

FRIENDS ASSOCIATION OF SERVICES
FOR THE ELDERLY

ANNUAL REPORT

March 31, 2013

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FRIENDS HOUSE

A Quaker-Inspired Elder Community

Established in 1984

684 Benicia Drive
Santa Rosa, CA 95409
(707) 538-0152
Fax: (707) 576-6616
www.friendshouse.org



August 30, 2013

Independent Living
(707) 573-4504
Fax: 576-6616

Continuing Care Contract Branch
California Department of Social Services
744 P Street, M.S. 10-90
Sacramento, Ca 95814

Assisted Living
(707) 573-4523
Fax: 576-6664

Re: Certification by Board Clerk of FY 2013 Annual Report

Skilled Nursing
(707) 573-4517
Fax: 573-4555

I certify 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; and we are maintaining the required liquid reserve.

Development Office
(707) 573-4508
Fax: 573-4528

Sincerely,

Kay Kerriden
Board Clerk

Friends Association of
Services for the Elderly
A Nonprofit Corporation

RCFE #496801929

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**ANNUAL REPORT
CHECKLIST
FOR
FISCAL YEAR ENDED: March 31, 2013**

PROVIDER: Friends Association of Services for the Elderly

FACILITY(IES): Frrends House

CONTACT PERSON: Alicia Moody

TELEPHONE NO.: (541) 857-7034

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

- This cover sheet.
- Annual Provider Fee in the amount of: \$4,628.84
- Certification by the provider's Chairman of the Board 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.

**FORM 1-1
RESIDENT POPULATION**

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	89
[2]	Number at end of fiscal year	82
[3]	Total Lines 1 and 2	171
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x 0.50
[5]	Mean number of continuing care residents	85.5
All Residents		
[6]	Number at beginning of fiscal year	113
[7]	Number at end of fiscal year	99
[8]	Total Lines 6 and 7	212
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x 0.50
[10]	Mean number of all residents	106
[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).	0.81

**FORM 1-2
ANNUAL PROVIDER FEE**

Line	TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only) <u>6,041,400</u>
[a]	Depreciation <u>252,733</u>
[b]	Debt Service (Interest Only) <u>49,987</u>
[2]	Subtotal (add Line 1a and 1b) <u>302,720</u>
[3]	Subtract Line 2 from Line 1 and enter result. <u>5,738,680</u>
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11) <u>0.81</u>
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4) <u>4,628,841</u>
[6]	Total Amount Due (multiply Line 5 by .001) <u>x 0.001</u> <u>4,628.84</u>

Provider: Friends Association of Services for the Elderly
Community: Friends House

ACORD™

CERTIFICATE OF LIABILITY INSURANCE

Client#: 91023

PACIRETI

R E C E I V E D
SEP 12 2013
DATE (MM/DD/YYYY)
07/30/13
CONTINUOUS COVERAGE

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Propel Insurance Tacoma Commercial Insurance 1201 Pacific Ave, Suite 1000 Tacoma, WA 98402	CONTACT NAME: Julie Valley PHONE (A/C, No, Ext): 800.499.0933 E-MAIL ADDRESS: jav@propelinsurance.com	FAX (A/C, No): 866.577.1326
	INSURER(S) AFFORDING COVERAGE	
INSURED Pacific Retirement Services, Inc 965 Ellendale Drive Medford, OR 97504	INSURER A : Travelers Casualty & Surety Co.	
	INSURER B :	
	INSURER C :	
	INSURER D :	
	INSURER E :	
	INSURER F :	

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC					EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$ \$
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS					COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
	<input type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$					EACH OCCURRENCE \$ AGGREGATE \$ \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? <input type="checkbox"/> Y/N (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A				<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Crime / Fidelity		105699312	10/01/2012	10/01/2013	\$1,000,000 Limit \$10,000 Deductible

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
Re: Friends House, 684 Benicia Drive, Santa Rosa, CA 95401 - 2000 Saturn Sedan, S#1G8ZK527YZ266596.

CERTIFICATE HOLDER Evidence of Insurance	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE 

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**Friends Association of Services
for the Elderly**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

March 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends Association of Services
For the Elderly

We have audited the accompanying financial statements of Friends Association of Services for the Elderly (a California nonprofit corporation) (the "Association"), which comprise the statements of financial position as of March 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends Association of Services for the Elderly as of March 31, 2013 and 2012, and the change 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.

DZH Phillips LLP

San Francisco, California
August 29, 2013

Friends Association of Services for the Elderly

STATEMENTS OF FINANCIAL POSITION

March 31, 2013 and 2012

ASSETS

	2013	2012 (as restated)
Current assets		
Cash and cash equivalents	\$ 1,622,374	\$ 2,559,861
Accounts receivable - net of allowance for doubtful accounts of \$55,878 and \$310,887, respectively	504,907	255,257
Insurance reimbursement receivable (Note N)	597,607	-
Due from management company	7,251	
Bequest receivable	-	85,158
Due from employee	640	
Inventory	15,450	-
Deposits and prepaid expenses	110,545	125,877
Total current assets	2,858,774	3,026,153
Land, buildings and equipment - net (Note H)	4,191,998	4,273,867
Other assets		
Cash restricted for endowment fund	202,901	-
Note receivable (Note C)	-	130,000
Investments (Notes E & F) (including endowment fund at March 31, 2012)	172,051	431,398
Charitable gift annuity receivable (Notes F & G)	117,684	119,169
Total other assets	492,636	680,567
Total assets	\$ 7,543,408	\$ 7,980,587

