
<b>Change in total net assets</b>	<u>(2,408,231)</u>
<b>Net assets, beginning of year</b>	
Without donor restrictions	26,352,163
With donor restrictions	6,621,386
Total net assets, beginning of year	<u>32,973,549</u>
<b>Net assets, end of year</b>	
Without donor restrictions	24,816,980
With donor restrictions	5,748,338
<b>Total net assets, end of year</b>	<u>\$ 30,565,318</u>

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

**NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Nursing, Assisted Living, & Medical Services	Resident Services	Dining Services	Facility Operations, Maintenance & Utilities	Environ- mental Services	Total Program	Management & General	Total Expenses
Salaries and compensation	\$ 2,554,929	\$ 431,024	\$ 1,966,200	\$ 756,890	\$ -	\$ 5,709,043	\$ 784,971	\$ 6,494,014
Employee benefits and taxes	1,013,331	173,133	893,083	356,102	-	2,435,649	294,154	2,729,803
Outside services	79,002	7,573	4,464	60,632	1,009,388	1,161,059	172,494	1,333,553
Professional fees	3,270	-	-	-	-	3,270	296,300	299,570
Bank and processing fees	-	-	-	-	-	-	80,585	80,585
Advertising and promotion	-	-	-	-	-	-	70,271	70,271
Office	-	-	-	-	-	-	38,843	38,843
Information technology	-	-	-	-	-	-	50,884	50,884
Occupancy	1,244	-	-	913,768	-	915,012	3,622	918,634
Travel	5,710	12,112	1,313	-	-	19,135	28,006	47,141
Conferences and meetings	-	-	-	-	-	-	11,431	11,431
Interest	-	-	-	-	-	-	175,402	175,402
Depreciation	456,730	1,782,961	82,080	19,830	2,006	2,343,607	13,265	2,356,872
Insurance	-	-	-	-	-	-	229,343	229,343
Uniforms	3,826	-	18,643	2,892	2,403	27,764	-	27,764
Supplies	77,348	4,029	95,013	32,722	13,729	222,841	18,175	241,016
Repairs and maintenance	-	6,040	-	218,168	807	225,015	628	225,643
Landscaping	-	-	-	48,771	-	48,771	-	48,771
Food	53	-	875,431	-	-	875,484	4,773	880,257
Cleaning and maintenance	1,035	-	2,515	-	16,427	19,977	-	19,977
License and permits	-	4,096	-	1,619	-	5,715	44,351	50,066
Pharmacy and medical	38,879	-	-	-	-	38,879	-	38,879
Education	8,047	2,234	2,809	265	-	13,355	17,446	30,801
Dues and subscriptions	163	-	35	-	-	198	29,127	29,325
Miscellaneous	4,388	2,842	163	-	-	7,393	13,201	20,594
Resident moving	-	-	-	-	-	-	12,903	12,903
Recruiting and fingerprinting	-	-	-	-	-	-	17,613	17,613
Party, music, and activity	6,250	-	2,738	-	-	8,988	-	8,988
Collateral production	-	-	-	-	-	-	40,844	40,844
	<u>\$ 4,254,205</u>	<u>\$ 2,426,044</u>	<u>\$ 3,944,487</u>	<u>\$ 2,411,659</u>	<u>\$ 1,044,760</u>	<u>\$ 14,081,155</u>	<u>\$ 2,448,632</u>	<u>\$ 16,529,787</u>

