



**Ararat Home of Los Angeles, Inc.
Financial Statements and
Independent Auditors' Report
December 31, 2020 and 2019**

Ararat Home of Los Angeles, Inc.
Financial Statements
December 31, 2020 and 2019

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-19

Independent Auditors' Report

To the Board of Trustees
Ararat Home of Los Angeles, Inc.
Mission Hills, California

We have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc. (the "Organization" or the "Home"), which comprise the statement of financial position as of December 31, 2020, the related statements of activities, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ararat Home of Los Angeles, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – 2019 Financial Statements

The financial statements of Ararat Home of Los Angeles, Inc. as of December 31, 2019, and for the year then ended, was audited by another auditing firm. That auditing firm expressed an unqualified opinion on those financial statements in its report dated March 16, 2020.

Martini Akpovi Partners, LLP

Los Angeles, California
June 14, 2021

Ararat Home of Los Angeles, Inc.
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019 (as previously reported)
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,812,211	\$ 8,199,126
Accounts receivable, net	3,007,542	3,148,075
Investments	5,273,544	4,728,601
Prepaid expenses and other current assets	1,830,634	791,753
Current portion of assets limited as to use	278,348	235,588
Total Current Assets	22,202,279	17,103,143
Endowment fund investments	17,386,704	15,466,269
Capital replacement fund investments	246,632	244,729
Assets limited as to use, net of current portion	301,735	301,599
Property and equipment, net	45,470,755	46,563,474
Total Assets	\$ 85,608,105	\$ 79,679,214
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 591,904	\$ 854,763
Current maturities of long-term debt, net of discount	412,498	386,711
Accrued expenses	1,681,033	1,337,463
Paycheck Protection Program loan	1,109,312	-
Total Current Liabilities	3,794,747	2,578,937
Long-term debt, net of current portion and discount	-	412,498
Total Liabilities	3,794,747	2,991,435
Contingencies		
Net Assets		
Without donor restrictions:		
Board-designated	17,633,336	15,710,998
Undesignated	61,621,055	57,967,008
Total net assets without donor restrictions	79,254,391	73,678,006
With donor restrictions	2,558,967	3,009,773
Total Net Assets	81,813,358	76,687,779
Total Liabilities and Net Assets	\$ 85,608,105	\$ 79,679,214

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statements of Activities
For the Years Ended December 31, 2020 and 2019

