

**LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
(A CALIFORNIA NONPROFIT, PUBLIC BENEFIT CORPORATION)**

**FINANCIAL STATEMENTS**

**Year Ended September 30, 2017**

LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
(A CALIFORNIA NONPROFIT, PUBLIC BENEFIT CORPORATION)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lincoln Glen Manor for Senior Citizens  
San Jose, California

I have audited the accompanying financial statements of Lincoln Glen Manor for Senior Citizens, a California nonprofit, public benefit corporation which comprise the statement of financial position as of September 30, 2017, and the related statements of activity and cash flows for the year then ended, and the related notes to the financial statements.

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

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

**Auditor's Responsibility**

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Glen Manor for Senior Citizens as of September 30, 2017 and statements of activity and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Change for New Pronouncement**

As described in Note 1 to the financial statements, the organization adopted FASB ASC 835-30, affecting the presentation of loan costs on the statement of financial position and amortization of the loan costs on the statement of activities. My opinion is not modified with respect to that matter.

Campbell, California  
January 31, 2018

*C. Rendell Bayless*

LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
(A CALIFORNIA NONPROFIT, PUBLIC BENEFIT CORPORATION)  
STATEMENT OF FINANCIAL POSITION  
September 30, 2017

ASSETS

Cash and cash equivalents		\$1,019,356
Assets whose use is limited (note 2)		1,548,131
Investments (note 3)		797,964
Investment in captive insurance companies (note 4)		277,510
Receivables (note 5)		964,598
Prepaid expense		1,104,452
Inventory		4,538
Property and equipment, net (note 6)		<u>13,258,762</u>
 Total assets		 <u>\$18,975,311</u>

LIABILITIES AND NET ASSETS

Accounts payable		\$100,586
Accrued Liabilities		
Interest		267,010
Wages and payroll taxes		717,236
Other accrued expense		134,149
Application and other deposits payable		22,945
Long-Term Debt (note 7)	\$14,219,858	
Less: deferred financing costs, net	<u>(1,405,796)</u>	
Net Long-Term Debt		<u>12,814,062</u>
 Total Liabilities		 14,055,988
 Net assets – unrestricted		 <u>4,919,323</u>
 Total liabilities and net assets		 <u>\$18,975,311</u>

See accompanying notes to financial statements.

LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
(A CALIFORNIA NONPROFIT, PUBLIC BENEFIT CORPORATION)  
STATEMENT OF ACTIVITY  
For the Year Ended September 30, 2017

REVENUE AND SUPPORT:		
Elderly and congregate services income	\$7,911,799	
Rent	4,068,080	
Contributions and grants received	6,982	
Laundry and meals	9,648	
Other	<u>58,580</u>	\$12,055,089
EXPENSES		
Administrative	1,573,471	
Utilities	323,439	
Operating & maintenance	748,706	
Property taxes and insurance	203,359	
Group health benefits	865,884	
Financial	577,443	
Bad debt expense	395,318	
Dietary expense	1,475,899	
Elderly and congregate service expense	3,700,313	
Housekeeping expense	290,446	
Linens and laundry	111,170	
Activities and social services expense	345,215	
Depreciation	1,285,847	
Ancillary nursing services	<u>569,589</u>	<u>12,466,099</u>
CHANGE IN NET ASSETS FROM OPERATIONS		(411,010)
OTHER INCOME (EXPENSE)		
Investment income (loss) (note 3)	<u>134,426</u>	<u>134,426</u>
CHANGE IN NET ASSETS		(276,584)
NET ASSETS AT BEGINNING OF YEAR		<u>5,195,907</u>
NET ASSETS AT END OF YEAR		<u>\$4,919,323</u>

See accompanying notes to financial statements.

LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
(A CALIFORNIA NONPROFIT, PUBLIC BENEFIT CORPORATION)  
STATEMENT OF CASH FLOWS  
For the Year Ended September 30, 2017

Cash flows from operating activities:	
Cash received from residents	\$12,017,638
Cash paid to suppliers and employees	(10,511,141)
Interest received	27,328
Contributions and grants received	6,982
Interest paid	<u>(535,032)</u>
Net cash provided by operating activities	1,005,775
 Cash flows from investing activities:	
Acquisition of property and equipment	(853,752)
Net (increase) decrease in Investments in Captive Insurance Companies	(67,002)
Net (increase) decrease in trustee assets whose use is limited to debt service and project costs	<u>(214,022)</u>
Net cash used in investing activities	(1,134,776)
 Cash flows from financing activities:	
Principal payments on equipment financing	<u>(10,946)</u>
Net cash provided (used) in financing activities	(10,946)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (139,947)
 Cash and cash equivalents at beginning of year	 <u>1,159,303</u>
 Cash and cash equivalents at end of year	 <u>\$1,019,356</u>

See accompanying notes to financial statements.