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

**NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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<b>Cash flows from operating activities</b>	
Resident care fees	\$ 9,962,943
Entrance fees	7,055,941
Medical center routine services	1,561,171
Other resident services and operating income	377,231
Investment income, net	932,681
Contributions	880,343
Other income	8,651
Cash paid for operating expenses	(13,730,380)
Interest paid	(175,402)
<b>Net cash provided (used) by operating activities</b>	<u>6,873,179</u>
<b>Cash flows from investing activities</b>	
Proceeds from sale of investments	9,820,233
Purchase of investments	(10,361,561)
Purchase of property and equipment	(3,535,099)
<b>Net cash provided (used) by investing activities</b>	<u>(4,076,427)</u>
<b>Cash flows from financing activities</b>	
Repayment of long-term debt	(126,409)
Decrease in residents' deposits	(2,584,376)
Refund of entrance fees	265,238
Investment income restricted for reinvestment	202,121
Investment income released from restrictions	(290,408)
Payment of annuity obligations	(194,660)
Payment of remainder of interest in annuity trusts	(4,700)
<b>Net cash provided (used) by financing activities</b>	<u>(2,733,194)</u>
<b>Net increase in cash and cash equivalents</b>	63,558
<b>Cash and cash equivalents, beginning of year</b>	<u>9,463,811</u>
<b>Cash and cash equivalents, ending of year</b>	<u>\$ 9,527,369</u>
<b>Supplemental Cash Flow Information</b>	
Cash paid for:	
Interest	<u>\$ 175,402</u>
Noncash investing activity:	
Cost	\$ 2,543,664
Accumulated depreciation	2,538,560
Loss on asset retirement	<u>\$ 5,104</u>

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

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**1. Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

The Northern California Congregational Retirement Homes, Inc. (the “Manor”) and the Carmel Valley Manor Foundation (the “Foundation”) are separate nonprofit public benefit corporations located in Carmel, California.

The Northern California Congregational Retirement Homes, Inc. operates Carmel Valley Manor, a life care facility located in Carmel, California. The Manor opened in October 1963 and consists of 148 independent living units including five single-family homes adjacent to the original Manor property, 24 assisted living units and 36 medical center beds. The Manor provides meals, lodging, most medical care and miscellaneous services to approximately 225 residents.

The Carmel Valley Manor Foundation is a Type I supporting organization of the Manor. The Foundation was incorporated in August of 2017 by a Board resolution of the Manor, to provide fundraising and other financial support for the charitable activities of the Manor, including (1) providing financial assistance to qualified low income residents of retirement facilities through the Grace and Favor program and (2) engaging in additional planned giving.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Manor and its supporting organization, the Foundation (collectively, the “Organization”). The Manor shares a common governing board with and has an ongoing economic interest in the Foundation. As a result, these entities are financially interrelated, and consolidation is required under accounting principles generally accepted in the United States. All significant intercompany transactions and balances have been eliminated in consolidation.

***Basis of Presentation***

The consolidated financial statements of the of the Organization have been prepared on the accrual basis 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 March 1, 2018.

***Fund Accounting***

The accounts of the Organization have been maintained in accordance with principles of fund accounting. Under these principles, resources are classified for accounting purposes into funds established according to their nature and purpose.

***Classes of Net Assets***

The Organization has classified the individual funds according to donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purposes in performing the primary objectives of the Organization. The Organization board may designate assets without restrictions for specific operational purposes from time to time.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
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*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 non-profit organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

***Accounting Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 these estimates.

***Cash and Cash Equivalents***

For the purposes of the consolidated statement of financial position and the consolidated statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as money market funds, with an original maturity of three months or less when purchased.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Organization to a concentration of credit risk consists principally of cash. The Organization maintains cash accounts exceeding the federally insured limit of \$250,000. The Organization also maintains cash in brokerage accounts that are not federally insured. At December 31, 2018, cash and cash equivalents exceeded the Federal Deposit Insurance Corporation maximum insured by \$1,377,923. Management believes the Organization is not exposed to significant credit risk relating to cash.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable consists primarily of amounts due from residents for the monthly care fees and routine medical services and are subject to credit risk. Risk associated with these receivables is mitigated by periodic review of the resident accounts.

When necessary, the Organization provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts. The Organization has determined there is no need for an allowance for doubtful accounts at December 31, 2018.

