

**ANNUAL REPORT  
CHECKLIST**

for  
**FISCAL YEAR ENDED:  
December 31, 2013**

**R E C E I V E D**  
MAY 05 2014

CONTINUING CARE  
CONTRACTS BRANCH

**PROVIDER: Northern California Congregational Retirement Homes, Inc.**

**FACILITY (IES): Carmel Valley Manor**

**CONTACT PERSON: Mr. Richard Baloga**  
**TELEPHONE NO.: (831) 626-4870**

✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓   ✓

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

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 12,128
  - ✓ 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.



RECEIVED  
MAY 05 2014  
CONTINUING CARE  
CONTRACTS BRANCH

8545 Carmel Valley Road Carmel, CA 93923-9556  
831-624-1281 Fax 831-625-9827 www.cvmanor.com

May 12, 2014

John Rodriquez  
Department of Social Services  
Continuing Care Contracts Branch  
744 P Street  
Mail Station 8-3-90  
Sacramento, CA. 95814

Dear Mr. Rodriquez,

Enclosed are the following for the Northern California Congregational Retirement Homes, Inc.:

1. One (1) original Form 8-1 Key Indicators Report (including support)
2. Five (5) copies of Form 8-1 Key Indicators Report (including support)
3. Three (3) copies of the Audited Financial Statements for the year ended December 31, 2012.

Three (3) copies of the Continuing Care Contract Program Annual Report and One (1) check in the amount of \$12,128 for fees, were previously sent.

If you have any questions or comments, please feel free to give me a call at (831)626-4870 or email me at [rbaloga@cvmanor.com](mailto:rbaloga@cvmanor.com).

Regards,

Richard Baloga  
Controller  
Carmel Valley Manor  
8545 Carmel Valley Road  
Carmel, CA. 93923-9556

RECEIVED  
MAY 05 2014

CONTINUING CARE  
CONTRACTS BRANCH

NORTHERN CALIFORNIA  
CONGREGATIONAL  
RETIREMENT HOMES, INC.

CONTINUING CARE CONTRACT  
PROGRAM ANNUAL REPORT  
DECEMBER 31, 2013

**PKF**

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

December 31, 2013

Table of Contents

	<u>Section</u>
Annual Provider Fee	1
Certification by Chief Executive Officer	2
Evidence of Insurance	3
Independent Auditor's Report and Related Financial Statements	4
Liquid Reserves	5
Disclosure Statement	6
Adjustments in Monthly Fees	7
Refund Reserve Requirement	8
Independent Auditor's Report on Continuing Care Reserve Report	9

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	247
[2]	Number at end of fiscal year	219
[3]	Total Lines 1 and 2	466
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	233
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	247
[7]	Number at end of fiscal year	219
[8]	Total Lines 6 and 7	466
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	233
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	1.00

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$14,387,442
[a] Depreciation	\$2,034,516
[b] Debt Service (Interest Only)	\$224,772
[2] Subtotal (add Line 1a and 1b)	\$2,259,288
[3] Subtract Line 2 from Line 1 and enter result.	\$12,128,154
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	100%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$12,128,154
	x .001
[6] <b>Total Amount Due</b> (multiply Line 5 by .001)	<b>\$12,128</b>

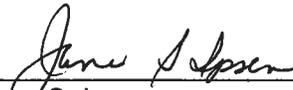
RECEIVED  
MAY 05 2014

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

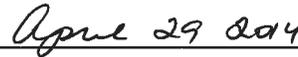
Certification by Chief Executive Officer

CONTINUING CARE  
CONTRACTS BRANCH

To the best of my knowledge, the accompanying Report on Examination of Continuing Care Reserve Report as of December 31, 2013 and Report on Audit of the Financial Statements and Supplementary Information for the year ended December 31, 2013 are correct. The life care contract form in use for new residents has been approved by the Department of Social Services. The required liquid reserve is properly maintained as of December 31, 2013. A refund reserve is not required.



\_\_\_\_\_  
Ms. Jane S. Ipsen  
President and CEO



\_\_\_\_\_  
Date

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

RECEIVED  
MAY 05 2014

Insurance Coverage

CONTINUING CARE  
CONTRACTS BRANCH

December 31, 2013

Type	Crime
Coverage	\$1,000,000 for Employee Dishonesty \$1,000,000 for Forgery \$1,000,000 for Other Fraud
Company	Chubb Group
Type	Directors and Officers Liability
Coverage	\$5,000,000
Company	Continental Casualty Company

RECEIVED  
MAY 05 2014

CONTINUING CARE  
CONTRACTS BRANCH

NORTHERN CALIFORNIA  
CONGREGATIONAL  
RETIREMENT HOMES, INC.

FINANCIAL STATEMENTS  
AND ACCOMPANYING INFORMATION  
DECEMBER 31, 2013

**PKF**

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

December 31, 2013

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4-5
Notes to the Financial Statements	6-25
Independent Auditor's Report on Accompanying Information	26
Accompanying Information	27-36



Accountants and  
business advisers

## Independent Auditor's Report

R E C E I V E D  
MAY 05 2014

CONTINUING CARE  
CONTRACTS BRANCH

Board of Directors  
Northern California Congregational  
Retirement Homes, Inc.  
Carmel, California

We have audited the accompanying financial statements of Northern California Congregational Retirement Homes, Inc. (the Corporation) which comprise the statements of financial position as of December 31, 2013 and 2012 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 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 misstatements, 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 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 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 Corporation'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 Corporation'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 Northern California Congregational Retirement Homes, Inc. as of December 31, 2013 and 2012, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants  
A Professional Corporation

April 29, 2014

**PKF, Certified Public Accountants, A Professional Corporation.**  
425 California Street, Suite 1600, San Francisco, California 94104 Telephone (415) 421-5378 Facsimile (415) 956-7708  
Email: [pkf@pkfsf.com](mailto:pkf@pkfsf.com) | Website: [www.pkfcalifornia.com](http://www.pkfcalifornia.com)

The PKF International Limited is a network of legally independent firms.

	December 31, 2013				
	Unrestricted		Total	Temporarily	Per
	Undesignated	Designated	Unrestricted	Restricted	Re
<b>Assets</b>					
Cash	\$ 1,278,948	\$ 191,729	\$ 1,470,677	\$ 256,640	\$
Accounts receivable	240,544	-	240,544	-	
Due (to) from other funds	(56,093)	(19,281)	(75,374)	75,374	
Prepaid expenses	135,184	-	135,184	-	
<b>Total current assets</b>	<b>1,598,583</b>	<b>172,448</b>	<b>1,771,031</b>	<b>332,014</b>	
Investments	6,848,477	8,305,676	15,154,153	4,135,338	
Property and equipment - net of accumulated depreciation	34,905,311	-	34,905,311	-	
Cash surrender value of life insurance	373,816	-	373,816	-	
<b>Total assets</b>	<b>\$ 43,726,187</b>	<b>\$ 8,478,124</b>	<b>\$ 52,204,311</b>	<b>\$ 4,467,352</b>	<b>\$</b>
<b>Liabilities and Net Assets</b>					
Accounts payable	\$ 493,967	\$ -	\$ 493,967	\$ -	\$
Accrued liabilities	589,391	-	589,391	-	
Current portion of long-term debt	100,786	-	100,786	-	
<b>Total current liabilities</b>	<b>1,184,144</b>	<b>-</b>	<b>1,184,144</b>	<b>-</b>	
Advances from applicants	737,915	-	737,915	-	
Long-term debt - net of current portion	4,072,849	-	4,072,849	-	
Deferred income from entrance fees	24,677,670	-	24,677,670	-	
Annuity obligations	-	-	-	1,104,930	
Post retirement obligation	172,879	-	172,879	-	
<b>Total liabilities</b>	<b>30,845,457</b>	<b>-</b>	<b>30,845,457</b>	<b>1,104,930</b>	
<b>Net assets</b>					
Unrestricted					
Undesignated	12,880,730	-	12,880,730	-	
Designated	-	8,478,124	8,478,124	-	
Temporarily restricted	-	-	-	3,362,422	
Permanently restricted	-	-	-	-	
<b>Total net assets</b>	<b>12,880,730</b>	<b>8,478,124</b>	<b>21,358,854</b>	<b>3,362,422</b>	
<b>Total liabilities and net assets</b>	<b>\$ 43,726,187</b>	<b>\$ 8,478,124</b>	<b>\$ 52,204,311</b>	<b>\$ 4,467,352</b>	<b>\$</b>