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 334,103	\$ 228,651
Accrued litigation liability (Note N)	460,000	-
Accrued salaries, wages and related liabilities	240,342	174,117
Current portion of long-term debt (Note J)	745,000	885,000
Deferred revenue - refundable (Note D)	425,000	275,000
Deferred revenue - non-refundable (Note D)	171,849	328,714
Deposit program liability (Note I)	208,678	323,540
Total current liabilities	2,584,972	2,215,022
Other liabilities		
Long-term debt (Note J)	585,000	575,000
Deferred revenue - refundable (Note D)	1,717,110	1,834,284
Deferred revenue - non-refundable (Note D)	2,154,939	1,991,589
Charitable remainder trust	90,000	90,000
Total liabilities	7,132,021	6,705,895
Commitment and contingencies (Note N)	-	-
Net assets		
Unrestricted	(243,159)	598,304
Temporarily restricted (Note K)	451,645	473,487
Permanently restricted (Note K)	202,901	202,901
Total net assets	411,387	1,274,692
Total liabilities and net assets	\$ 7,543,408	\$ 7,980,587

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

STATEMENTS OF ACTIVITIES

Years ended March 31, 2013 and 2012

	2013		2012 (as restated)				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support							
Skilled nursing facility	\$ 2,725,100	\$ -	\$ -	\$ 2,725,100	\$ -	\$ -	\$ 3,255,786
Housing related fees	939,240	-	-	939,240	-	-	955,052
Amortization of entrance fees (Note D)	710,470	-	-	710,470	-	-	626,358
Assisted living facility fees	386,620	-	-	386,620	-	-	395,817
Dietary	99,775	-	-	99,775	-	-	113,738
Provision for bad debts	(139,590)	-	-	(139,590)	-	-	(225,135)
Net resident service revenue less provision for bad debts	4,721,615	-	-	4,721,615	-	-	5,121,616
Contributions	489,127	64,600	-	553,727	15,939	-	360,190
Adult day services rental income	22,748	-	-	22,748	-	-	60,660
Other income	-	-	-	-	12,747	-	12,747
Net assets released from restrictions	19,956	(19,956)	-	-	(224,432)	-	-
Total revenue and support	5,253,446	44,644	-	5,298,090	5,763,706	(208,493)	5,555,213
Expenses							
Program related expenses	4,916,778	-	-	4,916,778	4,757,545	-	4,757,545
Development	142,359	-	-	142,359	151,425	-	151,425
Administration	932,276	-	-	932,276	877,827	-	877,827
Total expenses	5,991,413	-	-	5,991,413	5,786,797	-	5,786,797
Total operating (loss) income	(737,967)	44,644	-	(693,323)	(23,091)	(208,493)	(231,584)
Other income (expense)							
Note receivable write off (Note C)	(65,000)	(65,000)	-	(130,000)	-	-	-
Investment income (Note E)	11,491	(1,486)	-	10,005	33,497	(18,888)	14,609
Interest expense	(49,987)	-	-	(49,987)	-	-	-
Total other income (expense)	(103,496)	(66,486)	-	(169,982)	33,497	(18,888)	14,609
CHANGE IN NET ASSETS	(841,463)	(21,842)	-	(863,305)	10,406	(227,381)	(216,975)
Net assets - beginning of year, as previously reported	598,304	473,487	202,901	1,274,692	571,743	679,737	202,901
Prior period adjustments	-	-	-	-	16,155	21,131	-
Net assets - beginning of year, as restated	598,304	473,487	202,901	1,274,692	587,898	700,868	1,491,667
Net assets - end of year	\$ (243,159)	\$ 451,645	\$ 202,901	\$ 411,387	\$ 598,304	\$ 473,487	\$ 1,274,692

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

STATEMENTS OF CASH FLOWS

Years ended March 31, 2013 and 2012

	2013	2012 (as restated)
Cash flows provided by (used in) operating activities:		
Cash received from residents	\$ 4,511,276	\$ 4,991,915
Cash received from contributions and bequests	638,885	503,280
Investment income received	22,049	29,845
Other cash receipts	22,748	633,663
Cash paid to suppliers and employees	(5,707,898)	(6,135,995)
Cash paid for interest expense	(49,987)	(69,512)
Net cash used in operating activities	<u>(562,927)</u>	<u>(46,804)</u>
Cash flows provided by (used in) investing activities:		
Proceeds from sale of investments	248,788	10,000
Additions to property and equipment	(175,585)	(89,162)
Cash restricted for endowment	(202,901)	-
Net cash used in investing activities	<u>(129,698)</u>	<u>(79,162)</u>
Cash flows provided by (used in) financing activities:		
(Decrease) increase in deposit program liability - net	(114,862)	22,182
Loan repayment	(200,000)	(350,000)
Loan proceeds	70,000	425,000
Net cash (used in) provided by financing activities	<u>(244,862)</u>	<u>97,182</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(937,487)</u>	<u>(28,784)</u>
Cash and cash equivalents - beginning of year	<u>2,559,861</u>	<u>2,588,645</u>
Cash and cash equivalents - end of year	<u>\$ 1,622,374</u>	<u>\$ 2,559,861</u>

