RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

ANNUAL REPORT CHECKLIST

for
FISCAL YEAR ENDED:
12/31/2012

PROVIDER: Mennonite Brethren Homes, Inc.

FACILITY(IES): Palm Village Retirement Community

CONTACT PERSON: Joanne Brannan, Controller

TELEPHONE NO.: (559)638-6933 **EMAIL:**joannebrannan@palmvillage.com

✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓

Your complete annual report must consist of *3 copies* of all of the following:

✓ This cover sheet.

✓ Annual Provider Fee in the amount of: $ 6,392

✓ If applicable, late fee in the amount of: _____

✓ Certification by the provider's chief *executive* officer that:

✓ The reports are correct to the best of his/her knowledge.

✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.

✓ The provider is maintaining the required *liquid reserve* and refund reserve, if applicable.

✓ Evidence of the provider's fidelity bond.

✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (3 copies total)

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report. (3 copies total)

RECEIVED
APR 26 2013
CONTINUING CARE
CONTRACTS BRANCH

COMMERCIAL CRIME COVERAGE PART
DECLARATIONS PAGE

POLICY EFFECTIVE 03/01/2013 POLICY NO. 9621-300

NAMED INSURED MENNONITE BRETHREN HOMES

LOCATIONS

PREMISES ARE THE SAME AS SHOWN ON THE COMMERCIAL PROPERTY COVERAGE PART DECLARATIONS PAGE

COVERAGES, LIMITS OF INSURANCE AND DEDUCTIBLE

BOND - EMPLOYEE DISHONESTY COVERAGE FORM A - BLANKET CR0001

	LIMITS OF INSURANCE	DEDUCTIBLE AMOUNT
ALL OFFICERS AND EMPLOYEES - HONESTY	$100,000	$250

BOND - FORGERY AND ALTERATIONS COVERAGE FORM B CR0003

	LIMITS OF INSURANCE	DEDUCTIBLE AMOUNT
DEPOSITORS FORGERY	$25,000	$250

THEFT, DISAPPEARANCE AND DESTRUCTION COVERAGE FORM C CR0004

	LIMITS OF INSURANCE	DEDUCTIBLE AMOUNT
PREMISES	$1,000	$250
MESSENGERS	$1,000	$250

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

April 24, 2013

Department of Social Service
Continuing Care Contracts Branch
744 P Street M/S 10-90
Sacramento, CA 95814

RE: Certification by Chief Executive Officer

Dear Sir or Madam:

This letter is to serve as certification concerning the annual report for Palm Village Retirement Community.

The annual report and any amendments thereto are correct to the best of my knowledge.

Each continuing care contract form in use or offered to new residents has been approved by the Department.

As of the date of the CEO's certification, Palm Village Retirement Community is maintaining the required liquid reserve.

Sincerely,

David K. Reimer
CEO/President

703 W. HERBERT
P. O. BOX 1028
REEDLEY, CA 93654-1028

TEL 559 638 6933
FAX 559 638 8463
WEB www.palmvillage.com
LIC. #100404809 • COA170

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATE OF CALIFORNIA CONTINUTING CARE RESERVE REPORT

December 31, 2012
and
Independent Auditor's Report

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Palm Village Retirement Community

We have audited the accompanying continuing care reserve report of Mennonite Brethren Homes, Inc. dba Palm Village Retirement Community (Palm Village), a California Not-For-Profit Corporation, as of December 31, 2012.

Management's Responsibility for the Continuing Care Reserve Report

Management is responsible for the preparation and fair presentation of the continuing care reserve report in accordance with the reporting provisions of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the continuing care reserve report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the continuing care reserve report based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the continuing care reserve report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the continuing care reserve report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the continuing care reserve report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the continuing reserve report 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the continuing care reserve report.

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

2210 E. Route 66, Suite 100, Glendora, CA 91740
Tel 626.857.7300 | Fax 626.857.7302 | E-Mail INFO@VLSLLP.COM | Web WWW.VLSLLP.COM

Opinion

In our opinion, such continuing care reserve report Forms 1-1, 1-2, and 5-1 through 5-5 present fairly, in all material respects, the liquid reserve requirements of Palm Village, at December 31, 2012, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

The continuing care reserve report is prepared for the purpose of complying with the California Health and Safety Code Section 1792 and is not intended to be a complete presentation of Palm Village's assets, liabilities, revenues and expenses and as such is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Restriction of Use

This report is intended solely for the information and use of the board of directors and management of Palm Village and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

