

Salem Christian Homes, Inc.

**Financial Statements
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2023**

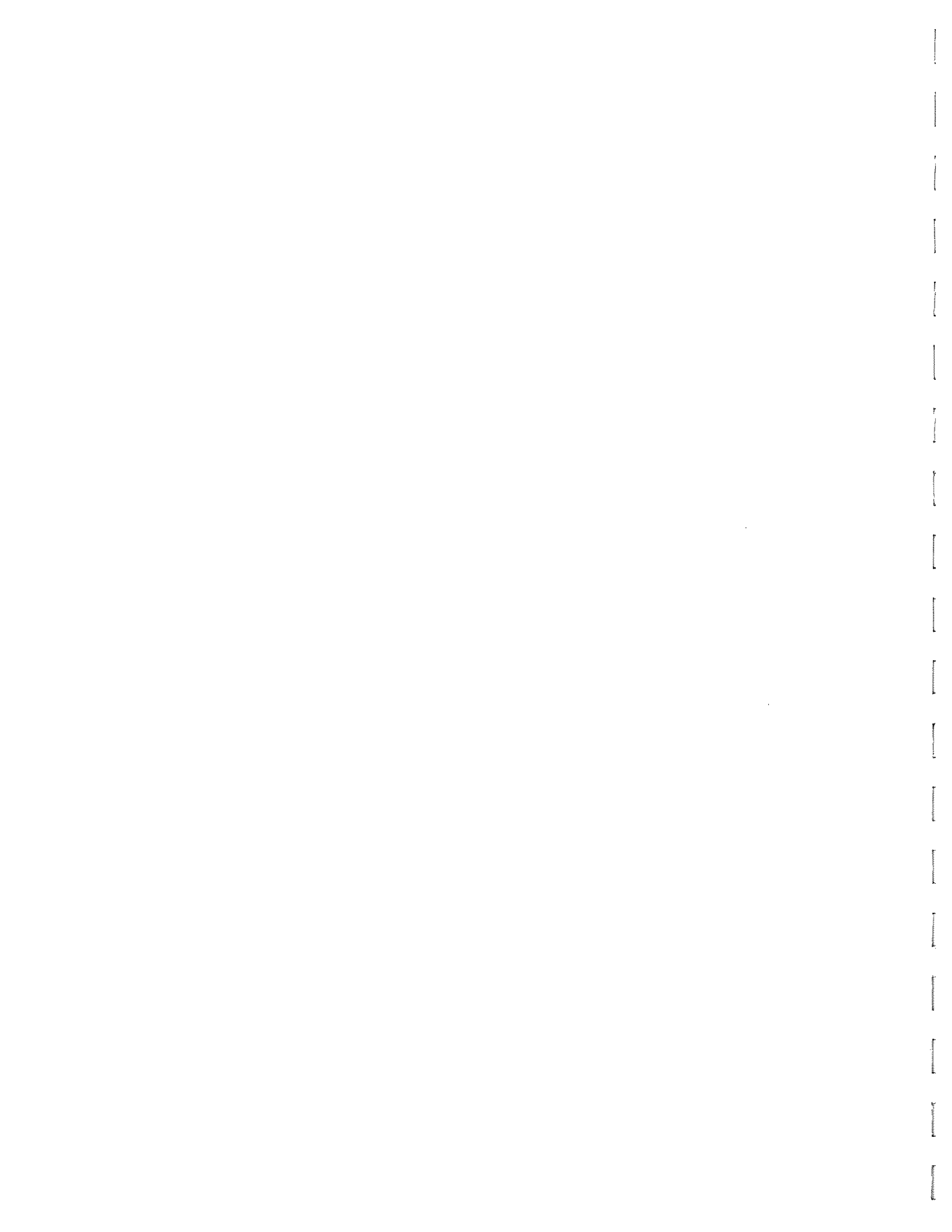


Table of Contents

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

Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Salem Christian Homes, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle – Leases

As discussed in Note 1 to the financial statements, management has changed its policy for leases for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Uncertainty

As discussed in Note 13 to the financial statements, on March 11, 2020 the World Health Organization declared Coronavirus Disease 2019 (COVID-19) a global pandemic. The COVID-19 pandemic in the United States of America has caused business disruption through mandated and voluntary closures of businesses and shelter in place orders. Management is currently evaluating the impact that COVID-19 will have on future operations. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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



October 13, 2023



Salem Christian Homes, Inc.

