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**MENNONITE BRETHERN HOMES, INC.  
D/B/A PALM VILLAGE RETIREMENT COMMUNITY  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2021 AND 2020**

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To the Board of Directors  
Mennonite Brethren Homes, Inc  
d/b/a Palm Village Retirement Community  
Reedley, California

## **INDEPENDENT AUDITOR'S REPORT**

### **Opinion**

We have audited the accompanying consolidated financial statements of *Mennonite Brethren Homes, Inc. d/b/a Palm Village Retirement Community* (a California nonprofit health care entity), and *Subsidiary* (a California Corporation) (collectively, the Organization) which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

In preparing the consolidated 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 consolidated financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

*Wipfli LLP*

Wipfli LLP

April 30, 2022  
Irvine, California

**MENNONITE BRETHREN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 3,301,572	\$ 4,388,411
Accounts receivable		
Resident, net	926,051	1,628,535
Consulting, net	91,847	74,902
Other	14,023	18,603
Prepaid expenses	249,625	243,648
Supplies inventory	29,166	29,166
Current portion of assets limited as to use	<u>1,228,133</u>	<u>948,316</u>
Total Current Assets	<u>5,840,417</u>	<u>7,331,581</u>
Assets Limited as to Use		
Under indenture agreement, held for debt service	218,976	231,683
Emergency funds	1,198,246	922,700
Chapel fund - resident use	7,535	3,704
Resident funds	<u>22,352</u>	<u>21,912</u>
Total Assets Limited as to Use	<u>1,447,109</u>	<u>1,179,999</u>
Less: current portion shown above	<u>(1,228,133)</u>	<u>(948,316)</u>
Assets Limited as to Use (Net of Current Portion)	<u>218,976</u>	<u>231,683</u>
Fixed Assets		
Land	998,567	998,567
Buildings and improvements	22,992,292	22,502,290
Furniture and equipment	4,675,236	4,408,211
Vehicles	271,263	271,263
Construction in progress	<u>-</u>	<u>159,978</u>
Total Fixed Assets	<u>28,937,358</u>	<u>28,340,309</u>
Accumulated depreciation	<u>(18,499,976)</u>	<u>(17,629,581)</u>
Net Fixed Assets	<u>10,437,382</u>	<u>10,710,728</u>
Other Assets		
Deferred letter of credit renewal fees	<u>-</u>	<u>21,147</u>
Total Other Assets	<u>-</u>	<u>21,147</u>
Total Assets	<u>\$ 16,496,775</u>	<u>\$ 18,295,139</u>

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**DECEMBER 31, 2021 AND 2020**

<u>LIABILITIES AND NET ASSETS</u>	<u>2021</u>	<u>2020</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 153,772	\$ 251,711
Accrued salaries, payroll taxes and benefits	579,103	708,106
Accommodation fee deposits	21,000	158,450
Current portion of refundable accommodation fees	207,639	145,089
Current maturities of bonds payable	655,000	630,000
Health and Human Services Provider Relief Fund refundable advance	145,336	236,533
Paycheck Protection Program loan	8,530	1,291,569
Other current liabilities	<u>270,711</u>	<u>289,057</u>
Total Current Liabilities	<u>2,041,091</u>	<u>3,710,515</u>
<b>Long-Term Debt</b>		
Bonds payable, less current portion and deferred financing costs	2,739,601	3,357,312
<b>Other Liabilities</b>		
Paycheck Protection Program loan, net of current portion	47,852	343,298
Refundable accommodation fees	2,416,365	2,410,972
Deferred revenue from accommodation fees	<u>2,231,380</u>	<u>2,426,461</u>
Total Other Liabilities	<u>4,695,597</u>	<u>5,180,731</u>
Total Liabilities	<u>9,476,289</u>	<u>12,248,558</u>
<b>Net Assets</b>		
Without donor restrictions	6,990,486	6,016,581
With donor restrictions	<u>30,000</u>	<u>30,000</u>
Total Net Assets	<u>7,020,486</u>	<u>6,046,581</u>
Total Liabilities and Net Assets	<b>\$ <u>16,496,775</u></b>	<b>\$ <u>18,295,139</u></b>

*The notes are an integral part of these consolidated financial statements.*

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue			
Residential services	\$ 13,439,799	\$ -	\$ 13,439,799
Accommodation fees	1,021,195	-	1,021,195
Consulting	637,384	-	637,384
Other	<u>126,649</u>	-	<u>126,649</u>
Total Revenue	<u>15,225,027</u>	<u>-</u>	<u>15,225,027</u>
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue Without Donor Restrictions	<u>15,225,027</u>	<u>-</u>	<u>15,225,027</u>
Operating Expenses			
Palm Village Retirement Community			
Program services	13,449,010	-	13,449,010
Support services			
Management and general	1,778,689	-	1,778,689
Fundraising	<u>42,628</u>	-	<u>42,628</u>
	<u>15,270,327</u>	<u>-</u>	<u>15,270,327</u>
Peer Services, Inc.			
Dues and subscriptions	5,743	-	5,743
Insurance	241,269	-	241,269
Marketing	18,443	-	18,443
Miscellaneous	5,980	-	5,980
Postage	1,586	-	1,586
Printing and publications	558	-	558
Professional fees	196,510	-	196,510
Salaries and wages	671,331	-	671,331
Supplies	6,656	-	6,656
Telephone	<u>10</u>	-	<u>10</u>
	<u>1,148,086</u>	<u>-</u>	<u>1,148,086</u>
Total Operating Expenses	<u>16,418,413</u>	<u>-</u>	<u>16,418,413</u>
Change in Net Assets from Operations	<u>(1,193,386)</u>	<u>-</u>	<u>(1,193,386)</u>
Other Income (Expense)			
Health and Human Services Provider Relief Fund	374,285	-	374,285
PPP loan forgiveness	1,634,868	-	1,634,868
Investment income, net	17,885	-	17,885
Fundraising costs	(2,935)	-	(2,935)
Contributions	145,323	-	145,323
Other expense, net	<u>(2,135)</u>	-	<u>(2,135)</u>
Total Other Income	<u>2,167,291</u>	<u>-</u>	<u>2,167,291</u>
Changes in Net Assets	973,905	-	973,905
Net Assets, Beginning of Year	<u>6,016,581</u>	<u>30,000</u>	<u>6,046,581</u>
Net Assets, End of Year	<u>\$ 6,990,486</u>	<u>\$ 30,000</u>	<u>\$ 7,020,486</u>