	2020	2019 (as previously reported)
Changes in Net Assets Without Donor Restrictions		
Revenues and other support without donor restrictions		
Net patient care and resident revenue	\$ 32,495,025	\$ 32,573,500
Donations	1,668,070	815,104
Donations - quasi-endowment fund	1,034	50,000
Special events, net of expenses of \$41,779 and \$88,413 for 2020 and 2019, respectively	107,683	(55,338)
Provider relief fund contributions	1,921,479	-
Net assets released from restrictions:		
Satisfaction of program restrictions	450,806	574,227
Total revenues and other support without donor restrictions	<u>36,644,097</u>	<u>33,957,493</u>
Program expenses		
Skilled nursing	28,352,512	26,697,357
Assisted living	4,527,768	3,940,953
Total program expenses	<u>32,880,280</u>	<u>30,638,310</u>
Management and general expenses	460,437	370,028
Fundraising expenses	157,599	375,457
Total expenses	<u>33,498,316</u>	<u>31,383,795</u>
Operating income	<u>3,145,781</u>	<u>2,573,698</u>
Other income (expense)		
Net realized and unrealized gains on investments	1,712,927	2,072,042
Interest expense	(34,397)	(44,154)
Interest income	101,579	161,398
Interest and dividends - endowment fund	650,495	709,135
Net other income	<u>2,430,604</u>	<u>2,898,421</u>
Change in Net Assets Without Donor Restrictions	<u>5,576,385</u>	<u>5,472,119</u>
Changes in Net Assets With Donor Restrictions		
Contributions	-	3,317,000
Net assets released from restrictions	(450,806)	(574,227)
Changes in Net Assets With Donor Restrictions	<u>(450,806)</u>	<u>2,742,773</u>
Changes in Total Net Assets	5,125,579	8,214,892
Net Assets, Beginning of Year	<u>76,687,779</u>	<u>68,472,887</u>
Net Assets, End of Year	<u>\$ 81,813,358</u>	<u>\$ 76,687,779</u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and General	Fundraising	
Salaries and benefits	\$ 16,889,032	\$ 2,923,784	\$ 1,888,435	\$ 238,768	\$ 43,412	\$ 21,983,431
Supplies and ancillary services	3,381,466	279,176	397,398	35,324	8,831	4,102,195
Taxes and licenses	1,468,628	208,481	8,554	983	295	1,686,941
Depreciation and amortization	767,382	60,371	877,286	77,981	19,495	1,802,515
Utilities	784,617	65,865	170,277	18,920	-	1,039,679
Purchased services	773,659	218,629	309,319	13,024	3,256	1,317,887
Insurance	195,007	23,488	457,457	45,746	5,083	726,781
Administration	125,916	38,852	70,868	1,476	1,476	238,588
Events	-	-	-	-	69,690	69,690
Property costs	86,894	9,331	272,766	24,246	6,061	399,298
Professional fees	24,549	27,385	75,408	3,969	-	131,311
Total	\$ 24,497,150	\$ 3,855,362	\$ 4,527,768	\$ 460,437	\$ 157,599	\$ 33,498,316

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2019, as previously reported

	Program Expenses			Supporting Services		Total
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and general	Fundraising	
Salaries and benefits	\$ 15,423,453	\$ 2,753,500	\$ 1,778,635	\$ 204,441	\$ 61,332	\$ 20,221,361
Supplies and ancillary services	3,280,510	327,552	309,866	24,101	10,329	3,952,358
Taxes and licenses	1,690,553	269,766	11,504	1,322	397	1,973,542
Depreciation and amortization	772,847	46,119	755,800	58,784	25,193	1,658,743
Utilities	732,814	51,377	151,905	11,815	5,063	952,974
Purchased services	685,913	130,107	220,594	9,288	2,322	1,048,224
Insurance	125,663	20,269	435,208	43,521	4,836	629,497
Administration	117,512	27,461	86,567	1,803	1,803	235,146
Events	-	-	-	-	261,175	261,175
Property costs	88,072	10,242	135,325	12,029	3,007	248,675
Professional fees	143,465	162	55,549	2,924	-	202,100
Total	\$ 23,060,802	\$ 3,636,555	\$ 3,940,953	\$ 370,028	\$ 375,457	\$ 31,383,795

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	2020	2019 (as previously reported)
Cash Flows from Operating Activities		
Change in net assets	\$ 5,125,579	\$ 8,214,892
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,802,515	1,658,743
Amortization of discount on debt	13,289	13,289
Net realized and unrealized gains on investments	(1,712,927)	(2,072,042)
Allowance for doubtful accounts	70,000	7,594
Changes in assets and liabilities:		
Accounts receivable	70,533	(342,411)
Prepaid expenses and other current assets	(1,038,881)	(320,823)
Accounts payable	(262,859)	70,524
Accrued expenses	343,570	(33,203)
Net Cash Provided by Operating Activities	<u>4,410,819</u>	<u>7,196,563</u>
Cash Flows from Investing Activities		
Net purchase of investments	(752,760)	(401,299)
Purchase of property and equipment	(711,390)	(3,092,254)
Net change in assets limited as to use	(42,896)	26,636
Net Cash Used by Investing Activities	<u>(1,507,046)</u>	<u>(3,466,917)</u>
Cash Flow from Financing Activities		
Principal payments on long-term debt	(400,000)	(390,000)
Proceeds from Paycheck Protection Program Loan	1,109,312	-
Net Cash Provided (Used) by Financing Activities	<u>709,312</u>	<u>(390,000)</u>
Net Increase in Cash and Cash Equivalents	3,613,085	3,339,646
Cash and Cash Equivalents, Beginning of Year	8,199,126	4,859,480
Cash and Cash Equivalents, End of Year	<u>\$ 11,812,211</u>	<u>\$ 8,199,126</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 21,108</u>	<u>\$ 30,865</u>

