

# Ararat Home of Los Angeles, Inc.

Financial Statements

Years Ended December 31, 2022 and 2021



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**Ararat Home of Los Angeles, Inc.**  
Years Ended December 31, 2022 and 2021

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## **Independent Auditor's Report**

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

### ***Opinion***

We have audited the accompanying financial statements of Ararat Home of Los Angeles, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ararat Home of Los Angeles, Inc. as of December 31, 2022, 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 ("GAAP").

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States ("GAAS"). 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Prior Period Financial Statements***

The financial statements of Ararat Home of Los Angeles, Inc. as of and for the year ended December 31, 2021 were audited by other auditors whose report dated March 21, 2022 expressed an unmodified opinion on those statements.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 Ararat Home of Los Angeles, Inc.'s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

### ***Auditor's 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 Ararat Home of Los Angeles, Inc.'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 Ararat Home of Los Angeles, Inc.'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.

*Wipfli LLP*

Wipfli LLP

May 12, 2023

Irvine, California

# Ararat Home of Los Angeles, Inc.

## Statements of Financial Position

<i>As of December 31,</i>	2022	2021
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 14,184,006	\$ 12,993,273
Accounts receivable, net	4,131,165	5,416,208
Short-term investments	5,482,613	5,757,380
Prepaid expenses and other current assets	1,384,271	685,819
<b>Total current assets</b>	<b>25,182,055</b>	<b>24,852,680</b>
Other assets:		
Endowment fund	16,433,468	19,820,208
Capital replacement fund	249,999	246,672
Property and equipment, net	43,404,773	44,589,786
<b>Total other assets</b>	<b>60,088,240</b>	<b>64,656,666</b>
<b>Total assets</b>	<b>\$ 85,270,295</b>	<b>\$ 89,509,346</b>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 1,252,385	\$ 836,848
Accrued payroll and benefits	1,963,161	1,990,644
<b>Total current liabilities</b>	<b>3,215,546</b>	<b>2,827,492</b>
Net assets:		
Without donor restrictions:		
Board-designated	16,683,467	20,066,880
Undesignated	63,967,062	64,676,933
<b>Total net assets without donor restrictions</b>	<b>80,650,529</b>	<b>84,743,813</b>
With donor restrictions	1,404,220	1,938,041
<b>Total net assets</b>	<b>82,054,749</b>	<b>86,681,854</b>
<b>Total liabilities and net assets</b>	<b>\$ 85,270,295</b>	<b>\$ 89,509,346</b>

See accompanying notes to financial statements.

# Ararat Home of Los Angeles, Inc.

## Statements of Activities

Years Ended December 31,	2022	2021
Revenues, gains, and other support:		
Patient care and resident revenue	\$ 37,453,354	\$ 35,202,593
Donations	388,800	358,369
Donations - endowment fund	11,131	569
Special events	191,274	156,882
Interest income	115,222	119,704
Gain on forgiveness of Paycheck Protection Program Loan	-	1,109,312
Interest and dividend income - endowment fund	729,980	1,105,349
Other income	33,956	32,339
Net assets released from restrictions	658,821	620,926
Operating revenues	39,582,538	38,706,043
Operating expenses:		
Program expenses:		
Skilled nursing	33,547,651	29,531,912
Assisted living	4,838,359	4,723,264
Total program expenses	38,386,010	34,255,176
Management and general expenses	724,494	496,533
Fundraising expenses	166,089	164,711
Total expenses	39,276,593	34,916,420
Income before nonoperating gain (loss)	305,945	3,789,623
Nonoperating gain (loss)		
Net realized and unrealized gain (loss) on investments	(4,399,229)	1,699,799
Change in net assets without donor restrictions		
Net income (loss)	(4,093,284)	5,489,422
Net assets with donor restrictions:		
Restricted donations	125,000	-
Net assets released from restrictions	(658,821)	(620,926)
Change in net assets	(4,627,105)	4,868,496
Net assets - Beginning of year	86,681,854	81,813,358
Net assets - End of year	\$ 82,054,749	\$ 86,681,854

See accompanying notes to financial statements.

