



**Ararat Home of Los Angeles, Inc.**

**Financial Statements and  
Independent Auditors' Report**

**December 31, 2021 and 2020**

**Ararat Home of Los Angeles, Inc.**  
**Financial Statements**  
**December 31, 2021 and 2020**

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## **Independent Auditors' Report**

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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, 2021, 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 Ararat Home of Los Angeles, Inc., 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.

### **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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ararat Home of Los Angeles, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other Matter**

The financial statements of Ararat Home of Los Angeles, Inc. for the year ended December 31, 2020 were audited by Martini Akpovi Partners, LLC, who joined with WithumSmith+Brown, PC on February 1, 2022 and expressed an unmodified opinion on those statements dated June 14, 2021.

### **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.

### **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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and 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, including omissions, 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.

## Independent Auditors' Report (continued)

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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.

*WithumSmith+Brown, PC*

Los Angeles, California  
March 21, 2022

**Ararat Home of Los Angeles, Inc.**  
**Statements of Financial Position**  
**December 31, 2021 and 2020**

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	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,993,273	\$ 11,812,211
Accounts receivable	5,416,208	3,007,542
Investments	5,757,380	5,273,544
Prepaid expenses and other current assets	685,819	1,830,634
Current portion of assets limited as to use	-	278,348
<b>Total Current Assets</b>	<u>24,852,680</u>	<u>22,202,279</u>
Endowment fund investments	19,820,208	17,386,704
Capital replacement fund investments	246,672	246,632
Assets limited as to use, net of current portion	-	301,735
Property and equipment, net	<u>44,589,786</u>	<u>45,470,755</u>
<b>Total Assets</b>	<u><u>\$ 89,509,346</u></u>	<u><u>\$ 85,608,105</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 836,848	\$ 591,904
Current maturities of long-term debt, net of discount	-	412,498
Accrued expenses	1,990,644	1,681,033
Paycheck Protection Program loan	-	1,109,312
<b>Total Liabilities</b>	<u>2,827,492</u>	<u>3,794,747</u>
<b>Contingencies</b>		
<b>Net Assets</b>		
Without donor restrictions:		
Board-designated	20,066,880	17,633,336
Undesignated	<u>64,676,933</u>	<u>61,621,055</u>
Total net assets without donor restrictions	84,743,813	79,254,391
With donor restrictions	<u>1,938,041</u>	<u>2,558,967</u>
<b>Total Net Assets</b>	<u>86,681,854</u>	<u>81,813,358</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 89,509,346</u></u>	<u><u>\$ 85,608,105</u></u>

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, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Changes in Net Assets Without Donor Restrictions</b>		
Revenues and other support without donor restrictions		
Patient care and resident revenue	\$ 35,132,593	\$ 32,495,025
Donations	358,369	1,668,070
Donations - quasi-endowment fund	569	1,034
Special events, net of expenses of \$10,182 and \$41,779 for 2021 and 2020, respectively	109,129	107,683
Provider relief fund contributions	-	1,921,479
Net assets released from restrictions:		
Satisfaction of program restrictions	620,926	450,806
Total revenues and other support without donor restrictions	36,221,586	36,644,097
Program expenses		
Skilled nursing	29,461,912	28,352,512
Assisted living	4,723,264	4,527,768
Total program expenses	34,185,176	32,880,280
Management and general expenses	480,988	460,437
Fundraising expenses	116,958	157,599
Total expenses	34,783,122	33,498,316
Operating income	1,438,464	3,145,781
Other income (expense)		
Net realized and unrealized gains on investments	1,699,799	1,712,927
Interest expense	(15,545)	(34,397)
Interest income	119,704	101,579
Gain on extinguishment of Paycheck Protection Program Loan	1,109,312	-
Interest and dividends - endowment fund	1,105,349	650,495
Other income	32,339	-
Net other income	4,050,958	2,430,604
<b>Change in Net Assets Without Donor Restrictions</b>	<b>5,489,422</b>	<b>5,576,385</b>
<b>Changes in Net Assets With Donor Restrictions</b>		
Net assets released from restrictions	(620,926)	(450,806)
<b>Changes in Total Net Assets</b>	<b>4,868,496</b>	<b>5,125,579</b>
<b>Net Assets, Beginning of Year</b>	<b>81,813,358</b>	<b>76,687,779</b>
<b>Net Assets, End of Year</b>	<b>\$ 86,681,854</b>	<b>\$ 81,813,358</b>

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, 2021**

	Program Expenses			Supporting Services	
	Skilled Nursing - Mission Hills	Skilled Nursing - Eagle Rock	Assisted Living	Management and General	Fundraising
Salaries and benefits	\$ 17,743,571	\$ 2,859,967	\$ 1,943,172	\$ 245,688	\$ 44,671
Supplies and ancillary services	3,652,941	374,057	401,639	35,701	8,925
Taxes and licenses	1,351,725	175,883	8,456	972	292
Depreciation and amortization	769,835	53,974	912,454	81,107	20,277
Utilities	775,712	4,839	179,645	19,961	-
Purchased services	869,534	170,436	319,859	13,468	3,367
Insurance	335,347	55,005	551,009	55,101	6,122
Administration	108,181	12,671	74,337	1,549	1,549
Events	-	-	-	-	25,668
Property costs	72,160	10,452	273,896	24,346	6,087
Professional fees	34,158	31,464	58,797	3,095	-
<b>Total</b>	<b>\$ 25,713,164</b>	<b>\$ 3,748,748</b>	<b>\$ 4,723,264</b>	<b>\$ 480,988</b>	<b>\$ 116,958</b>
					<b>\$34,783,122</b>