## NORTHERN CALIFORNIA CONGREGATIONAL

## Statements of Activities and Change in Net Assets

	Year Ended December 31, 2013				
	Unrestricted		Total	Temporarily	Per
	Undesignated	Designated	Unrestricted	Restricted	Re
Income from operations					
Resident care fees	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$ -
Entrance fees	3,879,524	-	3,879,524	-	-
Medical Center routine services	1,384,156	-	1,384,156	-	-
Other resident services and operating income	313,172	31,369	344,541	-	-
<b>Total income from operations</b>	<b>14,179,949</b>	<b>31,369</b>	<b>14,211,318</b>	<b>-</b>	<b>-</b>
Other income (loss)					
Interest and dividends	236,946	225,356	462,302	250,870	-
Net realized and unrealized gains	425,311	220,473	645,784	471,087	-
Processing fees	3,400	-	3,400	-	-
Contributions	71,900	139,008	210,908	102,679	-
Change in value of split-interest trusts	-	-	-	81,811	-
<b>Total other income</b>	<b>737,557</b>	<b>584,837</b>	<b>1,322,394</b>	<b>906,447</b>	<b>-</b>
Net assets released from restrictions					
Endowment income distribution	522,204	(222,981)	299,223	(299,223)	-
Remainder of terminated annuity trusts	-	534,548	534,548	(534,548)	-
Satisfaction of program restrictions	1,525	-	1,525	(1,525)	-
Board designated transfers	368,966	(368,966)	-	-	-
<b>Total released from restrictions</b>	<b>892,695</b>	<b>(57,399)</b>	<b>835,296</b>	<b>(835,296)</b>	<b>-</b>
<b>Total revenue and other support</b>	<b>15,810,201</b>	<b>558,807</b>	<b>16,369,008</b>	<b>71,151</b>	<b>-</b>
Expenses					
Operating					
Residential care	8,642,266	-	8,642,266	-	-
Medical Center	3,485,888	-	3,485,888	-	-
Interest	224,772	-	224,772	-	-
Depreciation	2,034,516	-	2,034,516	-	-
Loss on disposal of property and equipment	-	-	-	-	-
<b>Total expenses</b>	<b>14,387,442</b>	<b>-</b>	<b>14,387,442</b>	<b>-</b>	<b>-</b>
<b>Change in net assets</b>	<b>1,422,759</b>	<b>558,807</b>	<b>1,981,566</b>	<b>71,151</b>	<b>-</b>
Net assets, beginning of year	11,457,971	7,919,317	19,377,288	3,291,271	-
<b>Net assets, end of year</b>	<b>\$ 12,880,730</b>	<b>\$ 8,478,124</b>	<b>\$ 21,358,854</b>	<b>\$ 3,362,422</b>	<b>\$ -</b>

See notes to the financial statements

	Year Ended December 31, 2013				
	Unrestricted		Total	Temporarily	Per
	Undesignated	Designated	Unrestricted	Restricted	Re
Cash flows from operating activities					
Revenues					
Resident care fees	\$ 8,603,097	\$ -	\$ 8,603,097	\$ -	\$
Entrance fees	1,590,120	-	1,590,120	-	
Medical Center routine services	1,384,156	-	1,384,156	-	
Other resident services and operating income	338,609	31,369	369,978	-	
Investment income	237,387	225,356	462,743	-	
Processing fees	3,400	-	3,400	-	
Contributions	17,479	139,008	156,487	-	
Net assets released from restrictions	748,419	(616,614)	131,805	-	
Total revenues	<u>12,922,667</u>	<u>(220,881)</u>	<u>12,701,786</u>	<u>-</u>	
Expenses					
Cash paid for operating expenses	(11,822,793)	-	(11,822,793)	-	
Interest paid	(225,168)	-	(225,168)	-	
Total expenses	<u>(12,047,961)</u>	<u>-</u>	<u>(12,047,961)</u>	<u>-</u>	
Net cash provided by (used in) operating activities	<u>874,706</u>	<u>(220,881)</u>	<u>653,825</u>	<u>-</u>	
Cash flows from investing activities					
Proceeds from sale of investments	1,368,128	1,403,063	2,771,191	2,414,867	
Purchase of investments	(1,655,329)	(4,518,266)	(6,173,595)	(1,725,612)	
Purchase of property and equipment	(2,313,801)	-	(2,313,801)	-	
Proceeds from sale of property and equipment	-	-	-	-	
Net cash provided by (used in) investing activities	<u>(2,601,002)</u>	<u>(3,115,203)</u>	<u>(5,716,205)</u>	<u>689,255</u>	
Cash flows from financing activities					
Repayment of long-term debt	(593,911)	-	(593,911)	-	
Restricted contributions	-	-	-	76,423	
Investment income restricted for reinvestment	-	-	-	268,342	
Investment income released from restrictions	-	-	-	(299,224)	
Payment of annuity obligations	-	-	-	(273,014)	
Repayment of entrance fees	(326,858)	-	(326,858)	-	
(Payment) receipt of remainder interest in annuity trusts	-	543,829	543,829	(408,384)	
Net cash provided by (used in) financing activities	<u>(920,769)</u>	<u>543,829</u>	<u>(376,940)</u>	<u>(635,857)</u>	
Net increase (decrease) in cash	<u>(2,647,065)</u>	<u>(2,792,255)</u>	<u>(5,439,320)</u>	<u>53,398</u>	
Cash, beginning of year	<u>3,926,013</u>	<u>2,983,984</u>	<u>6,909,997</u>	<u>203,242</u>	
Cash, end of year	<u>\$ 1,278,948</u>	<u>\$ 191,729</u>	<u>\$ 1,470,677</u>	<u>\$ 256,640</u>	<u>\$</u>

## NORTHERN CALIFORNIA CONGREGATIONA

## Statements of Cash Flows (

	Year Ended December 31, 2013				Per Re
	Unrestricted		Total	Temporarily	
	Undesignated	Designated	Unrestricted	Restricted	
Reconciliation of change in net assets to net cash provided by operating activities					
Change in net assets	\$ 1,422,759	\$ 558,807	\$ 1,981,566	\$ 71,151	\$
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities					
Restricted income and expense	-	-	-	501,388	
Depreciation	2,034,516	-	2,034,516	-	
Loss on disposal of property and equipment	-	-	-	-	
Net realized and unrealized gains	(425,311)	(220,473)	(645,784)	(471,087)	
Donated securities	-	-	-	(101,452)	
Cash surrender value of life insurance	(15,641)	-	(15,641)	-	
Amortization of entrance fees	(3,879,524)	-	(3,879,524)	-	
Entrance fees received	1,664,711	-	1,664,711	-	
(Increase) decrease in operating assets					
Accounts receivable	122,676	-	122,676	-	
Due (to) from other funds	(143,835)	(559,215)	(703,050)	-	
Prepaid expenses	114,915	-	114,915	-	
Increase (decrease) in operating liabilities					
Accounts payable	149,363	-	149,363	-	
Accrued liabilities	(95,332)	-	(95,332)	-	
Advances from applicants	(74,591)	-	(74,591)	-	
Total adjustments	(548,053)	(779,688)	(1,327,741)	(71,151)	
Net cash provided by (used in) operating activities	\$ 874,706	\$ (220,881)	\$ 653,825	\$ -	\$

See notes to the financial statements

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements  
December 31, 2013

## Note 1 - Summary of significant accounting policies

Nature of operations

Northern California Congregational Retirement Homes, Inc. (the Corporation) is a nonprofit public benefit corporation that operates Carmel Valley Manor (the Manor), a life care facility located in Carmel, California. The Manor opened in October 1963, and consists of 148 independent living units including five single family homes adjacent to the original Manor property, 24 assisted living units and 36 medical center beds. The Manor provides meals, lodging, most medical care, and miscellaneous services to approximately 219 residents.

Fund accounting

The accounts of the Corporation have been maintained in accordance with principles of fund accounting. Under these principles, resources are classified for accounting purposes into funds established according to their nature and purpose. The individual funds of the Corporation are as follows:

- The Operating Fund comprises resources that are available for support of the Manor's operations.
- The Endowment Fund is comprised of two parts, Part A and Part B.

Part A consists of (1) donations, gifts, bequests made to the Endowment Fund and other unrestricted bequests apparently intended to be enduring and in compliance with the purpose of the fund; (2) remainder interests in those Charitable Remainder Annuity Trusts terminated prior to March 1, 1994; (3) those trusts created prior to March 1, 1994 unless the trustors have specified in writing that the remainder interests shall be placed in Part B; and (4) those trusts created on or after March 1, 1994 with the written consent of the trustors. The principal of Part A shall accumulate and be retained in perpetuity to provide increasing income to the Manor and may be used only to meet the statutory reserve requirements of the State of California or to meet unforeseen emergencies if the assets in Part B are insufficient for these purposes. The investment return on Part A assets are temporarily restricted.