Statement of Financial Position

June 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 992,146
Accounts receivable, net	969,220
Investments	634,550
Prepaid expenses	285,300
Residents' trust accounts	<u>20,587</u>

Total current assets 2,901,803

Property, equipment, and improvements, net 6,178,482

Total assets \$ 9,080,285

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 261,296
Accrued liabilities	<u>1,214,820</u>

Total current liabilities 1,476,116

Net assets

Net assets without donor restrictions 7,365,464

Net assets with donor restrictions 238,705

Total net assets 7,604,169

Total liabilities and net assets \$ 9,080,285

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Statement of Activities

Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support			
Fundraising activities	\$ 450,055	\$ —	\$ 450,055
Costs of fundraising activities	(147,383)	—	(147,383)
Net revenues from fundraising activities	302,672	—	302,672
Client care services, net	11,088,983	—	11,088,983
Contributions	889,188	592,263	1,481,451
Investment income, net	7,533	—	7,533
Rental income	23,622	—	23,622
Gain on sale of assets	24,005	—	24,005
Other income	1,339	—	1,339
Net assets released from restrictions	846,491	(846,491)	—
Total revenues and support	<u>13,183,833</u>	<u>(254,228)</u>	<u>12,929,605</u>
Expenses			
Program services			
Client care services	10,698,900	—	10,698,900
Support services			
General and administrative	1,903,718	—	1,903,718
Total expenses	<u>12,602,618</u>	<u>—</u>	<u>12,602,618</u>
Unrealized gain on investments	37,711	—	37,711
Change in net assets	618,926	(254,228)	364,698
Net assets			
Net assets, June 30, 2022	<u>6,746,538</u>	<u>492,933</u>	<u>7,239,471</u>
Net assets, June 30, 2023	<u>\$ 7,365,464</u>	<u>\$ 238,705</u>	<u>\$ 7,604,169</u>

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services	Support Services	Costs of Fundraising	Total
	Client Services	General & Administrative	Activities	Expenses
Salaries and wages	\$ 7,169,640	\$ 732,854	\$ 47,770	\$ 7,950,264
Payroll taxes	537,984	57,801	3,993	599,778
Workers' compensation	392,601	90,079	292	482,972
403b matching contribution	105,321	19,450	1,335	126,106
Accounting	-	42,000	-	42,000
Advertising	-	3,050	159	3,209
Bank fees	-	9,724	14,342	24,066
Consultants	72,703	43,038	-	115,741
Client support	316,237	75	-	316,312
Depreciation and amortization	324,195	29,502	-	353,697
Employee recognition	151,209	80,702	2,155	234,066
Health insurance	394,057	118,941	498	513,496
Insurance	51,930	58,791	-	110,721
Licensing, dues, and fees	336,571	26,414	-	362,985
Supplies	216,793	70,969	8,320	296,082
Printing	-	681	6,870	7,551
Postage	57	1,385	6,190	7,632
Professional fees	8,961	157,472	-	166,433
Client recreational activities	10,194	20,377	-	30,571
Rent	51,300	-	-	51,300
Computer support	-	16,482	-	16,482
Repairs and maintenance	259,479	33,165	361	293,005
Taxes	10,896	3,624	-	14,520
Telephone	76,827	28,971	-	105,798
Temporary workers	-	109,119	-	109,119
Training	5,799	75,799	-	81,598
Travel	6,260	31,746	-	38,006
Utilities	199,886	19,710	-	219,596
Charitable contributions	-	5,000	-	5,000
Event expenses	-	16,797	55,098	71,895
Totals	10,698,900	1,903,718	147,383	12,750,001
Less costs of fundraising activities included with revenues and support on the statement of activities	-	-	(147,383)	(147,383)
	<u>\$ 10,698,900</u>	<u>\$ 1,903,718</u>	<u>\$ -</u>	<u>\$ 12,602,618</u>

See accompanying notes to financial statements.