***Investments***

Investments in common stock, bond and equity mutual funds, and alternative investments are measured at fair value, which is the price that would be received if the investment was sold in an orderly transaction between market participants at the measurement date. Prana Realty Company I (Prana) investments are valued at the amounts reported to the Organization by Prana and the Organization's investment advisors. These amounts are generally reported at face value, which the Organization believes is a reasonable approximation of fair value.

Increases or decreases in fair value are recognized in the period in which they occur. Investment return is presented net of investment fees.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
AND SUPPORTING ORGANIZATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018

The Organization's investments are managed by investment advisors. The fair values are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investments securities and the level of uncertainty related to changes in fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

***Property and Equipment***

Property and equipment are carried at cost, if purchased, or at fair value at the date of the gift if donated, less accumulated depreciation. Major additions, alterations and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of items disposed of are removed from the accounts, and any gain or loss is included in the consolidated statements of activities and changes in net assets.

Depreciation is provided using the straight-line method at rates based on the estimated economic useful lives of the individual classes of assets ranging from five to 40 years.

***Advances from Applicants***

Advances from applicants consist of deposits received from applicants who have not signed a continuing care contract as of December 31, 2018. Deposits are refundable prior to establishing occupancy. When residency is established, deposited amounts are applied to the remaining entrance fee payment.

***Deferred Income from Entrance Fees***

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. A resident's actuarially determined life expectancy is adjusted on the resident's date of birth, permanent move to a different level of care, and if applicable, upon the death of the other resident who is a party to the continuing care contract.

***Refund of Entrance Fees***

After a 90-day period in which either the Organization or the resident can cancel the contract without cause and up to approximately five years, the Organization will generally refund to the resident shortly after the termination date of the contract the total amounts paid as the entrance fee less a charge of 1.5% percent of the entrance fee for each month that the resident occupied the living accommodation. A total of \$211,285 of total entrance fees were refunded in December 31, 2018. The total amount of entrance fees refundable, upon termination of the contract, is approximately \$13.8 million at December 31, 2018. Based upon the Organization's history of issuing refunds, a refund reserve is not considered necessary as of December 31, 2018.

***Contributions and Net Assets***

The Organization records a contribution (including a promise to give) when the contribution is deemed unconditional. Contributions are reflected in the consolidated financial statements at the earlier of transfer of assets or at the time the unconditional promise to give is made. Bequests are recognized as a contribution at the time the will is declared valid, provided the request is unconditional. Contributions that are restricted by the donor are reported as increases in net

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
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assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the same period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

***Revenue from Resident Care and Medical Center***

Resident care fees are invoiced monthly and recognized as revenue on the consolidated statement of activities and changes in net assets. Medical Center routine services and other resident services are recognized as revenue at the time the service is rendered. The Organization provides care to residents under the Medicare Part B program. Revenue from Medicare accounts for approximately 0.2% of the revenue from the resident and medical center for the year ended December 31, 2018. The Organization believes that it is in compliance with all applicable laws and regulations.

***Measure of Operations***

The consolidated statement of activities and changes in net assets reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

***Advertising***

Advertising costs are expensed as incurred and amounted to \$70,271 for the year ended December 31, 2018.

***Income Tax***

The Manor and the Foundation are exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and the corresponding California provisions, except to the extent of unrelated business income ("UBIT") as defined by the IRC.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold is met. Management determined there were no tax uncertainties that met the recognition threshold in 2018.

***Presentation of Certain Taxes***

The Organization collects sales and occupancy taxes and remits these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from revenues and expenses.

***Recent Accounting Pronouncements***

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958), *Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows and functional expenses. The Organization has adjusted the presentation of these consolidated statements accordingly. The ASU has been applied to the year presented.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
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In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of the promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the ASU will have on the consolidated financial statements.

***Functional Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets and in the consolidated statement of functional expenses. An individual expense is allocated to the underlying activity through which it was incurred. The consolidated statement of activities and changes in net assets and in the consolidated statement of functional expenses includes certain expenses which must be allocated on a reasonable basis which has been consistently applied: an allocation of portions of depreciation and interest expense. Depreciation expense has been allocated based on a square footage basis.