April 23, 2013

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	147
[2]	Number at end of fiscal year	154
[3]	Total Lines 1 and 2	301
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	X.50
[5]	Mean number of continuing care residents	150.5
All Residents		
[6]	Number at beginning of fiscal year	295
[7]	Number at end of fiscal year	290
[8]	Total Lines 6 and 7	585
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	X.50
[10]	Mean number of *all* residents	292.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.51

Line

FORM 1-2
ANNUAL PROVIDER FEE

TOTAL

[1]	Total Operating Expenses (including depreciation and debt service - interest only)		13,181,559
[a]	Depreciation	728,655	
[b]	Debt Service (Interest Only)	29,786	
[2]	Subtotal (add Line 1 a and 1 b)		758,441
[3]	Subtract Line 2 from Line 1 and enter result.		12,423,118
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		0.51
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		6,392,066
[6]	**Total Amount Due** (multiply Line 5 by .001)		x .001 6,392

PROVIDER: Mennonite Brethren Homes, Inc.
COMMUNITY: Palm Village Retirement Community

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	8/25/2005	445,000	15,035	69,451	529,486
2	various	100,000	12,778	-	112,778
3	9/1/2008	7,572	1,973	-	9,545
4					
5			-		
6			-		
7			-		
8			-		
		TOTAL:	29,786	69,451	651,809

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Mennonite Brethren Homes, Inc

RECEIVED
APR 26 2013
CONTINUING CARE
CONTRACTS BRANCH

FORM 5-2

LONG-TERM DEBT INCURRED

DURING FISCAL YEAR

(Including Balloon Debt

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	3/1/2012	10,637.00	1,261.10	12.00	15,133.20
2					
3					
4					
5					
6					
7					
8					
	TOTAL:				15,133.20

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Mennonite Brethren Homes, Inc

RECEIVED
APR 26 2013
CONTINUING CARE
CONTRACTS BRANCH

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	651,809
2	Total from Form 5-2 bottom of Column (e)	15,133
3	Facility leasehold or rental payment paid by provider during fiscal year, (including related payments such as lease insurance)	0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	666,942

PROVIDER: Mennonite Brethren Homes, Inc

RECEIVED
APR 26 2013
CONTINUING CARE
CONTRACTS BRANCH

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		13,181,559
2	Deductions		
a	Interest paid on long-term debt (see instructions)	29,786	
b	Credit enhancement premiums paid for long-term debt (see instructions)	69,451	
c	Depreciation	728,655	
d	Amortization	(25,754)	
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	10,036,437	
f	Extraordinary expenses approved by the Department	0	
3	Total Deductions		10,838,575
4	Net Operating Expenses		2,342,984
5	Divide Line 4 by 365 and enter the result.		6,419
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve mount.		481,435

PROVIDER: Mennonite Brethren Homes, Inc
COMMUNITY: Palm Village Retirement Community

RECEIVED
APR 26 2013
CONTINUING CARE
CONTRACTS BRANCH

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

DSS Report
Form 5-4 line 2-e
For the year ended 12/31/12

Form 5-4, Line 2-e		$	10,036,437
Resident Revenue per Financial Statements		$	13,608,412
Less:			
Amort of entrance fees	(781,477)		
Other revenue	(68,855)		
RCC & HCC	(2,125,588)		
Patio Home Maint Fees	(596,055)		
			(3,571,975)
		$	10,036,437

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Mennonite Brethren Homes, Inc.

Fiscal Year Ended: 12/31/2012

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

		Amount
[1]	Debt Service Reserve Amount	666,942
[2]	Operating Expense Reserve Amount	481,435
[3]	**Total Liquid Reserve Amount:**	1,148,377

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents	2,000,000	2,014,607
[5]	Investment Securities		
[6]	Equity Securities		
[7]	Unused/Available Lines of Credit		
[8]	Unused/Available Letters of Credit		
[9]	Debt Service Reserve		(not applicable)
[101	Other:		
	(describe qualifying asset)		
	Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] 2,000,000	[12] 2,014,607
	Total Amount Required:	[13] 666,942	[14] 481,435
	Surplus/(Deficiency):	[15] 1,333,058	[16] 1,533,172

Signature: _____ Date: 4/24/13
(Authorized Representative)

CEO/President
(Title)

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

DSS Report
Reserve Disclosure
12/31/2012

			Bank Accounts at Bank of the Sierra (BOTS) Reedley, CA Account #s
CASH IN BANK - BOTS	$	1,136,087	#822777270
BOTS STAFF HEALTH INSURANCE	$	388,408	#822824870
CERTIFICATE OF DEPOSIT	$	2,275,949	#1501076750
MB LOAN FUND	$	214,163	#10763-130
	$	**4,014,607**	

	Debt Service Reserve	Operating Reserve	
Debt Service Reserve	$ 2,000,000		
Operating Reserve		$ 2,014,607	
Cash and Cash Equivalents (line 4)	**$ 2,000,000**	**$ 2,014,607**	$ 4,014,607

			Bank Accounts at Bank of the Sierra (BOTS) Reedley, CA Account #s
			#822750070
Total Amount of Qualifing Assets	**$ 2,000,000**	**$ 2,014,607**	

No funds have been accumulated for identified projects or purposes and no funds are maintained or designated for specific contingencies.

