

Salem Christian Homes, Inc.

**Financial Statements
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2022**

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

1. Introduction
2. Literature Review
3. Methodology
4. Results
5. Discussion
6. Conclusion
7. References
8. Appendix
9. Glossary
10. Index



Independent Auditors' Report

To the Board of Directors of the
Salem Christian Homes, Inc.

Opinion

We have audited the accompanying financial statements of Salem Christian Homes, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Uncertainty

As discussed in Note 14 to the financial statements, on March 11, 2020 the World Health Organization declared Coronavirus Disease 2019 (COVID-19) a global pandemic. The COVID-19 outbreak in the United States of America has caused business disruption through mandated and voluntary closures of businesses and shelter in place orders. Management is currently evaluating the impact that COVID-19 will have on future operations. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance that therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



October 12, 2022

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Salem Christian Homes, Inc.

Statement of Financial Position

June 30, 2022

ASSETS

Current assets

Cash and cash equivalents	\$ 889,717
Accounts receivable, net	1,166,897
Investments	576,577
Prepaid expenses	49,671
Residents' trust accounts	<u>36,458</u>

Total current assets 2,719,320

Property, equipment, and improvements, net 5,715,371

Total assets \$ 8,434,691

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 183,964
Accrued liabilities	<u>1,011,256</u>

Total current liabilities 1,195,220

Net assets

Net assets without donor restrictions	6,746,538
Net assets with donor restrictions	<u>492,933</u>

Total net assets 7,239,471

Total liabilities and net assets \$ 8,434,691

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Statement of Activities

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Fundraising activities	\$ 272,079	\$ —	\$ 272,079
Costs of fundraising activities	(114,348)	—	(114,348)
Net revenues from fundraising activities	157,731	—	157,731
Client care services, net	9,765,479	—	9,765,479
Contributions	1,355,296	403,434	1,758,730
Investment income, net	35,117	—	35,117
Rental income	23,228	—	23,228
Other income	—	—	—
Net assets released from restrictions	201,885	(201,885)	—
Total revenues and support	11,538,736	201,549	11,740,285
Expenses			
Program services			
Client care services	9,112,603	—	9,112,603
Support services			—
General and administrative	1,770,005	—	1,770,005
Total expenses	10,882,608	—	10,882,608
Unrealized loss on investments	(76,253)	—	(76,253)
Change in net assets	579,875	201,549	781,424
Net assets			
Net assets, June 30, 2021	6,166,663	291,384	6,458,047
Net assets, June 30, 2022	\$ 6,746,538	\$ 492,933	\$ 7,239,471

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Statement of Functional Expenses

Year Ended June 30, 2022

	<u>Program Services</u>	<u>Support Services</u>	<u>Costs of Fundraising Activities</u>	<u>Total Expenses</u>
	<u>Client Services</u>	<u>General & Administrative</u>		
Salaries and wages	\$ 6,161,282	\$ 1,018,876	\$ 49,525	\$ 7,229,683
Payroll taxes	467,786	71,674	3,716	543,176
Workers' compensation	403,461	67,840	252	471,553
403b matching contribution	79,712	18,172	1,445	99,329
Accounting	—	26,598	—	26,598
Advertising	—	2,000	344	2,344
Bank fees	30	9,202	10,764	19,996
Consultants	61,870	17,149	—	79,019
Client support	308,007	15,155	—	323,162
Depreciation and amortization	88,779	38,577	—	127,356
Employee recognition	—	6,771	—	6,771
Health insurance	405,258	21,089	349	426,696
Insurance	42,437	65,770	—	108,207
Licensing, dues, and fees	305,333	25,888	—	331,221
Supplies	209,366	30,700	4,103	244,169
Printing	96	—	4,762	4,858
Postage	—	1,586	5,651	7,237
Professional fees	10,417	147,120	—	157,537
Client recreational activities	11,507	4,100	—	15,607
Rent	39,190	340	—	39,530
Computer support	—	20,062	1,472	21,534
Repairs and maintenance	164,366	45,474	—	209,840
Taxes	12,719	1,905	—	14,624
Telephone	51,148	28,647	—	79,795
Temporary workers	86,168	12,451	—	98,619
Training	4,363	40,624	—	44,987
Travel	837	16,922	—	17,759
Utilities	185,573	13,522	—	199,095
Event expenses	12,898	1,791	31,965	46,654
Totals	<u>9,112,603</u>	<u>1,770,005</u>	<u>114,348</u>	<u>10,996,956</u>
Less costs of fundraising activities included with revenues and support on the statement of activities	—	—	(114,348)	(114,348)
	<u>\$ 9,112,603</u>	<u>\$ 1,770,005</u>	<u>\$ —</u>	<u>\$ 10,882,608</u>