LINCOLN GLEN MANOR FOR SENIOR CITIZENS  
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STATEMENT OF CASH FLOWS (CONTINUED)  
For the Year Ended September 30, 2017

Reconciliation of Changes in Net Assets to  
Net Cash Provided By Operating Activities

Change in net assets	\$(276,584)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,285,847
Amortization of debt issuance costs	75,989
Amortization of bond issue discount and premium	(86,327)
Amortization of prepaid mortgage insurance	52,749
Realized and unrealized (gains) losses on investments	(107,098)
Change in operating asset and liability accounts:	
Accounts receivable	(494)
Prepaid expenses	(61,149)
Inventory	1,843
Accounts payable	22,602
Accrued interest payable	0
Accrued wages and payroll taxes	20,928
Change in applications and other deposits payable	1,121
Other accrued expense	<u>76,348</u>
Total adjustments	<u>1,282,359</u>
Net cash provided by operating activities	<u>\$1,005,775</u>

See accompanying notes to financial statements.



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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Lincoln Glen Manor for Senior Citizens was incorporated October 1, 1965 under the laws of California as a non-profit corporation for the specific purposes of providing housing for the aged. Subsequently, a new division was formed that currently provides skilled nursing services. In October 2001 a 31 unit Assisted Living Center was placed into service. A completely remodeled Central Manor with a new kitchen, dining area, chapel, offices and activity rooms were placed into service in late 2012 and a new Memory Care Center with 11 units was placed into service in December of 2012.

In 2015, the organization received approval to change their designation from the status of a Multiple Level Retirement Community (MLRC) to a Continuing Care Retirement Community (CCRC). In order to facilitate this change, a new entity was formed – Lincoln Glen Manor, LLC (a California nonprofit limited liability company). Lincoln Glen Manor LLC leases the independent, unlicensed residential living apartments and cottages from Lincoln Glen Manor for Senior Citizens, Inc. These financial statements include and consolidate all of the activity of Lincoln Glen Manor, LLC together with Lincoln Glen Manor for Senior Citizens.

Memberships

Lifetime memberships in the corporation are offered at \$500 per individual. Members are entitled to priority admittance to the organization's facilities and have certain other rights including electing the Board of Directors. The benefits and rights represented by the membership terminate at the death of the member.

Accounting Method

The facilities account for all transactions using the accrual method of accounting, whereby income is recorded when earned and expenses are recorded when incurred.

Financial Statement Presentation

The financial statements are presented in conformance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the projects are required to report information regarding the nature and amount of its net assets.

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Property and Equipment

Property and equipment are stated at cost and are being amortized or depreciated over their estimated useful lives ranging from 3 to 40 years by use of the straight-line method.

Interest costs relating to construction in progress are capitalized. Capitalization of interest costs will cease when the construction is completed and the property is placed into service.

Income Taxes

There is no provision for income taxes, since the corporation is exempt under provisions of I.R.C. Section 501 C (3).

The Organization applied the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

For the year ended September 30, 2017, there were no liabilities recorded for unrecognized tax benefits related to tax positions taken in the current year or past years and no accruals for interest and penalties related to uncertain tax positions.

The Organization files a United States federal tax return and a California state return. The tax years 2013 through 2016 remain open and subject to examination by the appropriate governmental agencies in the United States and California.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are cash equivalents. The organization has no cash equivalents at September 30, 2017. The organization maintains its cash balances in financial institutions, which at times may exceed federally insured limits. The organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS  
For the Year Ended September 30, 2017

Investments

Investments in equity and debt securities are reported at fair value in the statement of financial position. Realized and unrealized gains and losses are recognized in the statement of activities.

Contributions

Contributions are recognized as revenue in the period received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions of assets other than cash are recorded at their estimated fair value at date of donation. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support.

The Organization's policy is to report donor-imposed restricted contributions whose restrictions are met in the same period as received as unrestricted support.

Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the year ended September 30, 2017, there were no contributed services meeting the requirements for recognition in the financial statements.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, prepaid expenses and accrued liabilities, none of which are held for trading purposes, approximate the fair value due to the short-term maturities of those instruments. The carrying amount of the note payable and bonds payable approximates the fair value.

Fair value measurement applied to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

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*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets. Nonfinancial assets measured at fair value on a nonrecurring basis would include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, other real estate owned, and other intangible assets measured at fair value for impairment assessment.

The Organization also adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value; however the Organization may elect to measure newly acquired financial instruments at fair value in the future.

#### Healthcare Services Revenue

Healthcare services revenue includes room charges and ancillary services to residents and is recorded at established billing rates net of contractual adjustments resulting from agreements with third-party payors, if applicable.