***Reclassification***

Certain amounts in the consolidated statement of financial position, consolidated statement of activities and changes in net assets, and consolidated statement of cash flows have been reclassified to conform to current year presentation. These reclassifications did not have an effect on the net assets.

**2. Financial Assets Available and Liquidity**

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general expenditure due to contractual or donor-imposed restrictions within one year. Amounts not available include amounts set aside for long-term investing in quasi-endowment funds that could be drawn only upon approval of the Board of Directors.

Cash and cash equivalents	\$ 9,527,369
Accounts receivable	55,893
Investments	<u>25,153,993</u>
Financial assets as of December 31, 2018	34,737,255
Less:	
Amounts subject to donor restrictions	(5,400,207)
Quasi-endowment funds	(6,520,593)
Cash and investments held in annuity trusts	(1,165,807)
Amounts restricted for Residents' Association Fund	(71,681)
Amounts set aside for liquidity reserve	(7,000,000)
Amounts set aside for debt service reserve	(294,980)
Amounts not due within one year	<u>(671,172)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$13,612,815</u></u>

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
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As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, the Organization, has designated a portion of its operating surplus to its liquidity reserve, which was \$7,000,000 as of December 31, 2018, which was established through approval of the Board of Directors to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

**3. Investments**

The Organization's investment portfolio consists of the following as of December 31, 2018:

Mutual bond funds	\$ 8,568,599
Mutual equity funds	12,342,546
Alternative investments	2,868,299
Prana Reality Company I common stock	1,374,549
	<u>\$25,153,993</u>

**4. Fair Value Measurements**

The Organization adopted the provisions of fair value measurements, which defines fair value, establishes a framework for measuring fair value and also expands the disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 inputs are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access. Examples of these are investments in common stocks and mutual funds.
- Level 2 inputs are based on quoted prices in markets that are not active and other valuation methodologies or model inputs that are observable either directly or indirectly as of the measurement date. Examples of these investments include corporate and municipal bonds that trade infrequently.
- Level 3 inputs are based on prices or valuation techniques that are unobservable for the investment and include situations where there is little, if any, market activity. These inputs reflect assumptions of management about in pricing the investments or life expectancies. Examples of these investments are certain private equity investments and annuity obligations.

There were no changes in the valuation methodologies and no transfers of investments between levels during the year ended December 31, 2018.

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Assets and liabilities measured at fair value on a recurring basis have been categorized into a hierarchy based on the observable and unobservable inputs used to determine fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Investments				
Mutual bond funds	\$ 8,568,599	\$ -	\$ -	\$ 8,568,599
Mutual equity funds	12,342,546	-	-	12,342,546
Alternative investments	2,868,299	-	-	2,868,299
Total recurring fair value measurements	<u>\$ 23,779,444</u>	<u>\$ -</u>	<u>\$ -</u>	23,779,444
Prana Reality Company I measured at NAV				<u>1,374,549</u>
Total investments				<u>\$ 25,153,993</u>
Liabilities:				
Annuity obligations:				
Annuity trusts	\$ -	\$ -	\$ 877,698	\$ 877,698
Post-retirement obligation	-	-	102,615	102,615
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 980,313</u>	<u>\$ 980,313</u>

The following is a description of the Organization's valuation methodologies for assets and liabilities measured at fair value:

***Mutual Bond and Equity Funds, and Alternative Investments***

Valued at the closing price as reported on the active market on which individual securities or funded are traded.

***Annuity Obligations***

On an annual basis the Organization revalues the liability to make distributions to the designated beneficiaries of the Annuity Trusts based on actuarial assumptions. The present value of the estimated future payments for Annuity Trusts is calculated using a discount rate of 7.49 percent and the remaining life expectancy of the beneficiaries based on applicable mortality tables.

***Post-retirement Obligation***

The present value of the estimated future payments to the former Chief Executive Officer of the Organization is calculated using a discount rate of 6 percent and a retirement date in 2012.