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly
 STATEMENTS OF CASH FLOWS (continued)
 Years ended March 31, 2013 and 2012

Reconciliation of change in net assets to net cash provided by (used in) operating activities:

	2013	2012 (as restated)
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ (863,305)	\$ (216,975)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Proceeds from new entrance fees	1,240,000	574,000
Refunds of entrance fees	(490,219)	(340,166)
Proceeds from charitable remainder trust and pooled income funds	-	254,310
Deferred revenue amortization	(710,470)	(626,358)
Depreciation	252,733	275,013
Write off of note receivable	130,000	-
Loss on asset disposal	4,721	40,412
Net realized/unrealized loss (gain) on investments (including assets in charitable remainder trust)	12,044	(10,826)
Changes in operating assets and liabilities:		
Accounts receivable	(395,148)	151,426
Bequests receivable	85,158	(85,158)
Inventory	(15,450)	27,977
Deposits and prepaid expenses	15,332	(11,923)
Accounts payable and accrued expenses	171,677	(78,536)
Net cash used in operating activities	\$ (562,927)	\$ (46,804)

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Friends Association of Services for the Elderly (the "Association") is a California nonprofit corporation that owns and operates Friends House, a facility that provides residential apartments, skilled nursing, and assisted living for elders in Santa Rosa, California. The specific and primary purpose of the Association is to operate residential, health and social services for the elderly and disabled. Friends House enters into Continuing Care Contracts as defined by the California Health and Safety Code. Pursuant to these regulations all residential apartments are licensed under the Residential Care Facilities for the Elderly (RCFE) classification.

A summary of significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets and changes therein are classified as follows:

Unrestricted:

Net assets that are not subject to donor-imposed stipulations. Donations received and spent in accordance with donor-imposed stipulations in the same reporting period are also included in this classification. From time to time a portion of these net assets may be designated by the board of directors for specific purposes.

Temporarily restricted:

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association or the passage of time. Management's policy is to treat donations as unrestricted net assets once the conditions have been met.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted:

Those net assets and activities which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

Cash and cash equivalents

Cash and cash equivalents include short-term time deposits, money market accounts and all highly liquid debt instruments purchased with an original maturity of three months or less.

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. The Association provides for an allowance for doubtful accounts based on management's estimate of the collectability of accounts receivable.

Donations receivable

Donations receivable are stated at the amount management expects to collect from the balances outstanding at year end. The Association records donations receivable when an event occurs in which the Association has been promised to receive an amount.

Inventory

Inventory includes various items that are purchased for use within the facility. Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of marketable equity and debt securities, and are presented in the financial statements at their fair value. Investment income, which consists of dividend and interest income and unrealized and realized gains on investments, is shown in the statement of activities.

Land, buildings and equipment

Land, buildings and equipment are carried at cost. Donated assets are recorded at fair market value at the date of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets, which range from five to forty years. Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Revenue recognition

The Association records contributions when the donor makes an unconditional promise to give. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets are reclassified to unrestricted net assets when restrictions are satisfied. Donor-restricted contributions that are received and their restrictions met in the same fiscal year are reported as unrestricted contributions.

Gifts and bequests

The Association is the beneficiary under various wills and trust agreements, the total realizable amount of which is not presently determinable. Such amounts are recognized in the Association's financial statements as bequests receivable when clear title is established and the proceeds are measurable.

Unconditional promises to give are recorded when the promise is made. Promises to pay over more than one accounting cycle are recorded at the present value of the contribution if the present value discount is material.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Skilled nursing revenue

Patient revenue is recorded at Board-established rates when the services are rendered. The skilled nursing facility is certified for the Medicare program. Payments for services rendered to patients covered by contractual arrangements often differ from Board-established rates. Patient revenue is shown net of contractual allowances. Final determination of amounts due under these programs is subject to audit or review by the respective administrative agencies, and a provision has not been made for estimated adjustments that may result from an audit or review by the oversight agency. Final adjustments, if any, are recorded in the year such audits or reviews are completed.

Assisted living and apartment living revenue

The assisted living and apartment living revenue is recognized in the period when the service has been provided.

Monthly fees are charged at Board-established rates.

Deferred revenue

Current residents and certain applicants for future vacancies of the residential apartments have signed contracts with the Association for life-long apartment use, subject to certain restrictions. Entry fees received pursuant to these contracts are recorded as deferred revenue and are then amortized over the life expectancy for the related resident after occupancy. The current portion of this deferred revenue represents amounts that are expected to be recognized within one year. Amounts expected to be recognized subsequent to one year are classified as noncurrent.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue (continued)

The residence agreement provides for the Association to refund the entire entry fee if the apartment is vacated during the first 90 days from the date of occupancy. If the apartment is vacated after the first 90 days, the Association retains 20% of the entry fee for the first year plus 1.33% for each month, or part of a month, in excess of the first year. No refund is made after six years of residency. The maximum amount of potential refund obligations under existing agreements at March 31, 2013 and 2012 was \$2,142,110 and \$2,109,284, respectively. Refunds of the entry fees are made within 90 days of the date on which the apartment is actually vacated.

Functional expenses

Expenses have been charged to program or supporting service classifications based on direct expenditures incurred. Any indirect expenses are allocated among program or service classifications based on related usage.