Part B consists of (1) any funds transferred from the Manor's reserve (operating) fund at the designation of the Board; (2) remainder interests in trusts created prior to March 1, 1994 with the written consent of the trustors; and (3) remainder interests in trusts created on or after March 1, 1994 provided the trustors have not specified in writing that such remainder interests shall be placed in Part A. The principal of Part B has no outside restrictions and can be utilized with the approval of the Board of Trustees for: unforeseen emergencies; funding improvements which are financially sound and will substantially improve the quality of life at the Manor; compliance with regulatory requirements; reducing operating expenses and debt which may have been or may be incurred to fund improvements.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 1 - Summary of significant accounting policies (continued)

- The Charitable Remainder Annuity Trusts Fund (Annuity Trusts Fund) consists of the remaining principal amounts of annuity gifts to the Corporation. Under individual trust agreements, the Corporation is required to pay stipulated annuities to the donor over the donor's lifetime. The contribution portion of the gift is determined in the year the trust is established and recorded on the statements of activities and changes in net assets, as the difference between the fair value of the trust assets and the present value of the estimated annuity payments to be paid over the expected life of the annuitant using a discount rate of 8%, which is recorded as a liability on the statements of financial position. Subsequent to initial recognition, the liability is adjusted for discount amortization and revaluations of future payments to beneficiaries based on life expectancies, which are recognized as the change in value of split interest agreements on the statements of activities and changes in net assets. The remaining liability reverts to the Corporation upon death of the donor. The annuitants have designated that, on termination, the remaining principal of each Annuity Trust be transferred to either Part A or Part B of the Endowment Fund. Assets held in the charitable remainder trusts totaled \$1,961,505 and \$2,111,307 at December 31, 2013 and 2012, respectively, and are reported at fair value in the statements of financial position.
- The Charitable Remainder Unitrust Fund (Unitrust) consisted of a trust created in January 1999 by a resident with a donation of real property. This property was sold and the proceeds invested in marketable securities. The Corporation, as trustee, was required to pay nine percent of the fair value of the trust, computed annually, to the donor over the donor's lifetime. The contribution portion of the gift was recorded in the statements of activities and changes in net assets as the difference between the fair value of the trust assets and the present value of the estimated payments to be paid over the expected life of the donor. The entire principal reverted to the Corporation upon death of the donor, which occurred in February 2013. Assets held in the charitable remainder unitrust totaled \$0 and \$392,313 at December 31, 2013 and 2012, respectively, and were reported at fair value in the statements of financial position.
- The Other Funds are comprised of various temporarily restricted contributions including the Alabaster Fund that consists of a contribution to be used for resident entertainment. The income earned and up to ten percent of the principal may be used annually in the Alabaster Fund.
- The Sinking Fund is comprised of 10% of entrance fees designated by the Board to be used for repaying debt.
- The Residents' Association is comprised of income from the ROSE shop and donations designated for use by the Association. Funds are used by the Association, through the Residents' Council and its committees, primarily to advance the welfare of residents.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 1 - Summary of significant accounting policies (continued)

Classes of net assets

The Corporation has classified the individual funds according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are those net assets, which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are further categorized into undesignated and designated amounts. Undesignated net assets consist of the Manor's Operating Fund. Designated assets generally consist of the Endowment Fund Part B, the Sinking Fund, and the Residents' Association.

Temporarily restricted net assets are those net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by the actions of the Board pursuant to those stipulations. Temporarily restricted net assets generally consist of donations to the Alabaster Fund, the Unitrust and the Annuity Trusts Fund.

Permanently restricted net assets are those net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Permanently restricted net assets generally consist of donations to the Endowment Fund Part A.

Basis of accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Concentration of credit risk

The Corporation maintains cash in brokerage accounts that are not insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation maintains cash balances on deposit with banks that have exceeded the FDIC limit of \$250,000. The Corporation has not experienced any losses in such accounts. Management believes the Corporation is not exposed to significant credit risk relating to cash.

Cash equivalents

The Corporation considers all financial instruments with original maturities of three months or less when purchased to be cash equivalents.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 1 - Summary of significant accounting policies (continued)

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of amounts due from residents for the monthly care fees and routine medical services and are stated at the amount the Corporation expects to collect. When necessary, the Corporation provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. The Corporation has determined there is no need for an allowance for doubtful accounts at December 31, 2013 or 2012.

Investments

Investments in common stock, bond, equity and exchange traded funds are measured at fair value, which is the price that would be received if the investment was sold in an orderly transaction between market participants at the measurement date. Investments in certificates of deposits are stated at face value, which approximates fair value. Prana investments are valued at the amounts reported to the Corporation by Prana and the Corporation's investment advisors. These amounts are generally reported at face value, which the Corporation believes is a reasonable approximation of fair value. Realized and unrealized gains and losses (fair value fluctuation) are reflected in the statements of activities and changes in net assets.

Property and equipment

Property and equipment are stated at cost. Major additions, alterations, and improvements are capitalized. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of items disposed of are removed from the accounts, and any gain or loss is included in the statements of activities and changes in net assets.

Depreciation is provided using the straight-line method at rates based on the estimated economic useful lives of the individual classes of assets.

Advances from applicants

Advances from applicants consist of deposits received from applicants who have not signed a continuing care contract as of December 31, 2013 and 2012.

Deferred income from entrance fees

Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident, adjusted annually based on the actuarially determined estimated remaining life expectancy of the resident.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 1 - Summary of significant accounting policies (continued)

Refund of entrance fees

After a ninety day period in which either the Corporation or the resident can cancel the contract without cause and up to approximately 5 years, the Corporation will generally refund to the resident shortly after the termination date of the contract the total amounts paid as the entrance fee less a charge of 1½ percent of the entrance fee for each month that the resident occupied the living accommodation. Based upon the Manor's history of issuing refunds, a refund reserve is not considered necessary as of December 31, 2013 and 2012. The total amount of entrance fees refundable, upon termination of the contract, is approximately \$8.6 million and \$10.8 million at December 31, 2013 and 2012, respectively.

Restricted and unrestricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

Income tax and uncertain tax positions

The Corporation is organized and operated exclusively for charitable, religious and educational purposes and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Corporation adopted the accounting guidance for uncertainty in income taxes. The Corporation recognizes tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of December 31, 2013 and 2012, the Corporation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Corporation's tax returns are subject to examination by the Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Presentation of certain taxes

The Corporation collects sales and occupancy taxes and remits these amounts to applicable taxing authorities. The Corporation's accounting policy is to exclude these taxes from revenues and expenses.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

Note 1 - Summary of significant accounting policies (continued)

Subsequent events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Corporation evaluates all subsequent events and transactions to determine whether any transaction needs to be recognized or disclosed. The Corporation has evaluated all subsequent events through April 29, 2014, which is the date the financial statements are available to be issued, and has determined no events or transactions need to be recognized or disclosed in these financial statements, except as disclosed in Note 17.

Note 2 - Investments

The Corporation's investment portfolio consists of the following:

	December 31	
	<u>2013</u>	<u>2012</u>
Mutual bond funds	\$ 11,411,773	\$ 7,509,948
Mutual equity funds	9,369,304	7,994,908
Exchange traded funds	492,651	1,060,742
Certificates of deposit	-	321,719
Domestic stock	104,420	-
Prana Income Fund - Ten, LLC	1,650,000	2,200,000
Prana Realty Company 1 common stock	<u>201,139</u>	<u>201,139</u>
Total	<u>\$ 23,229,287</u>	<u>\$ 19,288,456</u>

The Corporation invested in unsecured notes issued by Prana Income Fund – Ten, LLC (“Prana”). Prana is a fund that makes loans to limited liability companies (LLC’s) formed for the purpose of investing in residential real estate and mortgage loans presently located in New York and Los Angeles. Prana’s loans to the LLC’s are unsecured and the ability of the LLC’s to repay the Prana loans (principal and interest) is dependent on their ability to generate profits from these properties. The Corporation will receive from Prana fixed interest at 6% payable quarterly and contingent interest at 2%, if any, based upon the results for the underlying assets in the fund. There is also bonus contingent interest at 45% of profits. The initial principal of the notes are repayable in 20% installments, due on December 31, 2012 and each December 31 thereafter until December 31, 2016. At December 31, 2013, the Corporation has received 40% of the initial principal balance. These notes are not readily marketable, in part due to withdrawal restrictions placed by Prana on transferring the notes. Since there is no readily available market for these notes, they are valued at amounts reported to the Corporation by Prana and the Corporation’s investment advisors, which approximates face value less any return of principal. The Corporation believes this is a reasonable approximation of fair value.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 2 - Investments (continued)

The Corporation purchased the common stock of Prana Reality Company I (the Company) in an initial offering in 2007. The Company, through City Reality Partners I (the Partnership), originally acquired 9 and presently owns 8 apartment buildings in the Bronx, New York. The valuation of the class A common stock is determined by the management of the Company based upon the value of the real estate owned by the controlled Partnership of which the Company is the 99% owner and general partner. The valuation of real estate held by the Partnership is generally determined by using a multiplier factor applied to the gross rents of a particular property. It is the Partnership's policy to obtain third party appraisals at least once every three years. In 2012 all of the properties were appraised by third party appraisers. From the appraisals, the Partnership obtains the multiplier factors it uses for fair value estimates. Management evaluates changes in market conditions from appraisal date to year-end and adjusts the multiplier factor as needed. Share value is estimated as the net asset value divided by the number of outstanding shares at the valuation date. At December 31, 2013, the Company has valued each share at \$134,093. This investment is not readily marketable, in part due to withdrawal restrictions placed by Prana. Since 2009, Prana has paid out \$7.2 million in redemptions. Rent rolls and market rents both increased during 2013 resulting in a 8.0% increase in share value. The remaining 8 buildings were valued at \$21.4 million.