*The notes are an integral part of these consolidated financial statements.*

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue			
Residential services	\$ 13,872,042	\$ -	\$ 13,872,042
Accommodation fees	899,250	-	899,250
Consulting	366,856	-	366,856
Other	134,328	-	134,328
Total Revenue	15,272,476	-	15,272,476
Net Assets Released from Restrictions	4,451	(4,451)	-
Total Revenue Without Donor Restrictions	15,276,927	(4,451)	15,272,476
Operating Expenses			
Palm Village Retirement Community			
Program services	13,495,783	-	13,495,783
Support services			
Management and general	1,901,646	-	1,901,646
Fundraising	37,849	-	37,849
	15,435,278	-	15,435,278
Peer Services, Inc.			
Bad debt recoveries, net	(2,367)	-	(2,367)
Dues and subscriptions	5,385	-	5,385
Insurance	89,253	-	89,253
Marketing	17,975	-	17,975
Miscellaneous	4,964	-	4,964
Postage	756	-	756
Printing and publications	2,576	-	2,576
Professional fees	192,508	-	192,508
Salaries and wages	470,033	-	470,033
Supplies	7,984	-	7,984
Telephone	528	-	528
	789,595	-	789,595
Total Operating Expenses	16,224,873	-	16,224,873
Change in Net Assets from Operations	(947,946)	(4,451)	(952,397)
Other Income (Expense)			
Health and Human Services Provider Relief Fund	643,911	-	643,911
Investment income, net	23,142	-	23,142
Fundraising costs	(13,420)	-	(13,420)
Contributions	341,405	-	341,405
Other expense, net	(6,218)	-	(6,218)
Total Other Income	988,820	-	988,820
Changes in Net Assets	40,874	(4,451)	36,423
Net Assets, Beginning of Year	5,975,707	34,451	6,010,158
Net Assets, End of Year	\$ <b>6,016,581</b>	\$ <b>30,000</b>	\$ <b>6,046,581</b>

*The notes are an integral part of these consolidated financial statements.*

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Support Services				Total
	Program Services	Management and General	Fundraising	Peer Services, Inc.	
Accounting	\$ -	\$ 112,334	\$ -	\$ -	\$ 112,334
Advertising	71,174	-	30,503	-	101,677
Bad Debt	-	41,206	-	-	41,206
Covid-19 related expenses	89,605	-	-	-	89,605
Creative	16,793	2,509	-	-	19,302
Depreciation and amortization	866,983	44,575	-	-	911,558
Dues and subscriptions	66,263	-	-	5,743	72,006
Education	31,569	-	-	-	31,569
Food	828,103	-	-	-	828,103
Insurance	508,859	26,163	-	241,269	776,291
Interest	29,677	1,526	-	-	31,203
Legal	31,791	-	-	-	31,791
Licenses and Taxes	110,801	-	-	-	110,801
Marketing	-	-	-	18,443	18,443
Minor Equipment	28,963	-	-	-	28,963
Miscellaneous	9,151	-	-	5,980	15,131
Occupancy and utilities	674,268	34,667	-	-	708,935
Other Benefits	1,179,068	176,184	-	-	1,355,252
Payroll taxes	743,666	111,122	-	-	854,788
Postage	11,229	-	4,812	1,586	17,627
Printing and publication	17,063	-	7,313	558	24,934
Professional Services	824,167	123,151	-	196,510	1,143,828
Repairs and Maintenance	188,772	9,706	-	-	198,478
Salaries and wages	6,236,354	975,853	-	671,331	7,883,538
Security	61,149	-	-	-	61,149
Strategic Research	22,245	-	-	-	22,245
Supplies	730,775	109,196	-	6,656	846,627
Telephone	19,280	2,881	-	10	22,171
Transportation	273	-	-	-	273
Travel	50,969	7,616	-	-	58,585
	<b>\$ 13,449,010</b>	<b>\$ 1,778,689</b>	<b>\$ 42,628</b>	<b>\$ 1,148,086</b>	<b>\$ 16,418,413</b>
Total Expenses	<b>\$ 13,449,010</b>	<b>\$ 1,778,689</b>	<b>\$ 42,628</b>	<b>\$ 1,148,086</b>	<b>\$ 16,418,413</b>

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Support Services				Total
	Program Services	Management and General	Fundraising	Peer Services, Inc.	
Accounting	\$ -	\$ 124,332	\$ -	\$ -	\$ 124,332
Advertising	58,737	-	25,173	-	83,910
Bad debt expense (recoveries)	-	73,323	-	(2,367)	70,956
Contribution	41,281	-	-	-	41,281
Covid-19 related expenses	299,261	-	-	-	299,261
Creative	22,624	3,381	-	-	26,005
Depreciation and amortization	808,363	41,561	-	-	849,924
Dues and subscriptions	54,961	-	-	5,385	60,346
Education	33,344	-	-	-	33,344
Food	828,490	-	-	-	828,490
Insurance	200,389	10,303	-	89,253	299,945
Interest	77,648	3,992	-	-	81,640
Legal	29,436	51,033	-	-	80,469
Licenses and taxes	103,317	-	-	-	103,317
Marketing	-	-	-	17,975	17,975
Minor equipment	21,140	-	-	-	21,140
Miscellaneous	(1,306)	-	-	4,964	3,658
Occupancy and utilities	656,526	33,755	-	-	690,281
Other benefits	1,679,061	250,894	-	-	1,929,955
Payroll taxes	529,211	79,077	-	-	608,288
Postage	15,470	-	6,630	756	22,856
Printing and publication	14,107	-	6,046	2,576	22,729
Professional services	865,855	129,381	-	192,508	1,187,744
Repairs and maintenance	135,610	6,972	-	-	142,582
Salaries and wages	6,163,373	975,853	-	470,033	7,609,259
Security	69,428	-	-	-	69,428
Supplies	740,728	110,684	-	7,984	859,396
Telephone	19,459	2,908	-	528	22,895
Transportation	1,181	-	-	-	1,181
Travel	28,089	4,197	-	-	32,286
<b>Total Expenses</b>	<b>\$ 13,495,783</b>	<b>\$ 1,901,646</b>	<b>\$ 37,849</b>	<b>\$ 789,595</b>	<b>\$ 16,224,873</b>