***Prana Reality Company I Measured at NAV***

The Manor purchased the Class A common stock of Prana Realty Company I (the Company) in an initial offering in 2007. The Company, through City Partners I (the Partnership), is engaged in the acquisition, operating and the eventual sale of properties.

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The periodic valuation of the Company's total portfolio serves as the basis for determining the Company's net asset value, which the Company uses in determining the market value per share for purposes of issuing additional shares or buying back outstanding shares. The market value per share is determined by dividing the Company's net asset value by the number of shares outstanding. At December 31, 2018, the Company has valued each share at \$145,030. This investment is not readily marketable, in part due to regulatory transfer restrictions placed by Prana.

The Organization uses net asset value to determine fair value of the investment in the Company as follows as of December 31:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Prana Realty Company I	<u>\$1,374,549</u>	<u>\$ -</u>	Semi-annually	95 days advance notice required

**5. Post-Retirement Obligation**

The Organization entered into a contract with the former Chief Executive Officer of the Organization in which he will serve as a consultant as may be required after he retired in 2012. He will receive an annual payment of \$25,000 for 11 years beginning in January 2013, for a total of \$275,000. If he dies or is disabled at any time before the full \$275,000 is paid, the remaining balance will be paid in full to his trust. Using a present value discount rate of 6 percent and a quarterly payment of \$6,250, the post retirement obligation at December 31, 2018 is \$102,615 of which \$19,271 is a current liability.

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**6. Property and Equipment, net**

The major categories of property and equipment and accumulated depreciation thereon are as follows as of December 31, 2018:

Buildings and improvements	\$ 43,511,341
Hillcrest assisted living center	4,477,622
Medical center	4,681,580
Administrative and activity building	2,320,464
Pavement resurfacings	499,602
Sprinkler system and well	475,412
Septic drain	172,207
Furnishings and carpeting	602,236
Computer equipment	217,742
Furniture	1,405,605
Health center equipment	207,237
Kitchen equipment	576,661
Maintenance equipment	108,937
Artwork and collections	145,245
Miscellaneous equipment	411,075
Motor vehicles	443,093
Landscaping	1,248,956
Telephone equipment	455,499
Water well	1,450,385
Total depreciable property and equipment	63,410,899
Less accumulated depreciation	(32,173,296)
Net depreciable property and equipment	31,237,603
Land	403,575
Construction in progress	1,569,211
Total property and equipment, net of accumulated depreciation	\$ 33,210,389

Depreciation expense for year ended December 31, 2018 was \$2,356,872.

**7. Long-Term Debt**

On December 28, 2011, the Organization entered into a \$4.35 million note payable with a financial institution: The note was payable in monthly installments of \$25,081, including principal and interest at a fixed rate of 4.85 percent from December 28, 2011 to September 23, 2015. On September 24, 2015; the note payable was modified to reduce the interest rate to 4.60 percent and reduce the monthly payment to \$24,616, including principal and interest. The note payable matures on January 5, 2022, at which time a one-time balloon payment estimated to be \$3,207,552 is due. The note payable is secured by a Deed of Trust as defined in the agreement. As of December 31, 2018, the outstanding balance is \$3,604,804. The note payable requires the Organization to comply with certain financial covenants, all of which were met at December 31, 2018.

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Current maturities on the long-term debt at December 31, 2018 are as follows:

Years ending December 31,		
2019	\$	132,361
2020		135,908
2021		128,983
2022		3,207,552
	\$	3,604,804

**8. Long-Term Care Commitment**

The Organization records a liability for the obligation to provide future services and the use of facilities to current residents when such costs are estimated to exceed anticipated revenues and the balance of unamortized entrance fees. Costs are comprised of per capita costs for all residents plus depreciation expense. For December 31, 2018, the per capita costs are calculated based upon a 3 percent annual increase in costs multiplied by a life expectancy factor for each resident. Anticipated revenues from the few contracts for which there are no fee increases, are calculated as current monthly fees multiplied by a life expectancy factor for each resident. For December 31, 2018, anticipated revenues for all other contracts are calculated as current monthly fees with a 3 percent annual increase multiplied by a life expectancy factor for each resident.