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Statement of Cash Flows

Year Ended June 30, 2022

Cash flows from operating activities	
Change in net assets	\$ 781,424
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	127,356
Realized gain on investments	(28,680)
Unrealized loss on investments	76,253
Decrease (increase) in:	
Accounts receivable, net	(435,195)
Prepaid expenses	(17,574)
Residents' trust funds	40,651
Increase (decrease) in:	
Accounts payable	14,491
Accrued liabilities	(286,506)
Net cash provided by operating activities	<u>272,220</u>
Cash flows from investing activities	
Proceeds from sales of investments	193,563
Purchases of property, equipment, and improvements	<u>(316,484)</u>
Net cash used in investing activities	<u>(122,921)</u>
Net increase in cash and cash equivalents	149,299
Cash and cash equivalents	
Balance, June 30, 2021	<u>740,418</u>
Balance, June 30, 2022	<u><u>\$ 889,717</u></u>

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Salem Christian Homes, Inc. (the Organization) is a nonprofit organization established in the state of California in 1969. The Organization provides Christian residential care and training for adults who have developmental disabilities. The Organization's revenues and support come primarily from funding from various state agencies, contributions, investment income, and fundraising support.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and support, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Because of uncertainties involved in estimating allowances for doubtful accounts, it is at least reasonably possible that the estimates used will change within the next year, and the change could be significant. Management has considered events occurring through October 12, 2022 in its evaluation of the conditions on which estimates were based or for changes in conditions subsequent to the statement of financial position date which should be disclosed. The financial statements were available to be issued at this date.

Management also determines the accounting principles to be used in the preparation of financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Basis of Accounting

The financial statements of the Organization are prepared and presented in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization presents net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions:

Net assets with donor restrictions include those resources whose uses are restricted by donor-imposed criteria that are temporary in nature, such as those that will be met by the passage of time, purpose, or other events specified by the donor, or are restricted by donor-imposed criteria that are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Net assets without donor restrictions include resources that are not restricted by donors and are available for operations of the Organization, without limitation. The Board of the Organization may designate, from net assets without donor restrictions, a portion of these net assets for specific purpose.

Fund Accounting

The accounts of the Organization are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Fund balances are classified on the statement of financial position as net assets with donor restrictions or net assets without donor restrictions based on the absence or existence of donor-imposed restrictions.

Salem Christian Homes, Inc.

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposit accounts, money market accounts, and short-term investments with an original maturity of three months or less.

The Organization's cash held in financial institutions is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At times, the Organization may have cash balances in these financial institutions in excess of insured limits. Management reviews the financial conditions of these financial institutions on a periodic basis and believes this concentration of cash does not result in a high level risk for the Organization.

Accounts Receivable

Accounts receivable consists of billings for the residents to Medi-Cal and two Regional Centers governmental programs and are stated at the estimated amount to be collected and represent an unconditional right to consideration. Standard payment term is 30 days from invoice date, which does not result in a financing component. The Organization's accounts receivable have been reduced by the Organization's estimated allowance for any uncollectable amounts. The Organization provides an allowance for doubtful accounts based upon a review of outstanding accounts receivable, historical collection information, and existing economic conditions. Because of the uncertainties involved in estimating the amount to be collected, it is at least reasonably possible that accounts receivable actually collected could differ materially from those estimates. At June 30, 2022, the Organization had an allowance for doubtful accounts of approximately \$391,000.

Contract Assets and Contract Liabilities

Contract assets represent amounts from an arrangement when either the Organization has performed by transferring services to the residents or tenants in advance of receiving all or partial consideration from such services to the residents or tenants where the Organization does not have an unconditional right at the statement of financial condition date. The Organization did not have any contract assets at June 30, 2022.

Contract liabilities arise when the residents or tenants have made payment to the Organization in advance of obtaining control of the services promised to the residents or tenants in the contract. Contract liabilities are recognized as client care services revenue or rental income when services are transferred to the residents or tenants and no remaining performance obligations exist. Contract liabilities are recognized as revenue when services are provided to the residents or tenants. The Organization did not have any contract liabilities at June 30, 2022.