## Note 3 - Fair value measurements

The Corporation adopted the provisions of fair value measurements which defines fair value, establishes a framework for measuring fair value and also expands the disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1. Inputs are based on unadjusted quoted prices for identical assets in an active market the Corporation has the ability to access. Examples of these are investments in common stocks and mutual funds.

Level 2. Inputs are based on quoted prices in markets that are not active and other valuation methodologies or model inputs that are observable either directly or indirectly as of the measurement date. Examples of these investments include corporate and municipal bonds that trade infrequently.

Level 3. Inputs are based on prices or valuation techniques that are unobservable for the investment and include situations where there is little, if any, market activity. These inputs reflect assumptions of management about in pricing the investments or life expectancies. Examples of these investments are certain private equity investments and annuity obligations.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 3 - Fair value measurements (continued)

A summary of the assets and liabilities measured on a recurring basis at fair value, by level including the fair value hierarchy at December 31, 2013 and 2012, is as follows:

	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
<b>Mutual bond funds</b>				
Investment grade	\$ 10,457,852	\$10,457,852	\$ -	\$ -
International	843,351	843,351	-	-
U.S. Government	18,262	18,262	-	-
Fixed income	92,308	92,308	-	-
	<u>11,411,773</u>	<u>11,411,773</u>	<u>-</u>	<u>-</u>
<b>Mutual equity funds</b>				
Large Cap	4,559,407	4,559,407	-	-
International	3,303,676	3,303,676	-	-
Alternative investments	1,506,221	1,506,221	-	-
	<u>9,369,304</u>	<u>9,369,304</u>	<u>-</u>	<u>-</u>
<b>Exchange traded funds</b>				
International	492,651	492,651	-	-
Domestic stock	104,420	104,420	-	-
Prana Income Fund - Ten, LLC	1,650,000	-	-	1,650,000
Prana Realty Company I	201,139	-	-	201,139
Cash surrender value of life insurance	373,816	-	-	373,816
	<u>3,761,826</u>	<u>3,761,826</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>\$ 23,603,103</u>	<u>\$21,378,148</u>	<u>\$ -</u>	<u>\$ 2,224,955</u>
<b>Liabilities</b>				
<b>Annuity obligations</b>				
Annuity trusts	\$ 1,104,930	\$ -	\$ -	\$ 1,104,930
Post retirement obligation	186,974	-	-	186,974
	<u>1,291,904</u>	<u>-</u>	<u>-</u>	<u>1,291,904</u>
<b>Total</b>	<u>\$ 1,291,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,291,904</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 3 - Fair value measurements (continued)

	December 31, 2012			
	Total Fair Value	Level 1	Level 2	Level 3
Mutual bond funds				
Investment grade	\$ 6,565,712	\$ 6,565,712	\$ -	\$ -
International	813,754	813,754	-	-
U.S. Government	29,094	29,094	-	-
Fixed income	101,388	101,388	-	-
	<u>7,509,948</u>	<u>7,509,948</u>	<u>-</u>	<u>-</u>
Mutual equity funds				
Large Cap	4,075,843	4,075,843	-	-
International	2,475,952	2,475,952	-	-
Alternative investments	1,443,113	1,443,113	-	-
	<u>7,994,908</u>	<u>7,994,908</u>	<u>-</u>	<u>-</u>
Exchange traded funds				
International	1,060,742	1,060,742	-	-
Certificates of deposit	321,719	321,719	-	-
Prana Income Fund - Ten, LLC	2,200,000	-	-	2,200,000
Prana Realty Company I	201,139	-	-	201,139
Cash surrender value of life insurance	358,175	-	-	358,175
	<u>3,941,775</u>	<u>3,941,775</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 19,646,631</u>	<u>\$ 16,887,317</u>	<u>\$ -</u>	<u>\$ 2,759,314</u>
Liabilities				
Annuity obligations				
Annuity trusts	\$ 1,302,769	\$ -	\$ -	\$ 1,302,769
Unitrust	96,000	-	-	96,000
Post retirement obligation	208,967	-	-	208,967
	<u>1,607,736</u>	<u>-</u>	<u>-</u>	<u>1,607,736</u>
Total	<u>\$ 1,607,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,607,736</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 3 - Fair value measurements (continued)

Changes in Level 3 assets measured at fair value on a recurring basis

	<u>December 31, 2012</u>	<u>Gains/ (Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>December 31, 2013</u>
Prana Income Fund - Ten, LLC	\$ 2,200,000	\$ -	\$ -	\$ (550,000)	\$ 1,650,000
Prana Realty Company I	201,139	-	-	-	201,139
Cash surrender value of life insurance	<u>358,175</u>	<u>15,641</u>	<u>-</u>	<u>-</u>	<u>373,816</u>
Total	<u>\$ 2,759,314</u>	<u>\$ 15,641</u>	<u>\$ -</u>	<u>\$ (550,000)</u>	<u>\$ 2,224,955</u>

	<u>December 31, 2011</u>	<u>Gains/ (Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>December 31, 2012</u>
Prana Income Fund - Ten, LLC	\$ 2,469,204	\$ -	\$ -	\$ (269,204)	\$ 2,200,000
Prana Realty Company I	196,688	4,451	-	-	201,139
TCW Special Mortgage Credits Fund II, L.P.	554,632	(18,662)	-	(535,970)	-
Cash surrender value of life insurance	<u>340,376</u>	<u>17,799</u>	<u>-</u>	<u>-</u>	<u>358,175</u>
Total	<u>\$ 3,560,900</u>	<u>\$ 3,588</u>	<u>\$ -</u>	<u>\$ (805,174)</u>	<u>\$ 2,759,314</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 3 - Fair value measurements (continued)

Cash surrender value of life insurance

The Corporation is the owner and the beneficiary of an adjustable universal life insurance policy on the life of the former President of the Corporation. The fair value of this policy is considered equal to the cash surrender value. The cash surrender value is the amount the insurance company would pay upon cancellation of the policy which is calculated by the insurance company as the excess of premiums paid over cost of insurance and administrative fees plus interest earned at a competitive market rate with guaranteed minimum interest rate of 4%. The cash surrender value of the policy was \$373,816 and \$358,175 at December 31, 2013 and 2012, respectively.

Annuity obligations

On an annual basis, the Corporation revalues the liability to make distributions to the designated beneficiaries of the Annuity Trusts and the Unitrust based on actuarial assumptions. The present value of the estimated future payments for Annuity Trusts is calculated using a discount rate of 8% and the remaining life expectancy of the beneficiaries based on applicable mortality tables. The present value of the estimated future payments for the Unitrust was calculated using a discount rate of 9% and the applicable mortality tables.

Post retirement obligation

The present value of the estimated future payments to the President of the Corporation is calculated using a discount rate of 6% and a retirement date in 2013.

## Note 4 - Commitments

The Corporation entered into a contract with the former President of the Corporation in which he will serve as a consultant as may be required after he retired in 2012. He will also receive an annual payment of \$25,000 for eleven years beginning in January 2013 for a total of \$275,000. If he dies or is disabled at any time before the full \$275,000 is paid, the remaining balance will be paid in full to his trust. Using a present value discount rate of 6% and a quarterly payment of \$6,250, the post-retirement obligation at December 31, 2013 is \$186,974 of which \$14,095 is included in accrued liabilities.