**MENNONITE BRETHERN HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Cash received from residents	\$ 15,236,211	\$ 14,521,687
Cash received from consulting services	620,339	373,616
Cash paid to suppliers and employees	(15,757,679)	(16,013,278)
Income tax paid	(917)	(2,177)
Interest received	17,885	23,142
Contributions received	145,323	341,405
Interest received (paid)	12,677	(29,832)
Net Cash (Used in) Provided by Operating Activities	<u>273,839</u>	<u>(785,437)</u>
Cash Flows from Investing Activities		
Payments for property, equipment, and construction in progress	(597,047)	(659,561)
Purchases of assets whose use is limited	<u>(275,546)</u>	<u>(122,221)</u>
Net Cash Used in Investing Activities	<u>(872,593)</u>	<u>(781,782)</u>
Cash Flows from Financing Activities		
Refund of accommodation fees	(205,992)	(151,440)
Principal payment on long-term debt	(630,000)	(605,736)
Proceeds from Health and Human Services Provider Relief Fund	283,089	880,444
Proceeds from Paycheck Protection Program	<u>56,382</u>	<u>1,634,867</u>
Net Cash Provided by (Used in) Financing Activities	<u>(496,521)</u>	<u>1,758,135</u>
Net (Decrease) Increase in Cash and Restricted Cash and Cash Equivalents	(1,095,275)	190,916
Cash and Restricted Cash and Cash Equivalents, Beginning of Year	<u>4,645,710</u>	<u>4,454,794</u>
Cash and Restricted Cash and Cash Equivalents, End of Year	<b>\$ <u>3,550,435</u></b>	<b>\$ <u>4,645,710</u></b>

**MENNONITE BROTHERS HOMES, INC.**  
**DBA PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
Reconciliation of Changes in Net Assets to		
Net Cash (Used in) Provided by Operating Activities		
 Change in Net Assets	 \$ <u>973,905</u>	 \$ <u>36,423</u>
Adjustments to reconcile increase (decrease) in net assets		
to net cash (used in) provided by operating activities		
Depreciation and amortization	928,829	849,924
Change in allowance for doubtful accounts	(65)	(45,290)
Provision for bad debts	41,271	116,246
Health and Human Services Provider Relief Fund	(374,285)	(643,911)
PPP loan forgiveness	(1,634,868)	-
Amortization of accommodation fees	(1,021,195)	(899,250)
(Increase) decrease in current assets		
Account receivable	648,913	(579,635)
Prepaid expenses	(5,977)	13,305
Supplies inventory	-	(8,358)
Increase (decrease) in liabilities		
Accounts payable	(97,939)	(339,215)
Accrued salaries, payroll taxes and benefits	(129,003)	(183,061)
Accommodation fee deposits	(137,450)	135,250
Deferred revenue from consulting services	62,550	(97,277)
Income tax liability	-	(1,039)
Other current liabilities	(18,346)	(132,332)
Deferred revenue from cottage commons	-	(197,617)
Refundable accommodation fees	33,049	-
Deferred revenue from accommodation fees	<u>1,004,450</u>	<u>1,190,400</u>
Total Adjustments	<u>(700,066)</u>	<u>(821,860)</u>
 Net Cash (Used in) Provided By Operating Activities	 \$ <u><b>273,839</b></u>	 \$ <u><b>(785,437)</b></u>

**MENNONITE BRETHERN HOMES, INC.  
D/B/A PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION**

**Organization**

*Mennonite Brethren Homes, Inc. d/b/a Palm Village Retirement Community* (Palm Village) is a not-for-profit corporation located in Reedley, California licensed as a Continuing Care Retirement Community. Palm Village consists of 120 nursing beds, 53 residential/personal care facility units, 16 memory care units and 79 independent living complex units. The mission of Palm Village is to provide post-acute care and residential services to the elderly community.

In June 2014, *Peer Services, Inc.* (Peer Services) was formed. Peer Services is a California corporation organized to provide consultation services to other retirement living service providers. Palm Village owns 100% of the outstanding stock of Peer Services and, accordingly, the activity of Peer Services has been consolidated in these financial statements.

Collectively the consolidated entity (Palm Village and Peer Services) is referred to as the Organization.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

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

**Consolidated Financial Statement Presentation of Net Assets**

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, the following:

	2021	2020
Emergency Funds	\$ 1,198,246	\$ 922,700
Chapel Fund – Resident Use	7,535	3,704
<b>Total Board Restricted Net Assets</b>	<b>\$ 1,205,781</b>	<b>\$ 926,404</b>

**MENNONITE BRETHERN HOMES, INC.**  
**D/B/A PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Consolidated Financial Statement Presentation of Net Assets (Continued)**

**Net Assets With Donor Restrictions** – Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no perpetually restricted net assets at December 31, 2021 and 2020.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received and recorded as pledges receivable. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as contributions without donor restrictions.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments and certificates of deposit with an original maturity of three months or less to be cash equivalents.

**Accounts Receivable**

Resident accounts receivable represents amounts due from residents and third-party payers such as Medi-Cal and Medicare for services provided. Medi-Cal and Medicare represent the Organization's most significant third-party payers. Consulting accounts receivable represents amounts due from consulting clients. The Organization provides an allowance for doubtful accounts based on historical collection trends and management judgment. No collateral is required for services rendered. Payment for services is due upon receipt of invoice. Accounts are individually analyzed on a monthly basis for collectability.

**MENNONITE BRETHERN HOMES, INC.**  
**D/B/A PALM VILLAGE RETIREMENT COMMUNITY AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Accounts Receivable (Continued)**

Once accounts are deemed uncollectible, the amounts are written off to bad debt expense. Recoveries of receivables previously written off are recognized as income in the period received. The allowance for doubtful accounts was \$47,288 and \$47,353 as of December 31, 2021 and 2020, respectively.

**Prepaid Expenses**

Payments made to vendors that will benefit periods beyond the reporting year are recorded as prepaid expenses. Prepaid expenses consist primarily of a payment for a facility license renewal.

**Supplies Inventory**

Supplies inventory is stated at the lower of cost or market value. Cost is determined using the first-in, first-out (FIFO) method.

**Property and Equipment**

The Organization capitalizes expenditures in excess of \$1,000 for property and equipment at cost. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. The estimated useful lives are as follows:

Buildings and improvements	5-50 years
Furniture and equipment	5-10 years
Vehicles	5 years

Depreciation expense for the years ended December 31, 2021 and 2020 was \$870,393 and \$808,808, respectively.

**Long-Lived Assets**

The Organization evaluates the recoverability of its long-lived assets, which consist primarily of property and equipment with finite useful lives, whenever events or changes in circumstances indicate that the carrying value may not be recoverable by comparing the carrying value of the long-lived assets to 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 Organization would recognize an impairment loss at the time. No impairment loss was recognized in 2021 and 2020.

**Assets Limited as to Use**

Assets limited as to use include assets held by the trustee under the bond agreements, resident funds, and board designated amounts. These assets are primarily invested in cash and cash equivalents. Investment income or loss (including realized gains and losses on investments and interest and dividend income), shown net of investment fees, is included in other income (expense) on the consolidated statements of activities.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Resident Funds**

The Organization maintains savings accounts on behalf of certain residents and acts as trustee of these funds which are maintained for the personal use of those residents. The funds are expended at the direction of the residents. The balance in the resident funds was \$22,352 and \$21,912 at December 31, 2021 and 2020, respectively.

