

# SALEM CHRISTIAN HOMES, INC.

## FINANCIAL STATEMENTS

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June 30, 2025

(with Comparative Totals for 2024)

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

We have audited the accompanying financial statements of Salem Christian Homes, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

## **Report on Summarized Comparative Information Audited by Predecessor Auditors**

The financial statements of the Organization as of and for the year ended June 30, 2024, were audited by other auditors whose report dated November 19, 2024, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived



Irvine, California  
October 17, 2025

**SALEM CHRISTIAN HOMES, INC.**

**STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2025  
(WITH COMPARATIVE TOTALS FOR 2024)**

**ASSETS**

|                                            | <u>2025</u>         | <u>2024</u>         |
|--------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                              |                     |                     |
| Cash and cash equivalents                  | \$ 973,766          | \$ 921,980          |
| Accounts receivable                        | 1,254,356           | 824,979             |
| Investments                                | 38,883              | 35,092              |
| Prepaid expenses                           | 67,803              | 11,528              |
| Residents' trust accounts                  | 18,587              | 17,958              |
| Property, equipment, and improvements, net | <u>7,551,727</u>    | <u>6,934,418</u>    |
| <b>TOTAL ASSETS</b>                        | <u>\$ 9,905,122</u> | <u>\$ 8,745,955</u> |

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

|                               |                  |                  |
|-------------------------------|------------------|------------------|
| Accounts payable              | \$ 422,410       | \$ 203,119       |
| Accrued liabilities           | 1,448,093        | 1,732,052        |
| Note payable to related party | <u>-</u>         | <u>133,269</u>   |
| Total liabilities             | <u>1,870,503</u> | <u>2,068,440</u> |

**NET ASSETS**

|                            |                  |                  |
|----------------------------|------------------|------------------|
| Without donor restrictions | 7,698,381        | 6,464,469        |
| With donor restrictions    | <u>336,238</u>   | <u>213,046</u>   |
| Total net assets           | <u>8,034,619</u> | <u>6,677,515</u> |

|                                         |                     |                     |
|-----------------------------------------|---------------------|---------------------|
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 9,905,122</u> | <u>\$ 8,745,955</u> |
|-----------------------------------------|---------------------|---------------------|

The accompanying notes are an integral part of these financial statements.

**SALEM CHRISTIAN HOMES, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2025  
(WITH COMPARATIVE TOTALS FOR 2024)**

|                                        | Without<br>Donor<br>Restrictions | With<br>Donor<br>Restrictions | Total               |                     |
|----------------------------------------|----------------------------------|-------------------------------|---------------------|---------------------|
|                                        |                                  |                               | 2025                | 2024                |
| <b>REVENUE AND SUPPORT</b>             |                                  |                               |                     |                     |
| Client care services, net              | \$ 12,856,177                    | \$ -                          | \$ 12,856,177       | \$ 11,091,545       |
| Contributions                          | 2,753,441                        | 260,658                       | 3,014,099           | 2,548,016           |
| Special Events                         | 449,840                          | -                             | 449,840             | 336,250             |
| Investment income, net                 | 15,495                           | -                             | 15,495              | 12,690              |
| Rental income                          | -                                | -                             | -                   | 14,901              |
| Gain on sale of assets                 | 41,000                           | -                             | 41,000              | 13,912              |
| Employee Retention Credit, net         | 853,814                          | -                             | 853,814             | -                   |
| Net assets released from restrictions  | 137,466                          | (137,466)                     | -                   | -                   |
| <b>TOTAL REVENUE AND SUPPORT</b>       | <u>17,107,233</u>                | <u>123,192</u>                | <u>17,230,425</u>   | <u>14,017,314</u>   |
| <b>EXPENSES</b>                        |                                  |                               |                     |                     |
| Program services                       | 11,488,971                       | -                             | 11,488,971          | 11,862,611          |
| Management and general                 | 3,901,452                        | -                             | 3,901,452           | 2,840,263           |
| Fundraising                            | 482,898                          | -                             | 482,898             | 241,094             |
| <b>TOTAL EXPENSES</b>                  | <u>15,873,321</u>                | <u>-</u>                      | <u>15,873,321</u>   | <u>14,943,968</u>   |
| <b>CHANGE IN NET ASSETS</b>            | 1,233,912                        | 123,192                       | 1,357,104           | (926,654)           |
| <b>NET ASSETS AT BEGINNING OF YEAR</b> | <u>6,464,469</u>                 | <u>213,046</u>                | <u>6,677,515</u>    | <u>7,604,169</u>    |
| <b>NET ASSETS AT END OF YEAR</b>       | <u>\$ 7,698,381</u>              | <u>\$ 336,238</u>             | <u>\$ 8,034,619</u> | <u>\$ 6,677,515</u> |