Investments

Investments are carried at fair value. Realized gains and losses on investments are included in the statement of activities. Unrealized gains and losses on investments are excluded from operating results because the investments are not considered trading securities. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donor are reported as increases in net assets without donor restrictions if the restrictions are met, either by passage of time or by use, in the reporting period in which the income and gains are recognized.

Salem Christian Homes, Inc.

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Residents' Trust Accounts

Separate checking accounts were established for the funds held for residents' personal and incidental expenses. A separate account is maintained for each Intermediate Care Facilities (ICF) location and one account for the Community Care Facilities locations (CCL) and the obligation for balances held for the resident trust accounts are included within accrued liabilities on the statement of financial position.

Property, Equipment, and Improvements

The Organization capitalizes all acquisitions of property, equipment, and improvements in excess of \$2,500 with an estimated useful life exceeding 2 years. Purchased property, equipment, and improvements are stated at cost, net of accumulated depreciation and amortization. Donated assets are stated at their estimated fair value on the date of donation. Depreciation is provided using the straight-line method over the estimated useful life of the asset, which ranges from 5 to 39 years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Expenditures for maintenance and repairs are charged to operations, while major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives.

Impairment of Long-Lived Assets

Property, equipment, and improvements are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset is measured by a comparison of the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. If such asset is considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Revenue Recognition

Contributions Revenue

Contributions of cash and other assets are recognized as revenue when received or unconditionally promised, and are measured at fair value. Contributions received are recognized as net assets with donor restrictions or net assets without donor restrictions, depending on the absence or existence of any donor restrictions. All contributions are considered to be available for the general program of the Organization unless specifically restricted by the donor. Donor restricted contributions are reported as increases to net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose for the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional promises to give are not recognized as revenue until the conditions are substantially met.

Salem Christian Homes, Inc.

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Revenue Recognition from Contracts with Residents and Tenants

To determine revenue recognition for the arrangements that the Organization determines are within the scope of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and the associated ASU's (collectively Topic 606), the Organization performs the following five steps: (1) identify the contract with the resident or tenants, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The Organization has determined that revenues within the scope of Topic 606 consist of client care services and rental income.

The Organization recognizes revenues from contracts with residents and tenants when the Organization transfers promised services in an amount that reflects the consideration to which the Organization expects to be entitled to receive in exchange for these services.

Client Care Service Revenue

Client care service revenue is recognized in the month the service is provided and primarily is received under Medi-Cal and two Regional Centers governmental programs.

Rental Income

The Organization has rental agreements with tenants and recognizes rental income over time in the month the services have been provided to tenants as net assets without donor restrictions.

Significant Financing Component

The transaction price is not adjusted for the effects of a significant financing component if at the contract inception, the Organization expects that the period between when the Organization transfers the services to residents and tenants and when the Organization receives payment from the government agencies or tenants to be one year or less.

Variable Consideration

The Organization recognizes revenue at the amount of the consideration that the Organization expects to be entitled in exchange for transferring the promised services to the resident or tenant. The transaction price includes an estimation of any variable amounts of consideration expected and the Organization recognizes revenue for variable consideration when it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur. The Organization estimates the amount of revenue to be recognized on variable consideration using the expected value, such as the sum of a probability-weighted amount, or the most likely amount method, whichever is expected to better predict the amount. The most common forms of variable consideration within the Organization's contracts with governmental agencies, residents, and tenants are retroactive adjustment to the daily rates.

Practical Expedients Elected

The Organization has elected to use a portfolio approach for the client care service revenue stream to group contracts with similar characteristics and analyze historical cash collections trends as an accounting policy election and practical expedient for revenue recognition under Topic 606.

Salem Christian Homes, Inc.

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Expense Recognition

The Organization recognizes expenses for program services as the Organization provides the promised services and recognizes expenses for support services as expenses are incurred.

Functional Allocation of Expenses

The costs of providing various program and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on the full time employee equivalent method of allocation.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and comparable state law. As a result, no provision for income taxes has been recorded in the accompanying financial statements.

Description of Program and Support Services

The following program and support services are included in the accompanying financial statements:

Client care services: The Organization provides Christian residential care and training for adults who have developmental disabilities.

General and administrative: These expenses represent administrative expenses for the general operations of the Organization.

Fundraising activities and special events: The Organization provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Recent Accounting Pronouncement

The Organization adopted ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, and elected the one year deferral option for Topic 842. Topic 842 is effective for the Organization beginning July 1, 2022 with early adoption permitted. Management is in the process of evaluating the effect of adoption of Topic 842 on the Organization's financial statements.