Provisions for estimated third-party payors settlements are provided in the period the related services are rendered. Differences between the amounts accrued and the subsequent settlements are recorded in operations in the year of settlement.

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Third Party Reimbursement Agreements

Medi-Cal

The Organization participates in the Medi-Cal program that is administered by the California Department of Health and Human Services Agency, Department of Health Services. The Department determines Medi-Cal rates for the facility every August 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.

Medi-Cal made an unanticipated retroactive adjustment in September 2017 which had the effect of reducing reimbursements it had previously paid for relating to periods beginning in 2014 and ending in 2016. The organization booked a charge to revenue in the amount of \$163,935. Medi-Cal is applying current reimbursements against this retroactive adjustment. As of September 30, 2017, the organization carried a liability of \$97,514 for amounts due Medi-Cal that is included in other accrued expense.

Medicare

A licensed nursing facility which participates in the Medicare program for the year ended September 30, 2017 was reimbursed based on a Prospective Payment System (PPS). This program is administered by the United States Department of Health and Human Services. The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

Change for New Pronouncement

In 2017, the organization adopted the requirements in ASU 2015-03 for FASB ASC 835-30 to present debt issuance costs as a reduction in the carrying amount of the debt rather than as an asset. Amortization of the debt issuance costs is included as financial expense in the statement of activity.

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NOTE 2 – ASSETS WHOSE USE IS LIMITED

Assets whose use is limited includes assets restricted by bond indentures for construction and debt service. Assets are held by fiscal agents to be used only for specific bond projects, payments of long-term debt and maintaining required reserves.

The estimated fair value and costs of assets limited as to use at September 30, 2017 is as follows:

	<u>Cost</u>	<u>Estimated Fair Value</u>
Cash and Cash Equivalents	\$539,680	\$539,680
Corporate Issues	<u>1,009,000</u>	<u>1,008,451</u>
Total	<u>\$1,548,680</u>	<u>\$1,548,131</u>

NOTE 3 – INVESTMENTS

Investments are stated at fair value based on quoted prices in active markets (all Level 1 measurements) and consist of the following at September 30, 2017:

Mutual Funds & Exchange Traded Funds	<u>\$797,964</u>
Total	<u>\$797,964</u>

Investment income consists of the following:

Interest and dividends	\$27,328
Net realized and unrealized gains (losses)	<u>107,098</u>
Total investment income (loss)	<u>\$ 134,426</u>

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 NOTES TO FINANCIAL STATEMENTS  
 For the Year Ended September 30, 2017

NOTE 4 – INVESTMENT IN CAPTIVE INSURANCE COMPANIES

In January 2005, the Organization invested in a captive insurance company entitled the Peace Church Risk Retention Group (PCRRG), a joint venture consisting of approximately 40 members. PCRRG is a self-funded and self-governed insurance company, offering its members relief from volatile general and professional liability insurance costs through greater management of risk. PCRRG converted from a stock insurance company to a reciprocal insurance exchange effective December 31, 2007. The Organization accounts for its investment using the equity method.

The investment in PCRRG is \$137,864 as of September 30, 2017.

During the current year, the Organization invested collateral in a participation agreement with the Peace Church Workers Safety Program IC (A Reciprocal) (PCWSP) and Green Mountain Sponsored Captive Insurance Company, a sponsored captive insurance company organized under the laws of the State of Vermont. PCWSP is a self-funded and self-governed insurance company consisting of approximately 17 members, providing Workers' Compensation insurance coverage for the organization and its fellow members.

The collateral investment in the Peace Church Workers Safety Program IC amounts to \$139,646 as of September 30, 2017.

NOTE 5 – RECEIVABLES

Receivables are carried at amounts that approximate fair value. Receivables at September 30, 2017 consisted of:

Due from residents and private pay	\$ 321,770
Medi-Cal	405,975
Medicare	309,436
Due from employees	82,361
Allowance for doubtful accounts	<u>(154,944)</u>
Total Receivables	<u>\$964,598</u>

The Organization provides an allowance for doubtful accounts using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice. Accounts are periodically analyzed for collectability.

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NOTE 6 – PROPERTY & EQUIPMENT

Property and equipment consists of the following:

Land	\$222,773
Buildings and improvements	18,564,447
Construction in progress	115,677
Equipment, furnishings & other improvements	<u>5,541,181</u>
	24,444,078
Less accumulated depreciation	<u>11,185,316</u>
Property and equipment, net	<u>\$13,258,762</u>

Depreciation expense for the year ended September 30, 2017 was \$1,285,847.