The accompanying notes are an integral part of these financial statements.

**SALEM CHRISTIAN HOMES, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2025  
(WITH COMPARATIVE TOTALS FOR 2024)**

|                                  | <b>Program<br/>Services</b> | <b>Management<br/>and General</b> | <b>Fundraising</b> | <b>Total Expenses</b> |                      |
|----------------------------------|-----------------------------|-----------------------------------|--------------------|-----------------------|----------------------|
|                                  |                             |                                   |                    | <b>2025</b>           | <b>2024</b>          |
| Salaries and wages               | \$ 7,225,981                | \$ 2,133,140                      | \$ 265,253         | \$ 9,624,374          | \$ 8,904,860         |
| Benefits and taxes               | 2,123,296                   | 686,924                           | 33,232             | 2,843,452             | 1,484,316            |
| Client Support                   | 377,845                     | 39,713                            | 83,418             | 500,976               | 464,842              |
| Insurance                        | 34,968                      | 68,898                            | 36,945             | 140,811               | 1,211,438            |
| Interest expense                 | -                           | 31,909                            | -                  | 31,909                | 1,811                |
| Legal settlement                 | -                           | 140,000                           | -                  | 140,000               | 595,199              |
| Licensing, dues, fees, and taxes | 345,005                     | 166,902                           | 19,543             | 531,450               | 307,505              |
| Office expenses                  | 290,444                     | 161,309                           | 36,806             | 488,559               | 443,780              |
| Professional Fees                | 214,370                     | 214,784                           | 117                | 429,271               | 438,712              |
| Rent                             | 93,106                      | 6,825                             | -                  | 99,931                | 108,763              |
| Repairs and maintenance          | 240,047                     | 90,966                            | 1,745              | 332,758               | 308,969              |
| Travel                           | 9,993                       | 26,477                            | 5,514              | 41,984                | 31,266               |
| Utilities                        | 199,194                     | 43,470                            | 325                | 242,989               | 216,588              |
| Depreciation and amortization    | 334,722                     | 90,135                            | -                  | 424,857               | 425,919              |
|                                  | <u>\$ 11,488,971</u>        | <u>\$ 3,901,452</u>               | <u>\$ 482,898</u>  | <u>\$ 15,873,321</u>  | <u>\$ 14,943,968</u> |

The accompanying notes are an integral part of these financial statements.

**SALEM CHRISTIAN HOMES, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2025  
(WITH COMPARATIVE TOTALS FOR 2024)**

|                                                                                      | <b>2025</b>       | <b>2024</b>       |
|--------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                          |                   |                   |
| Change in net assets                                                                 | \$ 1,357,104      | \$ (926,654)      |
| Adjustments to reconcile change in net assets to net cash from operating activities: |                   |                   |
| Depreciation and amortization                                                        | 424,857           | 425,919           |
| Gain on sale of assets                                                               | (41,000)          | (13,912)          |
| Net realized and unrealized gain on investments                                      | (9,385)           | (12,690)          |
| Capitalized interest on note payable to related party                                | -                 | 1,811             |
| Changes in operating assets and liabilities:                                         |                   |                   |
| Accounts receivable                                                                  | (429,377)         | 142,741           |
| Prepaid expenses                                                                     | (56,275)          | (360,652)         |
| Residents' trust accounts                                                            | (629)             | 2,629             |
| Accounts payable                                                                     | 219,291           | (58,177)          |
| Accrued liabilities                                                                  | (283,959)         | 517,232           |
| Net Cash Provided By (Used In) Operating Activities                                  | <u>1,180,627</u>  | <u>(281,753)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                          |                   |                   |
| Purchases of property, equipment, and improvements                                   | (1,042,166)       | (601,460)         |
| Proceeds from sale of property, equipment, and improvements                          | 41,000            | 69,441            |
| Purchases of investments                                                             | -                 | (215,025)         |
| Proceeds from sales of investments                                                   | 5,594             | 827,173           |
| Net Cash Provided By (Used In) Investing Activities                                  | <u>(995,572)</u>  | <u>80,129</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                          |                   |                   |
| Proceeds from note payable to related party                                          | -                 | 131,458           |
| Payments on note payable to related party                                            | (133,269)         | -                 |
| Net Cash Provided By (Used In) Financing Activities                                  | <u>(133,269)</u>  | <u>131,458</u>    |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                       | 51,786            | (70,166)          |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                | <u>921,980</u>    | <u>992,146</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                      | <u>\$ 973,766</u> | <u>\$ 921,980</u> |

