

**Ararat Home of Los Angeles, Inc.  
Financial Statements and  
Independent Auditor's Report  
December 31, 2019 and 2018**

**Ararat Home of Los Angeles, Inc.**  
**Financial Statements**  
**December 31, 2019 and 2018**

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# ***DIEM CPA, INC.***

***CERTIFIED PUBLIC ACCOUNTANT***

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2828 Cochran Street, #367, Simi Valley, CA 93065 (805)522-8827

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ararat Home of Los Angeles, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Simi Valley, California  
February \_\_, 2020

**Ararat Home of Los Angeles, Inc.**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 8,199,126	\$ 4,859,480
Accounts receivable, net	3,148,075	2,813,259
Investments	4,728,601	4,980,047
Prepaid expenses and other current assets	791,753	470,930
Current portion of assets limited as to use	235,588	262,984
<b>Total Current Assets</b>	<u>17,103,143</u>	<u>13,386,700</u>
Endowment fund investments	15,466,269	12,747,548
Capital replacement fund investments	244,729	238,663
Assets limited as to use, net of current portion	301,599	300,839
Property and equipment, net	46,563,474	45,129,962
<b>Total Assets</b>	<u>\$ 79,679,214</u>	<u>\$ 71,803,712</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 854,763	\$ 784,239
Current maturities of long-term debt, net of discount	386,711	376,711
Accrued expenses	1,337,463	1,370,666
<b>Total Current Liabilities</b>	<u>2,578,937</u>	<u>2,531,616</u>
Long-term debt, net of current portion and discount	412,498	799,209
<b>Total Liabilities</b>	<u>2,991,435</u>	<u>3,330,825</u>
<b>Contingencies</b>		
<b>Net Assets</b>		
Without donor restrictions:		
Board-designated	15,710,998	12,986,211
Undesignated	57,967,008	55,219,676
Total net assets without donor restrictions	<u>73,678,006</u>	<u>68,205,887</u>
With donor restrictions	3,009,773	267,000
<b>Total Net Assets</b>	<u>76,687,779</u>	<u>68,472,887</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 79,679,214</u>	<u>\$ 71,803,712</u>

**Ararat Home of Los Angeles, Inc.**  
**Statements of Activities**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Revenues and other support without donor restrictions		
Net patient care and resident revenue	\$ 32,573,500	\$ 30,953,072
Donations	815,104	503,687
Donations - quasi-endowment fund	50,000	38,155
Special events, net of expenses of \$88,413 and \$143,654 for 2019 and 2018, respectively	(55,338)	11,361
Net assets released from restrictions:		
Satisfaction of program restrictions	574,227	566,323
Total revenues and other support without donor restrictions	<u>33,957,493</u>	<u>32,072,598</u>
Program expenses		
Skilled nursing	26,697,357	26,343,001
Assisted living	3,940,953	3,282,249
Total program expenses	<u>30,638,310</u>	<u>29,625,250</u>
Management and general expenses	370,028	307,306
Fundraising expenses	375,457	335,518
Total expenses	<u>31,383,795</u>	<u>30,268,074</u>
Operating income	<u>2,573,698</u>	<u>1,804,524</u>
Other income (expense)		
Net realized and unrealized gains (losses) on investments	2,072,042	(1,708,978)
Interest expense	(44,154)	(55,729)
Interest income	161,398	174,710
Interest and dividends - endowment fund	709,135	766,570
Net other income (expense)	<u>2,898,421</u>	<u>(823,427)</u>
<b>Change in Net Assets Without Donor Restrictions</b>	<u>5,472,119</u>	<u>981,097</u>
<b>Changes in Net Assets With Donor Restrictions</b>		
Contributions	3,317,000	543,323
Net assets released from restrictions	(574,227)	(566,323)
<b>Changes in Net Assets With Donor Restrictions</b>	<u>2,742,773</u>	<u>(23,000)</u>
<b>Changes in Total Net Assets</b>	8,214,892	958,097
<b>Net Assets, Beginning of Year</b>	68,472,887	67,514,790
<b>Net Assets, End of Year</b>	<u>\$ 76,687,779</u>	<u>\$ 68,472,887</u>

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

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	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
<b>Total</b>	<b>\$ 23,060,802</b>	<b>\$ 3,636,555</b>	<b>\$ 3,940,953</b>	<b>\$ 370,028</b>	<b>\$ 375,457</b>	<b>\$ 31,383,795</b>

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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, 2018**