NOTE 7 – LONG TERM DEBT

In April, 2011, the organization issued \$14,000,000 California Municipal Finance Authority Insured Revenue Bonds, Series 2011. The bonds bear interest at rates between 3.0% to 6.25%, with interest payments made semi-annually on April 1 and October 1. The bonds mature annually from 2012 to 2035, in amounts ranging from \$310,000 to \$1,010,000.

The funds were used to refund all of the outstanding ABAG Finance Corporation for Nonprofit Corporations Insured Certificates of Participation, Series 2000, finance the renovation of existing buildings, finance the costs of construction of a 31 unit assisted living facility, finance the conversion of 8 independent living units into 11 memory care beds for patients suffering from Alzheimer’s disease and dementia, finance the expansion, remodeling and updating of the Corporation’s Central Manor, fund a reserve fund for Bonds, and pay certain of the costs of issuance of the Bonds.

In February 2015, the California Health Facilities Financing Authority (“CHFFA”), on behalf of Lincoln Glen Manor for Senior Citizens issued Insured Refunding Revenue Bonds amounting to a principal amount of \$11,965,000 plus a net bond premium of \$860,187. The proceeds of the Bonds were used to provide for the advance refunding of a portion of the outstanding California Municipal Finance Authority Insured Revenue Bonds (Lincoln Glen Manor for Senior Citizens), Series 2011, plus fund a reserve fund for the Series 2015 Bonds and pay for a portion of the costs of issuance of the Series 2015 Bonds. The bonds bear interest at rates between 2.0% to 5.00%, with interest payments made semi-annually on April 1 and October 1. The bonds mature annually from 2018 to 2036, in amounts ranging from \$95,000 to \$975,000.



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Land and buildings of the organization as well as monies and securities held in trust and gross revenues secure the Bonds. The organization is required to meet certain debt coverage covenants. These covenants were met as of September 30, 2017. Mandatory sinking account payments are required for both the retained 2011 Series Bonds as well as the Series 2015 Bonds.

Bond issuance costs of \$458,905 for the 2011 Bond Series are being amortized on a straight-line basis over the life of the obligations. Bond issuance costs of \$284,914 for the 2015 Series Bonds are being amortized over the life of those obligations. A deferred charge relating to the defeased 2011 series bonds amounts to \$932,056 and is being amortized over the original life of the 2011 bond series.

In November 2014, the organization financed the purchase of a bus. The amount financed was \$55,192 and requires monthly principal and interest payments of \$1,064, with an interest rate of 5.89%. The equipment obligation is secured by the bus.

Scheduled principal maturities for these debt obligations for the next five years and thereafter are:

<u>Year ended</u> <u>September 30</u>	<u>2011 Bond</u> <u>Amount</u>	<u>2015 Bond</u> <u>Amount</u>	<u>Equipment</u> <u>Finance</u>
2018	\$380,000	\$95,000	\$11,609
2019	395,000	95,000	12,312
2020	415,000	100,000	1,059
2021	430,000	105,000	0
2022	0	560,000	0
Thereafter	0	11,010,000	0
Sub-Total	1,620,000	11,965,000	24,980
Unamortized Premium/Disc	(12,720)	622,598	0
Total	1,607,280	12,587,598	24,980

The fair value of long-term debt is calculated based on the estimated trade values as of September 30, 2017. The value is estimated using the rates currently offered for like debt instruments with similar remaining maturities.

	<u>Cost</u>	<u>Fair Value</u>
Long-Term Debt	\$14,219,858	\$14,219,858
Total	<u>\$14,219,858</u>	<u>\$14,219,858</u>

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NOTE 8 – UNRESTRICTED NET ASSETS

None of the Organization’s net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under SFAS No. 117.

NOTE 9 – FUNCTIONAL ALLOCATION OF EXPENSES

Functional classification of expenses for the year ended September 30, 2017 consisted of the following:

Program	\$9,945,266
Management and General Support	<u>2,520,833</u>
Total Operating Expenses	<u>\$12,466,099</u>

Fund raising expenses incurred during the year were immaterial.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on the best estimates of management.

NOTE 10 – RETIREMENT PLAN

The organization has a 403(b) plan administered by an insurance company that allows eligible employees to contribute money on a pre-tax basis. For the fiscal year ending September 30, 2017, the organization matched 2% of the employees’ contributions.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events to January 31, 2018, the date which the financial statements were available to be issued, and determined that no reportable events occurred.

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NOTE 12 – CONTINGENCIES AND COMMITMENTS

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 an examination 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 received a final notice of program reimbursement for each cost reporting period. Any adjustments resulting from these audits could retroactively adjust Medicare revenue.

Other

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirement, reimbursement for patient 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 resident services previously billed.

Litigation

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. In the opinion of management, there are no pending legal proceedings or claims that will have a material effect on the Organization's financial condition or results of operation.