Salem Christian Homes, Inc.

Notes to Financial Statements

2. Investments

Investments are stated at fair value and consisted of the following at June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Barnabas Foundation	\$ 476,280	\$ —	\$ 476,280
American Christian Credit Union	100,297	—	100,297
Total investments	<u>\$ 576,577</u>	<u>\$ —</u>	<u>\$ 576,577</u>

Investments are carried at fair market value based on the fair value measurements as described in Note 3. The unrealized gain in the statement of activities is as follows for the year ended June 30, 2022:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss on Investments</u>
Barnabas Foundation	\$ 552,533	\$ 476,280	\$ (76,253)
American Christian Credit Union	100,297	100,297	—
Total investments	<u>\$ 652,830</u>	<u>\$ 576,577</u>	<u>\$ (76,253)</u>

Investment income, net and unrealized gain on investments for the year ended June 30, 2022 are summarized below:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 6,437	\$ —	\$ 6,437
Realized gain on investments	28,680	—	28,680
Total investment income, net	35,117	—	35,117
Unrealized loss on investments	(76,253)	—	(76,253)
Total investment income, net and unrealized gain on investments	<u>\$ (41,136)</u>	<u>\$ —</u>	<u>\$ (41,136)</u>

3. Fair Value Measurements

The framework for measuring fair value 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 under the Accounting Standards Codification Topic 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Salem Christian Homes, Inc.

Notes to Financial Statements

3. Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used at June 30, 2022.

Money market funds: Valued at the historical cost, which represents fair value.

Pooled separate account: Valued at the net asset value of the underlying assets held by the separate account.

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

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 100,297	\$ –	\$ –	\$ 100,297
Pooled separate account	–	476,280	–	476,280
Total investments at fair value	\$ –	\$ 476,280	\$ –	\$ 576,577

Salem Christian Homes, Inc.

Notes to Financial Statements

4. Property, Equipment, and Improvements

Property, equipment, and improvements consisted of the following at June 30, 2022:

Building	\$ 6,948,307
Land	1,488,464
Vehicles	629,072
Furniture and equipment	435,787
Leasehold improvements	98,924
Land improvements	27,476
Construction in Progress	<u>26,462</u>
	9,654,492
Less accumulated depreciation and amortization	<u>3,939,121</u>
	<u>\$ 5,715,371</u>

5. Revenues

Contract Balances

The beginning and ending balances of the Organization's accounts receivable, net from contracts with residents are as follows:

	Balance at June 30, 2022	Balance at June 30, 2021
Accounts receivable, net	<u>\$ 1,166,897</u>	<u>\$ 731,702</u>

Performance Obligations

The Organization's revenues primarily result from contracts with residents and tenants which generally have a term of one year or longer and have a single performance obligation to provide monthly services to residents and tenants. The Organization evaluates the services promised in the contracts with residents and tenants and identifies a performance obligation for each promise to transfer a service that is distinct. In order to determine the performance obligations, the Organization considers all the services promised, whether explicitly stated or implied based on customary business practices.

Concentrations

Services under Medi-Cal and two Regional Centers governmental programs, represent approximately 75 percent of client care services revenue for the year ended June 30, 2022. At June 30, 2022, the accounts receivable related to Medi-Cal and two Regional Centers was \$1,166,897.

Salem Christian Homes, Inc.

Notes to Financial Statements

5. Revenues (Continued)

Receivables from Medi-Cal and two Regional Centers represent a concentrated group of credit risk for the Organization. Management believes there are no credit risks associated with these governmental agencies. Negotiated and private receivables consist of receivables from various payors, including individuals, subject to differing economic conditions and do not represent any concentrated risks to the Organization. Furthermore, management continually monitors and adjusts its allowances associated with these receivables.

6. Rental Income

The Organization leases additional office space at the administrative location under non-cancelable real estate lease agreements expiring through 2023. These leases contain renewal options and rent escalation clauses. At June 30, 2022, the future minimum rental income on real estate lease agreements are \$20,073 for the year ended June 30, 2023.

7. Net Assets

Net assets without and with donor restrictions including the purpose or periods are as follows at June 30, 2022:

Total net assets without donor restrictions	<u>\$ 6,746,538</u>
Net assets with donor restrictions	
Strategic plan	345,650
Resident activities	108,583
Designated for ICF and CCL locations	<u>38,700</u>
Total net assets with donor restrictions	<u>492,933</u>
Total net assets	<u><u>\$ 7,239,471</u></u>

8. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring capital improvements satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions for the year ended June 30, 2022 is client care services for \$201,885 as the purpose restrictions were accomplished.

