

CHAPARRAL FOUNDATION

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2017 and 2016**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 10

Independent Auditors' Report

Board of Directors
Chaparral Foundation

We have audited the accompanying financial statements of Chaparral Foundation, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chaparral Foundation as of June 30, 2017 and 2016, 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 of America.

Bregante + Company LLP

San Francisco, California
November 27, 2017

www.bcocpa.com

301 Battery Street • 2 Mezzanine
San Francisco, CA 94111
T: 415.777.1001 • F: 415.546.9745

330 Ignacio Boulevard • Suite 201
Novato, CA 94949
T: 415.883.4262 • F: 415.883.4290

4309 Hacienda Drive • Suite 400
Pleasanton, CA 94588
T: 925.416.0550 • F: 925.416.0604

CHAPARRAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,654,079	\$ 136,077
Accounts receivable	788,867	2,300,826
Prepaid expenses	<u>61,583</u>	<u>45,825</u>
Total current assets	2,504,529	2,482,728
Property and equipment:		
Land	165,000	165,000
Land improvements	111,490	111,490
Building and improvements	1,932,849	1,932,849
Equipment and furnishings	<u>502,126</u>	<u>410,401</u>
	2,711,465	2,619,740
Less accumulated depreciation	<u>(2,110,666)</u>	<u>(2,055,890)</u>
Property and equipment, net	<u>600,799</u>	<u>563,850</u>
Total assets	<u>\$ 3,105,328</u>	<u>\$ 3,046,578</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 145,388	\$ 204,515
Accrued liabilities	155,333	125,301
Accrued compensated absences	239,812	209,148
Deferred revenue	<u>47,403</u>	<u>26,849</u>
Total current liabilities	587,936	565,813
Net assets:		
Unrestricted	<u>2,517,392</u>	<u>2,480,765</u>
Total liabilities and net assets	<u>\$ 3,105,328</u>	<u>\$ 3,046,578</u>

See accompanying notes to the financial statements.

CHAPARRAL FOUNDATION
STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue and support:		
Health care services revenue, net	\$ 5,467,929	\$ 5,302,903
Ancillary services and supplies revenue	860,242	734,029
Contributions	15,001	35,019
Other	1,825	118
Investment income, net	<u>289</u>	<u>6,718</u>
Total revenue and support	6,345,286	6,078,787
Expenses:		
Program services expenses	5,931,733	5,264,226
General and administrative expenses	364,381	347,272
Development/fundraising expenses	<u>12,545</u>	<u>11,079</u>
Total expenses	<u>6,308,659</u>	<u>5,622,577</u>
Changes in unrestricted net assets	36,627	456,210
Net assets, beginning of year	<u>2,480,765</u>	<u>2,024,555</u>
Net assets, end of year	<u>\$ 2,517,392</u>	<u>\$ 2,480,765</u>

See accompanying notes to the financial statements.

CHAPARRAL FOUNDATION
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ 36,627	\$ 456,210
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	74,527	74,229
Bad debt	-	24,060
(Increase) decrease in assets:		
Accounts receivable	1,511,959	(579,598)
Prepaid expenses	(15,758)	3,169
Increase (decrease) in liabilities:		
Accounts payable	(59,127)	(69,156)
Accrued liabilities	30,032	40,324
Accrued compensated absences	30,664	21,599
Deferred revenue	<u>20,554</u>	<u>(38,138)</u>
Total adjustments	<u>1,592,851</u>	<u>(523,511)</u>
Net cash provided (used) by operating activities	<u>1,629,478</u>	<u>(67,301)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(111,476)</u>	<u>(26,350)</u>
Net cash provided (used) by investing activities	<u>(111,476)</u>	<u>(26,350)</u>
Net increase (decrease) in cash	1,518,002	(93,651)
Cash and cash equivalents, beginning of year	<u>136,077</u>	<u>229,728</u>
Cash and cash equivalents, end of year	<u>\$ 1,654,079</u>	<u>\$ 136,077</u>

Supplemental disclosure of noncash investing activity:

Fully depreciated property and equipment with an original cost of \$19,751 and \$210,522 was retired during the years ended June 30, 2017 and 2016, respectively.

See accompanying notes to the financial statements.