RECEIVED
APR 2 6 2013
CONTINUING CARE CONTRACTS BRANCH

04/23/2013

Continuing Care Retirement Community Disclosure Statement

General Information

FACILITY NAME: Palm Village Retirement Community
ADDRESS: 701 W. Herbert, Reedley CA ZIP CODE: 93654 PHONE: 559-638-6933
PROVIDER NAME: Mennonite Brethren Homes, Inc. FACILITY OPERATOR: Mennonite Brethren Homes, Inc.
RELATED FACILITIES: N/A RELIGIOUS AFFILIATION: Mennonite Brethren
YEAR OPENED: 1942 NO. OF ACRES: 17 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑
MILES TO SHOPPING CTR: 1, 3, and 4 MILES TO HOSPITAL: 5

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO		ASSISTED LIVING	71 suites
APARTMENTS – 1 BDRM		SKILLED NURSING	105 beds
APARTMENTS – 2 BDRM		SPECIAL CARE	15 beds
COTTAGES/HOUSES	79 units	DESCRIBE SPECIAL CARE:	Dementia
% OCCUPANCY AT YEAR END	96%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ☐ ACCREDITED: ☐ Y ☐ N BY: _____

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☐ OTHER: 50 mo am

RANGE OF ENTRANCE FEES: $ 58,500 TO $ 136,500 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 14 days respite care each year for Independent Living Res

ENTRY REQUIREMENTS: MIN. AGE: ___ PRIOR PROFESSION: _____ OTHER: _____

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☐	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☐	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER_____	☐	☐

SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	daily	for IL
NUMBER OF MEALS/DAY	3	for IL
SPECIAL DIETS AVAILABLE	yes	yes
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☐
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☑	☑
LINENS FURNISHED	☑	☐
LINENS LAUNDERED	☑	☐
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☐	☐
PERSONAL NURSING/HOME CARE	☑	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER_____	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Mennonite Brethren Homes, Inc.

CCRCs	LOCATION (City, State)	PHONE (with area code)
Palm Village Retirement Community	Reedley, CA	559-638-6933

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: Mennonite Brethren Homes, Inc.

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS OPERATING INCOME (excluding amortization of entrance fee income)	$12,052,195	$12,485,261	$12,655,018	$12,826,935
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$11,264,218	$11,665,404	$11,810,360	$12,448,872
NET INCOME FROM OPERATIONS	$787,977	$819,857	$844,658	$378,063
LESS INTEREST EXPENSE	$477,093	$383,738	$145,278	$29,786
PLUS CONTRIBUTIONS	$239,684	$198,195	$188,630	$207,228
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$63,022	$42,997	$43,294	$41,262
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$613,590	$677,341	$931,304	$596,767
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$1,003,229	$719,931	$521,524	$753,368

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Cert of Participation				10/01/26	21 years

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50th Percentile *(optional)*	2010	2011	2012
DEBT TO ASSET RATIO		.48	.46	.43
OPERATING RATIO		96.51	94.47	97.28
DEBT SERVICE COVERAGE RATIO		2.14	1.98	1.63
DAYS CASH-ON-HAND RATIO		118	119	117

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO		0.0%		0.0%		0.0%	
ONE BEDROOM	$530	4.0%	$552	3.0%	$560	0.0%	$560
TWO BEDROOM	$571	4.0%	$594	3.0%	$603	0.0%	$603
COTTAGE/HOUSE		0.0%		0.0%		0.0%	
ASSISTED LIVING	$94	4.0%	$99	3.0%	$99	0.0%	$99
SKILLED NURSING	$226	4.0%	$235	3.0%	$239	0.0%	$239
SPECIAL CARE	$226	4.0%	$235	3.0%	$239	0.0%	$239

COMMENTS FROM PROVIDER:

PROVIDER NAME: Mennonite Brethren Homes, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1

REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	603.00 per month	99.00 per day	239.00 per day
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	0.00%	0.00%	0.00%

X Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: _____
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☐ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☐ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☐ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☐ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☐ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☐ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Mennonite Brethren Homes, Inc.