**Letter of Credit Fees**

The Organization pays letter of credit fees on an annual basis relating to the issuance of the Series 2005 Certificates of Participation. For the year ended December 31, 2021, the letter of credit fee was still owed to the bank. For the year ended December 31, 2020, the Organization paid letter of credit fees of \$34,230.

**Accommodation Fees**

Accommodation fees are charged to residents of the independent living facility. The accommodation fees are lump sum payments made to the Organization, which entitles the resident to reside in the facility and participate in certain benefits of the facility. The Organization recognizes as a liability, the portion of the accommodation fee that is refundable according to the terms of the accommodation fee contract with the balance recorded as deferred revenue. The Organization offers accommodation fee contracts with a 72-month schedule for refunds after which time the entire accommodation fee is non-refundable. There were 9 and 10 contracts on a 72 month schedule for the years ended December 31, 2021 and 2020, respectively.

Beginning in 2009, the Organization also began offering reduced entrance fees for a limited amount of independent living units. These contracts amortize over 50 months. There were 65 and 58 contracts on a 50 month schedule for the years ended December 31, 2021 and 2020, respectively.

Accommodation fees are amortized into income by the straight-line method over the estimated life expectancy of the resident. After establishing residency, the resident may cancel the agreement at any time upon giving 90 days written notice of cancellation. If the resident cancels the agreement for reasons other than death, incapacity, or divorce, the resident is entitled to a refund of a portion of the amount paid in accordance with the agreement and with California law, which provides that the Organization may deduct a reasonable processing fee to cover costs and the reasonable value of the services rendered during the resident's occupancy.

The Organization will refund a portion of the accommodation fee in accordance with the following terms:

- I. If cancellation occurs during the first 90 days of occupancy, the Organization shall retain a reasonable processing fee to cover cost and the reasonable value of the services rendered plus an additional 2% of the entrance fee for each month (or portion thereof) of occupancy.
- II. The Organization shall retain any portion of the entrance fee necessary to pay any unpaid indebtedness to the Organization incurred by the resident, including any unpaid monthly service fees and any unpaid expenses incurred by the resident for health or other services.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Accommodation Fees (Continued)**

The Organization manages a section of housing adjacent to the facility called Cottage Commons. During 2008, a resident purchased a home in the Cottage Commons and signed a contract that entitles Palm Village to title of the home. The contract is designed so that 80% of the agreed upon market value at the time of transfer is refundable when the last resident leaves the home. If the resident leaves the home and enters a unit in assisted living or the health center, the 80% value of the home is used to cover their health care cost for the duration of their stay. When the resident leaves Palm Village, 80% of the home's originally determined market value, less any healthcare cost incurred during their stay at Palm Village, will be refunded to the resident's estate.

**Obligation to Provide Future Services**

The Organization provides services and use of facilities under fee-for-service continuing care contracts. Such contracts allow for the increase in periodic fees to cover costs of services and use of facilities without restriction. Therefore, a liability for future services has not been estimated.

**Accommodation Fee Deposits**

Guaranty deposits of \$1,000 are required for each resident entering the independent or assisted living facilities within Palm Village. In addition, some residents prepay part of their accommodation fee before moving in. Management accounts for these prepayments within the accommodation fee deposit account. The deposits are subtracted from the amount of accommodation fees due at the time the resident moves in. Total deposits as of December 31, 2021 and 2020 were \$21,000 and \$158,450, respectively.

**Deferred Financing Costs**

Deferred financing costs related to the issuance of long-term debt are amortized over the life of the related debt using the straight-line method. The deferred financing costs are presented in the consolidated statements of financial position as a direct deduction from the carrying amount of the debt liability and the amortization of deferred financing costs is reported as interest expense.

**Advertising**

Advertising costs are charged to operations when incurred. Advertising expense was \$120,120 and \$101,885 for the years ended December 31, 2021 and 2020, respectively.

**Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, other current liabilities, capital leases payable, and current notes payable approximate fair value due to the short maturity of these financial instruments. The fair value of bonds payable with variable interest rates are based on quoted market prices for the same or similar issues. The carrying amount reported in the consolidated statements of financial position approximates fair value.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Functional Allocation of Expenses**

The nature of operations of Palm Village will continue to own and operate a nursing home and services for skilled nursing, assisted living, independent living and memory care as one program for the consolidated statements of functional expenses. Peer Services is a for profit subsidiary of Palm Village that provides consulting services.

The costs of providing program and supporting services for Palm Village and Peer Services have been summarized on a functional basis. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The consolidated financial statements report certain categories of expenses that are attributed to more than one category or function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include:

- Salaries and wages, employee benefits and related expenses, payroll taxes are allocated on the basis of time and effort;
- Office supplies, telephone, travel, creative, and professional services are allocated based upon benefit received; and
- Occupancy/utilities, interest expense, repairs and maintenance, insurance, depreciation and amortization expense are allocated on a square footage basis.

**Investment Income**

Investment income and expenses are netted on the consolidated statements of activities, which include interest income, dividend income, unrealized and realized gain or loss less any investment expense.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to Palm Village's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by U.S. GAAP. Contributed goods are recorded at fair value at the date of donation. Palm Village records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2021 and 2020.

**Operating Revenue**

Resident services revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident 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 Organization 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.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Operating Revenue (Continued)**

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization 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 Organization's facilities receiving in-resident post-acute care services or residents receiving services in their homes (home care, patio home). The Organization measures the performance obligation from admission into the assisted living unit, or the commencement of the assisted living service, to the point when it is no longer required to provide services to that resident, which is generally at the time that 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 goods are provided to our residents in a retail setting (for example, personal care services and additional meals not covered in the resident contract) and the Organization does not believe it is required to provide additional goods or services related to that sale.

Peer Services' contracts with customers all have performance obligations with durations of less than one year, therefore, for these contracts the Organization has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14a and therefore is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured residents in accordance with the Organization's policy (charity care), and implicit price concessions provided to uninsured residents. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of 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:** Certain in-resident post-acute care services are paid at prospectively determined rates per service based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Our licensed nursing facility which participated in the Medicare program for the years ended December 31, 2021 and 2020 was reimbursed based on the Patient Driven Payment Model (PDPM). This program is administered by the United States Department of Health and Human Services. The PDPM is a per diem price-based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Operating Revenue (Continued)**

**Medi-Cal:** Reimbursements for Medi-Cal services are generally paid at prospectively determined rates per type of service, per occasion of service, or per covered member. The Medi-Cal program is administered by the California Department of Health and Human Services Agency, Department of Health Services. The Department of Health Services determines Medi-Cal rates for the facility every January 1. The rates are determined by re-basing all filed cost reports every three years.

The final rates are set from facility cost reports with minimum and maximum reimbursements calculated from peer facilities. Medi-Cal pays a flat daily rate which does not account for the acuity of the resident. The Organization must submit a cost report for each year based on its fiscal year. Rates derived from the above system are subject to retroactive adjustment by field audit.