CHAPARRAL FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Program Services	General and Administrative	Development/ Fundraising	Total	Program Services	General and Administrative	Development/ Fundraising	Total
Salaries, wages and benefits	\$ 4,651,992	\$ 25,128	\$ 9,038	\$ 4,686,158	\$ 4,011,183	\$ 23,519	\$ 7,793	\$ 4,042,495
Outside services and professional fees	599,310	331,517	-	930,827	519,792	291,356	-	811,148
Supplies	316,836	3,208	801	320,845	379,415	3,842	959	384,216
Occupancy	113,515	2,328	527	116,370	108,389	2,223	504	111,116
Depreciation	74,527	-	-	74,527	74,229	-	-	74,229
Office expense	105,771	947	2,179	108,897	88,217	914	1,823	90,954
Repairs and maintenance	33,502	516	-	34,018	51,281	714	-	51,995
Insurance	36,280	737	-	37,017	31,720	644	-	32,364
Bad debt	-	-	-	-	-	24,060	-	24,060
Total expenses	\$ 5,931,733	\$ 364,381	\$ 12,545	\$ 6,308,659	\$ 5,264,226	\$ 347,272	\$ 11,079	\$ 5,622,577
	94.03%	5.77%	0.20%	100.00%	93.62%	6.18%	0.20%	100.00%

See accompanying notes to the financial statements.

CHAPARRAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A -- Description of organization

In the early 1970s, former Berkeley Mayor Wally Johnson, his wife Marion Johnson, who was a member of the Executive Board of the Berkeley Senior Housing Association, and a prominent Berkeley physician, Dr. Leela Stevens Craig, who eventually joined the organization as its founding Medical Director, identified the need for a non-profit high-quality eldercare community in Berkeley, California.

In response, the Chaparral Foundation (the Foundation) was established in 1971 as a California non-profit corporation. To further its mission, the Foundation worked to create a home for aging seniors over the next seven years and opened Chaparral House in 1978.

In 1996, in response to new regulations and a greater need for a higher level of care, the Board of Directors upgraded Chaparral House from intermediate care to skilled nursing.

Today, Chaparral House is the only independent, non-profit, skilled nursing eldercare community in the city of Berkeley.

The philosophy of the Foundation is to provide the residents of Chaparral House individualized care and services in a warm, cheerful, homelike atmosphere, wherein: a meaningful life experience is preserved; individuality, independence, and self-esteem are fostered; freedom of choice and expression are affirmed; security and stability are ensured; the right of privacy is respected; and, opportunities for participation and contribution are encouraged.

The success of Chaparral House is reflected in its sterling reputation throughout the Bay Area medical community, and by its 5-Star Rating from the Centers for Medicare and Medicaid Services, which is based on the California Department of Health Services' annual survey, that rates Chaparral House in the top tier of all skilled nursing facilities in California.

In 2014, Chaparral House earned accreditation by the Joint Commission, the leading hospital accrediting organization in the United States and Worldwide, as well as special Certification in Post-Acute Care. Also in 2014, Chaparral House became the first skilled nursing facility in the United States to receive special Certification in Memory Care from the Joint Commission.

NOTE B -- Summary of significant accounting policies

Basis of accounting

The financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

CHAPARRAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Revenue and support recognition

The Foundation recognizes resident care revenue and other fee revenue in the period services are provided. The Foundation has agreements with third-party payors that provide for payments to the Foundation at amounts different from its established rates. Health care services revenue from third-party payors is reported at the net realizable amount. The Foundation believes that all accounts receivable are collectible and accordingly no allowance for doubtful accounts has been provided.

The Foundation records contributions upon the earlier of receipt or when a pledge agreement has been executed. Contributions that have restrictions based on use or time are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets when the restrictions have been satisfied.

The state-mandated Quality Assurance Fee (QAF) is passed-through to private-pay residents and is not included in net revenues or expenses.

Cash and cash equivalents

The Foundation considers most highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Foundation has no cash equivalents as of June 30, 2017 and 2016.