COMMUNITY: Palm Village Retirement Community

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION	3-4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF CASH FLOWS	6-7
NOTES TO FINANCIAL STATEMENTS	8-21

VICENTI ◆ LLOYD ◆ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Palm Village Retirement Community
Reedley, California

We have audited the accompanying statements of financial position of Mennonite Brethren Homes, Inc. dba Palm Village Retirement Community (Palm Village) (a nonprofit organization) as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility in the Financial Statements

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

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used in 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 Palm Village as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2210 E. Route 66, Suite 100, Glendora, CA 91740
Tel 626.857.7300 | Fax 626.857.7302 | E-Mail INFO@VLSLLP.COM | Web WWW.VLSLLP.COM

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2012 the Organization retroactivity adopted new accounting guidance, Accounting Standards Update – Health Care Entities (Topic 954) No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, the 2011 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

April 2, 2013

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,014,607	$ 3,904,755
Accounts receivable		
Resident, net	773,757	643,073
Other	-	84,802
Prepaid expenses	544,517	429,807
Supplies inventory	16,688	19,479
Current portion of assets limited as to use	414,533	337,773
Total Current Assets	5,764,102	5,419,689
Assets Limited as to Use:		
Under indenture agreement: held for debt service	191,687	175,639
Internally board designated	370,846	313,634
Resident funds	43,687	24,139
Total Assets Limited as to Use	606,220	513,412
Less: current portion shown above	(414,533)	(337,773)
Assets Limited as to Use (Net of Current Portion)	191,687	175,639
Property and Equipment:		
Land and improvements	998,567	998,567
Buildings and improvements	19,111,500	18,853,429
Furniture and equipment	3,122,960	2,876,066
Vehicles	204,213	157,031
Construction in progress	-	107,663
Total	23,437,240	22,992,756
Less: accumulated depreciation	(11,348,653)	(10,619,998)
Total Property and Equipment (at Depreciated Cost)	12,088,587	12,372,758
Other Assets:		
Deferred financing costs	494,481	468,727
Total Assets	$ 18,538,857	$ 18,436,813

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATEMENTS OF FINANCIAL POSITION
(continued)
December 31, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 493,984	$ 466,311
Accrued salaries, payroll taxes and benefits	516,297	457,461
Accommodation fee deposits	102,400	18,400
Current portion of refundable accommodation fees	116,680	118,863
Deferred revenue	308,610	341,005
Current maturities of long-term debt	615,000	545,000
Current portion of capital lease	21,121	7,572
Other current liabilities	109,543	153,258
Total Current Liabilities	2,283,635	2,107,870
Long-Term Debt:		
Bonds payable, less current portion	7,980,000	8,440,000
Notes payable, individuals	100,000	255,000
Capital lease payable, less current portion	19,589	10,197
Total Long-Term Debt	8,099,589	8,705,197
Other Liabilities:		
Refundable accommodation fees	2,166,428	2,282,934
Deferred revenue from accommodation fees	1,845,688	1,755,108
Total Other Liabilities	4,012,116	4,038,042
Total Liabilities	14,395,340	14,851,109
Net Assets:		
Unrestricted	4,141,530	3,549,204
Temporarily restricted	1,987	36,500
Total Net Assets	4,143,517	3,585,704
Total Liabilities and Net Assets	$ 18,538,857	$ 18,436,813

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATEMENTS OF ACTIVITIES
For The Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE						
Residential services, net	$ 12,758,080	$ -	$ 12,758,080	$ 12,416,400	$ -	$ 12,416,400
Amortization of accommodation fees	781,477		781,477	703,200		703,200
Other income	68,855		68,855	63,422		63,422
Total Operating Revenue	13,608,412	-	13,608,412	13,183,022	-	13,183,022
OPERATING EXPENSES						
Nursing services	4,055,914		4,055,914	3,886,723		3,886,723
Resident services	1,239,248		1,239,248	1,114,440		1,114,440
Assisted living	385,829		385,829	273,605		273,605
Dietary	1,799,068		1,799,068	1,755,356		1,755,356
Housekeeping	253,697		253,697	287,858		287,858
Laundry	208,964		208,964	191,767		191,767
Ancillary	801,093		801,093	742,523		742,523
Plant operations and maintenance	1,579,391		1,579,391	1,305,265		1,305,265
Activities and social services	439,829		439,829	391,935		391,935
Administrative	1,439,943		1,439,943	1,218,934		1,218,934
Marketing	245,896		245,896	279,841		279,841
Interest	29,786		29,786	145,278		145,278
Depreciation and amortization	702,901		702,901	689,513		689,513
Total Operating Expenses	13,181,559	-	13,181,559	12,283,038	-	12,283,038
Change in net assets from operations	426,853	-	426,853	899,984	-	899,984
OTHER INCOME (EXPENSE) AND OTHER CHANGES IN NET ASSETS						
Interest income	41,262		41,262	43,294		43,294
Fundraising costs	(119,517)		(119,517)	(95,823)		(95,823)
Contributions	207,228	1,987	209,215	188,630	36,500	225,130
Change in fair value of interest rate swap	-		-	85,891		85,891
Total Other Income (Expense)	128,973	1,987	130,960	221,992	36,500	258,492
Net assets released from restrictions	36,500	(36,500)	-	-	-	-
Total Non-operating Gains (Losses) and Other Changes in Net Assets	165,473	(34,513)	130,960	221,992	36,500	258,492
Change in net assets	592,326	(34,513)	557,813	1,121,976	36,500	1,158,476
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	3,360,399	36,500	3,396,899	2,427,228	-	2,427,228
Adjustment for restatement (Note 10)	188,805	-	188,805	-	-	-
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	3,549,204	36,500	3,585,704	2,427,228	-	2,427,228
NET ASSETS, END OF YEAR	$ 4,141,530	$ 1,987	$ 4,143,517	$ 3,549,204	$ 36,500	$ 3,585,704