Income taxes

The Association is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d. Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether the Association has engaged in any activities that could affect the Association's income tax status or result in taxable income. Management believes that any positions the Association has taken are supported by substantial authority and would more likely than not be sustained upon examination by the applicable taxing authority. Accordingly there are no potential liabilities to be recorded or disclosed in the financial statements. Tax returns for years subsequent to 2009 are subject to examination by federal and state tax authorities.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

For the purposes of the accompanying financial statements, subsequent events have been evaluated through August 29, 2013, which represents the date the financial statements were available to be issued (refer to Note P).

Reclassifications

Certain prior period amounts have been reclassified to conform with the current year presentations.

NOTE B - OPERATING DEFICITS

The Association has experienced operating losses over the last few years and has a deficit in unrestricted net assets at March 31, 2013. The first three months of the subsequent fiscal year show continued losses. Management has made reductions in operating costs to minimize these losses and has raised monthly fees. In addition, in December 2012, the Association became certified to accept MediCal patients and it is hoped that this will lead to increased revenues. A potential major gift campaign is also being considered to reduce and ultimately eliminate the operating deficits as well as fund a potential expansion. These financial statements do not reflect any adjustments that might be necessary if the Association's plans for eliminating losses are not achieved.

NOTE C - NOTE RECEIVABLE

The Association received a \$130,000 note receivable from a donor in 2010. The note was secured by a personal residence which was foreclosed on by another creditor during the year ended March 31, 2013. As a result, the note was written off during the year ended March 31, 2013.

Friends Association of Services for the Elderly
NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE D - DEFERRED REVENUE

Deferred revenue consists of the following for the years ended March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u> (as restated)
Balance - beginning of the year, as previously reported	\$ 4,429,587	\$ 4,838,266
Prior period adjustment	<u>-</u>	<u>(16,155)</u>
Balance - beginning of the year, as restated for 2012	4,429,587	4,822,111
Add: new entrance fees	<u>1,240,000</u>	<u>574,000</u>
	5,669,587	5,396,111
Less: amounts included in operating revenue, as restated for 2012	(710,470)	(626,358)
Less: refunds	<u>(490,219)</u>	<u>(340,166)</u>
Balance - end of year, as restated for 2012	4,468,898	4,429,587
Less: current portion	<u>(596,849)</u>	<u>(603,714)</u>
	<u>\$ 3,872,049</u>	<u>\$ 3,825,873</u>

Deferred revenue is presented in the financial statements as follows:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Current liabilities:		
Deferred revenue - refundable	\$ 425,000	\$ 275,000
Deferred revenue - non-refundable	171,849	328,714
Other liabilities:		
Deferred revenue - refundable	1,717,110	1,834,284
Deferred revenue - non-refundable	<u>2,154,939</u>	<u>1,991,589</u>
	<u>\$ 4,468,898</u>	<u>\$ 4,429,587</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE E - INVESTMENTS

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value. Investments at March 31, 2013 and 2012 consist of the following:

March 31, 2013	Cost	Market Value	Unrealized Appreciation (Depreciation)
Insurance cooperative	\$ 80,530	\$ 172,051	\$ 91,521

March 31, 2012	Cost	Market Value	Unrealized Appreciation (Depreciation)
Mutual funds	\$ 259,432	\$ 258,220	\$ (1,212)
Municipal bond	7,135	5,126	(2,009)
Insurance cooperative	80,530	168,052	87,522
Total investments	<u>\$ 347,097</u>	<u>\$ 431,398</u>	<u>\$ 84,301</u>

The investment return (excluding the charitable remainder trust, refer to Note G) for the years ended March 31, 2013 and 2012 is as follows:

	2013	2012
Interest and dividend income	\$ 22,050	\$ 31,550
Realized losses	(14,558)	-
Unrealized gains	3,999	1,947
Total investment income	<u>\$ 11,491</u>	<u>\$ 33,497</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS

The Association is required, under an accounting pronouncement for fair value measurements, to consider the use of market-based information over entity specific information in valuing its marketable investment securities. The pronouncement establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - 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 investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

At March 31, 2013 and 2012, fair values of assets measured on a recurring basis are as follows:

	2013			
	Fair Value	Fair Value Measurements Using		
March 31, 2013		Level 1	Level 2	Level 3
Insurance cooperative	\$ 172,051	\$ -	\$ -	\$ 172,051
Total investments	172,051	-	-	172,051
Charitable remainder trust	117,684	-	-	117,684
	<u>\$ 289,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 289,735</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS (continued)

<u>March 31, 2012</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 258,220	\$ 258,220	\$ -	\$ -
Municipal bonds	5,126	-	5,126	-
Insurance cooperative	168,052	-	-	168,052
Total investments	431,398	258,220	5,126	168,052
Charitable remainder trust	119,169	-	-	119,169
	<u>\$ 550,567</u>	<u>\$ 258,220</u>	<u>\$ 5,126</u>	<u>\$ 287,221</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value for the contribution receivable from a beneficial interest in a charitable remainder trust is determined using the income approach based on calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 1.8% and 1.4% discount rate at March 31, 2013 and 2012, respectively. The Association recognizes transfers into and out of levels at the end of the reporting period.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE F - FAIR VALUE MEASUREMENTS (continued)

The table below includes a roll-forward of the amounts for the years ended March 31, 2013 (including the change in fair value) for the amounts recorded within level 3 of the fair value hierarchy.