# Ararat Home of Los Angeles, Inc.

## Statements of Functional Expenses

Year Ended December 31, 2022	Program Expenses			Supporting Services		Total
	Skilled Nursing -	Skilled Nursing -	Assisted	Management	Fundraising	
	Mission Hills	Eagle Rock	Living	and General		
Salaries and benefits	\$ 19,887,688	\$ 3,212,173	\$ 2,145,125	\$ 271,223	\$ 49,313	\$ 25,565,522
Supplies and ancillary services	3,824,273	588,872	368,880	32,789	8,197	4,823,011
Taxes and licenses	1,736,762	236,958	9,169	1,054	316	1,984,259
Depreciation	793,579	52,919	910,536	80,937	20,234	1,858,205
Utilities	844,630	51,132	203,103	22,567	-	1,121,432
Purchased services	1,157,607	188,019	345,550	14,549	3,637	1,709,362
Insurance	380,959	62,705	527,863	52,786	5,865	1,030,178
Administration	134,337	29,544	77,303	1,610	1,610	244,404
Events	-	-	-	-	21,925	21,925
Property costs	102,430	11,515	186,475	16,576	4,144	321,140
Professional fees	110,860	140,689	64,355	3,387	-	319,291
Special events	-	-	-	-	50,848	50,848
Transaction costs	-	-	-	227,016	-	227,016
<b>Total expenses</b>	<b>\$ 28,973,125</b>	<b>\$ 4,574,526</b>	<b>\$ 4,838,359</b>	<b>\$ 724,494</b>	<b>\$ 166,089</b>	<b>\$ 39,276,593</b>

Year Ended December 31, 2021	Program Expenses			Supporting Services		Total
	Skilled Nursing -	Skilled Nursing -	Assisted	Management	Fundraising	
	Mission Hills	Eagle Rock	Living	and general		
Salaries and benefits	\$ 17,743,571	\$ 2,859,967	\$ 1,943,172	\$ 245,688	\$ 44,671	\$ 22,837,069
Supplies and ancillary services	3,722,941	374,057	401,639	35,701	8,925	4,543,263
Taxes and licenses	1,351,725	175,883	8,456	972	292	1,537,328
Depreciation	769,835	53,974	912,454	81,107	20,277	1,837,647
Utilities	775,712	4,839	179,645	19,961	-	980,157
Purchased services	869,534	170,436	319,859	13,468	3,367	1,376,664
Insurance	335,347	55,005	551,009	55,101	6,122	1,002,584
Administration	108,181	12,671	74,337	1,549	1,549	198,287
Events	-	-	-	-	25,668	25,668
Property costs	72,160	10,452	273,896	24,346	6,087	386,941
Professional fees	34,158	31,464	58,797	3,095	-	127,514
Special events	-	-	-	-	47,753	47,753
Interest expense	-	-	-	15,545	-	15,545
<b>Total expenses</b>	<b>\$ 25,783,164</b>	<b>\$ 3,748,748</b>	<b>\$ 4,723,264</b>	<b>\$ 496,533</b>	<b>\$ 164,711</b>	<b>\$ 34,916,420</b>

See accompanying notes to financial statements.

# Ararat Home of Los Angeles, Inc.

## Statements of Cash Flows

Years Ended December 31,	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (4,627,105)	\$ 4,868,496
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,858,205	1,837,647
Amortization of discount on debt	-	2,502
Net realized and unrealized (gains) losses on investments	3,591,672	(2,464,132)
Provision for implicit price concessions	445,797	(70,000)
Gain on forgiveness of debt from Paycheck Protection Program	-	(1,109,312)
Changes in operating assets and liabilities:		
Accounts receivable	839,246	(2,338,666)
Prepaid expenses and other current assets	(698,452)	1,144,815
Accounts payable	415,537	244,944
Accrued expenses	(27,483)	309,611
Net cash from operating activities	1,797,417	2,425,905
Cash flows from investing activities:		
Net purchase of investments	-	(1,217,582)
Proceeds from the sale of investment	100,914	-
Purchase of property and equipment	(673,192)	(956,677)
Change in assets limited as to use	-	580,083
Net cash from investing activities	(572,278)	(1,594,176)
Cash flows from financing activities:		
Principal payments on long-term debt	-	(415,000)
Net cash from financing activities	-	(415,000)
Net change in cash and cash equivalents	1,225,139	416,729
Cash and cash equivalents - Beginning of year	16,630,710	16,213,981
Cash and cash equivalents - End of year	\$ 17,855,849	\$ 16,630,710
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ -	\$ 10,209

See accompanying notes to financial statements.



# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### Note 1: Organization

#### Nature of Operations

Ararat Home of Los Angeles, Inc. (the "Home") is a nonprofit and nondenominational 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.

### Note 2: Summary of Significant Accounting Policies

#### Basis of Accounting

The financial statements of the Home have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

#### Net Asset Classifications

Contributions of cash and other assets are classified as one of the following two categories:

**Without Donor Restrictions** – Represents unconditional promises to give by donors without any use or time restrictions. Included within net assets without donor restrictions are board-designated funds, named the Endowment and Capital Replacement Funds. The Board of Trustees is authorized to spend the principal, income and appreciation of these funds as it shall deem reasonable, in order to further the mission and purpose of the Home. Board designated funds at December 31, 2022 and 2021, respectively, consisted of the following:

	2022	2021
Endowment Fund	\$ 16,433,468	\$ 19,820,208
Capital Replacement Fund	249,999	246,672
Total	\$ 16,683,467	\$ 20,066,880

**With Donor Restrictions** – Represents unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. This category also includes net assets subject to donor-imposed stipulations that are to be maintained by the Home in perpetuity. The Home had no net assets required to be maintained in perpetuity as of December 31, 2022 or 2021. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Performance Indicator**

"Net Income (Loss)" as reflected in the accompanying statements of activities is the performance indicator. The performance indicator reflects the Home's operational performance excluding net realized and unrealized gain (loss) on investments and receipt of restricted donations.

#### **Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimated amounts.

#### **Cash and Cash Equivalents**

The Home considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. The Home maintains cash in bank deposit accounts which, at times, may exceed federally insured limits.

#### **Accounts Receivable**

Substantially all of the Home's accounts receivable are related to providing assisted living, skilled nursing and convalescent care to patients. Accounts receivable are reduced by contractual adjustments and 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 implicit 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.

At both December 31, 2022 and 2021, the allowance for implicit price concessions was \$38,029. 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. Accounts receivable, net of contractual adjustments and an allowance for implicit price concessions of \$108,029, totaled \$3,007,542 as of January 1, 2021.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **Fair Value of Financial Instruments**

Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. The Home's policy is to recognize transfers in and transfers out of Level I and Level II as of the end of the reporting period. Refer to Note 5 for fair value hierarchy disclosures of investments.

#### **Investments**

Investments are carried at fair value. The cost of investments sold is determined on an average cost basis. Investment income includes interest and dividend earnings, changes in fair value, and any gains or losses realized upon liquidation, maturity, or sale of investments, net of any investment fees. Investment earnings or loss and realized and unrealized gains or losses are included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded as the ex-dividend date.

#### **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:

Building 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 of Long-Lived Assets**

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 determined that no such impairment currently exists for the years ended December 31, 2022 and 2021.

#### **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.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies (Continued)**

#### **Patient Care and Resident Revenue**

Patient care and resident revenue is reported at the amount that reflects the consideration to which the Home expects to be entitled in exchange for providing services. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Home bills the residents and third-party payors several days after the services are performed or the resident no longer needs care. Revenue is recognized as performance obligations are satisfied.

The Home determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors. The Home determines its estimates of contractual adjustments and discounts based on contractual agreements and historical experience.

Performance obligations are determined based on the nature of the services provided by the Home. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Home believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time are related to residents in the Home's facilities receiving in-resident post-acute and convalescent care services or residents receiving services in their homes (assisted living). The Home measures the performance obligation from the effective date on the Residence Agreement contract to the point when it is no longer required to provide services to that resident, which is generally at the time the resident elects to move from the facility or passes away. Revenue for performance obligations satisfied at a point in time is generally recognized when ancillary and other services are provided to the Home's residents.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** Payments for skilled nursing facility services rendered to Medicare program beneficiaries are based on prospectively determined daily rates, which vary according to a patient diagnostic classification system. The Home is paid for certain reimbursable services at the approved rate with final settlement determined after submission of the annual cost report and audit thereof by the Medicare fiscal intermediary. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

**Medi-Cal:** Payments for skilled nursing facility services rendered to Medi-Cal program beneficiaries are based on an annually established daily reimbursement rate for eligible stays. The rate is adjusted annually on August 1. The final settlement is determined after submission of an annual cost report and audits thereof by Medi-Cal.

