

**MENNONITE HOME ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

DRAFT

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mennonite Home Association, Inc.  
Hannibal, Missouri

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mennonite Home Association, Inc., which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of activities and changes in net assets without donor restrictions and cash flows 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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 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 opinions.

Board of Directors  
Mennonite Home Association, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mennonite Home Association, Inc., as of September 30, 2019 and 2018, 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated REPORT DATE, on our consideration of Mennonite Home Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mennonite Home Association, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mennonite Home Association, Inc.'s internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

St. Louis, Missouri  
REPORT DATE

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**MENNONITE HOME ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2019 AND 2018**

<b>ASSETS</b>	2019	2018
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 206,121	\$ 252,099
Resident Trust Funds	11,701	11,223
Resident Security Deposits	11,695	11,025
Accounts Receivable, Net	696,294	737,276
Short-Term Investments	1,012,057	946,890
Due from Related Parties	82,250	48,905
Supplies Inventory	58,330	30,830
Prepaid Expenses	105,495	85,331
Total Current Assets	2,183,943	2,123,579
<b>PROPERTY AND EQUIPMENT, Net</b>	4,096,614	4,300,525
<b>OTHER ASSETS</b>		
Investment in Affiliate	173,556	157,955
Other Noncurrent Assets	74,134	65,178
Total Other Assets	247,690	223,133
Total Assets	\$ 6,528,247	\$ 6,647,237
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 286,908	\$ 2,503,622
Accounts Payable	315,884	324,184
Accrued Salaries and Payroll Taxes	139,931	125,519
Accrued Compensated Absences	68,307	56,478
Accrued Expenses	36,000	14,980
Due to Related Parties	505,785	312,843
Resident Trust Funds Liability	11,701	11,223
Resident Security Deposits	11,695	11,025
Total Current Liabilities	1,376,211	3,359,874
<b>LONG-TERM DEBT, Net Debt Issuance Costs and Current Maturities</b>	1,946,864	-
<b>OTHER LIABILITIES</b>		
Asset Retirement Obligation	63,819	60,780
Total Liabilities	3,386,894	3,420,654
<b>NET ASSETS WITHOUT DONOR RESTRICTION</b>	3,141,353	3,226,583
Total Liabilities and Net Assets	\$ 6,528,247	\$ 6,647,237

See accompanying Notes to Financial Statements.

**MENNONITE HOME ASSOCIATION, INC.**  
**STATEMENTS OF ACTIVITIES AND**  
**CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS**  
**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019		2018	
	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>OPERATING REVENUE</b>				
Resident Services	\$ 8,022,360	98.5 %	\$ 7,483,943	98.1 %
Other	96,211	1.2	94,939	1.2
Interest	20,833	0.3	18,324	0.2
Contributions	3,744	-	28,677	0.5
Grant	2,484	-	2,555	-
Total Operating Revenue	8,145,632	100.0	7,628,438	100.0
<b>OPERATING EXPENSE</b>				
Nursing	3,506,306	43.0	3,338,886	43.8
Activities and Social Services	137,568	1.7	132,786	1.7
Dietary	1,025,087	12.6	942,568	12.4
Housekeeping	250,345	3.1	223,356	2.9
Laundry	84,748	1.0	74,439	1.0
Plant Operations	545,951	6.7	531,524	7.0
Administration	1,516,878	18.6	1,621,938	21.3
Payroll Taxes and Employee Benefits	860,413	10.6	783,113	10.3
Interest	98,710	1.2	106,716	1.4
Depreciation	264,026	3.2	269,327	3.6
Total Operating Expense	8,290,032	101.7	8,024,653	105.4
<b>OPERATING LOSS</b>	(144,400)	(1.7)%	(396,215)	(5.4)%
<b>OTHER INCOME (LOSS)</b>				
Rent Income	20,200		20,200	
Loss on Sale of Property	(7,927)		(1,137)	
Realized Gain on Investments	1,346		12,808	
Unrealized Gain on Investments	29,950		3,923	
Total Other Income (Loss)	43,569		35,794	
<b>INCOME FROM INVESTMENT IN AFFILIATED COMPANY</b>	15,601		16,982	
<b>DECREASE IN NET ASSETS WITHOUT DONOR RESTRICTION</b>	(85,230)		(343,439)	
Net Assets Without Donor Restriction - Beginning of Year	3,226,583		3,570,022	
<b>NET ASSETS WITHOUT DONOR RESTRICTION - END OF YEAR</b>	\$ 3,141,353		\$ 3,226,583	

See accompanying Notes to Financial Statements.