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Cash and Cash Equivalents

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

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

Accounts Receivable

Accounts receivable consists of billings for the residents to Medi-Cal and two Regional Centers governmental programs and are stated at the estimated amount to be collected and represent an unconditional right to consideration. Standard payment term is 30 days from invoice date, which does not result in a financing component. The Organization's accounts receivable have been reduced by the Organization's estimated allowance for any uncollectable amounts. The Organization provides an allowance for doubtful accounts based upon a review of outstanding accounts receivable, historical collection information, and existing economic conditions. Because of the uncertainties involved in estimating the amount to be collected, it is at least reasonably possible that accounts receivable actually collected could differ materially from those estimates. At June 30, 2023, the Organization had an allowance for doubtful accounts of approximately \$35,000.

Contract Assets and Contract Liabilities

Contract assets represent amounts from an arrangement when either the Organization has performed by transferring services to the residents or tenants in advance of receiving all or partial consideration from such services to the residents or tenants where the Organization does not have an unconditional right at the statement of financial condition date. The Organization did not have any contract assets at June 30, 2023.

Contract liabilities arise when the residents or tenants have made payment to the Organization in advance of obtaining control of the services promised to the residents or tenants in the contract. Contract liabilities are recognized as client care services revenue or rental income when services are transferred to the residents or tenants and no remaining performance obligations exist. Contract liabilities are recognized as revenue when services are provided to the residents or tenants. The Organization did not have any contract liabilities at June 30, 2023.

Investments

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

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Residents' Trust Accounts

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

Property, Equipment, and Improvements

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

Impairment of Long-Lived Assets

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

Revenue Recognition

Contributions Revenue

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

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

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Revenue Recognition (Continued)

Revenue Recognition from Contracts with Residents and Tenants

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

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

Client Care Service Revenue

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

Rental Income

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

Significant Financing Component

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

Variable Consideration

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

Practical Expedients Elected

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

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Expense Recognition

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

Functional Allocation of Expenses

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

Income Taxes

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

Description of Program and Support Services

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

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

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

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

Leases

Adoption of New Accounting Principle

During 2020, the Organization adopted ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, and elected the one year deferral option for Topic 842. Topic 842 is effective for the Organization beginning July 1, 2022. Effective July 1, 2022, the Organization adopted ASU 2016-02, *Leases (Topic 842)* and the associated ASU's (collectively Topic 842), which requires the recognition of lease assets and lease liabilities for operating leases with terms greater than 12 months on the Organization's statement of financial position and requires enhanced disclosures about the amount, timing and uncertainty of cash flows arising from leasing arrangements.

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Leases (Continued)

Adoption of New Accounting Principle (Continued)

The Organization elected the following practical expedients for adoption of Topic 842:

The Organization elected to use the package of practical expedients permitted under the transition guidance in Topic 842, which allowed the Organization to (i) not reassess whether any expired or existing contracts contained leases, (ii) maintain the historical lease classification, and (iii) not reassess initial direct costs.

The Organization also elected to use hindsight to determine the lease term when considering the Organization's options to extend the lease, terminate the lease, or purchase the asset and in assessing impairment of the Organization's right-to-use assets.

The Organization adopted Topic 842 using the modified retrospective method, which was applied to all leases existing at July 1, 2022 and the adoption of Topic 842 did not result in an adjustment to the opening balance of net assets at July 1, 2022. The adoption of Topic 842 did not have a significant impact on the statement of activities.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Organization determines if an arrangement is a lease at inception.

After the lease commencement date, the Organization evaluates lease modifications, if any, that could result in a change in the accounting for leases. For a lease modification, an evaluation is performed to determine if the lease modification should be treated as either a separate lease or a change in the accounting of an existing lease. In addition, significant changes in events or circumstances within the Organization's control are assessed to determine whether a change in the accounting for leases is required.

Lessee Arrangements

Short-term leases with initial terms of 12 months or less are expensed as incurred, and lease assets and lease liabilities are not recorded on the statement of financial position. The Organization classifies leases with initial terms greater than 12 months as either operating leases or finance leases. Finance leases are generally those leases that allow the Organization to substantially use or pay for the asset over its estimated life. All other leases with initial terms greater than 12 months are classified as operating leases.

The Organization considers any options to extend the lease term, terminate the lease, or purchase the asset that the Organization is reasonably certain to exercise in determining the classification and measurement of the lease.

Under Topic 842, the Organization does not have any operating or finance leases, but does have short-term leases with lease terms of 12 months or less, and do not include an option to extend the lease or purchase the underlying asset that the Organization is reasonably certain to exercise.