**Other:** Payments for services rendered to health maintenance organizations (HMO), private pay, and other patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations, which provide for various discounts from the established rates.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### Note 2: Summary of Significant Accounting Policies (Continued)

#### Patient Care and Resident Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Home's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Home. In addition, the contracts the Home has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident services. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Home's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2022 and 2021.

The composition of patient care and resident revenue by primary payors for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
HMO	\$ 22,602,074	\$ 20,466,212
Medicare	10,371,585	11,057,089
Rent-Assisted Living	2,878,583	2,433,606
Private	1,255,533	888,175
Medi-Cal	192,676	136,440
Other	105,416	165,693
Ancillary	47,487	55,378
Total	\$ 37,453,354	\$ 35,202,593

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### Note 2: Summary of Significant Accounting Policies (Continued)

#### Patient Care and Resident Revenue (Continued)

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Home estimates the transaction price for residents with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient care and resident revenue in the period of the change.

The Home does not charge an entrance fee to new residents.

The Home has applied the practical expedient provided by FASB ASC 340-40-25-4, and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Home otherwise would have recognized is one year or less in duration.

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

#### **Skilled Nursing:**

The most significant portion of the operations is the Home's 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:

	2022	2021
Skilled nursing and convalescent care revenues	\$ 34,527,284	\$ 32,713,609
Assisted living revenues	2,878,583	2,433,606
Ancillary revenues	47,487	55,378
Total	\$ 37,453,354	\$ 35,202,593

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **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.

#### **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.

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.

#### **Income Taxes**

The Home is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and by the California Franchise Tax Board pursuant to Section 23701(d) of the Revenue and Taxation Code.

The Home follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*. Under that guidance, the Home may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Home and positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Home has assessed its federal and state tax positions and determined that there were no UBTI and no uncertainties or possible related effects that need to be recorded as of or for the year ended December 31, 2022.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 2: Summary of Significant Accounting Policies** (Continued)

#### **Adoption of Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)*, which amends the existing guidance on accounting for leases. This ASU requires the recognition of lease assets and liabilities on the statement of financial position and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*. Prior to ASU No. 2020-05, the amendments to Topic 842 would be effective for periods beginning after December 15, 2020 for entities other than public business entities. ASU 2020-05 defers the effective date of the amendments to Topic 842 to periods beginning after December 15, 2021 for entities other than public business entities. The guidance in ASU No. 2016-02 was adopted by the Home for the year ended December 31, 2022, however there was no impact to the Home's financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit-Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The amendments in this update will require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after June 15, 2021, applied on a retrospective basis. Early adoption is permitted. The guidance in this ASU was adopted by the Home for the year ended December 31, 2022, however there was no impact to the Home's financial statements.

#### **Recent Accounting Pronouncement - Not Yet adopted**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard was delayed in 2019 and will be effective for fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of adopting ASU No. 2016-13 on the Home's financial statements and related disclosures.



# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### Note 2: Summary of Significant Accounting Policies (Continued)

#### Subsequent Events

Effective March 1, 2023, the Home acquired the real property, the facility, and the business operations of "Windsor Manor" under a Purchase and Sale agreement for total monetary consideration of \$14,500,000. The total purchase price was allocated to \$14,870,000 to land and buildings, \$740,000 to furniture fixtures and equipment, and \$123,000 to other assets. As part of the acquisition, the Home also assumed \$1,650,000 in resident contract liabilities. The Home paid a \$500,000 deposit which is included in prepaid expenses on the statement of financial position as of December 31, 2022. The Home incurred \$227,016 in related transaction expenses as disclosed on the statement of functional expenses for the year ended December 31, 2022.

Subsequent events have been evaluated through the date of the independent auditor's report, the date the financial statements were available to be issued.

### Note 3: Liquidity and Availability

The following table reflects the Home's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use because of donor-imposed and board-designated restrictions, that are available to meet cash needs for general expenditures 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.