For December 31, 2018, the present value of future cash inflows and outflows is calculated with a discount rate of 5 percent. Amortization expense is computed based upon expense per average number of residents multiplied by a total annuity factor for all residents.

As of December 31, 2018, future revenues were estimated to exceed costs to provide future services, therefore, no long-term care commitment liability is necessary.

**9. Deferred Income from Entrance Fees, net**

The changes in the deferred income from entrance fees are as follows as of December 31, 2018:

Balance, beginning of year	\$	26,640,379
New fees received		7,532,463
Recognition of fees		(3,745,133)
Refunds		(211,285)
Balance, end of year	\$	30,216,424

**10. Employee Retirement Plan**

The Organization has a Section 403(b)(7) retirement savings plan. All full-time and part-time employees become eligible to participate in the Plan on their hire date. On-call employees, who work less than 1,000 hours per year, are not eligible to participate in the Plan.

The Organization may match a full-time employee's contribution dollar for dollar up to a maximum of 3 percent of a participant's compensation. To qualify for the employer discretionary matching contribution, the participant must be a full-time employee and a participant in the Plan for a continuous period of two years with no breaks in service. Part-time employees are not eligible for the employer discretionary matching contribution. The amount of matched contributions made by the Organization was \$100,843 in 2018.

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**11. Net Assets - With Donor Restrictions**

Donor restricted net assets consist for the following purposes as of December 31, 2018:

Subject to expenditure for specified purpose:	
Resident entertainment	\$ 57,667
Subject to Organization's spending policy and appropriation:	
Income earned on perpetual endowment	
General operating support	1,435,411
Subject to appropriation and expenditure when a specified event occurs:	
Terminated annuity trust funds	290,464
Not subject to appropriation or expenditure:	
Endowment funds in perpetuity (including original gift amount of \$3,964,796 as of December 31, 2018)	3,964,796
Balance, end of year	<u>\$ 5,748,338</u>

Releases from donor restricted net assets for the year ended December 31, 2018, are as follows:

Releases from restrictions:	
Subject to expenditure for specified purpose:	
Resident entertainment	\$ 1,650
Subject to the Organization's spending policy and appropriation:	
General operating support	290,408
Subject to appropriation and expenditure when a specified event occurs:	
Remainder of terminated annuity trusts	14,534
	<u>\$ 306,592</u>

**12. Board Designated Net Assets**

The board designated net assets are comprised of the following at December 31, 2018:

Without donor restrictions	
Designated by the Board for:	
Quasi-endowment	\$ 6,520,593
Resident welfare	71,681
Net assets	<u>\$ 6,592,274</u>

**13. Endowment**

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by California in 2008 as SB 1329 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to

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the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations of earnings or losses to the permanent endowment. The remaining portion of the endowment fund not classified as net assets with donor restrictions is classified as net assets without donor restrictions, board designated. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.
- The investment policies of the Organization.

***Investment Return Objectives and Risk Parameters***

The Organization has adopted investment and spending policies for the endowment fund. Under this policy, the endowment assets are invested in a manner that is intended to achieve the balanced accomplishment of current income with the growth and conservation of principal with interest and dividend income to be used to help meet operating expenses. At December 31, 2018, endowment investments are allocated as follows: 40 percent investment grade bonds, 44 percent U.S. equity funds, and 16 percent alternative investments. In managing risk within the endowment fund, the objective is to achieve total returns in excess of the average returns for an equity-tilted balance portfolio. Losses of 15 percent are tolerable.

***Strategies Employed for Achieving Objectives***

The Organization's investment strategy involves under- and over-weighting various asset classes based on an assessment of the risk and return potential specific to each asset class at any point in time.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The Organization has a policy of appropriating for distribution each year 5 percent of the average closing market value of all Endowment Fund investments for the three preceding years to be available for general operating purposes. The 5 percent may be adjusted up or down in the future in order to maintain a fiscally prudent program for distribution consistent with the Organization's objective to grow and conserve principal in the endowment fund with interest and dividend income to be used to help meet the operating expenses, but not the non-operating requirements, of the Organization.