## Note 5 - Related parties

Current board members are officers and/or owners of organizations that provide insurance and architectural services to the Manor.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 6 - Property and equipment

The major categories of property and equipment and accumulated depreciation thereon are as follows:

	December 31	
	2013	2012
Building and improvements	\$ 37,821,618	\$ 37,160,432
Hillcrest assisted living center	4,479,695	4,479,695
Medical center	5,009,817	5,009,817
Administrative and activity building	3,254,080	3,254,080
Pavement resurfacing	499,602	499,602
Sprinkler system and well	472,382	472,382
Septic drain	162,527	162,527
Furnishings and carpeting	456,944	456,757
Computer equipment	173,547	226,971
Furniture	1,647,357	1,641,350
Health center equipment	218,327	205,081
Kitchen equipment	480,209	458,946
Maintenance equipment	97,705	76,534
Artwork and collections	143,026	143,026
Miscellaneous equipment	442,684	266,046
Motor vehicles	441,990	441,990
Landscaping	814,518	729,689
Telephone equipment	452,372	458,763
Total depreciable property and equipment	<u>57,068,400</u>	<u>56,143,688</u>
Less accumulated depreciation	<u>(23,671,647)</u>	<u>(21,883,097)</u>
	33,396,753	34,260,591
Land	403,575	403,575
Construction in progress	<u>1,104,983</u>	<u>142,877</u>
Net property and equipment	<u>\$ 34,905,311</u>	<u>\$ 34,807,043</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 7 - Long-term debt

Long-term debt consists of the following:

	December 31	
	<u>2013</u>	<u>2012</u>
Note payable with the 1st Capital Bank, secured by deed of trust, payable in monthly installments of \$25,081 for principal and fixed interest at 4.85% beginning February 5, 2012 and maturing on January 5, 2022, at which time a one time balloon payment estimated to be \$3,227,984 is due.	\$ 4,173,635	\$ 4,269,657
Note payable dated November 30, 2004 with a former resident secured by a deed of trust on a single family home adjacent to the Manor; payable in monthly installments of \$4,127 including interest at 5%. Balance due in full on January 15, 2027. The Manor paid the principal balance in full on February 11, 2013.	-	497,889
	<u>4,173,635</u>	<u>4,767,546</u>
Less current portion	<u>100,786</u>	<u>593,913</u>
Long-term debt - net of current portion	<u>\$ 4,072,849</u>	<u>\$ 4,173,633</u>

Maturities on the long-term debt are as follows:

<u>Year Ending</u> <u>December 31</u>	
2014	\$ 100,786
2015	105,784
2016	110,486
2017	116,510
2018	122,289
Thereafter	<u>3,617,780</u>
Total	<u>\$ 4,173,635</u>

The note payable requires the Manor to comply with certain financial covenants, all of which were made at December 31, 2013 and 2012.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 8 - Long-term care commitment

The Corporation records a liability for the obligation to provide future services and the use of facilities to current residents when such costs are estimated to exceed anticipated revenues and the balance of unamortized entrance fees. Costs are comprised of per capita costs for all residents plus depreciation expense. The per capita costs are calculated based upon a four percent annual increase in costs multiplied by a life expectancy factor for each resident. Anticipated revenues from the few contracts for which there are no fee increases are calculated as current monthly fees multiplied by a life expectancy factor for each resident. Anticipated revenues for all other contracts are calculated as current monthly fees with a four percent annual increase multiplied by a life expectancy factor for each resident. The present value of future cash inflows and outflows is calculated with a discount rate of 6%. Depreciation expense is computed based upon expense per average number of residents multiplied by a total annuity factor for all residents. As of December 31, 2013 and 2012, future revenues were estimated to exceed costs to provide future services, therefore, no long-term care commitment liability is necessary.

## Note 9 - Deferred income from entrance fees

The changes in the deferred income from entrance fees are as follows:

	December 31	
	2013	2012
Balance, beginning of year	\$ 27,156,459	\$ 27,051,704
New fees received	1,664,711	4,267,916
Recognition of fees	(3,879,524)	(3,875,656)
Refunds	(263,976)	(287,505)
Balance, end of year	<u>\$ 24,677,670</u>	<u>\$ 27,156,459</u>

## Note 10 - Employee retirement plan

The Corporation has a section 403 (b) retirement savings plan. All full-time and part-time employees become eligible to participate in the Plan on their hire date. On-call employees, who work less than 1,000 hours a year, are not eligible to participate in the Plan.

The Manor may match a full-time employee's contribution dollar for dollar up to a maximum of 3% of a participant's compensation. To qualify for the employer discretionary matching contribution, the participant must be a full time employee for a continuous period of 2 years with no breaks in service. Part-time employees are not eligible for the employer discretionary matching contribution. The amount of matched contributions made by the Corporation was \$88,579 and \$78,012 in 2013 and 2012, respectively.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 11 - Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	December 31	
	2013	2012
Endowment Fund, Part A	\$ 2,450,578	\$ 2,135,516
Other Funds	55,269	50,904
Unitrust Fund	-	296,313
Annuity Trusts Fund	856,575	808,538
Balance, end of year	<u>\$ 3,362,422</u>	<u>\$ 3,291,271</u>

## Note 12 - Designated net assets

Designated net assets consist of the following:

	December 31	
	2013	2012
Endowment Fund, Part B	\$ 5,398,773	\$ 4,520,465
Sinking Fund	3,020,309	3,350,786
Residents' Association	59,042	48,066
Balance, end of year	<u>\$ 8,478,124</u>	<u>\$ 7,919,317</u>

## Note 13 - Endowment

The Corporation's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 13 - Endowment (continued)

Interpretation of relevant law

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by California in 2008 as SB 1329, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the endowment fund not classified as permanently restricted net assets is classified as temporarily restricted or designated net assets until donor specified restrictions are met or those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Corporation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

Investment return objectives and risk parameters

The Corporation has adopted investment and spending policies for the endowment fund. Under this policy, the endowment assets are invested in a manner that is intended to achieve the balanced accomplishment of current income with the growth and conservation of principal with interest and dividend income to be used to help meet operating expenses. At December 31, 2013, endowment investments are allocated as follows: 39% investment grade bonds, 48% U.S. equity funds, 3% Emerging markets or foreign funds and 10% alternative investments. In managing risk within the endowment fund, the objective is to achieve total returns in excess of the average returns for an equity-tilted balance portfolio. Losses of 15% are tolerable.

Strategies employed for achieving objectives

The Corporation's investment strategy involves under and over weighting various asset classes based on an assessment of the risk and return potential specific to each asset class at any point in time.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 13 - Endowment (continued)

Spending policy and how the investment objectives relate to spending policy

The Corporation has a policy of appropriating for distribution each year five percent of the average closing market value of all Endowment Fund investments for the three preceding years to be available for general operating purposes. The five percent allocation on the permanently restricted endowment is distributed from the temporarily restricted endowment. The five percent may be adjusted up or down in the future in order to maintain a fiscally prudent program for distribution consistent with the Corporation's objective to grow and conserve principal in the endowment fund with interest and dividend income to be used to help meet the operating expenses, but not the non-operating requirements, of the Manor.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2013 or 2012.

## Endowment net asset composition by type of fund:

Assets	December 31, 2013			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
	Cash	\$ -	\$ 167,933	
Due (to) from other funds	-	-	(9,281)	(9,281)
Total current assets	-	167,933	132,625	300,558
Investments	3,939,796	2,282,645	5,266,148	11,488,589
Total assets	\$ 3,939,796	\$ 2,450,578	\$ 5,398,773	\$ 11,789,147

Assets	December 31, 2012			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
	Cash	\$ -	\$ 144,618	
Due (to) from other funds	26,385	-	(217,260)	(190,875)
Total current assets	26,385	144,618	(109,491)	61,512
Investments	3,913,411	1,990,898	4,629,956	10,534,265
Total assets	\$ 3,939,796	\$ 2,135,516	\$ 4,520,465	\$ 10,595,777

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 13 - Endowment (continued)

## Changes in endowment net assets:

	Year Ended December 31, 2013			Total
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	
Other income				
Investment income, net	\$ -	\$ 199,784	\$ 148,880	\$ 348,664
Contributions	-	-	108,975	108,975
Net realized and unrealized gains	-	414,501	308,886	723,387
Total other income	-	614,285	566,741	1,181,026
Net assets released from restrictions				
Endowment income distributions	-	(299,223)	(222,981)	(522,204)
Remainder of terminated annuity trusts	-	-	534,548	534,548
Total net assets released from restrictions	-	(299,223)	311,567	12,344
Change in net assets	-	315,062	878,308	1,193,370
Net assets, beginning of year	3,939,796	2,135,516	4,520,465	10,595,777
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,450,578</u>	<u>\$ 5,398,773</u>	<u>\$ 11,789,147</u>
	Year Ended December 31, 2012			
	Permanently Restricted Part A	Temporarily Restricted Part A	Unrestricted Designated Part B	Total
Other income				
Investment income, net	\$ -	\$ 106,677	\$ 77,248	\$ 183,925
Contributions	-	-	26,250	26,250
Net realized and unrealized gains	-	473,754	343,063	816,817
Total other income	-	580,431	446,561	1,026,992
Net assets released from restrictions				
Endowment income distributions	-	(291,520)	(211,100)	(502,620)
Remainder of terminated annuity trusts	-	-	102,117	102,117
Total net assets released from restrictions	-	(291,520)	(108,983)	(400,503)
Change in net assets	-	288,911	337,578	626,489
Net assets, beginning of year	3,939,796	1,846,605	4,182,887	9,969,288
Net assets, end of year	<u>\$ 3,939,796</u>	<u>\$ 2,135,516</u>	<u>\$ 4,520,465</u>	<u>\$ 10,595,777</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 14 - Investment expenses

Expenses relating to investment income, including custodial fees and investment advisory fees, have been included in operating expenses for the Operating Fund and included in change in value of split-interest trusts for the Unitrust. Other investment expenses have been netted against investment income in the accompanying statements of activities and changes in net assets as follows:

	<u>Year Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Designated net assets		
Endowment Fund, Part B	\$ 17,259	\$ 15,623
Temporarily restricted net assets		
Endowment Fund, Part A	23,161	21,574
Annuity Trust Fund	<u>7,346</u>	<u>7,634</u>
Total	<u>\$ 47,766</u>	<u>\$ 44,831</u>

## Note 15 - Supplemental disclosure of non-cash and financing activities

Purchases of property and equipment included in accounts payable were \$196,521 and \$271,239 in 2013 and 2012, respectively.