The Accompanying Notes are an Integral Part of These Financial Statements

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

Ararat Home of Los Angeles, Inc. (the "Organization or the "Home") is a non-profit and non-denominational organization founded in 1949 to care for elderly Armenians in Southern California. Since its early inception, the Home has expanded in both size and scope. Today, the Home exists to provide assisted living, skilled nursing and convalescent care facilities, primarily for the Armenian community, and to promote Armenian heritage and culture in America. The Board of Trustees oversees the management of the Home.

Standards of Accounting and Financial Reporting

The Home follows the accounting guidance in the audit and accounting guide, *Health Care Entities*, which is in conformity with the recommendations of the American Institute of Certified Public Accountants. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its *Accounting Standards Codification (ASU) Topic 958, Not-for-Profit Entities, Accounting Standards Update ASU 2016-14*.

Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the amounts designated by the board to be held for specific purposes. Net assets with donor restrictions are resources that are restricted by a donor for the use for a particular purpose or in a particular future period.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, supplies and ancillary services, utilities and depreciation which are allocated on the basis of estimates of time, effort and usage.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions made by management are used for, but not limited to, the estimated useful lives of long-lived assets, the allowance for doubtful accounts and the functional allocation of expenses. Actual results could differ from those estimates.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Net Patient Care and Resident Revenue

The Home provides a comprehensive range of health care services to residents. Patient care revenue consists of the following categories:

Skilled Nursing:

The most significant portion of the Home's operations is the operation of the skilled nursing facilities at the Mission Hills and Eagle Rock campuses. Caregivers provide residents with comprehensive, individualized care 24 hours a day. In addition, the facilities provide licensed therapy services, quality nutrition services, social services, activities, and housekeeping and laundry services.

Assisted Living:

The Home's assisted living facility provides personal care services and assistance with general activities of daily living such as dressing, bathing, meal preparation and medication management. Resident assessments are performed to determine what services are desired or required and residents are encouraged to participate in a range of activities.

During the years ended December 31, 2020 and 2019, net patient care and resident revenue consisted of the following:

	<u>2020</u>	<u>2019</u>
Skilled nursing revenues	\$ 29,724,723	\$ 29,682,559
Assisted living revenues	2,724,857	2,843,689
Ancillary revenues	45,445	47,252
	<u>\$ 32,495,025</u>	<u>\$ 32,573,500</u>

The Home recognizes revenue as its performance obligations are completed. The performance obligations are satisfied over time as the resident simultaneously receives and consumes the benefits of the healthcare services provided. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Net Patient Care and Resident Revenue (continued)

Skilled nursing and assisted living revenues are based on services rendered at amounts equal to established rates. Amounts paid for residents under the Medi-Cal, HMO, Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under these and other governmental programs are subject to review by the third-party payers. Any differences between estimated settlements and final determination are reflected in operations in the year finalized.

During the years ended December 31, 2020 and 2019, the Home received 90% of its skilled nursing and assisted living revenues from federal and state sponsored programs, and 10% from private pay sources.

Donations

Donations are recognized at fair value when the donor makes an unconditional promise to give and are reported as donor support without restrictions unless they are received with donor stipulations that limit the use of the donated assets. Donations received with donor stipulations are reported as donor support with restrictions. When donor restrictions are satisfied, net assets are released and reported as an increase in net assets without donor restrictions.