***Funds with Deficiencies***

From time to time; the fair value of assets associated with individual donor restricted endowment funds, may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2018.

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Endowment net assets composition by type of fund as of December 31, 2018:

Net assets without donor restrictions:	
Board designated quasi endowment funds	\$ 6,520,593
Net assets with donor restrictions:	
Perpetual endowment to provide income to the Manor and Foundation (Supporting Organization)	3,964,796
Accumulated gains on perpetual endowment	<u>1,435,411</u>
Total net endowment assets	<u><u>\$11,920,800</u></u>

As of December 31, 2018, the endowment fund is comprised of:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets:			
Cash	\$ 48,080	\$ 39,819	\$ 87,899
Investments	<u>6,472,513</u>	<u>5,360,388</u>	<u>11,832,901</u>
Total assets	<u><u>\$ 6,520,593</u></u>	<u><u>\$ 5,400,207</u></u>	<u><u>\$11,920,800</u></u>

Changes in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,060,797	\$ 6,149,025	\$13,209,822
Investment income, net	159,016	149,463	308,479
Net realized and unrealized losses	(646,730)	(607,873)	(1,254,603)
Contributions	247,585	-	247,585
Amount appropriated for expenditure	<u>(300,075)</u>	<u>(290,408)</u>	<u>(590,483)</u>
Endowment net assets, end of year	<u><u>\$ 6,520,593</u></u>	<u><u>\$ 5,400,207</u></u>	<u><u>\$11,920,800</u></u>

#### 14. Concentrations

One vendor used by the Organization in December 31, 2018 represents approximately 17.5% of payments paid to all vendors during the year.

#### 15. Health and Safety Code Section 1790 (A)(3) Disclosure (Unaudited)

Improvements made during December 31, 2018 include (a) facilities and building of \$3,220,725 which consists of unit renovations and structural improvements to the Manor buildings, walkways and landscaping; (b) carpets furnishings and floor coverings of \$207,905; (c) computer equipment of \$48,526; and \$112,245 on equipment. The balance in work in progress as of December 31, 2018 was \$1,569,211 which consists mainly of unit renovations in progress.

These improvements are necessary and consistent with the Organization's tax-exempt purpose to maintain and provide facilities to meet the housing, health care and other needs of their residents.

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**16. Related Parties**

In March of 2018, the Foundation entered into an Affiliate Management and Administrative Services Agreement with the Manor to provide management and services to the Foundation. Pursuant to the agreement, the Foundation agreed to (1) pay the Manor \$80 per hour for management and administrative services and (2) reimburse the Manor direct and indirect expenses incurred. During the year ended December 31, 2018, the Foundation paid the Manor administrative service fees in the amount of \$6,927.

In March of 2018, the Manor contributed their endowment fund in the amount of \$11,756,657 to the Foundation.

Per the Board approval of the distribution of endowment earnings, the Foundation paid a distribution in the amount of \$417,465 to the Manor during the year ended December 31, 2018.

One current Board member is an owner of a company that provides architectural services. In 2018, \$67,287 was paid to the architectural services company.

Another Board member is an employee of a company that provides insurance brokerage services to the Organization. Each year competitive bids are obtained from several insurance companies. In 2018, \$229,343 was paid for premiums to insurance companies represented by the Board member.

**17. Subsequent Events**

On February 11, 2019, the Internal Revenue Service ruled that the Foundation will be treated as a tax-exempt, publicly supported organization under Section 501(c)(3) of the Internal Revenue Code with an effective date of exemption of August 14, 2017.

The Organization has evaluated all subsequent events through April 22, 2019, which is the date the financial statements are available to be issued, and has determined no other events or transactions need to be recognized or disclosed in these financial statements.