**MENNONITE HOME ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets Without Donor Restrictions	\$ (85,230)	\$ (343,439)
Adjustments to Reconcile Change in Net Assets Without Donor Restrictions to Net Cash Provided (Used) by Operating Activities:		
Depreciation	264,026	269,327
Amortization	5,510	5,510
Change in Asset Retirement Obligation	3,039	2,895
Gain from Investment in Affiliated Company	(15,601)	(16,982)
Realized Gain on Investments	(1,346)	(12,808)
Change in Unrealized Gain on Investments	(29,950)	(3,923)
Loss on Sale of Property	7,927	1,137
(Increases) Decreases in Current Assets:		
Accounts Receivable	40,982	(113,913)
Supply Inventories and Prepaid Expenses	(47,664)	17,207
Due from Related Parties	(33,345)	(8,849)
Other Current Assets	(10,104)	(64,163)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	(8,300)	51,840
Accrued Salaries and Other Accrued Liabilities	48,409	(35,663)
Due to Related Parties	192,942	247,953
Net Cash Provided (Used) by Operating Activities	331,295	(3,871)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(68,042)	(86,991)
Net Sale (Purchase) of Short-Term Investments	(33,871)	364,802
Net Cash Provided (Used) by Investing Activities	(101,913)	277,811
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Long-Term Debt	(275,360)	(266,446)
Net Cash Used by Financing Activities	(275,360)	(266,446)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(45,978)	7,494
Cash and Cash Equivalents - Beginning of Year	252,099	244,605
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 206,121	\$ 252,099
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 90,161	\$ 101,206

See accompanying Notes to Financial Statements.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Mennonite Home Association, Inc. (the Association) is a nonprofit corporation located in Hannibal, Missouri, which consists of two separate divisions: Beth Haven Nursing Home (the Nursing Home), a 105-bed skilled nursing facility, and Pleasant View, which consists of 41 assisted living units and nine independent living units. Additionally there are two independent living houses.

**Tax Exempt Status**

The Association qualifies as a tax-exempt corporation described in Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state codes. Accordingly, the Association is not subject to federal income taxes under Section 501(a) of the Code. The Association is classified as a publicly-supported charitable organization under the Code and contributions to the Association qualify as charitable tax deductions for the contributor.

The Association adopted 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. The Association does not currently include an income tax provision in the financial statements. Management monitors the reporting of uncertain tax positions, which could result in recording of an income tax provision in the future.

The Association's tax returns are subject to review and examination by federal, state, and local authorities. The Association is not aware of any activities that would jeopardize its tax exempt status and is not aware of any activities that are subject to tax on unrelated business income or excise or other tax except for those that are already reported annually.

**Financial Statement Presentation**

Contributions received are recorded as an increase in net assets with or without donor restrictions, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Those resources over which the Board of Directors has discretionary control. Designated amounts represent amounts which the Board has set aside for a particular purpose.

*Net Assets With Donor Restrictions* – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Association or passage of time, or on a permanent basis.

The Association does not have any net assets with donor restrictions at September 30, 2019 and 2018.



**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Financial Statement Presentation (Continued)**

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 net assets 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 restriction. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded without donor restrictions.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Association considers all highly liquid debt instruments and certificates of deposit with a maturity of three months or less to be cash equivalents. The Association places its temporary cash investments with financial institutions. At times such investments may be in excess of the FDIC insurance limit.

**Resident Trust Funds**

The Association maintains savings accounts on behalf of certain residents. The Association acts as a fiduciary of these funds which are maintained for the personal use of those residents. The funds are expended at the direction of the residents. The balances in the resident trust fund accounts amounted to \$11,701 and \$11,223 at September 30, 2019 and 2018, respectively.

**Accounts Receivable**

The Association provides an allowance for uncollectible 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 individually analyzed on a monthly basis for collectability. Once accounts are deemed uncollectible, the accounts are written off. The allowance for uncollectible accounts was approximately \$200,000 and \$155,000 at September 30, 2019 and 2018, respectively.