## Note 16 - Health and Safety Code Section 1790 (A)(3) Disclosure

Improvements made during the year include (a) Landscaping of \$148,751 which consists of a new concrete walkway, grounds equipment, railing replacement and parking lot expansion; (b) unit renovations of \$719,472; (c) carpets and floor coverings of \$49,649; (d) furniture and equipment of \$10,939 which consists of office furniture and window coverings; (e) computers of \$9,549; (f) medical center equipment of \$13,246 which consists of new electronic beds and equipment; (g) kitchen equipment of \$21,263 which consist of a blender and ceiling work; (f) maintenance equipment of \$21,171 which consists of a new air conditioning system; (g) miscellaneous equipment of \$176,638 which consists of a emergency wireless call system, security cameras, housekeeping equipment and a table saw and (h) construction in progress of \$1,104,983 which consists of \$800,000 for construction costs for structural improvements to the Manor buildings and \$304,983 for unit renovations.

These improvements are necessary and consistent with the Manor's tax exempt purpose to maintain and provide facilities to meet the housing, health care and other needs of their residents.

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Notes to the Financial Statements (Continued)  
December 31, 2013

## Note 17 - Commitments

In 2013 the Manor entered into various construction contracts to renovate units and for structural improvements. Construction is anticipated to end in early 2014. At December 31, 2013, \$1,104,983 has been incurred to date for construction.

RECEIVED  
MAY 05 2014  
CONTINUING CARE  
CONTRACTS BRANCH

**Independent Auditor's Report on Accompanying Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information on pages 27 through 36 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting records and other records, used to prepare the financial statements or to the financial statements themselves, and other auditing procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*PKF*

Certified Public Accountants  
A Professional Corporation

April 29, 2014  
San Francisco, California



NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.  
Temporarily Restricted Net Assets Combining Schedule

	Year Ended December 31, 2013				Year Ended December 31, 2012					
	Endowment Part A	Other Funds	Unitrust	Annuity Trusts	Total	Endowment Part A	Other Funds	Unitrust	Annuity Trusts	Total
Other income										
Investment income	\$ 199,784	\$ 441	\$ -	\$ 50,645	\$ 250,870	\$ 106,677	\$ -	\$ -	\$ 72,533	\$ 179,210
Contributions	-	-	-	102,679	102,679	-	-	-	30,156	30,156
Net realized and unrealized gains	414,501	5,449	-	51,137	471,087	473,754	6,205	-	152,921	632,880
Change in value of split-interest trusts	-	-	92,465	(10,654)	81,811	-	-	54,095	(149,821)	(95,726)
Revaluation of trust obligations	-	-	-	-	-	-	-	-	-	-
Total other income (loss)	614,285	5,890	92,465	193,807	906,447	580,431	6,205	54,095	105,789	746,520
Net assets released from restrictions										
Endowment income distribution	(299,223)	-	-	-	(299,223)	(291,520)	-	-	-	(291,520)
Remainder of terminated annuity trusts	-	-	(388,778)	(145,770)	(534,548)	-	-	-	(102,117)	(102,117)
Satisfaction of program restrictions	-	(1,525)	-	-	(1,525)	-	(1,021)	-	-	(1,021)
Entertainment	-	-	-	-	-	-	(100,000)	-	-	(100,000)
Purchase of property and equipment	-	-	-	-	-	-	-	-	-	-
Total released from restrictions	(299,223)	(1,525)	(388,778)	(145,770)	(835,296)	(291,520)	(101,021)	-	(102,117)	(494,658)
Change in net assets	315,062	4,365	(296,313)	48,037	71,151	288,911	(94,816)	54,095	3,672	251,862
Net assets, beginning of year	2,135,516	50,904	296,313	808,538	3,291,271	1,846,605	145,720	242,218	804,866	3,039,409
Net assets, end of year	\$ 2,450,578	\$ 55,269	\$ -	\$ 856,575	\$ 3,362,422	\$ 2,135,516	\$ 50,904	\$ 296,313	\$ 808,538	\$ 3,291,271

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	December 31, 2013			December 31, 2012			
	Endowment Part B	Sinking Fund	Residents' Association	Endowment Part B	Sinking Fund	Residents' Association	Total
<b>Assets</b>							
Cash	\$ 141,906	\$ 9,043	\$ 40,780	\$ 107,769	\$ 2,846,474	\$ 29,741	\$ 2,983,984
Due (to) from other funds	(9,281)	(10,000)	-	(217,260)	182,593	-	(34,667)
Total current assets	132,625	(957)	40,780	(109,491)	3,029,067	29,741	2,949,317
Investments	5,266,148	3,021,266	18,262	4,629,956	321,719	18,325	4,970,000
Total assets	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 4,520,465	\$ 3,350,786	\$ 48,066	\$ 7,919,317
<b>Liabilities and Net Assets</b>							
Designated net assets	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 4,520,465	\$ 3,350,786	\$ 48,066	\$ 7,919,317
Total liabilities and net assets	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 4,520,465	\$ 3,350,786	\$ 48,066	\$ 7,919,317

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Designated Net Assets Combining Schedule

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Endowment Part B	Sinking Fund	Residents' Association Total	Endowment Part B	Sinking Fund	Residents' Association Total
Income from operations	\$ -	\$ -	\$ 31,369	\$ -	\$ -	\$ 28,917
Other income (loss)						
Investment income, net	148,880	76,369	107	77,248	(2,127)	333
Contributions	108,975	-	30,033	26,250	-	33,012
Net realized and unrealized gains (losses)	308,886	(88,243)	(170)	343,063	-	(54)
Total other income (loss)	566,741	(11,874)	29,970	446,561	(2,127)	33,291
Net assets released from restrictions						
Endowment income	(222,981)	-	-	(211,100)	-	-
Remainder of terminated annuity trusts	534,548	-	-	102,117	-	-
Board designated transfers	-	(318,603)	(50,363)	-	426,149	(61,276)
Total released from restrictions	311,567	(318,603)	(50,363)	(108,983)	426,149	(61,276)
Change in net assets	878,308	(330,477)	10,976	337,578	424,022	932
Net assets, beginning of year	4,520,465	3,350,786	48,066	4,182,887	2,926,764	47,134
Net assets, end of year	\$ 5,398,773	\$ 3,020,309	\$ 59,042	\$ 4,520,465	\$ 3,350,786	\$ 48,066
			\$ 8,478,124			\$ 7,919,317

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Residential Care

	Year Ended December 31	
	2013	2012
Income		
Resident care fees	\$ 8,603,097	\$ 8,692,419
Entrance fees	3,879,524	3,875,656
Other resident services and operating income		
Medicare and supplemental insurance	-	21,978
Guest meals	108,671	102,827
Guest rooms	86,031	87,339
Physical therapy	33,300	50,619
Miscellaneous	85,170	89,247
	<hr/>	<hr/>
Total income	12,795,793	12,920,085
Departmental expenses (pages 32 to 34)	8,642,266	8,370,849
	<hr/>	<hr/>
Departmental income	\$ 4,153,527	\$ 4,549,236
	<hr/> <hr/>	<hr/> <hr/>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Departmental Expenses