The accompanying notes are an integral part of these financial statements.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 1 – Organization**

Salem Christian Homes, Inc. (the Organization) is a nonprofit organization established in the state of California in 1969. The Organization provides Christian residential care and training for adults who have developmental disabilities. The Organization's revenue and support come primarily from various state agencies, contributions, investment income, and fundraising support.

**NOTE 2 – Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Basis of Presentation***

The Organization's net assets, revenue, support, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

*Without Donor Restrictions* - Net assets that are not subject to donor-imposed restrictions.

*With Donor Restrictions* - Net assets subject to donor-imposed restrictions that are temporary in nature and will be met by actions of the Organization or the passage of time, purpose, or other events specified by the donor. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Other donor restrictions are perpetual in nature, where the donor stipulates that the corpus be maintained intact in perpetuity. At June 30, 2025, there were no assets with perpetual donor restrictions.

**SALEM CHRISTIAN HOMES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2025**  
**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Comparative Totals***

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2024, from which the summarized information was derived.

***Reclassification***

Certain amounts related to the prior year financial statements have been reclassified to conform to the current year financial statement presentation.

***Use of Estimates***

The Organization uses estimates and assumptions in preparing these financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from those estimates.

***Cash and Cash Equivalents***

The Organization considers investments with original maturities of three months or less to be cash equivalents. The carrying amount approximates fair value because of the short maturity of those instruments.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Accounts Receivable***

Accounts receivable consist of billings for Medi-Cal patients and government programs for two Regional Centers, less any allowance for credit losses. The Organization estimates the allowance for expected credit losses based upon a review of outstanding accounts receivable, historical collection information, existing economic conditions, and forward-looking macroeconomic conditions. Because of the uncertainties involved in estimating the amount to be collected, it is at least reasonably possible that accounts receivable actually collected could differ materially from those estimates. At June 30, 2025, management determined that an allowance for expected credit losses was not needed, as all amounts are considered fully collectible.

The Organization does not obtain collateral to secure its accounts receivable.

***Investments***

The Organization values its investments at their readily determinable fair values. Unrealized gains or losses (including investments bought, sold, and held during the year) are included in investment income, net on the statement of activities.

***Residents' Trust Accounts***

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

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Property, Equipment, and Improvements***

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

***Impairment of Long-Lived Assets***

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

***Client Care Services Revenue***

Client care services revenue is recognized in the month services are provided and is primarily received through Medi-Cal and government programs for two Regional Centers.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 2 – Summary of Significant Accounting Policies (Continued)**

***Contributions Revenue***

All contributions are considered to be available for use unless specifically restricted by the donor. Contributions received that are designated for future periods or are restricted by the donor for specific purposes are reported as support with donor restrictions and increases that net asset class. When a donor's stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The cash flows are discounted at a discount rate commensurate with the risks involved, at the date the promise was made. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

***Functional Allocation of Expenses***

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit, such as estimates of time and effort.

***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Tax Code. Contributions to the Organization are deductible for tax purposes under Section 170(c)(2) of the Internal Revenue Code. The Organization is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes is included in these financial statements.