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	<b>Program Expenses</b>			<b>Supporting Services</b>		<b>Total</b>
	<b>Skilled Nursing - Mission Hills</b>	<b>Skilled Nursing - Eagle Rock</b>	<b>Assisted Living</b>	<b>Management and general</b>	<b>Fundraising</b>	
Salaries and benefits	\$ 15,048,748	\$ 2,707,571	\$ 1,436,852	\$ 165,156	\$ 49,547	\$ 19,407,874
Supplies and ancillary services	3,423,902	377,499	283,890	22,080	9,463	4,116,834
Taxes and licenses	1,599,901	255,635	9,618	1,106	332	1,866,592
Depreciation and amortization	788,692	48,004	586,972	45,653	19,566	1,488,887
Utilities	657,611	36,422	135,576	10,545	4,519	844,673
Purchased services	703,330	114,710	206,416	8,691	2,173	1,035,320
Insurance	118,539	19,213	421,151	42,115	4,679	605,697
Administration	122,103	30,180	80,355	1,674	1,674	235,986
Events	-	-	-	-	241,177	241,177
Property costs	108,179	13,463	107,439	9,550	2,388	241,019
Professional fees	169,299	-	13,980	736	-	184,015
<b>Total</b>	<b>\$ 22,740,304</b>	<b>\$ 3,602,697</b>	<b>\$ 3,282,249</b>	<b>\$ 307,306</b>	<b>\$ 335,518</b>	<b>\$ 30,268,074</b>

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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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 8,214,892	\$ 958,097
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	1,658,743	1,488,887
Amortization of discount on debt	13,289	13,289
Net realized and unrealized (gains) losses on investments	(2,072,042)	1,708,978
Allowance for doubtful accounts	7,594	(4,565)
Changes in assets and liabilities:		
Accounts receivable	(342,411)	337,470
Prepaid expenses and other current assets	(320,823)	191,184
Accounts payable	70,524	(545,432)
Accrued expenses	(33,203)	1,054
<b>Net Cash Provided by Operating Activities</b>	<u>7,196,563</u>	<u>4,148,962</u>
<b>Cash Flow from Investing Activities</b>		
Net (purchase) sale of investments	(401,299)	1,009,920
Purchase of property and equipment	(3,092,254)	(13,845,801)
Net change in assets limited as to use	26,636	(2,215)
<b>Net Cash Used by Investing Activities</b>	<u>(3,466,917)</u>	<u>(12,838,096)</u>
<b>Cash Used by Financing Activities</b>		
Principal payments on long-term debt	(390,000)	(380,000)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,339,646	(9,069,134)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,859,480</u>	<u>13,928,614</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8,199,126</u>	<u>\$ 4,859,480</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 30,865</u>	<u>\$ 42,440</u>



# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 1 – Summary of Significant Accounting Policies

##### Nature of Operations

Ararat Home of Los Angeles, Inc. (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*. ASU 2016-14 was adopted by the Home during the year ended December 31, 2018 without any impact on total net assets or changes to net assets.

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.

These financial statements were approved by management and were available for issuance on February \_\_, 2020. Subsequent events have been evaluated through this date.

##### 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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 1 – Summary of Significant Accounting Policies (continued)

##### 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.

##### Net Patient Care and Resident Revenue

Patient care revenue is recorded on an accrual basis 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. Resident services revenue includes room charges and ancillary services to residents and is recorded at established rates, net of contractual adjustments, resulting from agreements with third-party payers, if applicable.

##### 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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 1 – Summary of Significant Accounting Policies (continued)

##### Fair Value of Financial Instruments

The accompanying statements of financial position included the following financial instruments as of December 31, 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.

##### 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 \$38,029 and \$30,435 at December 31, 2019 and 2018, 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, 2019 and 2018

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#### 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 statement of net assets. 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.

##### 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 balance sheet 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, 2019 and 2018 were \$15,791 and \$29,080, respectively. Amortization expense, recorded as interest expense, during the years ended December 31, 2019 and 2018 was \$13,289 and \$13,289, respectively.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 1 – Summary of Significant Accounting Policies (continued)

##### 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 application of this standard had no impact on the Home's financial statements for the years ended December 31, 2019 or 2018.

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 process.

#### Note 2 – Availability of Financial Assets

The following table reflects the Home's financial assets as of December 31, 2019 and 2018, 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.