## Residential Care

	Year Ended December 31	
	2013	2012
Food service		
Salaries and wages	\$ 1,242,251	\$ 1,208,153
Payroll taxes and benefits	652,748	484,724
Food cost	664,832	650,980
Contract maintenance	4,392	5,565
Supplies	76,021	70,945
Uniforms	18,156	19,046
Miscellaneous	7,812	6,656
	<u>2,666,212</u>	<u>2,446,069</u>
Intermediate care		
Salaries and wages	421,980	437,126
Payroll taxes and benefits	193,264	124,299
Supplies	21,628	18,626
Laundry	19,800	19,800
Miscellaneous	32,954	13,177
	<u>689,626</u>	<u>613,028</u>
Housekeeping		
Salaries and wages	364,889	331,288
Payroll taxes and benefits	215,312	176,796
Supplies	40,884	31,005
Uniforms	3,676	4,116
Miscellaneous	27,381	27,914
	<u>652,142</u>	<u>571,119</u>
Laundry & Linen		
Salaries and wages	67,893	56,540
Payroll taxes and benefits	42,116	9,651
Supplies	11,333	12,040
Allocation	(61,800)	(61,800)
Miscellaneous	5,534	2,617
	<u>65,076</u>	<u>19,048</u>
Total (carried over)	<u>\$ 4,073,056</u>	<u>\$ 3,649,264</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Departmental Expenses (Continued)

## Residential Care

	Year Ended December 31	
	2013	2012
Total (carried over)	\$ 4,073,056	\$ 3,649,264
Grounds and garden		
Salaries and wages	223,731	223,747
Payroll taxes and benefits	88,150	75,462
Contract maintenance	12,010	5,595
Supplies	18,262	14,425
Trees, shrubs, seeds	48,901	30,787
Uniforms	1,787	2,599
Maintenance	9,351	11,956
Miscellaneous	63	80
	<u>402,255</u>	<u>364,651</u>
General maintenance		
Salaries and wages	464,708	441,112
Payroll taxes and benefits	169,896	114,539
Contract maintenance	79,890	82,797
Supplies	300,143	256,730
Uniforms	5,619	5,588
Utilities	697,065	556,270
Telephone equipment rental	62,959	61,635
Cable television	38,789	27,861
Miscellaneous	6,363	6,713
	<u>1,825,432</u>	<u>1,553,245</u>
Transportation		
Salaries and wages	76,523	68,113
Payroll taxes and benefits	26,569	24,968
Gas and oil	15,067	15,514
Maintenance	5,857	11,702
Miscellaneous	5,433	6,370
	<u>129,449</u>	<u>126,667</u>
Resident medical plans		
Medical care	31,979	57,985
Hospital care	24,688	8,327
	<u>56,667</u>	<u>66,312</u>
Total (carried over)	\$ 6,486,859	\$ 5,760,139

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Departmental Expenses (Continued)

## Residential Care

	Year Ended December 31	
	2013	2012
Total (carried over)	\$ 6,486,859	\$ 5,760,139
Marketing		
Salaries and wages	79,828	111,698
Payroll taxes and benefits	21,437	15,230
Advertising	106,108	48,063
Miscellaneous	19,466	-
	<u>226,839</u>	<u>174,991</u>
PBX		
Salaries and wages	125,521	138,079
Payroll taxes and benefits	54,604	45,984
Miscellaneous	1,197	629
	<u>181,322</u>	<u>184,692</u>
General and administrative		
Salaries - management	530,624	544,764
Payroll taxes and benefits	90,424	67,546
Employee medical claims	9,181	848,661
Contract maintenance	24,427	32,398
Supplies	29,761	27,293
Conferences and meetings	27,921	16,826
Dues and subscriptions	27,204	37,491
Pension plan	88,579	78,012
Insurance - fire and general	167,301	168,794
Investment management fee	23,765	21,107
Legal fees	297,189	20,914
Accounting fees	99,714	101,717
Consulting and professional services	89,574	15,140
Property taxes	4,184	9,495
Software fees	45,359	49,840
Licenses and permits	19,879	22,873
Miscellaneous	104,410	110,289
	<u>1,679,496</u>	<u>2,173,160</u>
Fitness center		
Salaries and wages	14,383	13,471
Payroll taxes and benefits	1,858	1,635
Supplies	879	1,260
Maintenance	267	225
	<u>17,387</u>	<u>16,591</u>
Residents' association	<u>50,363</u>	<u>61,276</u>
Total departmental expenses	<u>\$ 8,642,266</u>	<u>\$ 8,370,849</u>

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Medical Center

	Year Ended December 31	
	2013	2012
Income		
Routine services		
Patient supplies	\$ 74,804	\$ 84,353
Prescriptions	(1,043)	601
Total routine services	73,761	84,954
Residential care fees allocated to routine services	1,310,395	1,324,949
Total income	1,384,156	1,409,903
Departmental expenses (page 35)	3,485,888	3,242,597
Departmental loss	\$ (2,101,732)	\$ (1,832,694)

## NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

## Departmental Expenses

## Medical Center

	Year Ended December 31	
	2013	2012
Food service		
Salaries and wages	\$ 231,964	\$ 237,137
Food	121,512	128,974
	<u>353,476</u>	<u>366,111</u>
Housekeeping		
Salaries and wages	48,254	48,081
Payroll taxes and benefits	6,837	6,388
Supplies	18,461	19,091
Laundry	42,000	42,000
Miscellaneous	20,012	24,117
	<u>135,564</u>	<u>139,677</u>
General maintenance		
Utilities	102,999	81,586
Repairs and maintenance	741	156
	<u>103,740</u>	<u>81,742</u>
Nursing services		
Salaries and wages	1,435,126	1,396,878
Payroll taxes and benefits	500,637	388,768
Supplies	34,603	38,290
Miscellaneous	2,966	4,466
	<u>1,973,332</u>	<u>1,828,402</u>
General and administrative		
Salaries and wages	215,845	153,117
Payroll taxes and benefits	52,695	41,456
Medical director fee	48,000	45,000
Patient supplies	40,386	44,672
Pharmacy	19,418	11,977
Contract maintenance	30,152	21,322
Miscellaneous	36,018	65,963
	<u>442,514</u>	<u>383,507</u>
Clinic		
Salaries and wages	372,836	355,880
Payroll taxes and benefits	79,775	60,348
Pharmacy	2,859	4,159
Supplies	6,090	6,184
Miscellaneous	15,702	16,587
	<u>477,262</u>	<u>443,158</u>
Total medical center departmental expenses	<u>\$ 3,485,888</u>	<u>\$ 3,242,597</u>



Accountants and  
business advisers

## Independent Auditor's Report



CONTINUING CARE  
CONTRACTS BRANCH

Board of Directors  
Northern California Congregational  
Retirement Homes, Inc.  
Carmel, California

We have audited the accompanying State of California Department of Social Services Continuing Care Contract Program Continuing Care Reserve Report (Reports) of Northern California Congregational Retirement Homes, Inc. as of December 31, 2013.

### **Management's Responsibility for the Continuing Care Reserve Report (Reports)**

Management is responsible for the preparation and fair presentation of the Reports in accordance with the report preparation provisions of the 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 the Reports that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Reports 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 Reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, 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 Reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Reports.

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 Reports presents fairly, in all material respects, the liquid reserve requirements of Northern California Congregational Retirement Homes, Inc. at December 31, 2013, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

Independent Auditor's Report (Continued)

**Emphasis of Matter**

The Reports were prepared for the purpose of complying with California Health and Safety code section 1972 and are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses.

**Restriction on Use**

This report is intended solely for the information and use of the board of directors and management of Northern California Congregational Retirement homes, Inc. and for the filing with the State of 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.

*PKF*

Certified Public Accountants  
A Professional Corporation

April 29, 2014

**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	11/30/04	\$497,889	\$4,587		\$502,476
2	02/05/15	\$96,022	\$204,561		\$300,583
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>			\$209,148	\$0	\$803,059

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

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

**PROVIDER:** NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Long-Term Debt (Form 5-1)

December 31, 2013

Interest paid during the year

Interest expense per Statement of Activities .	\$	224,772
Less interest incurred on annuity obligations and not included on Form 5-1		<u>(15,624)</u>
Total per Form 5-1	\$	<u><u>209,148</u></u>

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

Line	TOTAL
1	Total from Form 5-1 bottom of Column (e) \$803,059
2	Total from Form 5-2 bottom of Column (e) \$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b> <b>\$803,059</b>

**PROVIDER:** NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	<u>\$14,387,442</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	<u>\$224,772</u>
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	<u>\$2,034,516</u>
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$194,702</u>
	f. Extraordinary expenses approved by the Department	
3	Total Deductions	<u>\$2,453,990</u>
4	Net Operating Expenses	<u>\$11,933,452</u>
5	Divide Line 4 by 365 and enter the result.	<u>\$32,694</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$2,452,079</u>

**PROVIDER:** NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC  
**COMMUNITY:** CARMEL VALLEY MANOR

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Net Operating Expenses (Form 5-4)

December 31, 2013

Reimbursement for services to non-residents

Reimbursement for services to non-residents consists of the following:

Guest food service (Page 31 of financial statements)	\$ 108,671
Guest rooms (Page 31 of financial statements)	<u>86,031</u>
Total per Form 5-4, Line 2e	<u>\$ 194,702</u>