	2022	2021
Cash and cash equivalents	\$ 14,184,006	12,993,273
Accounts receivable, net	4,131,165	5,416,208
Short-term investments	5,482,613	5,757,380
Endowment fund	16,433,468	19,820,208
Capital replacement fund	249,999	246,672
Financial assets, as of December 31	40,481,251	44,233,741
Less: Net assets subject to satisfaction of donor restrictions	(1,404,220)	(1,938,041)
Less: Board Designations		
Endowment fund, primarily for long-term investing	(16,433,468)	(19,820,208)
Capital replacement fund	(249,999)	(246,672)
Financial assets available to meet cash needs for general expenditure within one year	\$ 22,393,564	22,228,820

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 accounts, mutual funds, money market and investment accounts. The Home also has access to a \$400,000 line of credit, see Note 8.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### Note 4: Investments

At December 31, 2022 and 2021, the Home's investments consisted of the following:

	2022	2021
Quasi-endowment fund:		
Interest-bearing cash	\$ 215,595	\$ 186,698
Common stock	365,797	191,332
Real estate investments trusts	105,049	313,226
U.S. Government securities	380,765	1,655
Mutual funds:		
Large-Cap funds	11,805,789	8,030,954
Income funds	1,212,238	4,734,602
Mid-cap funds	1,452,467	4,721,695
Small-cap funds	895,768	1,312,982
Other funds	-	327,064
<b>Total endowment fund</b>	<b>16,433,468</b>	<b>19,820,208</b>
Capital replacement fund:		
Interest-bearing cash	965	725
Mutual funds	248,893	-
U.S. Government securities	141	245,947
<b>Total capital replacement fund</b>	<b>249,999</b>	<b>246,672</b>
Short-term investments:		
Interest-bearing cash	538,780	572,586
Mutual funds	3,814,681	4,207,705
Common stock	1,129,152	977,089
<b>Total short-term investments</b>	<b>5,482,613</b>	<b>5,757,380</b>
<b>Totals</b>	<b>\$ 22,166,080</b>	<b>\$ 25,824,260</b>

Investment income (loss) reported in the statements of activities consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Interest income and dividends	\$ 845,202	\$ 1,225,053
Realized and unrealized gains (losses) - Net	(4,399,229)	1,699,799
<b>Totals</b>	<b>\$ (3,554,027)</b>	<b>\$ 2,924,852</b>

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### Note 5: Fair Value Measurements

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level I** Quoted prices in active markets for identical assets or liabilities.

**Level II** Observable inputs other than Level I prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

**Level III** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Mutual Funds and Real Estate Investment Trusts ("REITs"):* Mutual funds and REITs are valued at the daily closing price as reported by the fund and REIT. Mutual funds held by the Home are open-end mutual funds and both the mutual funds and REITs are registered with the U.S. Securities and Exchange Commission. These funds and REITs are required to publish their daily NAV and to transact at that price. The mutual funds and REITs held by the Home are deemed to be actively traded.

*U.S. Government Securities:* U.S. government securities are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities.

*Common Stocks:* Common stocks are valued at the closing price reported on the active market on which the individual securities are traded.

*Interest-bearing cash:* Interest-bearing cash is valued at cost plus accrued interest which approximates fair value.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### Note 5: Fair Value Measurements (Continued)

The following table presents the fair value measurements of investments recognized in the accompanying financial statements on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

#### December 31, 2022:

	Fair Value	Level 1	Level II	Level III
Interest-bearing cash	\$ 755,340	\$ 755,340	\$ -	\$ -
Common stock	1,494,949	1,494,949	-	-
Mutual funds	19,429,836	19,429,836	-	-
Real estate investment trusts	105,049	105,049	-	-
U.S. Government securities	380,906	-	380,906	-
Total	\$ 22,166,080	\$ 21,785,174	\$ 380,906	\$ -

#### December 31, 2021:

	Fair Value	Level 1	Level 2	Level III
Interest-bearing cash	\$ 760,009	\$ 760,009	\$ -	\$ -
Common stock	1,168,421	1,168,421	-	-
Mutual funds	23,335,002	23,335,002	-	-
Real estate investment trusts	313,226	313,226	-	-
U.S. Government securities	247,602	-	247,602	-
Total	\$ 25,824,260	\$ 25,576,658	\$ 247,602	\$ -

As required by FASB ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value.