	<u>Total</u>	<u>Charitable Remainder Trust</u>	<u>Pooled Income Funds</u>	<u>Insurance Cooperative</u>
Fair value - April 1, 2011	\$ 531,783	\$ 217,079	\$ 149,226	\$ 165,478
Total gains or losses	9,748	59,320	(52,146)	2,574
Transfers in and/or out of level 3	<u>(254,310)</u>	<u>(157,230)</u>	<u>(97,080)</u>	<u>-</u>
Fair value - March 31, 2012	287,221	119,169	-	168,052
Total gains or losses	<u>2,514</u>	<u>(1,485)</u>	<u>-</u>	<u>3,999</u>
Fair value - March 31, 2013	<u>\$ 289,735</u>	<u>\$ 117,684</u>	<u>\$ -</u>	<u>\$ 172,051</u>

NOTE G - CHARITABLE GIFT ANNUITY RECEIVABLE

The Association is party to a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. At the end of the trust's term, the remaining assets are available for the Association's use. The portion of the trust attributable to the future interest of the Association was recorded in the statement of activities as temporarily restricted contributions in the period the trust was established. Assets held in the charitable remainder trust at March 31, 2013 and 2012 were recorded at fair value in the statement of financial position, using the present value of the estimated future payment calculated using a discount rate of 1.8% and 1.4%, respectively, and the applicable mortality tables. It is at least reasonably possible that the estimate of the receivable from the charitable remainder trust will change in the near future.

Friends Association of Services for the Elderly
NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE H - LAND, BUILDINGS AND EQUIPMENT - NET

At March 31, 2013 and 2012, land, buildings and equipment consist of the following:

	2013	2012
Land	\$ 1,306,535	\$ 1,306,535
Automobiles	7,500	-
Land improvements	496,274	496,274
Buildings and improvements	8,417,867	8,389,104
Equipment and furnishings	1,016,188	962,784
	11,244,364	11,154,697
Less: accumulated depreciation	(7,089,718)	(6,880,830)
	4,154,646	4,273,867
Pre-development costs	37,352	-
	\$ 4,191,998	\$ 4,273,867

Depreciation expense for the years ended March 31, 2013 and 2012, totaled \$252,733 and \$275,013, respectively.

NOTE I - DEPOSIT PROGRAM

The Association maintains cash deposits (unrelated to entry fees) on behalf of certain residents, as well as other supporters of the Association. At March 31, 2013, deposits earn monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.40% and 0.71% per annum. At March 31, 2012, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.37% and 0.77% per annum. Deposits are refundable upon 90 days notice, but are generally held for more than one year.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE J - LONG-TERM DEBT

Long term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Notes payable to individuals with interest at 3% per annum, payable in quarterly installments of interest only. Principal amounts are due in lump sums under original terms of one to five years through March 2018.	\$ 1,330,000	\$ 1,460,000
Less: current portion	<u>(745,000)</u>	<u>(885,000)</u>
	<u>\$ 585,000</u>	<u>\$ 575,000</u>

Future maturities of the long-term debt are as follows:

<u>Year ending March 31,</u>	
2014	\$ 745,000
2015	355,000
2016	130,000
2017	-
2018	<u>100,000</u>
	<u>\$ 1,330,000</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE K - RESTRICTED NET ASSETS

Temporarily restricted net assets

At March 31, 2013 and 2012, temporarily restricted net assets were held for the following purposes:

	2013	2012 (as restated)
	<u>2013</u>	<u>(as restated)</u>
Resident support funds	\$ 264,797	\$ 300,970
Palliative care	19,500	19,500
Charitable gift annuities	117,684	119,169
Capital funds	27,332	27,332
Other funds	22,332	6,516
	<u>\$ 451,645</u>	<u>\$ 473,487</u>

Endowment fund

Permanently restricted net assets consist primarily of general donations to be invested in perpetuity, the income of which is restricted to general support activities. The Association had \$202,901 of permanently restricted net assets at March 31, 2013 and 2012.

The Association is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. The Association has interpreted this law as requiring the preservation of the fair value of the original gift as of the date of the gift. Accordingly, the Association classifies the original value of the gift as permanently restricted. Earnings from the donor restricted endowment fund are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed under the law.

In accordance with UPMIFA, the Association has adopted investment and spending policies for the endowment assets in order to preserve and enhance the value of the corpus in perpetuity, provide a relatively steady stream of earnings, and to balance the current and future funding needs of the Association.

Endowment funds are currently invested in a non-interest bearing account.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE K - RESTRICTED NET ASSETS (continued)

Endowment fund (continued)

There were no donations to the endowment fund for the year ended March 31, 2013 and 2012 and the interest income earned for the year ended amounted to \$0 and \$1,867, respectively. The interest income was used for operational expenses during the year ended March 31, 2012.

NOTE L - RETIREMENT PLAN

The Association has a tax-deferred annuity retirement plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees who have been employed for at least one year. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Association matches employees' contributions up to \$500 per employee per calendar year. The employer contributions charged to expense totaled \$18,119 and \$16,096 for the years ended March 31, 2013 and 2012, respectively.