Donated goods are recognized at their fair values at the dates of donation. Contributed services are also recognized at fair value when they are received, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The Home receives substantial contributed services from constituents, the general public and the members of the Board of Trustees who give their time and expertise to the Home in a wide variety of areas. These contributions, despite their considerable value to the mission of the Home, are not recorded in the accompanying financial statements unless the services meet the requirements for recognition.

Fair Value of Financial Instruments

The accompanying statements of financial position included the following financial instruments as of December 31, 2020 and 2019: accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses. The Home expects to realize the current assets, and to pay the current liabilities, within a short period of time. Therefore, the carrying amounts of these financial instruments approximate fair value.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Home considers all highly liquid investments purchased with maturities of three months or less at the time of purchase to be cash equivalents. The Home maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Home has not experienced any losses, and does not believe it is exposed to any significant risk of loss, on cash and cash equivalents.

Accounts Receivable

The Home reports accounts receivable for services rendered at net realizable amounts from third-party payers, residents and others. An allowance for doubtful accounts is provided based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts was \$108,029 and \$38,029 at December 31, 2020 and 2019, respectively. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote. Interest is not charged on past due amounts.

Assets Limited as to Use

Assets limited as to use include assets held by a bank pursuant to the Home's insured refunding revenue bonds, discussed in Note 3. Amounts required to meet current liabilities of the Home are included in current assets.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. The Home estimates the useful lives of the respective classes of property and equipment as follows:

Buildings and improvements	10 – 40 years
Furniture and equipment	5 – 20 years
Transportation equipment	5 – 15 years

Expenditures for maintenance and repairs are charged to operations when incurred.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Impairment

The Home reviews its long-lived assets whenever events or circumstances indicate that the carrying amounts of such assets may not be recoverable. Impairment is evaluated by comparing the carrying value of the assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Home would recognize an impairment loss at that date for the amount by which the carrying amount of the asset exceeds its fair value. Management has determined that no such impairment currently exists.

Investments and Investment Income

The Home's investment portfolio consists primarily of money market mutual funds and marketable debt and equity securities that are measured at fair value in the statements of financial position. Investment income or losses, including net realized and unrealized gains and losses, are included in the statements of activities.

Fair Value Measurements

The Home has adopted the guidance of Accounting Standards Codification Topic 820, *Fair Value Measurement and Disclosures* ("ASC Topic 820"), which establishes a framework for measuring fair value. 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 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

- Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2: Observable inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The assets or liabilities 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.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Discount on Debt

The Home has adopted the provisions of Accounting Standards Update (“ASU”) No. 2015-03, “*Simplifying the Presentation of Debt Issuance Costs*”, which requires debt issuance costs to be presented in the statements of financial position as a direct deduction from the carrying value of the associated debt liability, and amortized as interest expense over the term of the related debt. Unamortized debt issuance costs at December 31, 2020 and 2019 were \$2,502 and \$15,791, respectively. Amortization expense, recorded as interest expense, during the years ended December 31, 2020 and 2019 was \$13,289 for each year.

Income Taxes

The Home is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Home is subject to federal income tax on any unrelated business taxable income. The Home applies the income tax standard for uncertain tax positions. This standard prescribes recognition and measurement of tax positions taken, or expected to be taken, on a tax return that are not certain to be realized.

The Home’s income tax returns are subject to review and examination by federal, state and local authorities. The Home is not aware of any activities that would jeopardize its tax-exempt status. The Home is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The home is subject to routine audits by taxing and other jurisdictions, however, there are no such audits currently in progress.