**Short-Term Investments**

At September 30, 2019 and 2018, short-term investments consisted of fixed income and equity securities and are recorded at fair value.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Supplies Inventory**

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

**Property and Equipment**

Property and equipment are carried at cost less accumulated depreciation. It is the policy of the Association to only capitalize qualifying individual items greater than or equal to \$1,000. Provision for depreciation is made on a straight-line method based on the following useful lives:

Buildings and Improvements	5 to 40 years
Furniture, Fixtures, and Major Equipment	5 to 40 years
Minor Equipment	5 to 15 years
Vehicles	4 to 10 years
Land Improvements	5 to 20 years

**Debt Issuance Costs**

Financing costs related to the Association's issuance of long-term debt are being amortized over the term of the related indebtedness using the effective interest method. Debt Issuance costs are net of accumulated amortization of \$72,544 and \$67,034 at September 30, 2019 and 2018, respectively, and are included on the balance sheet as a direct reduction of long-term debt. Amortization expense was \$5,510 for the each of the years ended September 30, 2019 and 2018.

**Asset Retirement Obligation**

Asset retirement obligation represents obligations to dispose of assets that are legally required to be removed at a future date (asbestos). These are recorded at the net present value using a risk-free interest rate and an inflationary rate. The asset retirement obligation at September 30, 2019 and 2018 was \$63,819 and \$60,780, respectively.

**Resident Services Revenue**

Resident 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.

Provisions for estimated third-party payor 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.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Third-Party Reimbursement Agreements**

*Medicaid*

The Association participates in the Medicaid program that is administered by the Missouri Department of Social Services, Division of Medical Services. A licensed nursing facility that participated in the Medicaid program in the State of Missouri for the years ended September 30, 2019 and 2018, was reimbursed based upon facility-specific prospective daily rates. A 5% increase in daily rates took effect on July 1, 2018. As of June 2019, daily rates increased 1%.

*Medicare*

The Association, a licensed nursing facility, which participated in the Medicare program for the years ended September 30, 2019 and 2018 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 historically do not contain a cost settlement.

**Occupancy Percentages**

During the years ended September 30, 2019 and 2018, the occupancy percentages of the Nursing Home were as follows:

	2019		2018	
	<u>Days</u>	<u>Percentage</u>	<u>Days</u>	<u>Percentage</u>
Medicare	2,368	6.8 %	2,453	7.7 %
Medicaid	22,779	65.7	21,120	65.8
Private and Other	9,533	27.5	8,500	26.5
Total	<u>34,680</u>	<u>100.0 %</u>	<u>32,073</u>	<u>100.0 %</u>
Nursing Home Occupancy Percentage		<u>90.5 %</u>		<u>83.7 %</u>

The occupancy percentages for the Assisted Living Facility were 87.3% and 86.5% for the years ended September 30, 2019 and 2018, respectively. The occupancy percentage for the Independent Living Facility was 93.3% and 82.1% for the years ended September 30, 2019 and 2018, respectively.

**Other Revenue**

Other revenue consists of transportation, meals, and vending machine income.

**Grant Revenue**

Grant revenue consists of amounts received from Missouri Department of Transportation for transportation services. Other than reflecting the revenue separately in the financial statements, no additional reporting is required.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Operating Loss**

The statements of activities and changes in net assets without donor restrictions include a measurement of operating loss. Changes in net assets without donor restrictions which are excluded from operating loss include gain from investment in affiliated company and other revenues derived from nonoperating activities, consistent with industry practice.

**Advertising**

Advertising costs are charged to operations when incurred. Advertising expense was \$43,121 and \$51,234 for the years ended September 30, 2019 and 2018, respectively.

**Contributed Services**

The Association receives a substantial amount of services donated by volunteers. No amounts have been reflected in the financial statements for these services.

**Recently Issued Accounting Standards**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The five-step model defined by ASU 2014-09 requires the Association to (i) identify the contracts with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when each performance obligation is satisfied. Revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. ASU 2014-09 may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The capitalization of contract costs are limited to costs that would not have been incurred had the contract not been obtained. This standard is effective for the Association's year ending September 30, 2020.

FASB issued ASU 2016-02 in February of 2016 pertaining to recording of leases. The standard will not be effective for the Association until the year ending September 30, 2021. Implementation of the new standard will result in changes to the reporting and disclosure of leases. Management is in the process of evaluating the impact on the Association.