NOTE M - RELATED PARTY TRANSACTIONS

At March 31, 2013, deposits maintained for a Board Member (see Note I) amounted to \$50,985. At March 31, 2012, deposits maintained for Board Members (see Note I) amounted to \$50,768.

NOTE N - COMMITMENT AND CONTINGENCIES

Commitment

During the year ended March 31, 2013, the Association entered into an agreement with a contractor to provide therapy services for eligible residents. The initial term of the agreement is for approximately one year through April 30, 2013 and will automatically be extended for an additional year, unless terminated within 30 days of the the initial term. Subsequent to year end, the agreement was automatically extended for an additional year.

The terms of the agreement provide for, among other things, that the Association is responsible for billings and collections, the payment of certain fees, and the cost of supplies. The contractor will charge pre-determined rates for therapy services (as described in the agreement) with some provisions in the event that the third party payor denies payment for services. The agreement also contains certain guarantees by the Association regarding payment of invoices from the contractor, as described more fully in the agreement.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE N - COMMITMENT AND CONTINGENCIES (continued)

Contingencies

From time to time the Association is involved in litigation arising out of claims in the normal operations of the Association. The Association is currently involved in certain claims which are expected to be covered by insurance. At March 31, 2013, the Association accrued a litigation liability in the amount of \$460,000 which will be funded by insurance proceeds. The settlement of this claim included a write off of accounts receivable of \$44,157.

NOTE O - OTHER DISCLOSURES

In accordance with the requirements of the California Department of Social Services, the Association is required to disclose all amounts accumulated for contingencies or accumulated or expended for identified projects or purposes.

At March 31, 2013 and 2012, the Association has not accumulated any funds for contingencies.

NOTE P - SUBSEQUENT EVENTS

One of the notes payable for \$80,000 matured on March 31, 2013 and was paid in full, on April 1, 2013.

On May 21, 2013, the Association obtained a line of credit with a bank in the amount of \$1,500,000, with variable interest at the bank's index rate (initially 3.25% per annum), secured by a deed of trust on the Association's real property, as well as substantially all the assets of the Association, as defined in the agreement. The agreement expires on June 5, 2015 and provides for certain covenants as defined in the agreement.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2013 and 2012

NOTE Q – PRIOR PERIOD ADJUSTMENTS

During the year ended March 31, 2013, it was discovered that deferred entrance fees were overstated by \$16,155 retroactive to April 1, 2011 and by an additional \$51,261 at March 31, 2012. In addition, accrued expenses totaling \$21,131 actually represented temporarily restricted funds at March 31, 2011. Accordingly, adjustments were made to restate balances for the years ended March 31, 2012 and 2011 as follows:

	<u>March 31, 2012</u>		
	<u>As originally reported</u>	<u>As restated</u>	<u>Increase (Decrease)</u>
Deferred revenue	\$4,497,003	\$4,429,587	\$ (67,416)
Amortization of entrance fees	575,097	626,358	51,261
Temporarily restricted net assets	452,356	473,487	21,131
Accounts payable and accrued expenses	249,782	228,651	(21,131)
Unrestricted net assets	530,888	598,304	67,416

	<u>March 31, 2011</u>		
	<u>As originally reported</u>	<u>As restated</u>	<u>Increase (Decrease)</u>
Deferred revenue	\$4,838,266	\$4,822,111	\$ (16,155)
Amortization of entrance fees	719,708	735,863	16,155
Temporarily restricted net assets	679,737	700,868	21,131
Accounts payable and accrued expenses	337,219	316,088	(21,131)
Unrestricted net assets	571,743	587,898	16,155

The effect of the restatement on net assets for years prior to March 31, 2011 has not been determined.

FRIENDS ASSOCIATION OF SERVICES
FOR THE ELDERLY

CONTINUING CARE RESERVE REPORT AND
INDEPENDENT AUDITORS' REPORT

March 31, 2013



INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends Association of Services for the Elderly

Report on the Continuing Care Reserve Report

We have audited the accompanying continuing care reserve report ("Report") of Friends Association of Services for the Elderly ("the Association") as of March 31, 2013. The accompanying Report was prepared for the purpose of complying with California Health and Safety Code Section 1792 and is not intended to be a complete presentation of the Association's financial statements.

Management's Responsibility for the Report

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 Report is free of material misstatement.

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

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

Opinion

In our opinion, the Report presents fairly, in all material respects, the liquid reserve requirements of the Association as of March 31, 2013 in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the board of directors and management of the Association and for filing with the California Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

DZH Phillips LLP

San Francisco, California
August 29, 2013

**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	See Attached Schedule		37,809	-	37,809
2					
3					
4					
5					
6					
7					-
8					
TOTAL			37,809	-	37,809

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

Provider: Friends Association of Services for the Elderly

- 1) A loan in the amount of \$50,000 was paid voluntarily.
- 2) Loans totalling \$150,000 were paid at maturity.