As a lessee, the Organization elected the practical expedient for leases under Topic 842 to not recognize lease assets and lease liabilities for leases with terms of 12 months or less.

Salem Christian Homes, Inc.

Notes to Financial Statements

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

Leases (Continued)

Lessor Arrangements

The Organization accounts for its lessor arrangement as an operating lease and recognizes rental income on a straight-line basis over the term of the lease. The Organization structures its office space lease to allow for the recovery of a significant portion of the operating, real estate taxes, and repairs and maintenance costs of the underlying right-of-use asset from the customer.

As a lessor, the Organization elected the accounting policy election for leases under Topic 842 to not evaluate whether certain taxes are lessor costs or lessee costs, and the Organization will exclude these amounts from the consideration in the contract and exclude these amounts from variable payments not included in the consideration of the contract.

2. Investments

Investments are stated at fair value and consisted of the following at June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Barnabas Foundation	\$ 519,978	\$ —	\$ 519,978
Charles Schwab	10,926	—	10,926
America's Christian Credit Union	3,646	100,000	103,646
Total investments	\$ 534,550	\$ 100,000	\$ 634,550

Investments are carried at fair market value based on the fair value measurements as described in Note 3. The unrealized gain in the statement of activities is as follows for the year ended June 30, 2023:

	Cost	Fair Value	Unrealized Gain (Loss) on Investments
Barnabas Foundation	\$ 481,768	\$ 519,978	\$ 38,210
Charles Schwab	10,926	10,926	—
America's Christian Credit Union	104,145	103,646	(499)
Total investments	\$ 596,839	\$ 634,550	\$ 37,711

Salem Christian Homes, Inc.

Notes to Financial Statements

2. Investments (Continued)

Investment income, net and unrealized gain on investments for the year ended June 30, 2023 are summarized below:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividends	\$ 7,749	\$ —	\$ 7,749
Realized loss on investments	<u>(216)</u>	<u>—</u>	<u>(216)</u>
Total investment income, net	7,533	—	7,533
Unrealized gain on investments	<u>37,711</u>	<u>—</u>	<u>37,711</u>
Total investment income, net and unrealized gain on investments	<u>\$ 45,244</u>	<u>\$ —</u>	<u>\$ 45,244</u>

3. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the Accounting Standards Codification Topic 820 are described below:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Salem Christian Homes, Inc.

Notes to Financial Statements

3. Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used at June 30, 2023.

Money market funds and Certificate of deposit: Valued at the historical cost, which represents fair value.

Corporate stock: Valued at the closing price reported in the active market on which the individual securities are traded.

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

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

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2023:

	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ 100,950	\$ —	\$ —	\$ 100,950
Corporate stock	10,926	—	—	10,926
Money market funds	2,696	—	—	2,696
Pooled separate account	—	519,978	—	519,978
	\$ 114,572	\$ 519,978	\$ —	\$ 634,550

4. Property, Equipment, and Improvements

Property, equipment, and improvements consisted of the following at June 30, 2023:

Building	\$ 7,117,009
Land	1,488,464
Vehicles	1,199,041
Furniture and equipment	502,884
Leasehold improvements	98,924
Construction in progress	37,500
Land improvements	27,476
	10,471,298
Less accumulated depreciation and amortization	4,292,816
	\$ 6,178,482

Salem Christian Homes, Inc.

Notes to Financial Statements

5. Revenues

Contract Balances

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

	Balance at June 30, 2023	Balance at June 30, 2022
Accounts receivable, net	\$ 969,220	\$ 1,166,897

Performance Obligations

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

Concentrations

Services under Medi-Cal and two Regional Centers governmental programs, represent approximately 74 percent of client care services revenue for the year ended June 30, 2023. At June 30, 2023, the accounts receivable related to Medi-Cal and two Regional Centers was \$964,785.

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

6. Leases

Lessee Arrangements

The Organization leases certain housing facilities and equipment under leases with lease terms of 12 months or less, and does not include an option to extend the lease or purchase the underlying asset that the Organization is reasonably certain to exercise.

Rent expense was \$68,764 for the year ended June 30, 2023.

Lessor Arrangements

As a lessor, the Organization leases additional office space at the administrative location under a non-cancelable operating lease agreement expiring through December 2024. The lease requires the lessee to maintain insurance and pay property taxes and maintenance associated with the leased property.