SALEM CHRISTIAN HOMES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

*Income Taxes (Continued)*

The Organization recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

*Concentration of Credit Risk*

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

*Fair Value Measurements*

The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which requires that financial instruments and investments be presented at fair market value. ASC 820 defines fair market value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. This standard categorizes the method for determining fair market value into a three-level hierarchy as follows:

*Level 1* – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets and liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

*Level 2* – Valuations based on other observable inputs, which include quoted prices in active markets for similar assets and liabilities, either directly or indirectly. These inputs may include observable inputs such as interest rates that are observable at commonly quoted intervals.

SALEM CHRISTIAN HOMES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 2 – Summary of Significant Accounting Policies (Continued)

*Fair Value Measurements (Continued)*

*Level 3* – Valuations based on unobservable inputs for assets and liabilities, which are typically based on the Organization's own assumptions which are internally developed and estimated.

*Subsequent Events*

Management has evaluated significant events or transactions that have occurred since the statement of financial position date through October 17, 2025, which represents the date that the financial statements were available to be issued, and has determined that no additional items need to be disclosed.

NOTE 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following as of June 30, 2025:

|                                                                                                       |                     |
|-------------------------------------------------------------------------------------------------------|---------------------|
| Cash and cash equivalents                                                                             | \$ 973,766          |
| Accounts receivable                                                                                   | 1,254,356           |
| Investments                                                                                           | <u>38,883</u>       |
|                                                                                                       | 2,267,005           |
| Less amounts unavailable for general expenditure<br>within one year due to donor-imposed restrictions | <u>(336,238)</u>    |
|                                                                                                       | <u>\$ 1,930,767</u> |

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 4 – Investments**

The Organization's investments are managed by investment managers and held by a third-party trustee.

Investments consist of the following as of June 30, 2025:

|                         | <u>Level 1</u>  | <u>Level 2</u>   | <u>Level 3</u> | <u>Total</u>     |
|-------------------------|-----------------|------------------|----------------|------------------|
| Money market funds      | \$ 6,135        | \$ -             | \$ -           | \$ 6,135         |
| Pooled separate account | <u>-</u>        | <u>32,748</u>    | <u>-</u>       | <u>32,748</u>    |
|                         | <u>\$ 6,135</u> | <u>\$ 32,748</u> | <u>\$ -</u>    | <u>\$ 38,883</u> |

The net earnings on investments, which are included in investment income, net in the accompanying statement of activities for the year ended June 30, 2025, are as follows:

|                                                 |                  |
|-------------------------------------------------|------------------|
| Interest and dividends                          | \$ 6,110         |
| Net realized and unrealized gain on investments | <u>9,385</u>     |
| Net investment income                           | <u>\$ 15,495</u> |

There were no significant investment fees.

**SALEM CHRISTIAN HOMES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2025**  
**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 5 – Property and Equipment**

Property and equipment is summarized as follows at June 30, 2025:

|                                                |                     |
|------------------------------------------------|---------------------|
| Depreciable assets:                            |                     |
| Buildings                                      | \$ 7,648,111        |
| Vehicles                                       | 1,367,686           |
| Furniture and equipment                        | 531,216             |
| Leasehold improvements                         | <u>98,924</u>       |
|                                                | 9,645,937           |
| Less accumulated depreciation and amortization | <u>(5,011,183)</u>  |
|                                                | <u>4,634,754</u>    |
| Nondepreciable assets:                         |                     |
| Land                                           | 1,488,464           |
| Land improvements                              | 27,476              |
| Construction in progress                       | <u>1,401,033</u>    |
|                                                | <u>2,916,973</u>    |
| Property, equipment, and improvements, net     | <u>\$ 7,551,727</u> |

Depreciation and amortization expense totaled \$424,857 for the year ended June 30, 2025.