Subsequent Events

The Home has considered subsequent events through June 14, 2021, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2 – Availability of Financial Assets

The following table reflects the Home’s financial assets as of December 31, 2020 and 2019, reduced by amounts not available for general use because of donor-imposed restrictions within one-year. Amounts not available include amounts set aside for long-term investing in the endowment and capital replacement fund that could be drawn upon if the board of trustees approves that action.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 2 – Availability of Financial Assets (continued)

	<u>2020</u>	<u>2019</u>
Financial assets, as of December 31	\$ 40,137,350	\$ 33,115,740
Less: net assets subject to satisfaction of donor restrictions	(2,558,967)	(3,009,773)
Board designations:		
Endowment fund, primarily for long-term investing	(17,386,704)	(15,466,269)
Capital replacement fund	(246,632)	(244,729)
Assets limited as to use	<u>(580,083)</u>	<u>(537,187)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 19,364,964</u>	<u>\$ 13,857,782</u>

As part of the Home'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. The Home invests cash in excess of immediate requirements in interest-bearing savings and investment accounts.

Note 3 – Assets Limited as to Use

Pursuant to insured refunding revenue bonds, the Home is required to hold certain funds in trust that are restricted by the terms of the indenture agreement. As of December 31, 2020 and 2019, assets limited as to use were comprised of cash and cash equivalents contained in the following funds:

	<u>2020</u>	<u>2019</u>
Interest fund	\$ 2,832	\$ 2,162
Principal fund	275,516	233,427
Debt service reserve fund	<u>301,735</u>	<u>301,598</u>
Total assets limited as to use	580,083	537,187
Less: current portion	<u>(278,348)</u>	<u>(235,588)</u>
Long term portion	<u>\$ 301,735</u>	<u>\$ 301,599</u>

Note 4 – Fair Value Measurements

As of December 31, 2020 and 2019, all of the Home's investments, including fixed income securities, mutual funds and stocks, were all measured using level 1 inputs. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different fair value measurement at December 31, 2020 and 2019.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 4 – Fair Value Measurements (continued)

At December 31, 2020 and 2019, the Home's investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Endowment Fund		
Short-term cash funds	\$ 817,826	\$ 253,990
Domestic corporate bonds	338,028	75,024
Common stocks	72,120	-
Real estate investment trusts	143,893	234,183
Exchange traded funds	265,907	233,203
Municipal bonds	-	10,337
US Government backed securities	102,067	2,837
Mutual funds		
Large-cap funds	7,227,287	6,791,650
Income funds	3,645,957	4,352,175
Mid-cap funds	3,326,469	2,326,509
Small-cap funds	1,226,251	921,872
Other funds	220,899	264,489
	<u>17,386,704</u>	<u>15,466,269</u>
Capital Replacement Fund		
Short-term cash funds	246,082	243,818
US Government backed securities	550	911
	<u>246,632</u>	<u>244,729</u>
Investments		
Short-term cash funds	2,908,824	4,020,341
Mutual funds	1,527,653	608,262
Domestic corporate bonds	-	20,006
Domestic Corporate Common Stocks	837,067	-
Foreign bonds	-	79,992
	<u>5,273,544</u>	<u>4,728,601</u>
Total	<u>\$ 22,906,880</u>	<u>\$ 20,439,599</u>

Note 5 – Endowment and Capital Replacement Funds

The Home maintains investments in two funds set aside for specific purposes. The Home relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Pursuant to these objectives, the Home has adopted a policy for their investment funds that attempts to provide a balance of maintenance of adequate cash reserves and the preservation of principal and growth within reasonable and prudent levels of risk.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 5 – Endowment and Capital Replacement Funds (continued)

Endowment Fund

The endowment fund investments consist of assets designated by the Board of Trustees to be invested in perpetuity for the purpose of generating income to support the Home's operations. Although the designated assets of the endowment fund are intended to be invested in perpetuity, the Board retains the discretion to utilize the endowment fund to support the Home's operations should the need arise. Since the board retains this discretion, the endowment fund is, therefore, more properly described as a "quasi-endowment fund".

Interpretation of Relevant Law

The Board of Trustees, in concurrence with the advice of legal counsel, has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring a long-term investment strategy designed to preserve the fair value of the endowment fund. In accordance with California UPMIFA, the organization considers the following factors in deciding to appropriate or invest endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Home and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Home.
- (7) The investment policies of the Home.