Concentration of credit risk

Financial instruments that potentially subject the Foundation to credit risk consist principally of cash on deposit and accounts receivable. The Foundation maintains its cash balances in various accounts at a single institution. The balances at times may exceed federally insured limits. Accounts receivable consist primarily of fees for services. The Foundation grants credit to residents and generally requires no collateral. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management believes the Foundation is not exposed to any significant credit risk with respect to these accounts.

Net assets

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for non-profit organizations. The financial activities are classified into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

CHAPARRAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Net assets (continued)

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and activities which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets. The Foundation has no temporarily restricted net assets at June 30, 2017 and 2016.

Permanently restricted: Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The Foundation has no permanently restricted net assets at June 30, 2017 and 2016.

Functional allocation of expenses

The cost of providing program services and supporting activities is summarized in the Statements of Activities and detailed in the Statements of Functional Expenses. Expenses that can be directly identified with a specific function are allocated directly to that function. Since the sole program activity of the Foundation is the operation of Chaparral House, management has allocated those operating expenses to program services. Expenses that cannot be directly identified with a specific function are allocated among the program services and the supporting activities benefited based on allocation methods and estimates made by management.

Property and equipment

The land, donated in 1974, is recorded at fair market value on the date of donation. The building, completed in 1978, and equipment are recorded at cost. The building is being depreciated over an estimated useful life of 40 years on a straight-line basis. Equipment and furnishings are depreciated over estimated useful lives using the American Hospital Association Standards. The Foundation generally capitalizes assets with an original cost over \$3,500.

Income tax status

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and 23701d of the California Revenue and Taxation Code, respectively. Therefore, no provision for federal or California income tax is reflected in the financial statements.

CHAPARRAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Income tax status (continued)

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. The Foundation does not believe its financial statements include any uncertain tax positions.

The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

In-kind contributions

Donated materials and certain contributed services required to be recognized are recorded at their fair value on the date of donation. The Foundation did not receive any in-kind contributions required to be recorded for the years ended June 30, 2017 or 2016. In addition, a number of individuals have donated amounts of their time to the Foundation. A dollar valuation of their effort is not reflected on the financial statements since it does not meet the criteria for recognition under the applicable accounting principles.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C -- Residents' petty cash

The Foundation acts as custodian for limited amounts of cash belonging to certain residents. The balances at June 30, 2017 and 2016 were \$5,378 and \$1,086, respectively. The cash is segregated in a separate checking account and cash box. The account is not reflected in the financial statements.

NOTE D -- Pension plan

The Foundation maintains a defined contribution pension plan for all administrative personnel who have earned a minimum of \$400 in annual compensation and for all eligible union employees. The total pension expenses for the years ended June 30, 2017 and 2016 were \$43,622 and \$49,515, respectively.

CHAPARRAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2017 and 2016

NOTE E -- Concentrations

Substantially all of the Foundation's non-management services and nursing employees are covered by a collective bargaining agreement. The current agreement with Service Employees International Union Local 250 expires on June 30, 2017.

Revenue from the third-party payors, the California Department of Health Services and Medicare, accounted for 57% and 45% of the total revenue and support for the years ended June 30, 2017 and 2016, respectively. Accounts receivable from these third-party payors accounted for 78% and 89% of the total receivables at June 30, 2017 and 2016.

For services that are paid under cost-reimbursed contractual arrangements with Medicare, Chaparral House is paid at an interim rate during the year. The difference between the interim rate and the actual reimbursement based on defined allowable costs results in a receivable from or a payable to third-party agencies.

The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Medicare program until after Chaparral House's annual cost reports have been audited or otherwise reviewed and settled by Medicare. The estimated settlement receivable/payable for unsettled cost reports is included in the financial statements.

NOTE F -- Unrestricted net assets

Components of unrestricted net assets at June 30 are:

	<u>2017</u>	<u>2016</u>
Board-designated reserve fund	\$ 175,000	\$ 175,000
Net investment in property and equipment	600,799	563,850
Other unrestricted net assets	<u>1,741,593</u>	<u>1,741,915</u>
Total unrestricted net assets	<u>\$ 2,517,392</u>	<u>\$ 2,480,765</u>

NOTE G -- Subsequent events

The date to which events occurring after June 30, 2017, have been evaluated for possible adjustments to the financial statements or disclosure is November 27, 2017, which is the date on which the financial statements were available to be issued.