**Other:** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per service, discounts from established charges, and prospectively determined daily rates.

Peer Services provides consulting services to other senior health care facilities, providing staffing, training, accounting, assistance and advisory services over the duration of contracts lasting less than one year. Consulting revenue is earned by Peer Services as fee for service revenue.

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 health care organizations have received request 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 Organization'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 Organization. In addition, the contracts the Organization 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 Organization'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, 2021 and 2020.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Operating Revenue (Continued)**

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured residents, and offers those uninsured residents a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for residents with deductibles and coinsurance and from those who are uninsured 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 resident service revenue in the period of the change. For the years ended, December 31, 2021 and 2020, a reduction of revenue of \$2,877,563 and \$3,079,370, respectively, was recognized due to changes in its estimated implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to residents regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured residents and residents with other uninsured balances, for example, copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to residents and the amounts the Organization expects to collect based on its collection history with those residents.

Residents who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Costs for these programs in excess of reimbursement were estimated to be approximately \$297,247 and \$389,530 for the years ended December 31, 2021 and 2020, respectively.

The composition of residential services revenue by primary payors for the years ended December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Medi-Cal	\$ 6,329,076	\$ 6,567,070
Medicare	1,063,051	1,083,879
Managed care	186,507	434,294
Commercial insurers	1,956,525	2,082,041
Private – Independent living	834,454	826,668
Private – Assisted living	2,998,490	2,803,897
Other	71,696	74,193
<b>Total</b>	<b><u>\$ 13,439,799</u></b>	<b><u>\$ 13,872,042</u></b>

Revenue from resident's deductibles and coinsurance are included in the preceding categories based on the primary payor.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenue (Continued)**

The composition of total disaggregated operating revenue based on the service lines the Organization provides, its lines of business and timing of revenue recognition for the years ended December 31, 2021 and 2020 are as follows:

	<b>2021</b>				
	<b><u>Independent Living</u></b>	<b><u>Assisted Living</u></b>	<b><u>Skilled Nursing</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
<b>Services Area</b>					
Medical Services	\$ -	\$ -	9,534,868	\$ -	9,534,868
Non-Medical Services	1,898,975	3,026,747	-	333	4,926,055
Long-term Care Facility Consulting	-	-	-	637,384	637,384
Other	304	190	-	126,226	126,720
	<b><u>\$ 1,899,279</u></b>	<b><u>\$ 3,026,937</u></b>	<b><u>\$ 9,534,868</u></b>	<b><u>\$ 763,943</u></b>	<b><u>\$ 15,225,027</u></b>

**Timing of Revenue and Recognition**

Resident and Other Services Transferred Over Time	\$ 1,861,878	\$ 3,003,399	\$ 9,534,868	\$ 637,384	\$ 15,037,529
Various Other Revenue Earned at Point in Time	37,401	23,538	-	126,559	187,498
	<b><u>\$ 1,899,279</u></b>	<b><u>\$ 3,026,937</u></b>	<b><u>\$ 9,534,868</u></b>	<b><u>\$ 763,943</u></b>	<b><u>\$ 15,225,027</u></b>

	<b>2020</b>				
	<b><u>Independent Living</u></b>	<b><u>Assisted Living</u></b>	<b><u>Skilled Nursing</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
<b>Services Area</b>					
Medical Services	\$ -	\$ -	10,162,924	\$ -	10,162,924
Non-Medical Services	1,773,854	2,834,122	-	346	4,608,322
Long-term Care Facility Consulting	-	-	-	366,856	366,856
Other	927	559	-	132,888	134,374
	<b><u>\$ 1,774,781</u></b>	<b><u>\$ 2,834,681</u></b>	<b><u>\$ 10,162,924</u></b>	<b><u>\$ 500,090</u></b>	<b><u>\$ 15,272,476</u></b>

**Timing of Revenue and Recognition**

Resident and Other Services Transferred Over Time	\$ 1,739,354	\$ 2,812,997	\$ 10,162,924	\$ 366,856	\$ 15,082,131
Various Other Revenue Earned at Point in Time	35,427	21,684	-	133,234	190,345
	<b><u>\$ 1,774,781</u></b>	<b><u>\$ 2,834,681</u></b>	<b><u>\$ 10,162,924</u></b>	<b><u>\$ 500,090</u></b>	<b><u>\$ 15,272,476</u></b>

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenue (Continued)**

The Organization charges an entrance fee upon executing a life care contract with a new resident. The entrance fee varies based on the size of the initial patio independent living home that the resident will be occupying. The entrance fee is refundable and becomes progressively non-refundable at the rate of 2% or 1.38% per month, depending on whether a fifty-month or seventy-two-month contract was signed, respectively, and becomes fully non-refundable upon the end of the respective contract's refundable period. The entrance fee is recorded as deferred revenue upon receipt and is amortized over the life expectancy of the resident into entrance fee revenue.

The Organization 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 Organization otherwise would have recognized is one year or less in duration.

**Occupancy Percentages**

For the years ended December 31, 2021 and 2020, the occupancy percentages of the Organization were as follows:

	<u>2021</u>	<u>2020</u>
Health center (including Wiebe Center)	81.8%	93.6%
Assisted living (including memory care)	77.1%	77.5%
Independent living apartments	89.7%	92.4%

The total census for the Health Center by source of payment at December 31, 2021 and 2020, is as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Days</u>	<u>Percentage</u>	<u>Days</u>	<u>Percentage</u>
Medicare and HMO	1,876	5.2%	1,918	4.8%
Medi-Cal	27,495	76.7%	31,685	78.7%
Private and other	<u>6,467</u>	<u>18.1%</u>	<u>6,651</u>	<u>16.5%</u>
<b>Total</b>	<b><u>35,838</u></b>	<b><u>100.0%</u></b>	<b><u>40,254</u></b>	<b><u>100.0%</u></b>

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 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 consolidated balance sheet 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 consolidated 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 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, 2022. Management has adopted the provisions of ASU 2020-05 and will defer implementation of the amendments to Topic 842. Management is currently evaluating the impact of adopting ASU 2016-02 on the Organization's consolidated financial statements and related disclosures.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**Recent Accounting Pronouncements (Continued)**

In June 2016, the FASB issued ASU 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 consolidated 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 will be effective for the calendar year-ending December 31, 2023. Management is currently evaluating the impact of adopting ASU 2016-13 on the Organization's consolidated financial statements and related disclosures.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Services*. This ASU requires contributed nonfinancial assets to be presented on a separate line in the consolidated statements of activities, apart from contributions of cash and other financial assets. It also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets. This standard will be effective for annual periods beginning after June 15, 2021. Management is currently evaluating the impact of adoption of this ASU on the consolidated financial statements and the related disclosures.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees that are not Public Business Entities*, which provides lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this Update allow those lessees to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose which asset classes it has elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. If the Company decides to implement this pronouncement, ASU 2021-09 must be adopted at the same time as ASU 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification (Topic 842)*.