Salem Christian Homes, Inc.

Notes to Financial Statements

6. Leases (Continued)

Lessor Arrangements (Continued)

At June 30, 2023, the annual minimum undiscounted cash flows of lease income is as follows:

Year ending June 30:	
2024	\$ 20,474
2025	<u>10,442</u>
Total	<u>\$ 30,916</u>

Rental income for the year ended June 30, 2023 was \$23,622.

7. Net Assets

Net assets without and with donor restrictions including the purpose or periods are as follows at June 30, 2023:

Total net assets without donor restrictions	<u>\$ 7,365,464</u>
Net assets with donor restrictions	
Strategic plan	1,974
Resident activities	87,471
Designated for ICF and CCL locations	<u>149,260</u>
Total net assets with donor restrictions	<u>238,705</u>
Total net assets	<u>\$ 7,604,169</u>

8. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring capital improvements satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions for the year ended June 30, 2023 is client care services for \$846,491 as the purpose restrictions were accomplished.

9. Related-Party Transactions

Former and present Board Members of the Organization, have formed Salem Foundation (the Foundation), a tax-exempt corporation. The Foundation was formed to operate exclusively for promoting the welfare of the Organization and to solicit and receive funds to be held as principal, which may be loaned to the Organization from time to time, according to its needs. In addition, at the discretion of the Foundation's Board of Directors, the Foundation must distribute to the Organization annually the greater of 85 percent of the Foundation's adjusted net income for the prior tax year or 3.5 percent of the average net assets for a fiscal year, determined by the average of the beginning and ending fiscal year net asset balances. Any additional distributions will be based on a 5-year portfolio performance evaluation with the actual distribution being determined by the Foundation Board. During the year ended June 30, 2023, the Organizations received contributions of \$604,977 from the Foundation, of which \$333,348 are included within contributions without donor restrictions and \$271,629 are included within contributions with donor restrictions on the statement of activities.

Salem Christian Homes, Inc.

Notes to Financial Statements

10. Retirement Plan

The Organization has a defined contribution 403(b) retirement plan. The 403(b) plan covers all full-time employees of the Organization. The Organization may contribute a discretionary matching contribution up to six percent of salary deferrals and may also contribute a discretionary employer contribution up to six percent of eligible compensation as determined by the Board of Directors. The discretionary matching contribution and discretionary employer contribution is available to employees who are 21 years of age, have worked at least 6 consecutive months, and completed at least 1,000 hours of service or have completed one year of employment. Eligible employees become vested in the plan based on the number of years of service with the Organization, which is 20 percent per year becoming fully vested after 5 years of service. For the year ended June 30, 2023, the Organization's discretionary contributions to the 403(b) plan were \$126,106.

11. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2023 are as follows:

Cash	\$ 992,146
Accounts receivable, net	969,220
Investments	<u>634,550</u>
Total financial assets available within one year	<u>\$ 2,595,916</u>

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

12. Contingencies

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

During the year ended June 30, 2023, the Organization became involved in a legal matter with an outside party. The Organization estimates that the cost to resolve this matter will be between \$0 and \$250,000, which was based in part on the opinion of outside legal counsel. The Organization has determined to record the loss contingency at the lower end of the estimated range of loss, and therefore, no loss contingency has been recorded in the financial statements for the year ended June 30, 2023. It is possible that the Organization's estimate of this contingency may change in the near term.

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

Salem Christian Homes, Inc.

Notes to Financial Statements

12. Contingencies (Continued)

In December 2020, a state agency claimed that the Organization has been receiving over payments at one of their homes for at least four residents. In addition, the state agency claimed that the Organization continued to collect client care services revenue when the Organization already had received client care services revenue for the services provided to the resident. At June 30, 2021, the Organization, with the assistance of outside legal counsel, estimated the cost to resolve this matter to be approximately \$305,000. Therefore, at June 30, 2021, the Organization accrued a liability to the state agency of approximately \$305,000 and reduced client care service revenue by approximately \$305,000. Currently, the Organization is still working with the state agency to determine the settlement amount for the remaining residents. At June 30, 2023, the estimated remaining cost to resolve this matter is approximately \$217,000, which is included in accrued liabilities on the statement of financial position. It is possible that the Organization's recorded estimate of this contingency may change in the near term.

13. Uncertainty

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

[