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

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, 2021 and 2020**

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	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 4,868,496	\$ 5,125,579
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,837,647	1,802,515
Amortization of discount on debt	2,502	13,289
Net realized and unrealized gains on investments	(1,699,799)	(1,712,927)
Allowance for doubtful accounts	(52,952)	70,000
Gain on extinguishment of Paycheck Protection Program Loan	(1,109,312)	-
Changes in assets and liabilities:		
Accounts receivable	(2,355,714)	70,533
Prepaid expenses and other current assets	1,144,815	(1,038,881)
Accounts payable	244,944	(262,859)
Accrued expenses	309,611	343,570
<b>Net Cash Provided by Operating Activities</b>	<u>3,190,238</u>	<u>4,410,819</u>
<b>Cash Flows from Investing Activities</b>		
Net purchase of investments	(1,217,582)	(752,760)
Purchase of property and equipment	(956,677)	(711,390)
Net change in assets limited as to use	580,083	(42,896)
<b>Net Cash Used by Investing Activities</b>	<u>(1,594,176)</u>	<u>(1,507,046)</u>
<b>Cash Flow from Financing Activities</b>		
Principal payments on long-term debt	(415,000)	(400,000)
Proceeds from Paycheck Protection Program Loan	-	1,109,312
<b>Net Cash Provided (Used ) by Financing Activities</b>	<u>(415,000)</u>	<u>709,312</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,181,062	3,613,085
<b>Cash and Cash Equivalents, Beginning of Year</b>	11,812,211	8,199,126
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 12,993,273</u>	<u>\$ 11,812,211</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 10,209</u>	<u>\$ 21,108</u>

The Accompanying Notes are an Integral Part of These Financial Statements

# **Ararat Home of Los Angeles, Inc.**

## **Notes to Financial Statements**

### **December 31, 2021 and 2020**

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#### **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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). According to U.S. GAAP, the Home is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions.

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 function. 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, 2021 and 2020

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

##### Operating Indicator

The Home's operating income (operating indicator) includes all revenue and expenses for the reporting period, except for any gain on forgiveness of debt, investment income, interest income and interest expense. These amounts are added to operating income to arrive at change in net assets in the accompanying statements of activities.

##### 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, 2021 and 2020 patient care and resident revenue consisted of the following:

	<b>2021</b>	<b>2020</b>
Skilled nursing revenues	\$ 32,643,520	\$ 29,724,723
Assisted living revenues	2,433,622	2,724,857
Ancillary revenues	55,451	45,445
	<u>\$ 35,132,593</u>	<u>\$ 32,495,025</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, 2021 and 2020**

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

##### 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, 2021 and 2020, the Home received approximately 90% of its skilled nursing and assisted living revenues from federal and state sponsored programs, and approximately 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, 2021 and 2020: 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, 2021 and 2020**

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#### **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

Substantially all of the Home's accounts receivable are related to providing assisted living, skilled nursing and convalescent care to patients. The accounts receivable is reduced by an estimated implicit price concessions by each major payor type based on historical experience of collections and contractual write downs. Management regularly reviews data about these major payors in evaluating the sufficiency of the estimate for price concession. For receivables associated with services provided to patients with third-party coverage, the Home analyzes contractually due amounts and provides an allowance, if necessary (for example, for payors who are known to be having financial difficulties that make the collection of receivables unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Home estimates uncollectible amounts based on its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. These amounts are considered implicit price concessions and are recorded as a reduction to revenue.

As of December 31, 2021 and 2020, the allowance for price concession was \$55,077 and \$108,029, 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. Beginning balances of accounts receivable at January 1, 2020 was \$8,199,126.

##### Assets Limited as to Use

Assets limited as to use at December 31, 2020 included 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 were included in current assets.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2021 and 2020

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

##### 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.

##### 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

Certain assets are measured at fair value per 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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2021 and 2020

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

##### Fair Value Measurements (continued)

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

Debt issuance costs are 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, 2021 and 2020 were \$0 and \$2,502, respectively. Amortization expense, recorded as interest expense, during the years ended December 31, 2021 and 2020 were \$5,336 and \$13,289 respectively.

##### 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 March 21, 2022, 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, 2021 and 2020, 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, 2021 and 2020

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#### Note 2 – Availability of Financial Assets (continued)

	<u>2021</u>	<u>2020</u>
Financial assets, as of December 31	\$ 44,233,741	\$ 38,306,716
Less: net assets subject to satisfaction of donor restrictions	(1,938,041)	(2,558,967)
Board designations:		
Endowment fund, primarily for long-term investing	(19,820,208)	(17,386,704)
Capital replacement fund	(246,672)	(246,632)
Assets limited as to use	-	(580,083)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,228,820</u>	<u>\$ 17,534,330</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 checking, mutual funds, money market and investment accounts.