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 3 LIQUIDITY AND AVAILABILITY**

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Financial assets available for general expenditure, as well as reductions for donor restrictions and Board designations, within one year of the Consolidated Statements of Financial Position as of December 31, 2021 and 2020, comprise the following.

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 3,301,572	\$ 4,388,411
Accounts Receivable Resident, Net of Allowance	926,051	1,628,535
Accounts Receivable Consulting, Net of Allowance	91,847	74,902
Accounts Receivable Other	14,023	18,603
Residents Funds	22,352	21,912
Debt Service Funds	218,976	231,683
Board Designated Emergency Fund	1,198,246	922,700
Chapel Fund – Resident Designated Funds	7,535	3,704
<b>Total Financial Assets</b>	<b>5,780,602</b>	<b>7,290,450</b>
Less: Resident Funds	(22,352)	(21,912)
Less: Chapel Fund	(7,535)	(3,704)
Less: Debt Service Funds	(218,976)	(231,683)
Less: General Renovations and Equipment For Independent and Assisted Living Units And Skilled Nursing Facility	(511,000)	(498,000)
Less: Board Designated Emergency Fund	(1,198,246)	(922,700)
<b>Financial Assets Available to Meet General Expenditures Over the Next Twelve Months</b>	<b>\$ 3,822,493</b>	<b>\$ 5,612,451</b>

The Organization, as part of its liquidity plan, puts its excess cash into the money market account and utilizes a bank sweep program that automatically transfers amounts that exceed, or fall short of, a certain level into a higher interest-earning investment option at the close of each business day. Under the higher interest-earning bank sweep program, the Organization is required to maintain a \$50,000 compensating balance with the bank. The Organization's operating revenue covers its ongoing, operating expenditures and it is expected to be available to meet cash needs. In addition, the Organization has a line-of-credit of \$500,000 with Bank of the Sierra that is available, if needed, as discussed in Note 6. The Organization also holds an irrevocable letter of credit with the bond trustee and irrevocable standby letter of credit with the Federal Home Loan Bank of San Francisco in the amount of \$12,085,000 (face amount of the bonds) as discussed in Note 7.

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**NOTE 4 ASSETS LIMITED AS TO USE**

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The composition of assets limited as to use at December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
Debt Service Funds	\$ 218,976	\$ 231,683
Emergency Fund - Board Designated	1,198,246	922,700
Chapel Fund – Board Designated	7,535	3,704
Resident Funds	22,352	21,912
<b>Total</b>	<b>\$ 1,447,109</b>	<b>\$ 1,179,999</b>

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 4 ASSETS LIMITED AS TO USE (CONTINUED)**

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Assets limited as to use that are required for obligations classified as current liabilities and other required uses within one year are reported as current assets.

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**NOTE 5 FAIR VALUE MEASUREMENTS**

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The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs according 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 I) and the lowest priority to unobservable inputs (Level III). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I – 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 II – 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; and 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 II input must be observable for substantially the full term of the asset or liability.

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

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

*Commingled investment funds:* The fair values of the Organization's investments have been estimated using the net asset value per share (NAV) as reported by the administrator of the fund. Accounting standards provide for the use of NAV as a practical expedient for estimating fair value. The NAV is based on the fair value of the underlying assets owned by the fund, less liabilities, and then divided by the number of units outstanding.

*Short-term investments:* Short-term investments consists of certificate of deposits and interest-bearing cash accounts that matures within one year and the amount reflected on the consolidated statements of financial position approximate fair values. Interest income is included in investment income, net on the consolidated statements of activities.

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**NOTE 5 FAIR VALUE MEASUREMENT (CONTINUED)**

Investment income is comprised of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Investment income	\$ 26,100	\$ 28,351
Investment expense	(8,215)	(5,209)
<b>Investment Income, Net</b>	<b><u>\$ 17,885</u></b>	<b><u>\$ 23,142</u></b>

Fair values of investments measured on a recurring basis consist of the following at December 31, 2021:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Short-term investments	<u>\$2,595,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,595,626</u>

Fair values of investments measured on a recurring basis consist of the following at December 31, 2020:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Short-term investments	<u>\$3,810,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,810,994</u>

The reconciliation of the short-term investments to the statement of financial position is as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents per consolidated statements of financial position	\$ 3,301,572	\$ 4,388,411
Less - Cash	(924,922)	(809,100)
Plus – Short-term investments included in ALATU in consolidated statements of financial position	<u>218,976</u>	<u>231,683</u>
Total short-term investments at fair value	<b><u>\$ 2,595,626</u></b>	<b><u>\$ 3,810,994</u></b>

**Investments Measured Using the Net Asset Value per Share Practical Expedient**

Based on the terms and conditions in effect at December 31, 2021, the Organization's investments valued at NAV are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Strategy</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
<u>Internally Board Designated</u>				
BVI Growth Fund	\$1,198,246	See (a) below	N/A	Can redeem with 3 – 5 business days notification

(a) Outperform the return of the benchmark, which will be a weighing of the following indexes that match the target asset allocation of the fund:

30%	Bloomberg Barclays U.S. Government/Credit Bond Index
49%	Russell 3000 Index
21%	MSCI All Country World ex Index (Net)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 5 FAIR VALUE MEASUREMENT (CONTINUED)**

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Based on the terms and conditions in effect at December 31, 2020, the Organization's investments valued at NAV are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Strategy</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
<u>Internally Board Designated</u>				
BVI Growth Fund	\$922,700	See (a) below	N/A	Can redeem with 3 – 5 business days notification

(a) Outperform the return of the benchmark, which will be a weighing of the following indexes that match the target asset allocation of the fund:

30%	Bloomberg Barclays U.S. Government/Credit Bond Index
49%	Russell 3000 Index
21%	MSCI All Country World ex Index (Net)

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**NOTE 6 LINE OF CREDIT**

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The Organization has a \$500,000 line-of-credit agreement dated February 4, 2016, with Bank of the Sierra. Principal borrowings under the line-of-credit are payable February 4, 2023. Interest is payable monthly at the Bank's Prime rate, plus 0.875%, with a minimum rate of 4.25%. The effective interest rate at December 31, 2021, was 4.25%. The line-of-credit is secured by all assets of the Organization. At December 31, 2021 and 2020, the Organization had no borrowings under this agreement.