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents	$ 13,947,158	$ 13,430,097
Cash paid to suppliers and employees	(12,637,514)	(11,775,712)
Interest received	41,262	43,294
Contributions received	209,215	225,130
Interest paid	(29,786)	(145,278)
Net cash provided by operating activities	1,530,335	1,777,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment, net	(403,334)	(537,794)
Net change in assets whose use is limited	(92,808)	48,191
Net cash provided/(used) by investing activities	(496,142)	(489,603)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refund of accommodation fees	(361,132)	(208,323)
Principal payments on long-term debt	(563,209)	(767,383)
Net cash used by financing activities	(924,341)	(975,706)
Net increase in cash and cash equivalents	109,852	312,222
Cash and cash equivalents at the beginning of the year	3,904,755	3,592,533
Cash and cash equivalents at the end of the year	$ 4,014,607	$ 3,904,755

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

STATEMENTS OF CASH FLOWS
(continued)
For The Years Ended December 31, 2012 and 2011

	2012	2011
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 557,813	$ 1,158,476
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	702,901	689,513
Provision for uncollectible accounts	(74,031)	175,196
Receipt of accommodation fees	1,114,500	729,847
Amortization of accommodation fees	(781,477)	(703,200)
Change in fair value of interest rate swap	-	(85,891)
(Increase) decrease in current assets:		
Accounts receivable	28,149	48,089
Inventories	2,791	6,389
Prepaid expenses and other assets	(114,710)	(203,164)
Increase (decrease) in current liabilities:		
Accounts payable	27,673	131,115
Accrued salaries, payroll taxes and benefits, and other liabilities	15,121	9,214
Deferred revenue	(32,395)	91,447
Accommodation fees deposit	84,000	(269,500)
Net cash provided by operating activities	$ 1,530,335	$ 1,777,531

Noncash financing activities in 2012 consist of financing the cost of acquiring phone equipment through a capital lease for $41,150.

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

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

Mennonite Brethren Homes, Inc. (the Organization) is a not-for-profit corporation located in Reedley, California. The Organization is licensed as a Continuing Care Retirement Community doing business as Palm Village Retirement Community. The Organization consists of 120 nursing beds, 53 residential/personal care facility units, 16 memory care units and 79 independent living complex units.

Tax Exempt Status

The Organization qualifies as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Organization is not subject to federal income taxes under Section 501(a) of the Code. The Organization is classified as a publicly supported charitable organization under Section 509(a)(3) of the Code and contributions to the Organization qualify as a charitable tax deduction by the contributor.

The Organization applies 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 Organization's income tax returns are subject to review and examination by federal, state, and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to unrelated business income or excise or other taxes. With few exceptions, the Organization is no longer subject to U.S. federal and state examinations by tax authorities for generally three and four years, respectively.

Financial Statement Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - 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.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. As of December 31, 2012, the Organization has $1,987 in net assets temporarily restricted for the replacement of all manually-adjusted beds in skilled nursing to electrically-adjusted beds. The Organization had $36,500 in net assets temporarily restricted for the purchase of a van as of December 31, 2011.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Financial Statement Presentation (continued)

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of December 31, 2012 and 2011.

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 either temporarily or permanently restricted support 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 unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 combined 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 Organization considers all highly liquid debt instruments and certificates of deposit with a maturity of three months or less to be cash equivalents.

Healthcare Services Revenue

Healthcare services revenue includes room charges and ancillary services to residents and is recorded at established billing rates net of contractual adjustments resulting from agreements with third-party payers, if applicable. In addition, patient service revenue is recorded net of bad debt expense.