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

Long-Term Debt Obligation	(a) Date Incurred	Apr-June	July-Sept	Oct-Dec	Jan-Mar	(e) Total Paid (columns (b) + (c) + (d))
Alexander	7/8/2002	7,631				7,631
Birdlebough	3/31/2011	373	375	377		1,125
Bodkin	3/30/2011	597	600	603	592	2,392
Duncan	3/31/2011	149	150	151	148	598
Harwood	2/10/2012	224	226	226	222	898
Herron	3/22/2012	746	754	754	666	2,920
Jay	8/8/2002	2,081				2,081
Kaumeyer	7/19/2002					-
Kaumeyer	7/19/2002	1,865	1,875	1,885	1,849	7,474
Marshall	2/7/2012	186	189	189	185	748
Miller	2/23/2012	373	377	377	370	1,497
Moon Family	2/28/2012	746	754	754	740	2,994
Morel-Seytoux	2/22/2012	746	754	754	740	2,994
Ranger	7/15/2002	373				373
Smirenko	2/22/2012	149	151	151	148	599
Stephenson	7/15/2002	495				495
Thornthwaite	3/30/2011	746	750	754	740	2,990
Zollinger	3/31/2011					-
TOTAL		17,480	6,955	6,975	6,399	37,809

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

0 check

Provider: Friends Association of Services for the Elderly

FORM 5-2
LONG-TERM DEBT INCURRED
During Fiscal Year
(Including Balloon Debt)

	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	see attached schedule	12,178	4,794	4	19,177
2					
3					
4					
5					
6					
7					
8					
			-	-	19,177

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

Provider: Friends Association of Services for the Elderly

**FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	Apr-June	July-Sept	Oct-Dec	Jan-Mar	(e)	
						Total Paid (columns (b) + (c) + (d))	Payment
Baker, Liz	9/4/12		64	226	222	512	224
Barbara Hodgkinson			424	675	666	1,765	673
Bird, John	5/8/12	21	38	38	37	134	37
Diamond, Viki & Paul	4/18/12	30	38	38	37	142	7
Hayes, Rosemary	4/7/12	138	151	151	148	587	150
Lowery, Margaret	7/24/12		836	1,131	1,110	3,077	1,122
Magnuder, Joseph	4/18/12	299	377	377	370	1,423	374
Reagan, Gertrude	8/8/12		22	38	37	96	37
Schutz, Marie	4/7/12	34	38	38	37	147	37
Smith, Donna	5/16/12	74	151	151	148	523	150
Smith, Donna	5/16/12	148	302	302	296	1,047	299
Sorel, Margaret	3/2/13				255	255	748
Pacific Yearly Meeting	6/8/12	39	151	151	148	489	150
Birdleough, Steve & Davis, Sara	12/20/12				185	185	187
Boardman, Elizabeth	5/1/12	148	226	226	222	822	224
Boardman, Elizabeth	8/10/12		125	226	222	574	224
Thornthwaite, Virginia	7/31/12		102	148	151	400	150
TOTAL		931	3,043	3,915	4,289	12,178	4,794

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

Provider: Friends Association of Services for the Elderly

FORM 5-3

CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

LINE	TOTAL
1 Total from Form 5-1 bottom of column (e)	<u>37,809</u>
2 Total from Form 5-2 bottom of Column (e)	<u>19,177</u>
3 Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	<u>-</u>
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u>56,987</u>

PROVIDER: Friends Association of Services for the Elderly

Form 5-3

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

	Amounts	TOTAL
1 Total operating expenses from financial statements		6,041,400
2 Deductions	49,987	
a Interest paid on long-term debt (see instructions)	-	
b Credit enhancement premiums paid for long-term debt (see instructions)	252,733	
c Depreciation	-	
d Amortization	2,729,695	
e Revenues received during the fiscal year for services to residents who did not have continuing care contract	-	
f Extraordinary expenses approved by the Department	-	
3 Total Deductions		3,032,415
4 Net Operating Expenses		3,008,985
5 Divide Line 4 by 365 and enter the result.		8,244
6 Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount for this community.		618,300

PROVIDER: Friends Association of Services for the Elderly
COMMUNITY: Friends House

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Friends Association of Services for the Elderly

Fiscal Year Ended: March 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the fiscal year ended March 31, 2013 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>56,987</u>
[2] Operating Expense Reserve Amount	<u>618,300</u>
[3] Total Liquid Reserve Amount:	<u>675,287</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	56,987	1,141,426
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		
[10] Other: Fixed Income Securities Large/Mid/Small Cap Growth/Value Deposit Account (describe qualify asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	56,987	[12] 1,141,426
Reserve Obligation Amount: [13]	56,987	[14] 618,300
Surplus/(Deficiency): [15]	-	[16] 523,126

Signature:

Kay Kerriden

(Authorized Representative)

FASE Board Clerk

(Title)

Friends House
DSS - Reserve Report - Part of Form 5-5
Description of Reserves and Additional Disclosures (Section 1790)

<u>Cash & Cash Equivalents</u>	
Operating/Payroll/Petty	[REDACTED]
Less:	
Temp Restricted Funds **	[REDACTED] 1,423,96
Perm Restricted Funds **	[REDACTED]
	<u>1,198,413</u>

<u>Investments</u>	
Cash & Cash Equivalents	[REDACTED]
Equity	0

Per the March 2013 audit, the FH Reserves listed above are liquid and available for use as needed, with exception to those listed. If necessary, excess funds from the above investments will be used to cover any deficiency that may exist in the debt service reserve calculation on Form 5-5.