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**NOTE 7 LONG-TERM DEBT**

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The Organization's long-term debt at December 31, 2021 and 2020, is summarized below:

	<u>2021</u>	<u>2020</u>
Certificates of Participation, Series 2005, payable in annual principal payments ranging from \$630,000 to \$770,000 bearing a variable interest rate, with final payment due on August 1, 2026. At December 31, 2021 and 2020, the interest rate was 0.1% and 0.2%, respectively.	\$ 3,560,000	\$ 4,190,000
Less: Current Maturities	(655,000)	(630,000)
Less: Deferred Financing Costs, Net	(165,399)	(202,688)
<b>Total Long-Term Debt</b>	<b><u>\$ 2,739,601</u></b>	<b><u>\$ 3,357,312</u></b>

**MENNONITE BRETHERN HOMES, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7    LONG-TERM DEBT (CONTINUED)**

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The scheduled maturities of the long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	655,000
2023	685,000
2024	710,000
2025	740,000
2026	770,000
<b>Total</b>	<b><u>\$ 3,560,000</u></b>

**Certificates of Participation**

In August 2005, Palm Village issued \$12,085,000 in Certificates of Participation, Series 2005 (the 2005 Certificates) through the city of Reedley, California. The 2005 Certificates were issued to refinance the Certificates of Participation, Series 1996, to pay costs of issuance, to payoff personal notes and to provide funding for capital expenditures. In connection with the issuance of the 2005 Certificates, the Organization has granted legal title of the facilities to the city of Reedley, California, and has pledged and granted a security interest in its gross revenue.

Under the terms of the bond issue, the Organization leases the property from the city. The lease agreement between the Organization and the city requires the Organization to make the lease payments to a bond trustee who is responsible to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are made to the bondholders by the bond trustee from the principal and interest accounts. Upon retirement of the bonds, the Organization has the option to purchase the leased property for a nominal amount. Accordingly, the leased property and bond indebtedness has been included in the consolidated statements of financial position. The bonds are secured by substantially all of the Organization's assets.

The Organization holds an irrevocable letter of credit with the bond trustee and an irrevocable standby letter of credit with the Federal Home Loan Bank of San Francisco for the face amount of the bonds. The standby letter of credit has been extended to August 2023. In the unlikely event of a default, the letter of credit will be drawn upon to pay the bond trustee.

The Organization has a liability to the bond trustee immediately upon a draw on the letter of credit. Any draws on the letter of credit are subject to repayment the earliest of 36 months after the date of the draw or the termination date of the letter of credit.

**Restrictive Covenants**

The provisions of the 2005 Certificates contain various restrictive covenants pertaining to financial and operational requirements of the Organization, debt service coverage, minimum net assets without donor restrictions and cash reserve held in trust.

**Deferred Financing Costs**

Costs incurred in connection with the issuance of debt are capitalized and amortized over the term of the related indebtedness on the Series 2005 Certificates of participation using straight-line amortization which approximates the effective interest method. The total cost incurred in relation to the issuance of the Series 2005 Certificates was \$528,250. During 2010, an additional \$152,636 of costs was incurred in connection with the modification of the Series 2005 Certificates and in 2013, an additional \$5,000 was incurred relating to the Series 2005 Certificates. Deferred financing costs are net of accumulated amortization of \$520,487 and \$483,198, at December 31, 2021 and 2020, respectively. Total amortization expense related to financing costs was \$41,165 and \$41,116 for December 31, 2021 and 2020, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8    NET ASSETS**

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Net assets with donor restrictions were as follows as of the years ended December 31, 2021 and 2020:

	2021	2020
Specific Purpose		
Improvements to Heath Care Center	\$ <u>30,000</u>	\$ <u>30,000</u>
<b>Total</b>	<b>\$ <u>30,000</u></b>	<b>\$ <u>30,000</u></b>

Net assets with restrictions were released from restrictions by incurring expenditures satisfying the donor-restricted purposes or time requirements during the years ended December 31, 2021 and 2020 as follows:

	2021	2020
Memory care	\$ -	\$ 1,600
Call-light system	-	1,000
Health Care Center audio visual project	-	1,851
<b>Total</b>	<b>\$ <u>-</u></b>	<b>\$ <u>4,451</u></b>

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**NOTE 9    INCOME TAXES**

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Palm Village is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, there is no provision for income taxes reflected in the consolidated financial statements related to the activities of Palm Village.

Peer Services is a California corporation and is therefore subject to income taxes at the federal and state levels. Peer Services had no accrued tax liability as of December 31, 2021 and 2020, respectively. Peer Services paid \$917 and \$2,177 of federal and state income tax in 2021 and 2020, respectively.

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*. Under that guidance, the Organization 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 Organization and positions related to the potential sources of unrelated business income taxes (UBIT). The tax benefits and liabilities recognized in the consolidated financial statements from such a position are measured based on whether it has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization has assessed its federal and state tax positions and determined that there were no unrelated business income taxes and no uncertainties or possible related effects that need to be recorded as of or for the years ended December 31, 2021 and 2020.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 10 EMPLOYEE RETIREMENT PLAN**

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The Organization has a Section 403(b) retirement plan which covers substantially all employees after specified periods of service and after meeting certain eligibility requirements. The plan includes a salary deferral through a payroll savings program with no matching employer contributions.

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**NOTE 11 CONCENTRATIONS OF CREDIT RISK**

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Financial instruments that potentially subject the Organization to possible credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The Organization grants credit without collateral to its residents or their families, most of whom are local residents and many who are insured under third-party payer agreements. The mix of receivables from residents and third-party payers at December 31, 2021 and 2020, is as follows:

	<b>2021</b>	<b>2020</b>
Medicare	18%	27%
Medi-Cal	46%	56%
Private	26%	13%
Other	10%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Organization maintains its cash demand deposit accounts at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the years ended December 31, 2021 and 2020, the Organization's cash balances may have exceeded the federally insured limit.

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**NOTE 12 CONTINGENCIES AND COMMITMENTS**

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**Government Regulations – Medi-Cal**

The California Health and Human Services Agency, Department of Health Services, reserves the right to perform field audit examinations of the Organization's records. Any adjustments resulting from such examinations could retroactively adjust Medi-Cal revenue.

**Government Regulations – Medicare**

The Medicare intermediary has the authority to audit the skilled nursing facility's records any time within a three-year period after the date the skilled nursing facility receives a final notice of program reimbursement for each cost reporting period. Any adjustments resulting from these audits could retroactively adjust Medicare revenue.