**Recently Adopted Accounting Standards**

During the year ended September 30, 2019, the Association adopted a provision to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions). The adoption of this accounting standard did not have an impact on the Association's financial position or changes in its net assets.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 1 SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Liquidity and Availability**

As of September 30, 2019 and 2018 the Association has a working capital (deficit) \$807,732 and (\$1,236,295), respectively. Average days (based on normal expenditures) cash on hand at September 30, 2019 and 2018 is 10 and 12, respectively.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

	2019	2019
Cash and Cash Equivalents	\$ 206,121	\$ 252,099
Accounts Receivable, Net	696,294	737,276
Total	\$ 902,415	\$ 989,375

The Association also has short-term investments that can be made available and converted to cash if deemed necessary. These investments have been excluded from the table above.

**Subsequent Events**

In preparing these financial statements, the Association has considered events and transactions for potential recognition or disclosure through REPORT DATE, the date the financial statements were available to be issued.

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment, by major category, are as follows at September 30:

	2019	2018
Land and Improvements	\$ 720,053	\$ 720,053
Buildings and Improvements	8,642,564	8,616,231
Furniture, Fixtures, and Equipment	959,104	956,182
Transportation Equipment	68,730	68,730
Subtotal	10,390,451	10,361,196
Less: Accumulated Depreciation	(6,293,837)	(6,060,671)
Total	\$ 4,096,614	\$ 4,300,525

Depreciation expense is reported as a charge to operations. Depreciation expense was \$264,026 and \$269,327 for the years ended September 30, 2019 and 2018, respectively.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 3 INVESTMENT IN AFFILIATED COMPANY**

The Association has 50% ownership in an affiliated company, Beth Haven Management Services, Inc. This investment is reflected on the Association's financial statements using the equity method. The carrying value of the investment equals the Association's percentage of the company's stockholders' equity at September 30, 2019 and 2018, respectively.

Financial positions and operating results of the affiliated company are summarized as follows:

	2019	2018
Current Assets	\$ 237,480	\$ 212,927
Property and Equipment	168,092	175,357
Total Assets	<u>405,572</u>	<u>388,284</u>
Current Liabilities	58,160	70,774
Other Liabilities	100	1,400
Total Liabilities	<u>58,260</u>	<u>72,174</u>
Total Stockholders' Equity	<u>\$ 347,112</u>	<u>\$ 316,110</u>
Management Fee Income	<u>\$ 685,300</u>	<u>\$ 737,815</u>
Net Income	<u>\$ 31,202</u>	<u>\$ 33,964</u>

**NOTE 4 LONG-TERM DEBT**

The Association obtained a loan on February 11, 2005 in the amount of \$4,650,000 to finance the Pleasant View project. The current interest rate is 3.48%. Terms of the loan agreement state that the interest rate will be adjusted on the fifth anniversary date of the loan and every five years thereafter to a rate of 2% in excess of the U.S. Swap Rate as reported by Bloomberg for the corresponding maturity two days prior to each interest rate change.

Payments are made monthly in the amount of \$30,205. The loan is secured by the assets of the Association. Beth Haven Group Homes, a related party, is also a guarantor of the loan. The loan is also insured by the USDA and matures September 1, 2027. The balance of the loan is \$2,272,340 and \$2,547,700 at September 30, 2019 and 2018, respectively.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 4 LONG-TERM DEBT (CONTINUED)**

**Restrictive Covenants**

The provisions of the loan agreement contained various restrictive covenants pertaining to financial and operational requirements of the Association, including tangible net worth, debt service coverage ratio and cash reserves held at the bank. For fiscal year ended September 30, 2018, the Association was not able to maintain certain requirements or obtain a waiver from the lending financial institution waiving the covenant requirement for the year. As a result, the entire loan balance was classified as short-term. As of September 30, 2019, the Association again did not meet certain covenant requirements, however, upon refinancing with a new bank, there are no restrictive, financial covenants. As such, the loan balance is now classified as long-term, with a current portion.

**Subsequent Refinancing**

The Association subsequently refinanced their existing loan, mentioned above, as of November 11, 2019. The total amount of the note is \$2,227,448 with an interest rate of 5%, and a maturity of November 15, 2024.