**** Note: These funds will not be included on Form 5-5, as they are restricted for use, NOT for the debt service or operating reserves.**

Per Capita Cost of Operations	
Operating Expenses (Form 5-4 line # 1)	6,041,400
Mean # of CCRC Residents (Form 1-1 line 10)	106
Per Capita Cost of Operations	<u>56,994</u>

**CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT
GENERAL INFORMATION**

RECEIVED
SEP 13 2008

CONTINUING CARE
COMMUNITY BRANCH

FACILITY NAME: Friends Association of Services for the Elderly (FASE) dba: Friends House
 ADDRESS: 684 Benicia Drive, Santa Rosa, CA ZIP CODE: 95409 PHONE: (541) 857-7034
 FACILITY OWNER: Friends House FACILITY OPERATOR: FASE Board of Directors
 RELATED FACILITIES: RELIGIOUS AFFILIATION: Religious Society of Friends (Quakers)
 YEAR OPENED: 1984 NO. OF ACRES: 7 MULTI-STORY: SINGLE STORY: X BOTH:
 MILES TO SHOPPING CTR: 1/4 mile (approx) MILES TO HOSPITAL: 3 miles (approx)

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
	APARTMENTS -STUDIO <u>0</u>	ASSISTED LIVING <u>6</u>
	APARTMENTS -1 BDRM <u>49</u>	SKILLED NURSING <u>32</u>
	APARTMENTS - 2 BDRM <u>15</u>	SPECIAL CARE <u>0</u>
	APARTMENTS - 3 BDRM _____	DESCRIBE SPECIAL CARE: _____
	COTTAGES/HOUSES <u>3</u>	
	% OCCUPANCY AT YEAR END <u>89.55%</u>	

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: Prorated over 6 years

RANGE OF ENTRANCE FEES: \$ 115,700 TO \$ 247,300 LONG -TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: _____

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: Medical/Financial

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

SERVICES AVAILABLE

	AVAILABLE	FEE FOR SERVICE		INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>1 per week</u>	
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY		<u>3</u>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE		
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLD COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER__Housing Services Staff_____	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER <u>Laundry, Commons</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
On-site Banking	<input type="checkbox"/>	<input type="checkbox"/>			
On-site Physical Therapist	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			

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.

**SINGLE-SITE FACILITY
FINANCIAL DISCLOSURE STATEMENT**

FACILITY NAME: Friends House

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	4,976,469	4,987,493	4,569,865	4,033,883
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	5,786,037 (609,666)	5,564,426 (606,932)	8,116,651 (1,547,986)	5,738,880 (1,704,767)
NET INCOME FROM OPERATIONS	67,907	62,938	66,786	49,887
LESS INTEREST EXPENSE	188,933	338,785	344,827	553,727
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	86,855	47,717	14,800	(119,899)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	(601,807)	(275,368)	(1,255,330)	(1,321,042)
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	889,006	889,467	201,988	749,781

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Non-institutional lenders	1,330,000	3.00%	3/2011	3/2018	Interest only

FINANCIAL RATIOS (see next page for ratio formulas)

	2010	2011	2012	2013
DEBT TO ASSET RATIO	12.7%	13.5%	7.2%	7.8%
OPERATING RATIO	117.6%	118.8%	128.0%	143.6%
DEBT SERVICE COVERAGE RATIO	5.4	3.1	1.8	(13.78)
DAYS CASH-ON-HAND RATIO	121	147	128	75.57

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

	2010	2011	2012	2013
STUDIO	0.0%	0.0%	0.0%	0.0%
ONE BEDROOM	885.00	888.00	920.00	1,046.00
TWO & THREE BEDROOM	1,004.00	1,354.00	1,380.00	1,516.00
COTTAGE/GARDEN APT	1,116.00	1,435.00	1,485.00	1,634.00
ASSISTED LIVING	5,450.00	5,500.00	5,500.00	5,500.00
SKILLED NURSING	8,100.00	8,100.00	8,100.00	8,640.00
SPECIAL CARE	N/A	N/A	N/A	N/A

COMMENTS FROM PROVIDER:

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

	INDEPENDENT LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period:	\$920 - \$1,465	\$5,500	\$8,100
[2] Indicate percentage of increase in fees imposed during reporting period:	9% - 12%	0.00%	6.3%

[] Check here if monthly service fees at this community were not increased during the reporting period.

[3] Indicate the date the fee increase was implemented: April 1, 2012

[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.

FORM 7-1

PROVIDER NAME: Friends Association of Services for the Elderly
 COMMUNITY NAME: Friends House

Each year as part of our budget process we incorporate suggestions from residents on ways in which we can improve the services we provide. We also work closely with our department heads to include those suggestions where possible and to refine our program of services while keeping the costs as low as possible.

As you can imagine, with so many different individuals: residents, employees and board members, our budget takes several months each year to prepare before it is finalized. The FASE Board and Pacific Retirement Services have reviewed and approved the budget for this next fiscal year.

Our goal each year is to produce a budget, which keeps monthly rate increases reasonable while continuing to maintain and improve the services we provide. The budget must cover inflationary increases (including the necessary adjustments to salaries and benefits to retain and attract quality employees) and meet regulatory requirements and our actuarial reserve requirements.

We raised health center rates by 6.3%, assisted living fees by 4.5%, and independent living rates by 10%. This is necessary to accommodate the rising costs of providing health care. Our goal has been to build and staff Friends House to provide a great place for residents to live a happy and healthy life. We will be monitoring our services and implementing change as necessary.

We realize the importance of keeping fee increases to the most reasonable level possible and have made every effort to do so.