Monthly service fees paid by life care residents who have permanently transferred from their independent living apartment to either assisted living or healthcare are accounted for as healthcare service revenue.

Provisions for estimated third-party payer 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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Third Party Reimbursement Agreements

Medi-Cal

The Organization participates in the Medi-Cal program that is administered by the California Department of Health and Human Services Agency, Department of Health Services. The Department determines Medi-Cal rates for the facility every August 1. The rates are determined by re-basing all filed cost reports every three years.

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

Medicare

A licensed nursing facility which participated in the Medicare program for the years ended December 31, 2012 and 2011 was reimbursed based on a Prospective Payment System (PPS). This program is administered by the United States Department of Health and Human Services. The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

Occupancy Percentages

For the years ended December 31, 2012 and 2011, the occupancy percentage of the Organization, including the dementia units, was as follows:

	2012		2011	
	Days	Percentage	Days	Percentage
Medicare and HMO	5,735	13.7 %	4,752	11.0 %
Medi-Cal	27,008	64.6 %	26,298	60.6 %
Private and other	9,081	21.7 %	12,330	28.4 %
Total	41,824	100.0 %	43,380	100.0 %
Health center occupancy percentage		95.50 %		99.0 %

The occupancy percentage for assisted living was 99.90% and 90.70% for the years ended December 31, 2012 and 2011, respectively. The occupancy percentage for the independent living apartments was 96.10% and 96.20% for the years ended December 31, 2012 and 2011. At December 31, 2012 and 2011, the Wiebe Center-Dementia Unit was 91.68% and 100% occupied.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Accounts Receivable

Resident accounts receivable represents amounts due from residents and third-party payers such as Medi-Cal and Medicare for services provided. Medi-Cal and Medicare represent the Organization's most significant third party payers. The Organization 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 $34,002 and $234,698 at December 31, 2012 and 2011, respectively. The 2011 balance included an estimated allowance for anticipated Medi-Cal adjustments of $209,856.

Supplies Inventory

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

Prepaid Expenses

Payments made to vendors that will benefit periods beyond the reporting year are recorded as prepaid expenses. Prepaid expenses consist primarily of a deposit to the Organization's pooled workers compensation insurance policy. Interest is earned on the deposit until reimbursed by the policy.

Property and Equipment

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

Land improvements	10-40 years
Buildings and improvements	5-50 years
Furniture and equipment	5-10 years
Transportation equipment	5 years

Depreciation expense for the years ended December 31, 2012 and 2011 was $728,655 and $647,775, respectively.

Assets Limited as to Use

Assets limited as to use include assets held by the trustee under the bond agreements and board designated amounts for capital expenditures. These assets are primarily invested in cash and cash equivalents. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in operating income unless the income or loss is restricted by donor or law.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Resident Trust Funds
The Organization maintains savings accounts on behalf of certain residents and acts as trustee of these funds which are maintained for the personal use of those residents. The funds are expended at the direction of the residents. The balance in the Resident Trust Fund was $43,687 and $24,139 at December 31, 2012 and 2011, respectively.

Deferred Financing Costs
Costs incurred in connection with the issuance of debt are capitalized and amortized over the term of the related indebtedness on the Series 2005 certificates of participation using straight line amortization which approximates the effective interest method. The total cost incurred in relation to the issuance of the Series 2005 certificates was $528,250. During 2010, an additional $152,636 of costs was incurred in connection with the modification of the Series 2005 certificates. Deferred financing costs are net of accumulated amortization of $186,405 and $212,159 at December 31, 2012 and 2011. Total amortization expense was $36,794, less a $62,548 adjustment to accumulated amortization, and $41,758 for 2012 and 2011, respectively.

Letter of Credit Fees
The Organization pays letter of credit fees on an annual basis relating to the issuance of the Series 2005 Certificates of Participation. For the years ended December 31, 2012 and 2011 the Organization paid letter of credit fees of $69,451 and $72,586, respectively.

Accommodation Fees
Accommodation fees are charged to residents of the independent living facility. The accommodation fees are lump sum payments made to the Organization, which entitles the resident to reside in the facility and participate in certain benefits of the facility. The Organization recognizes as a liability the portion of the accommodation fee that is refundable according to the terms of the accommodation fee contract with the balance recorded as deferred revenue. Currently, the Organization only offers accommodation fee contracts with a six-year schedule for refunds after which time the entire accommodation fee is non refundable. There are two old contracts outstanding that have a longer refund schedule.

Beginning in 2009, the Organization offered reduced entrance fees for a limited amount of independent living units. These contracts amortize over 50 months. The program is offered on an ongoing basis.