**NOTE 6 – Employee Retention Credits**

The Employee Retention Credit (ERC) was enacted in March 2020 by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer paid to employees between March 2020 through December 2020 then 70% from January 2021 through September 2021. During the year ended June 30, 2025, the Organization recorded \$853,814 of refundable ERC claimed under provisions of the CARES Act in the accompanying statement of activities, net of fees. The ERC was collected during the year ended June 30, 2025.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 7 – Net Assets with Donor Restrictions**

The activity of net assets with donor restrictions for the year ended June 30, 2025 is as follows:

|                                                 | <u>Balance at<br/>June 30,<br/>2024</u> | <u>Contributions</u> | <u>Releases</u>     | <u>Balance at<br/>June 30,<br/>2025</u> |
|-------------------------------------------------|-----------------------------------------|----------------------|---------------------|-----------------------------------------|
| Subject to expenditure<br>for specified purpose |                                         |                      |                     |                                         |
| Strategic plan                                  | \$ 4,074                                | \$ 20,298            | \$ (24,372)         | \$ -                                    |
| Resident activities                             | 83,165                                  | 6,074                | (27,543)            | 61,696                                  |
| Designated for ICF<br>and CCL locations         | <u>125,807</u>                          | <u>234,286</u>       | <u>(85,551)</u>     | <u>274,542</u>                          |
| Total net assets with<br>donor restrictions     | <u>\$ 213,046</u>                       | <u>\$ 260,658</u>    | <u>\$ (137,466)</u> | <u>\$ 336,238</u>                       |

**NOTE 8 – Related-Party Transactions**

Former and present board members of the Organization have formed Salem Foundation (the Foundation), a tax-exempt corporation. The Foundation was formed to operate exclusively for promoting the welfare of the Organization and to solicit and receive funds to be held as principal, which may be loaned to the Organization from time to time, according to its needs. In addition, at the discretion of the Foundation's Board of Directors, the Foundation may distribute to the Organization annually the greater of 85 percent of the Foundation's adjusted net income for the prior tax year or 3.5 percent of the average net assets for a fiscal year, determined by the average of the beginning and ending fiscal year net asset balances. Any additional distributions will be based on a five-year portfolio performance evaluation with the actual distribution being determined by the Foundation's Board of Directors. During the year ended June 30, 2025, the Organization received contributions of \$1,112,025 from the Foundation, which are included within contributions in the accompanying statement of activities.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 8 – Related-Party Transactions (Continued)**

On April 29, 2024, the Foundation issued the Organization a short term note in the amount of \$131,458. All accrued interest and principal was paid in full during the year ended June 30, 2025.

**NOTE 9 – Retirement Plan**

The Organization has a defined contribution 403(b) retirement plan. The plan covers all full-time employees of the Organization. The Organization may contribute a discretionary matching contribution up to six percent of salary deferrals and may also contribute a discretionary employer contribution up to six percent of eligible compensation as determined by the Board of Directors. The discretionary matching contribution and discretionary employer contribution is available to employees who are 21 years of age, have worked at least six consecutive months, and completed at least 1,000 hours of service or have completed one year of employment. Eligible employees become vested in the plan based on the number of years of service with the Organization, which is 20 percent per year and become fully vested after five years of service. For the year ended June 30, 2025, the Organization's discretionary contributions to the plan were \$146,405.

**NOTE 10 – Commitments and Contingencies**

***Contingencies***

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

In the prior year, the Organization became involved in two wage and hour legal matter that resulted in settlements with the outside parties. At June 30, 2025, the Organization accrued a liability for these legal matters in the amount of \$140,000 and recognized legal settlement expense in the accompanying statement of functional expense.

**SALEM CHRISTIAN HOMES, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2025**

**(WITH COMPARATIVE TOTALS FOR 2024)**

**NOTE 10 – Commitments and Contingencies (Continued)**

***Contingencies (Continued)***

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

In December 2020, a state agency claimed that the Organization has been receiving overpayments for at least four residents. In addition, the state agency claimed that the Organization continued to collect client care services revenue when the Organization already had received payment for the services provided to the residents. At June 30, 2021, the Organization, with the assistance of outside legal counsel, estimated the cost to resolve this matter to be approximately \$305,000. Therefore, at June 30, 2021, the Organization accrued a liability to the state agency of approximately \$305,000 and reduced client care services revenue by approximately \$305,000. Currently, the Organization is working with the state agency to determine the settlement amount for the remaining residents. At June 30, 2025, the estimated remaining cost to resolve this matter is approximately \$217,000, which is included in accrued liabilities on the statement of financial position. It is possible that the Organization's recorded estimate of this contingency may change in the near term.

***Commitments***

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

Rent expense was \$99,931 for the year ended June 30, 2025.