**Self-Insurance Plan and Stop Loss Insurance**

The Organization operates a self-insurance plan for employee health insurance benefits which is managed by a third-party administrator. At December 31, 2021 and 2020, the accrual for medical and dental claims incurred but not reported was \$86,997 and \$127,866, respectively, and is recorded in other current liabilities in the consolidated statements of financial position.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

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**Self-Insurance Plan and Stop Loss Insurance (Continued)**

The Organization has entered into a stop-loss agreement with an insurance company to limit its losses on individual claims. Under the terms of the agreement, the insurance company will reimburse the Organization 100% of the cost of annual claims, in excess of an \$85,000 aggregate deductible, up to \$1,000,000 each covered period. The loss limit is \$85,000 per individual. Stop-loss insurance premium of approximately \$227,000 and \$233,000 was included in other benefits on the consolidated statements of functional expenses for the years ended December 31, 2021 and 2020, respectively.

**Professional Liability Coverage**

The Organization is insured for professional liability under a policy for a combined occurrence and maximum annual aggregate of \$3,000,000. The Organization pays fixed premiums for annual professional liability insurance coverage under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Organization is not aware of any unasserted claims or unreported incidents that are expected to exceed malpractice insurance coverage limits as of December 31, 2021.

**Workers' Compensation Insurance**

The Organization is part of a group self-insured plan for workers' compensation. Significant claims experienced could impact the results of operations based on independent audits performed by the state. Receivables from excess premiums paid were \$0 and \$4,139 as of the years ended December 31, 2021 and 2020, respectively. There are no estimated future claims for incurred incidents as of December 31, 2021 and 2020. Workers' compensation insurance expense for the years ended December 31, 2021 and 2020 totaled \$635,781 and \$694,250, respectively, and is included in other benefits on the consolidated statements of functional expenses.

**Other**

The health care industry is subject to numerous laws and regulations by federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for resident services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes it has mitigated these risks and that such matters will not have a material or adverse effect on the financial condition or results of operation of the Organization.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 12 CONTINGENCIES AND COMMITMENTS (CONTINUED)**

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**Litigation**

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. Management believes any amount exceeding insurance coverage will be immaterial to the Organization's financial condition or results of operations.

**Affordable Care Act**

The Patient Protection and Affordable Care Act and the Health Care and Education Tax Credits Reconciliation Act of 2010 are currently in force. Together, these two acts affect the health care system and impact payments received by health care providers. Under the previous Administration, action had been taken to start repealing the Affordable Care Act. The overall impact of these actions to the Organization is not presently determinable.

**Peer Services Limited Guaranty and Security Agreement**

On October 8, 2020, Peer Services entered into a limited guaranty and security agreement with a lender in connection with a \$10,625,000 term loan agreement between the lender and a client of Peer Services that matures October 6, 2023. Under the limited guaranty agreement, the aggregate liability of Peer Services shall not exceed (1) the principal amount of \$3,125,000, (2) plus interest accrued on the obligations, (3) plus all costs and expenses. The security agreements grants the lender collateral in all assets of Peer Services. Key employees of Peer Services have also personally guaranteed this debt, as well as other unrelated third parties. Palm Village is not a guarantor.

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**NOTE 13 REDEVELOPMENT PLAN OBLIGATIONS (AB 1169 DISCLOSURE)**

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The Organization's planned projects are designed to meet the needs of the Organization by providing additional housing and facilities for residents, consistent with the Organization's tax-exempt status. During the years ended December 31, 2021 and 2020, the Organization expended approximately, \$450,524 and \$382,132, respectively, for construction costs for its various facilities, including renovating a two-bedroom Patio Home into a three-bedroom Patio Home. Projects are funded by notes payable and net assets without donor restrictions. The board has also designated \$527,369 and \$332,172 as of December 31, 2021 and 2020, respectively, to be available for potential future contingencies.

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**NOTE 14 RISKS AND UNCERTAINTIES**

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On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the healthcare industry. The extent of the impact of COVID-19 on the Organization's financial condition will depend

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 14 RISKS AND UNCERTAINTIES (CONTINUED)**

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on certain developments, including the duration and spread of the outbreak, impact on the Organization's residents, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Organization's financial condition is uncertain.

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**NOTE 15 PAYCHECK PROTECTION PROGRAM LOAN**

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In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the coronavirus (COVID-19) crisis. On May 4, 2020 and April 4, 2021, the Organization received loan proceeds from the PPP in the amounts of \$1,634,867 and \$56,382, respectively, that may be partially or fully forgiven based on the level of employee retention and if utilized for payroll costs, mortgage obligations, rent, or utilities within a specified covered period and in accordance with the terms and conditions of the PPP loan. Subject to potential forgiveness, the PPP loans mature in two years and five years on May 4, 2022 and April 5, 2026, and bear interest at a rate of 1% per year. Monthly payments of principal and interest of \$92,006 and \$1,118 are deferred until after any application for forgiveness submitted by the Organization has been acted upon. The PPP loans are unsecured and contain customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Organization may prepay the PPP loans at any time prior to maturity with no penalty.

Consistent with the requirements of the PPP for loan forgiveness, the Organization used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. The Organization submitted an application for forgiveness of the entire amount of the PPP loan with its lender, and on October 13, 2021, the Company received notification from its bank that the principal balance of \$1,634,867 and the interest balance of \$23,515 were forgiven by the Small Business Administration. As a result, the Organization recognized the forgiveness of the PPP loan in other income in the accompanying consolidated statements of activities.

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**NOTE 16 PROVIDER RELIEF FUNDS**

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During 2021 and 2020, the Organization received \$283,088 and \$880,444, respectively, in grant funding from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund (PRF), which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the Organization earns the grant by incurring expenses related to the COVID-19 pandemic or by incurring lost patient revenues as a result of COVID-19.

The Organization has accounted for the HHS PRFs as a conditional contribution. Contribution revenues of \$374,285 and \$643,911 are included in other income in the accompanying consolidated statements of activities and were recognized based on incurring qualifying expenses and lost revenue through December 31, 2021 and 2020, respectively, that management believes meet the terms and conditions of the HHS PRF program. The remaining amount of \$145,336 is recorded as a current liability in the consolidated statements of financial position as the Organization has not met the criteria for income recognition at December 31, 2021. Management considers reporting that is required under the program to be an administrative task and, therefore, not a condition.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 17 STATEMENTS OF CASH FLOWS**

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The following table provides a reconciliation of cash and restricted cash and cash equivalents reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,301,572	\$ 4,388,411
Included in assets limited as to use (restricted)		
Interest-bearing cash and cash equivalents	218,976	231,683
Non-interest-bearing cash and cash equivalents	7,535	3,704
Non-interest-bearing cash and cash equivalents	<u>22,352</u>	<u>21,912</u>
<b>Total cash and restricted cash and cash equivalents shown on the statements of cash flows</b>	<b><u>\$ 3,550,435</u></b>	<b><u>\$ 4,645,710</u></b>

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**NOTE 18 RECLASSIFICATIONS**

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

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**NOTE 19 SUBSEQUENT EVENTS**

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Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the consolidated financial statements were issued or available to be issued.