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Accommodation Fees (continued)
The Organization will refund a portion of the accommodation fee in accordance with the following terms:

(i) If cancellation occurs during the first 90 days of occupancy, the Organization shall retain a reasonable processing fee to cover cost and the reasonable value of the services rendered during plus an additional 2% of the entrance fee for each month (or portion thereof) of occupancy.

(ii) The Organization shall retain any portion of the entrance fee necessary to pay any unpaid indebtedness to the Organization incurred by the resident, including any unpaid monthly service fees and any unpaid expenses incurred by the resident for health or other services.

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

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

Accommodation Fee Deposits
Guaranty deposits of $1,000 are required for each resident entering the independent or assisted living facilities within Palm Village Retirement Community. In addition, some residents prepay part of their accommodation fee before moving in. Management accounts for these prepayments within the accommodation fee deposit account. The deposits are subtracted from the amount of accommodation fees due at the time the resident moves in. Total deposits as of December 31, 2012 and 2011 were approximately $102,400 and $18,400, respectively.

Charity Care
The Organization provides care to residents under non Medi-Cal programs. Costs for these programs in excess of reimbursement were $431,000 and $338,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $53,691 and $77,179 for the years ended December 31, 2012 and 2011, respectively.

Fair Value of Financial Instruments

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

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

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

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

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

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

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)

Change in Accounting Principal/ Prior Year Reclassifications

Certain reclassifications of the December 31, 2011 amounts were made in order to conform to the December 31, 2012 presentation. In particular, the Organization has retroactively adopted Accounting Standards Update – Health Care Entities (Topic 954) No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. As such, $175,196 in bad debt expense associated with patient service revenues has been reclassified from an operating expense to a deduction from patient service revenues in the 2011 statement of activities.

Subsequent Events

In preparing these financial statements, the Organization has considered events and transactions that have occurred through April 2, 2013, the date the financial statements were available to the users.

NOTE 2 - ASSETS LIMITED AS TO USE:

The composition of assets limited as to use at December 31, 2012 and 2011 is as follows:

	2012	2011
Board Designated Reserve Fund	$ 365,489	$ 311,484
Chapel Fund	5,357	2,150
Resident Funds	43,687	24,139
Debt Service Funds	191,687	175,639
Total	$ 606,220	$ 513,412

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

NOTE 3 - LONG-TERM DEBT:

The Organization's long-term debt at December 31, 2012 and 2011 is summarized below:

Description	2012	2011
Certificates of Participation, Series 2005, interest based on a variable rate is payable monthly, annual principal payments, mature October 1, 2026.	$ 8,440,000	$ 8,885,000
Unsecured Notes Payable to Individuals (due in varying amounts through 2014, interest ranging, up to 5.0%).	255,000	355,000
Total	8,695,000	9,240,000
Less: Current Maturities	(615,000)	(545,000)
Long-Term Debt	$ 8,080,000	$ 8,695,000

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

Year Ending December 31,	Amount
2013	$ 615,000
2014	580,000
2015	500,000
2016	520,000
2017	540,000
Thereafter	5,940,000
Total	$ 8,695,000

Certificates of Participation

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

By definition, Certificates of Participation are long-term tax-exempt bonds the interest rate of which is indexed to a current short-term market rate. A demand feature allows the bonds to be remarketed weekly at par value plus accrued interest.

NOTE 3 - LONG-TERM DEBT: (continued)

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

The Organization holds an irrevocable letter of credit with the bond trustee and an irrevocable standby letter of credit with the Federal Home Loan Bank of San Francisco for the face amount of the bonds. The standby letter of credit has been extended to August 2017. In the unlikely event remarketing is not successful; the letter of credit will be drawn upon to pay the bond trustee.

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

As of November 3, 2008, the Organization amended and supplemented the Master Trust Agreement to provide for an interest rate swap on the remaining 50% of outstanding principal as of December 31, 2008 at a fixed annual rate of 2.867%. This interest swap agreement matured and was not renewed in August 2011.

Terms of the swap agreement required the differential interest to be paid or received monthly. The Organization received or paid monthly payments from/to the interest rate swap providers at a variable interest rate equal to 100% of the Bond Market Association (BMA) index.

The Organization followed the accounting standard that records all derivative instruments which consisted of interest rate swap agreements, on the balance sheet at their respective fair values and all changes in fair value in the statement of activities as a change in the fair value of interest rate swaps. The standard requires that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair market value.

The interest rate swap agreements held by the Organization and as described above have been designated as cash flow hedges.

Restrictive Covenants
The provisions of the 2005 Certificates contain various restrictive covenants pertaining to financial and operational requirements of the Organization, debt service coverage, minimum unrestricted net assets and cash reserves held in trust.