	<u>2019</u>	<u>2018</u>
Financial assets, as of December 31	\$ 33,115,740	\$ 26,673,750
Less net assets subject to satisfaction of donor restrictions	(3,009,773)	(267,000)
Board designations:		
Endowment fund, primarily for long-term investing	(15,466,269)	(12,747,548)
Capital replacement fund	(244,729)	(238,663)
Assets limited as to use	(537,187)	(563,823)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,857,782</u>	<u>\$ 12,856,716</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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### 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, 2019 and 2018, assets limited as to use were composed of cash and cash equivalents contained in the following funds:

	<u>2019</u>	<u>2018</u>
Interest fund	\$ 2,162	\$ 5,389
Principal fund	233,427	257,596
Debt service reserve fund	<u>301,598</u>	<u>300,838</u>
Total assets limited as to use	537,187	563,823
Less: current portion	<u>(235,588)</u>	<u>(262,984)</u>
Long-term portion	<u>\$ 301,599</u>	<u>\$ 300,839</u>

#### Note 4 – 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.

##### 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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 4 – Endowment and Capital Replacement Funds (continued)

##### 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. 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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Endowment, beginning of year	\$ 12,747,548	\$ 13,546,708
Contributions	50,000	38,155
Total investment income (loss)	2,668,721	(837,315)
Appropriation for expenditure	-	-
Endowment, end of year	<u>\$ 15,466,269</u>	<u>\$ 12,747,548</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 5 – Fair Value Measurements

As of December 31, 2019 and 2018, 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, 2019 and 2018.

**Ararat Home of Los Angeles, Inc.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

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**Note 5 – Fair Value Measurements (continued)**

At December 31, 2019 and 2018, the Home's investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Endowment Fund		
Short-term cash funds	\$ 253,990	\$ 247,820
Domestic corporate bonds	75,024	876,353
Common stocks	-	111,032
Foreign corporate bonds	-	49,555
Real estate investment trusts	234,183	135,829
Exchange traded funds	233,203	155,237
Municipal bonds	10,337	10,570
US Government backed securities	2,837	43,051
Mutual funds		
Large-cap funds	6,791,650	5,345,495
Income funds	4,352,175	3,075,391
Mid-cap funds	2,326,509	1,666,025
Small-cap funds	921,872	816,137
Other funds	264,489	215,053
	<u>15,466,269</u>	<u>12,747,548</u>
Capital Investment Fund		
Short-term cash funds	243,818	87,652
Domestic corporate bonds	-	99,986
US Government backed securities	911	51,025
	<u>244,729</u>	<u>238,663</u>
Investments		
Short-term cash funds	4,020,341	36,191
Domestic corporate bonds	608,262	3,559,064
Large-cap mutual funds	20,006	483,562
US Government backed securities	79,992	652,080
Foreign corporate bonds	-	249,150
	<u>4,728,601</u>	<u>4,980,047</u>
	<u>\$ 20,439,599</u>	<u>\$ 17,966,258</u>



**Ararat Home of Los Angeles, Inc.**  
**Notes to Financial Statements**  
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**Note 6 – Property and Equipment**

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 13,774,643	\$ 12,423,850
Buildings and building improvements	51,670,060	51,670,451
Furniture, equipment and vehicles	4,844,163	4,100,170
	<u>70,288,866</u>	<u>68,194,471</u>
Less: accumulated depreciation	<u>(25,095,458)</u>	<u>(23,436,716)</u>
	45,193,408	44,757,755
Construction in progress	<u>1,370,066</u>	<u>372,207</u>
Net property and equipment	<u>\$ 46,563,474</u>	<u>\$ 45,129,962</u>

As of December 31, 2019, construction in progress of \$1,370,066 relates to the preparation of raw land acquired adjacent to the Home’s Assisted Living Facility in Mission Hills, California during the year ended December 31, 2018.

**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 continue 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.

Future minimum principal installments, net of discount on debt, for the years ended December 31 are as follows:

	<u>Principal</u>	<u>Discount</u>	<u>Net</u>
2020	\$ 400,000	\$ (13,289)	\$ 386,711
2021	415,000	<u>(2,502)</u>	412,498
	<u>\$ 815,000</u>	<u>\$ (15,791)</u>	<u>\$ 799,209</u>

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### **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.

##### 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.

#### **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, 2019 and 2018 was \$18,000 and \$23,000, respectively.

During the years ended December 31, 2019 and 2018, the Home received donations of \$3,317,000 and \$543,323, 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, 2019 and 2018 was \$556,227 and \$543,323, 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, 2019 and 2018, the Home made matching contributions of \$115,396 and \$93,740, respectively.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2019 and 2018

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#### Note 11 – Subsequent Events

ASC Topic 855, “*Subsequent Events*”, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued. Accordingly, management has evaluated events occurring subsequent to December 31, 2019 through the date these financial statements were approved by management and available for issuance.