Endowment Investment and Spending Policies

The Home has adopted investment and spending policies for endowment assets that attempt to maintain the long-term purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

The Home uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the cumulative amount of money available for distribution from the endowment to support operations.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 5 – Endowment and Capital Replacement Funds (continued)

The spending policy is reviewed annually in light of changing market assumptions, investment returns and the rate of inflation. Accordingly, over the long term, the Home expects current spending policy to allow its endowment assets to grow.

Changes in endowment net assets for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Endowment, beginning of year	\$ 15,466,269	\$ 12,747,548
Contributions	1,034	50,000
Total investment income	<u>1,919,401</u>	<u>2,668,721</u>
Endowment, end of year	<u>\$ 17,386,704</u>	<u>\$ 15,466,269</u>

Capital Replacement Fund

The Capital Replacement fund is composed of Board-designated investments for the acquisition of new or the replacement of obsolete or worn out equipment, the performance of major repairs and construction of additions to, or improvements of, the Home's facilities.

Note 6 – Property and Equipment

Property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 13,774,643	\$ 13,774,643
Building and building improvements	51,783,298	51,670,060
Furniture, equipment and vehicles	<u>4,956,372</u>	<u>4,844,163</u>
	70,514,313	70,288,866
Less: accumulated depreciation	<u>(26,899,567)</u>	<u>(25,095,458)</u>
	43,614,746	45,193,408
Construction in progress	<u>1,856,009</u>	<u>1,370,066</u>
	<u>\$ 45,470,755</u>	<u>\$ 46,563,474</u>

As of December 31, 2020, construction in progress of \$1,856,009 relates to the preparation of raw land acquired adjacent to the Home's Assisted Living Facility in Mission Hills, California.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 7 – Long-Term Debt

In April 1998, the Home entered into an agreement with the California Statewide Communities Development Authority pursuant to which the insured refunding revenue bonds (the “Bonds”) were issued. On November 27, 2012, the Home refinanced the 1998 bonds with new bonds. The refinanced Bonds are due in annual principal payments and semi-annual payments of interest rates ranging from 2.00% to 3.00%. Principal payments are made annually and continued through June 1, 2021. The Bonds are collateralized by a pledge and assignment agreement of the Home’s revenues and a security interest in substantially all of the Home’s assets. The Bonds are redeemable at the option of the Home. The Bond agreement requires the Home to comply with certain covenants including the maintenance of certain financial ratios, restrictions on capital expenditures and disposals and restrictions on additional indebtedness. During May 2021, the Organization paid off its remaining bond balance and has not entered into any new bond agreements.

Future minimum principal installment, net of discount on debt, for the year ending December 31 is as follows:

	<u>Principal</u>	<u>Discount</u>	<u>Net</u>
2021	\$ 415,000	\$ (2,502)	\$ 412,498

Note 8 – Contingencies

Laws and Regulations

The health care industry is subject to numerous laws and regulations of Federal, State and Local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services and Medi-Cal, Medicare and Medicaid fraud and abuse rules. Violations of these laws and regulations could result in expulsion from governmental health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Home is in compliance with all applicable laws and regulations.

Litigation

From time to time, in the ordinary course of business, the Home is named in various legal proceedings. In management’s opinion, all such matters are adequately provided for, covered by insurance or, if not so covered or provided for, are without merit.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 8 – Contingencies (continued)

General Uninsured Losses

The Home carries comprehensive liability, fire, flood, environmental, and other insurance with policy specifications, limits, and deductibles that management believes are adequate and appropriate under the circumstances given the relative risk of loss, the cost of such coverage, and industry practice. There are certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured loss occur, the Home could lose assets, anticipated profits and cash flows from its operations.