Aggregate maturity requirements on the refinanced loan payable for future years are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 286,908
2021	453,056
2022	476,235
2023	500,600
2024	282,399
Thereafter	273,142
Total	<u><u>\$ 2,272,340</u></u>

**NOTE 5 RELATED-PARTY TRANSACTIONS**

The Association paid \$462,291 and \$487,689 in management fees to Beth Haven Management Services, Inc., during the years ended September 30, 2019 and 2018, respectively. The amounts paid by the Association represent 5%, of Pleasant View's and the Nursing Home's gross receipts, respectively, plus an amount equal to salaries and payroll taxes of various personnel of the respective facilities. In addition, the Association remits payments for supplies and other operating expenses to Beth Haven Group Homes, Inc. and Beth Haven Terrace, Inc. The amounts due to related parties at September 30, 2019 and 2018 were \$505,785 and \$312,843, respectively.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Association leases office space under a month-to-month operating lease to Beth Haven Management Services, Inc. Rental income totaled \$13,000 for the years ended September 30, 2019 and 2018, respectively.

The Association received reimbursement for food, medical supplies, and other expenses provided to Beth Haven Group Homes, Inc. For the years ended September 30, 2019 and 2018, reimbursements received amounted to \$211,589 and \$182,687, respectively.

Amounts due from related parties at September 30, 2019 and 2018, consists of supplies and other operating expenses due from Beth Haven Group Homes, Inc., a nonprofit corporation related to the Association through common board membership, Beth Haven Terrace, Inc., a nonprofit corporation related to the Association through common board membership, and Beth Haven Management Services, a for-profit corporation related to the Association through common ownership and board membership. The balance at September 30, 2019 and 2018 was \$82,250 and \$48,905, respectively.

**NOTE 6 EMPLOYEE RETIREMENT PLAN**

The Association has a Section 401(k) 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 matching employer contributions. The matching contribution is a discretionary percentage of the employee's salary deferral as determined annually by the board of directors. The board approved to match 50% and 25% of the employee's salary deferral up to a maximum of 6% of compensation for the years ended September 30, 2019 and 2018, respectively. Employer contributions were \$9,964 and \$4,542 for the years ended September 30, 2019 and 2018, respectively.

**NOTE 7 CONCENTRATIONS OF CREDIT RISK**

The Association grants credit without collateral to its residents or their families, most of whom are local residents and who are insured under third-party payor agreements. The mix of receivables from residents and third-party payors at September 30, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	14 %	18 %
Medicaid	34	25
Private and Other	52	57
Total	<u>100 %</u>	<u>100 %</u>



**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 8 FAIR VALUE MEASUREMENTS**

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Association 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:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association 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.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

**Short-Term Investments**

Securities valued using Level 1 inputs include those trades on an active exchange, such as the New York Stock Exchange. Securities valued using Level 2 inputs include corporate, U.S. Treasury and agency obligations and municipal obligations. The Association does not have any securities that are valued using Level 3 inputs.

**MENNONITE HOME ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Short-Term Investments (Continued)**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30:

	2019			Total
	Level 1	Level 2	Level 3	
Equity Securities	\$ 350,879	\$ -	\$ -	\$ 350,879
Fixed Income Securities	-	661,178	-	661,178
Total	\$ 350,879	\$ 661,178	\$ -	\$ 1,012,057

  

	2018			Total
	Level 1	Level 2	Level 3	
Assets				
Equity Securities	\$ 302,317	\$ -	\$ -	\$ 302,317
Fixed Income Securities	-	644,573	-	644,573
Total	\$ 302,317	\$ 644,573	\$ -	\$ 946,890

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

**Government Regulations - Medicaid**

The Missouri Department of Social Services, Division of Medical Services, reserves the right to perform field audit examinations of the Association's records. Any adjustments resulting from such examinations could retroactively adjust Medicaid 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.

**Workers' Compensation Self-Insurance**

The Association obtains workers' compensation insurance through membership in the Missouri Nursing Home Insurance Trust Workers' Compensation Fund (the Trust), a trust formed for the benefit of qualified nursing facilities in the state of Missouri who wish to pool their resources to act as a group self-insurer as permitted by Section 287.280 of the Revised Statutes of Missouri. The Trust and its members jointly and severally agree to assume and discharge, by payment, any lawful awards entered against any member of the Trust. Workers' compensation expense through participation in the Trust was \$119,129 and \$127,281 for the years ended September 30, 2019 and 2018, respectively.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Self-Insured Medical Benefits**

The Association is part of a self-insured employee health plan. The plan provides health and death benefits to employees and employees under management of Beth Haven Management Services, including employees of the Association. The Association has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses to \$25,000 on individual claims before an annual deductible of approximately \$515,000. The insurance company also provides claims processing and other administrative functions. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not yet paid at year-end. At September 30, 2019 and 2018 total estimated claims liability is \$36,000 and \$15,000, respectively.