NOTE 3 - LONG-TERM DEBT: (continued)

Capital Lease

The Organization leases phone equipment under two capital leases. The assets are included in equipment as follows on December 31, 2012:

Equipment	$ 78,999
Less: accumulated depreciation	(36,033)
Total	$ 42,966

One of the equipment leases requires monthly payments of $631 through April 2014 and the other monthly payments of $1,261 through February 2015. Future minimum lease payments under these leases are as follows:

2013	$ 21,121
2014	17,083
2015	2,506
Total	40,710
Less: current portion	(21,121)
Total long-term capital lease	$ 19,589

NOTE 4 - EMPLOYEE RETIREMENT PLAN:

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

NOTE 5 - CONCENTRATIONS OF CREDIT RISK:

The Organization maintains its cash and cash equivalents with financial institutions. At times these balances may be in excess of the FDIC insurance limit. At December 31, 2012 and 2011, cash and cash equivalents with financial institutions exceeded insurance limits by approximately $4 million.

The Organization grants credit without collateral to its residents or their families, most of whom are local residents and many who are insured under third-party payer agreements. The mix of receivables from residents and third-party payers at December 31, 2012 and 2011 was as follows:

NOTE 5 - CONCENTRATIONS OF CREDIT RISK: (continued)

	2012	2011
Medicare	18 %	22 %
Medi-Cal	35	34
Private	22	30
Other	25	14
Total	100 %	100 %

NOTE 6 - CONTINGENCIES AND COMMITMENTS:

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

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

Self-Insurance Plan and Stop Loss Insurance
The Organization operates a self insurance plan for employee health insurance benefits which is managed by a third party administrator. At December 31, 2012 and 2011, the accrual for estimated but not incurred liabilities was $53,000 and $119,600, respectively and is recorded in other current liabilities in the statement of financial position.

The Organization has entered into a stop-loss agreement with an insurance company to limit its losses on individual claims. Under the terms of the agreement, the insurance company will reimburse the Organization 100% of the cost of annual claims, in excess of an $85,000 aggregate deductible, up to $1,000,000 each covered period. The loss limit is $85,000 per individual. Stop-loss insurance premiums of approximately $115,000 and $101,000 are included in operating expenses for the years ended December 31, 2012 and 2011, respectively.

Workers' Compensation Insurance
The Organization is part of a group self-insured plan for workers' compensation. Significant claims experienced could impact the results of operations based on independent audits performed by the state. There was no receivable from claims paid recorded as of December 31, 2012 and 2011. There are no estimated future claims for incurred incidents as of December 31, 2012. Workers' compensation insurance expense for the years ended December 31, 2012 and 2011 totaled $254,348 and $280,033.

NOTE 6 - CONTINGENCIES AND COMMITMENTS: (continued)

Other

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

Litigation

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, disposition of these matters will not have a material effect on the Organization's financial condition or results of operations.

NOTE 7 - FUNCTIONAL CLASSIFICATION OF EXPENSES:

Functional classification of operating expenses for the years ended December 31, 2012 and 2011 consisted of the following:

	2012	2011
Program	$ 10,657,316	$ 10,051,717
Management and general support	2,524,243	2,231,321
Total operating expenses	$ 13,181,559	$ 12,283,038

Fund raising expenses incurred during the years ended December 31, 2012 and 2011 were included in Other Income (Expense) on the Statement of Activities.

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

NOTE 8 - FAIR VALUE MEASUREMENT:

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 - Summary of Operations and Significant Accounting Policies.

The following table presents changes in the interest rate swap agreement liability measured at fair value using Level 3 inputs on a recurring basis for the year ended December 31, 2011:

	Interest Rate Swap
Balance at January 1, 2011	$ (85,891)
Gain on maturity of 2010 swap	85,891
Balance at December 31, 2011	$ -

NOTE 9 - REDEVELOPMENT PLAN OBLIGATION (AB 1169 Disclosure):

The Organization's planned projects are designed to meet the needs of the organization by providing additional housing and facilities for residents, consistent with the Organization's tax exempt status. During the year ended December 31, 2012 and 2011, the Organization expended approximately $150,000 and $300,000 for construction costs for its various facilities including its new assisted living memory care unit. Projects are funded by notes payable and unrestricted net assets. The board has also designated $365,489 and $311,484 during the year ended December 31, 2012 and 2011 to be available for potential future contingencies.

NOTE 10 – 2011 RESTATEMENT:

The 2011 financial statements have been restated to decrease other liabilities on the statement of financial position and operating expenses on the statement of activities by $188,805 to report actual self-insured claims and estimated but not incurred liabilities at December 31, 2011 under the Organization's self- insurance plan.