Salem Christian Homes, Inc.

Notes to Financial Statements

9. Operating Leases

The Organization leases housing facilities and equipment under non-cancelable agreements expiring through 2026.

The future minimum lease payments as of June 30, 2022 are as follows:

Year ending June 30	
2023	\$ 54,663
2024	26,935
2025	18,723
2026	<u>12,895</u>
	<u>\$ 113,216</u>

Rent expense on operating leases was \$39,530 for the year ended June 30, 2022.

10. Related-Party Transactions

Former and present Board Members of the Organization, have formed Salem Foundation (the Foundation), a tax-exempt corporation. The Foundation was formed to operate exclusively for promoting the welfare of the Organization and to solicit and receive funds to be held as principal, which may be loaned to the Organization from time to time, according to its needs. In addition, at the discretion of the Foundation's Board of Directors, the Foundation must distribute to the Organization annually the greater of 85 percent of the Foundation's adjusted net income for the prior tax year or 3.5% of the average net assets for a fiscal year, determined by the average of the beginning and ending fiscal year net asset balances. Any additional distributions will be based on a 5-year portfolio performance evaluation with the actual distribution being determined by the Foundation Board. During the year ended June 30, 2022, the Organizations received contributions of \$224,000 from the Foundation, which are included within contributions without donor restrictions on the statement of activities.

11. Retirement Plan

The Organization has a defined contribution 403(b) retirement plan. The 403(b) plan covers all full-time employees of the Organization. The Organization may contribute a discretionary matching contribution up to six percent of salary deferrals and may also contribute a discretionary employer contribution up to six percent of eligible compensation as determined by the Board of Directors. The discretionary matching contribution and discretionary employer contribution is available to employees who are 21 years of age, have worked at least 6 consecutive months, and completed at least 1,000 hours of service or have completed one year of employment. Eligible employees become vested in the plan based on the number of years of service with the Organization, which is 20 percent per year becoming fully vested after 5 years of service. For the year ended June 30, 2022, the Organization's discretionary contributions to the 403(b) plan were \$99,329.

Salem Christian Homes, Inc.

Notes to Financial Statements

12. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2022 are as follows:

Cash	\$ 889,717
Accounts receivable, net	1,166,897
Investments	<u>576,577</u>
Total financial assets available within one year	<u>\$ 2,633,191</u>

In addition to the financial assets available to meet general expenditures over the next year, the Organization operates within a balanced budget and anticipates covering its general expenditures by collection of revenues and support. The Organization reviews its financial position on a regular basis to ensure adequate financial assets are available to meet general expenditures.

13. Contingencies

The Organization is a party to various legal actions arising in the normal course of business. Management believes, based in part on the opinion of outside legal counsel, that the ultimate resolution of these matters will not have a material effect on the Organization's financial position or results of its operations.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations may include significant fines and penalties, exclusion from participating in publicly funded programs, and the repayments of previously collected revenues.

In December 2020, a state agency claimed that the Organization has been receiving over payments at one of their homes for at least four residents. In addition, the state agency claimed that the Organization continued to collect client care services revenue when the Organization already had received client care services revenue for the services provided to the resident. At June 30, 2021, the Organization, with the assistance of outside legal counsel, estimated the cost to resolve this matter to be approximately \$305,000. Therefore, at June 30, 2021, the Organization accrued a liability to the state agency of approximately \$305,000 and reduced client care service revenue by approximately \$305,000. During the year ended June 30, 2022, a portion of this matter was settled for some of the residents. Currently, the Organization is still working with the state agency to determine the settlement amount for the remaining residents. At June 30, 2022, the estimated remaining cost to resolve this matter is approximately \$217,000. It is possible that the Organization's recorded estimate of this contingency may change in the near term.

14. Uncertainty

In December 2019, the Coronavirus Disease 2019 (COVID-19) was reported in China. On March 11, 2020 the World Health Organization declared COVID-19 a global pandemic. The COVID-19 outbreak in the United States of America has caused business disruption through mandated and voluntary closures of businesses and shelter in place orders. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of business closures and shelter in place orders. The Organization may be adversely affected through the disruption or restrictions on the Organization's employees' ability to work, the general impact on individuals' capabilities to make charitable contributions, and a decrease in revenues and support due to the COVID-19 outbreak. Management is currently evaluating the impact that COVID-19 will have on future operations.