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Home would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of December 31, 2022 and 2021. Current estimates of fair value may differ significantly from the amounts presented.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### **Note 6: Endowment Fund**

The Home maintains investments set aside for specific board-restricted purposes. Pursuant to these objectives, the Home has adopted a policy for these 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 board-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 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 its current spending policy to allow its endowment assets to grow.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

### Note 6: Endowment Fund (Continued)

Changes in endowment net assets for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Endowment, beginning of year	\$ 19,820,208	\$ 17,386,704
Contributions	1,130	569
Investment income (loss)	(3,387,870)	2,432,935
Endowment, end of year	\$ 16,433,468	\$ 19,820,208

### Note 7: Property and Equipment

Property and equipment consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Land and land improvements	\$ 13,774,893	\$ 13,774,643
Buildings and building improvements	52,620,178	52,419,576
Furniture and office equipment	5,501,432	5,135,815
	71,896,503	71,330,034
Less: accumulated depreciation	(30,578,182)	(28,723,657)
Construction in progress	41,318,321	42,606,377
	2,086,452	1,983,409
Total	\$ 43,404,773	\$ 44,589,786

As of December 31, 2022 and 2021, construction in progress of \$2,086,452 and \$1,983,409, respectively, relates to the preparation of raw land acquired in Mission Hills, California. Depreciation expense totaled \$1,858,205 and \$1,837,647 for the years ended December 31, 2022 and 2021.

### Note 8: Line of Credit

The Home has a \$400,000 line-of-credit agreement dated November 2, 2006 with Citibank. The agreement requires monthly interest payments and also requires the Home to pay the line-of-credit in full at least once annually and not draw on the line for 30 consecutive days following the repayment. Principal borrowings under the line-of-credit are payable in forty-eight equal consecutive monthly installments of principal, together with accrued monthly interest and any other charges beginning the first calendar month after the "cancellation date," which is the date upon which Citibank cancels the right to obtain advances. The interest rate on the line-of-credit is equal to the Prime Rate less 0.25%, which was 7.25% at December 31, 2022. The line-of-credit contains certain financial and operational covenants and is secured by all assets of the Home. At December 31, 2022 and 2021, the Home had no borrowings under this agreement.

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### Note 9: Commitments and 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 and Medicare 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, the ultimate disposition of these matters will not have a material adverse effect on the Home's financial position, results of operations, or liquidity.

#### Insurance

The Home bears insurance risk as a member of a group captive insurance entity for certain worker's compensation insurance programs. The Home 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 Home 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 Home'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 in a future material claim. The Home has a medical malpractice insurance policy in the amount of \$4,000,000. The Home believes that its present insurance coverage is adequate.

### Note 10: Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021, are available for the following purposes:

	2022	2021
Bahador	\$ 231,500	\$ 231,500
Dream Fund	1,172,720	1,706,541
Total	\$ 1,404,220	\$ 1,938,041

# Ararat Home of Los Angeles, Inc.

## Notes to Financial Statements

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### Note 11: 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, 2022 and 2021, the Home made matching contributions of \$142,851 and \$150,872, respectively.

### Note 12: Statements of Cash Flows

The following table provides a reconciliation of cash and cash equivalents reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows for the years ended December 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 14,184,006	\$ 12,993,273
Short-term investments	2,829,158	2,832,278
Endowment fund investments	592,827	558,876
Capital replacement fund investments	249,858	246,283
Total cash and cash equivalents shown on the statements of cash flows	\$ 17,855,849	\$ 16,630,710

### Note 13: Concentrations

During the years ended December 31, 2022 and 2021, the Home received approximately 60% and 58%, respectively, of its patient care and resident revenues from HMOs; approximately 27% and 31%, respectively, from Medicare programs; and approximately 11% and 9%, respectively, from private pay sources.

The largest payor classes noted above including HMOs, Medicare, and private pay represent approximately 57%, 36%, and 6% of the Home's gross accounts receivable at December 31, 2022, and approximately 76%, 21%, and 2% of the Home's gross accounts receivable at December 31, 2021, respectively.

### Note 14: Risks and Uncertainties

The Home invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Home's investment accounts and the amounts reported in the statements of financial position.

### Note 15: Reclassification

Certain reclassifications have been made to the prior year financial statements to conform with the current year presentation. Changes in net assets were not affected.