#### Note 3 – Assets Limited as to Use

Pursuant to insured refunding revenue bonds (see note 7), the Home is required to hold certain funds in trust that are restricted by the terms of the indenture agreement. As of December 31, 2021 and 2020, assets limited as to use were comprised of cash and cash equivalents contained in the following funds:

	<u>2021</u>	<u>2020</u>
Interest fund	\$ -	\$ 2,832
Principal fund	-	275,516
Debt service reserve fund	-	301,735
Total assets limited as to use	-	580,083
Less: current portion	-	(278,348)
Long term portion	<u>\$ -</u>	<u>\$ 301,735</u>

#### Note 4 – Fair Value Measurements

As of December 31, 2021 and 2020, 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, 2021 and 2020.



# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2021 and 2020

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#### Note 4 – Fair Value Measurements (continued)

At December 31, 2021 and 2020, the Home's investments consisted of the following:

	2021	2020
Quasi-Endowment Fund		
Short-term cash funds	\$ 186,698	\$ 817,826
Domestic corporate bonds	-	338,028
Common stocks	191,332	72,120
Real estate investment trusts	313,226	143,893
Exchange traded funds	-	265,907
US Government backed securities	1,655	102,067
Mutual funds		
Large-cap funds	8,030,954	7,227,287
Income funds	4,734,602	3,645,957
Mid-cap funds	4,721,695	3,326,469
Small-cap funds	1,312,982	1,226,251
Other funds	327,064	220,899
	<u>19,820,208</u>	<u>17,386,704</u>
Capital Investment Fund		
Short-term cash funds	725	246,082
US Government backed securities	245,947	550
	<u>246,672</u>	<u>246,632</u>
Investments		
Short-term cash funds	572,586	2,908,824
Mutual funds	4,207,705	1,527,653
Domestic Corporate Common Stocks	977,089	837,067
	<u>5,757,380</u>	<u>5,273,544</u>
Total	<u>\$ 25,824,260</u>	<u>\$ 22,906,880</u>

# **Ararat Home of Los Angeles, Inc.**

## **Notes to Financial Statements**

### **December 31, 2021 and 2020**

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#### **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.

##### 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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### December 31, 2021 and 2020

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#### Note 5 – Endowment and Capital Replacement Funds (continued)

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, 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
Endowment, beginning of year	\$ 17,386,704	\$ 15,466,269
Contributions	569	1,034
Total investment income	<u>2,432,935</u>	<u>1,919,401</u>
Endowment, end of year	<u><u>\$ 19,820,208</u></u>	<u><u>\$ 17,386,704</u></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:

	<b>2021</b>	<b>2020</b>
Land and land improvements	\$ 13,774,643	\$ 13,774,643
Building and building improvements	52,419,576	51,783,298
Furniture, equipment and vehicles	<u>5,135,815</u>	<u>4,956,372</u>
	71,330,034	70,514,313
Less: accumulated depreciation	<u>(28,723,657)</u>	<u>(26,899,567)</u>
	42,606,377	43,614,746
Construction in progress	<u>1,983,409</u>	<u>1,856,009</u>
	<u><u>\$ 44,589,786</u></u>	<u><u>\$ 45,470,755</u></u>

As of December 31, 2021 and 2020, construction in progress of \$1,983,409 and \$1,856,009, respectively, 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, 2021 and 2020

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#### **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.

#### **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.

# **Ararat Home of Los Angeles, Inc.**

## **Notes to Financial Statements**

### **December 31, 2021 and 2020**

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#### **Note 8 – Contingencies (continued)**

##### 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. Through issuance date of these financial statements, no material claim has been made against the Home and management is not aware of any event that would result to a future material claim. The Home has a medical malpractice insurance policy in the amount of \$4,000,000. 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, 2021 and 2020 were \$10,000 and \$7,500, respectively.

In 2019, the Home received donations of \$3,180,000 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, 2021 and 2020 were \$610,926 and \$443,306, 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, 2021 and 2020, the Home made matching contributions of \$150,872 and \$167,731, respectively.

# **Ararat Home of Los Angeles, Inc.**

## **Notes to Financial Statements**

### **December 31, 2021 and 2020**

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#### **Note 11 – Coronavirus**

In December 2019, a novel strain of coronavirus (“COVID-19”) surfaced. The spread of COVID-19 around the world 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 continues to assess and respond, wherever they may deem necessary, to the impact of COVID-19 to its operations.

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. In October 2021, the Organization received confirmation from the Small Business Administration (“SBA”) that the full amount of the PPP Loan has been approved for forgiveness. Accordingly, the Company has recorded a gain on extinguishment of Paycheck Protection Program Loan in the accompanying statement of activities for the year ended December 31, 2021.

In 2020, the Organization received \$1,921,479 of Provider Relief Fund under the CARES Act. Provider Relief Fund proceeds 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 were included in the Organization’s total revenues and other support without donor restrictions for the year ended December 31, 2020.