Insurance

The Organization bears insurance risk as a member of a group captive insurance entity for certain workers' compensation insurance programs. The Organization records estimated liabilities for its insurance programs based on information provided by the third-party plan administrators, historical claims experience, expected costs of claims incurred but not paid and expected costs to settle unpaid claims. The Organization monitors its estimated insurance related liabilities on a regular basis. As facts change, it may become necessary to make adjustments that could be material to the Organization's results of operations and financial condition. The Organization believes that its present insurance coverage is adequate.

Note 9 – Net Assets with Donor Restrictions and Donations with Donor Restrictions

Net assets with donor restrictions consist of cash and artwork donated to the Home having an aggregate fair value of \$290,000. As a condition of receiving these donations, the Home agreed to promote and exhibit the artwork and provide art scholarships. Costs incurred to fulfill this obligation during the years ended December 31, 2020 and 2019 were \$7,500 and \$18,000, respectively.

During the years ended December 31, 2020 and 2019, the Home received donations of \$0 and \$3,317,000, respectively, to a building fund to be used to acquire, construct and repair land and facilities. Costs incurred to fulfill this obligation during the years ended December 31, 2020 and 2019 were \$443,306 and \$556,227, respectively.

Note 10 – Pension Plan

The Home has a 403(b) defined contribution plan covering substantially all employees who are age 21 and older. The plan requires that an employee provide at least 1,000 hours of service in any twelve consecutive month period to be eligible for participation. The Home matches 100% of participant contributions up to 3% of employee compensation, as defined. During the years ended December 31, 2020 and 2019, the Home made matching contributions of \$167,731 and \$115,396, respectively.

Ararat Home of Los Angeles, Inc.

Notes to Financial Statements

December 31, 2020 and 2019

Note 11 – Coronavirus

In December 2019, a novel strain of coronavirus (“COVID-19”) surfaced. The spread of COVID-19 around the world in 2020 and 2021 has caused significant volatility in the U.S. and the international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As of the date of the issuance of these financial statements, the Organization has not experienced any adverse financial or operational consequences due to COVID-19 and believes that it will not have a material impact to the Organization’s operations, cash flows, and financial position.

In May 2020, the Organization entered into a Paycheck Protection Program Loan (“PPP Loan”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and applicable regulations CARES Act. Under the PPP Loan, the Organization borrowed \$1,109,312. The outstanding balance on the PPP Loan at December 31, 2020 was \$1,109,312. The Organization submitted a loan forgiveness application to the issuing bank in May 2021, which is pending bank approval and once approved, the application will be forwarded to the Small Business Administration (“SBA”) for confirmation. The forgiveness regulations are subject to change as a result of administration or judicial proceedings or legislative initiatives including additional regulations that are anticipated to be released by the SBA. While the Organization cannot determine the ultimate outcome, based on the Organization’s assessments of the current rules in place, the Organization believes it will qualify for full forgiveness. Any amounts not forgiven must be repaid in two years and will accrue interest at a rate of 1.0% per annum. No interest or principal payments are due for ten months, at which time interest and principal payments will be made on any unforgiven balance under terms established by Union Bank at that time. The SBA has not provided any further details of this review and the Organization cannot assure the results of any such review. Accordingly, as of December 31, 2020, the full amount of the PPP Loan has been recorded as a long-term liability in the accompanying statement of financial position.

In 2020, the Organization received \$1,921,479 of Provider Relief Fund under the CARES Act. Provider Relief Fund are to be used for economic support of health care entities in connection with health care-related expenses or lost revenues attributable to COVID-19 and treatment of uninsured COVID-19 patients. During the year ended December 31, 2020, the Organization utilized all of the Provider Relief Fund to pay for qualified expenses in full satisfaction of the conditions for the contribution. Accordingly, Provider relief fund contribution in the amount of \$1,921,479 was included in the Organization’s total revenues and other support without donor restrictions for the year ended December 31, 2020.