**Health Care**

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 requirements, reimbursement for patient services, and Medicare and Medicaid 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 Association is subject to asserted and unasserted claims encountered in the normal course of business. The Association'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 Association or unasserted claims that may result in such proceedings, the Association'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.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 10 FUNCTIONAL CLASSIFICATION OF EXPENSES**

Functional classification of expenses for the years ended September 30, 2019 and 2018 consisted of the following:

	2018		
	Nursing Home and Pleasant Valley	Support	Total
	Salaries and Benefits	\$ 3,617,771	\$ 246,488
Direct Nursing/Contracted/Supplies	942,014	-	942,014
Other Supplies, Materials, Food	501,514	27,416	528,930
Contracted Dietary	429,924	23,502	453,426
Utilities and Maintenance	386,772	21,144	407,916
Administrative Other Expense	-	704,405	704,405
Management Fee	243,625	27,069	270,694
NFRA Fee	476,966	-	476,966
Depreciation and Interest	356,552	19,491	376,043
Total	\$ 6,955,138	\$ 1,069,515	\$ 8,024,653
	2019		
	Nursing Home and Pleasant Valley	Support	Total
Salaries and Benefits	\$ 3,873,903	\$ 234,094	\$ 4,107,997
Direct Nursing/Contracted/Supplies	934,539	-	934,539
Other Supplies, Materials, Food	484,362	26,478	510,840
Contracted Dietary	552,139	30,184	582,323
Utilities and Maintenance	404,661	22,121	426,782
Administrative Other Expense	-	627,040	627,040
Management Fee	265,820	29,536	295,356
NFRA Fee	442,419	-	442,419
Depreciation and Interest	343,934	18,802	362,736
Total	\$ 7,301,777	\$ 988,255	\$ 8,290,032

Fundraising expenses incurred during the years ended September 30, 2019 and 2018 were immaterial and are included with management and general support.

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.

**MENNONITE HOME ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019 AND 2018**

**NOTE 11 OPERATIONS**

For the years September 30, 2019 and 2018, the Association incurred operating losses of approximately \$144,000 and \$396,000 respectively and overall decreases in net assets of approximately \$85,000 and 343,000, respectively. Further, as discussed in Note 4 the Association failed to maintain the required debt service coverage of 1.35x, as required per the loan agreement, for fiscal years 2019 and 2018.

During fiscal years September 30, 2019 and 2018, management has implemented strategies to improve the operating margin. The strategies have resulted in a decrease in the operating loss of over \$250,000 in fiscal year 2019 over 2018. These strategies include closely monitoring and reducing expenses across all departments. In addition, management has used more targeted marketing efforts and expanded admission eligibility in order to increase occupancy. Management has also increased room rates. These actions have led to an increase in resident service revenue of approximately \$538,000 in fiscal year 2019 over 2018.

As disclosed in Note 4, the Association has refinanced the existing loan subsequent to year-end. The refinanced loan agreement eliminates the financial covenants that existed under the prior loan. Management will continue to monitor expenses and look for opportunities to increase revenue in order to improve the operating margin.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Mennonite Home Association, Inc.  
Hannibal, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mennonite Home Association, Inc., which comprise the balance sheet as of September 30, 2019, and the related statements of activities and changes in net assets without donor restrictions, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated REPORT DATE.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mennonite Home Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mennonite Home Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Mennonite Home Association, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mennonite Home Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**CliftonLarsonAllen LLP**

St. Louis, Missouri  
REPORT DATE

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**MENNONITE HOME ASSOCIATION, INC.  
SCHEDULE OF FINDINGS AND MANAGEMENT'S RESPONSES  
YEAR ENDED SEPTEMBER 30, 2019**

**NO CURRENT YEAR FINDINGS**

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**MENNONITE HOME ASSOCIATION, INC.  
SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED SEPTEMBER 30, 2019**

**NO PRIOR YEAR FINDINGS**

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