Reimbursements for services to non-residents reconcile to the Statement of Activities and Cash Flows as follows:

Total reported on Form 5-4, Line 2e	\$ 194,702
Other resident services and operating income (Page 31 of financial statements)	
Physical therapy	33,300
Miscellaneous	<u>85,170</u>
Other services per Statement of Activities	313,172
Net change in accounts receivable for other resident services and other income	<u>25,437</u>
Other services per Statement of Cash Flows	<u>\$ 338,609</u>

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

Provider Name: NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC  
 Fiscal Year Ended: 12/31/2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2013 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$803,059
[2] Operating Expense Reserve Amount	\$2,455,675
[3] <b>Total Liquid Reserve Amount:</b>	<b>\$3,258,734</b>

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	\$9,043	\$1,629,567
[5] Investment Securities	\$11,273,361	\$8,252,095
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:		
(describe qualifying asset)		
<b>Total Amount of Qualifying Assets Listed for Reserve Obligation:</b> [11]	\$11,282,404	[12] \$9,881,662
<b>Reserve Obligation Amount:</b> [13]	\$803,059	[14] \$2,455,675
<b>Surplus/(Deficiency):</b> [15]	\$10,479,345	[16] \$7,425,987

Signature: *Jane S. Spren*  
 (Authorized Representative)  
PRESIDENT & CEO  
 (Title)

Date: April 29 2014

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Qualifying Assets for Liquid Reserves (Form 5-5)

December 31, 2013

Form 5-5 Line [4] - Cash and Cash Equivalents:

Total cash (Page 2 of the financial statements)	\$ 1,727,317
Less restricted cash and cash equivalents (Page 27 of the financial statements)	
Annuity Trusts	(88,707)
Less sinking fund reported on Form 5-5, line 4 for Debt Service Reserve (Page 29 of the financial statements)	<u>(9,043)</u>
Total for Form 5-5, line 4, Operating Reserve (includes \$40,780 designated for use by the Residents' Association)	<u><u>\$ 1,629,567</u></u>

Form 5-5 Line [5] - Investment Securities:

Undesignated	
Managed portfolio of mutual and exchange traded funds	\$ 6,137,339
Designated for use by the Residents' Association	
Vanguard Short Term Federal Fund	18,262
Endowment Fund (combination of board designated and donor restricted)	
Managed portfolio of mutual and exchange traded funds	<u>10,348,589</u>
Total for Form 5-5, line 5 (allocate equally to Debt Service and Operating Reserves at \$8,252,095 each)	16,504,190
Designated for use by Sinking Fund	
Managed portfolio of mutual funds (allocated 100% to Debt Service Reserve)	3,021,266
Non-qualifying investments	
Undesignated level 3 investments	711,138
Endowment level 3 investments	1,140,000
Annuity Trusts portfolio (Page 27 of the financial statements)	<u>1,852,693</u>
Total investments (Page 2 of the financial statements)	<u><u>\$23,229,287</u></u>

Mutual funds and exchange traded funds are included in qualifying assets since they are publicly traded and readily liquidated for cash. These various funds hold portfolios that consist of debt and equity securities that may or may not individually meet the definition of qualified assets for reserves as per sections 1771(e)(7) or 1771 (l)(2).

**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

Date Prepared: 3/28/14

FACILITY NAME: NORTHERN CALIFORNIA RETIREMENT HOMES, INC  
 ADDRESS: 8545 CARMEL VALLEY ROAD ZIP CODE: 93923 PHONE: 831-624-1281  
 PROVIDER NAME: CARMEL VALLEY MANOR FACILITY OPERATOR: SAME  
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: NONE  
 YEAR OPENED: 1983 # OF ACRES: 28+  SINGLE STORY  MULTI-STORY  OTHER: \_\_\_\_\_  
 MILES TO SHOPPING CTR: 5  
 MILES TO HOSPITAL: 6

NUMBER OF UNITS:	<u>RESIDENTIAL LIVING</u>	<u>HEALTH CARE</u>
APARTMENTS — STUDIO:	<u>8</u>	ASSISTED LIVING: <u>24</u>
APARTMENTS — 1 BDRM:	<u>70</u>	SKILLED NURSING: <u>36</u>
APARTMENTS — 2 BDRM:	<u>43</u>	SPECIAL CARE: <u>NONE</u>
COTTAGES/HOUSES:	<u>27</u>	DESCRIBE SPECIAL CARE: <u>N/A</u>
RLU OCCUPANCY (%) AT YEAR END:	<u>87.5</u>	

TYPE OF OWNERSHIP:  NOT-FOR-PROFIT  FOR-PROFIT ACCREDITED?:  YES  NO BY: \_\_\_\_\_

FORM OF CONTRACT:  CONTINUING CARE  LIFE CARE  ENTRANCE FEE  FEE FOR SERVICE  
 (Check all that apply)  ASSIGNMENT OF ASSETS  EQUITY  MEMBERSHIP  RENTAL

REFUND PROVISIONS: (Check all that apply)  90%  75%  50%  PRORATED TO 0%  OTHER: \_\_\_\_\_

RANGE OF ENTRANCE FEES: \$ 110900 TO \$ 900,000 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: SKILLED NURSING, ASSIST. LIVING, OUTPATIENT & INPATIENT MED

ENTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: N/A OTHER: \_\_\_\_\_

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement): See Attached

**FACILITY SERVICES AND AMENITIES**

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	HOUSEKEEPING ( <u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS ( <u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>SEWING ROOM</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER <u>COMPUTER CENTER</u>	<input checked="" type="checkbox"/>	<input 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.

PROVIDER NAME: CARMEL VALLEY MANOR

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (excluding amortization of entrance fee income)	9,666,716	10,213,278	10,500,749	10,349,294
<b>LESS OPERATING EXPENSES</b> (excluding depreciation, amortization, and interest)	10,661,558	11,081,801	11,768,767	12,145,654
<b>NET INCOME FROM OPERATIONS</b>	-994,842	-868,523	-1,268,018	-1,796,360
<b>LESS INTEREST EXPENSE</b>	292,015	264,928	284,270	224,772
<b>PLUS CONTRIBUTIONS</b>	224,656	242,271	264,935	313,587
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	2,204,002	-388,638	1,745,511	1,915,254
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	1,141,801	-1,279,818	458,159	207,709
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	5,589,145	3,528,924	4,676,469	1,384,156

**DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)**

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
1ST CAPITAL BANK	4,173,635	4.85%	02/05/2012	01/05/2022	120 MONTHS

**FINANCIAL RATIOS**

(see next page for ratio formulas)

**2012 CCAC Medians  
50<sup>th</sup> Percentile  
(optional)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>DEBT TO ASSET RATIO</b>	8.09%	6.72%	6.72%
<b>OPERATING RATIO</b>	111.12%	114.81%	119.56%
<b>DEBT SERVICE COVERAGE RATIO</b>	5.92%	13.95%	6.21%
<b>DAYS CASH-ON-HAND RATIO</b>	499.85%	552.37%	498.81%

**HISTORICAL MONTHLY SERVICE FEES**

(AVERAGE FEE AND PERCENT CHANGE)

	<u>2010</u>	<u>%</u>	<u>2011</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2013</u>
STUDIO	\$2,747		\$2,850		\$2,985		\$3,120
ONE BEDROOM	\$3,355		\$3,481		\$3,646		\$3,810
TWO BEDROOM	5534		\$5,854		\$6,132		\$6,410
COTTAGE/HOUSE	\$5,883		\$6,104		\$6,394		\$6,680
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

COMMENTS FROM PROVIDER: NONE

Carmel Valley Manor  
Continuing Care Retirement Community  
Disclosure Statement  
Additional information

**RESIDENT REPRESENTATIVE ON THE BOARD**

The four Resident Council officers are present at each board meeting. In addition, three of our five emeritus board members are residents and usually attend the board meetings. Both groups attend in a non-voting capacity.

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	<b>RESIDENTIAL LIVING</b>	<b>ASSISTED LIVING</b>	<b>SKILLED NURSING</b>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	See Schedule	See schedule	See schedule
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.50%	4.50%	4.50%

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: February 1, 2013  
(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:** NOTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC  
**COMMUNITY:** CARMEL VALLEY MANOR

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Schedule of Adjustments in Monthly Fees

December 31, 2013

[1] Monthly fees for each unit type as of February 1, 2013:

Independent living	\$ 2,990	to	\$ 7,700
Hillcrest (personal care)	\$ 3,120	to	\$ 6,890
Skilled nursing facility	\$ 3,260	to	\$ 6,970

[5] In arriving at a 4.5% increase in monthly fees for 2013, the following data and processes were used:

Data used:

- Current year's data through nine months.
- Annualized amounts based upon the actual nine months.
- Guidelines from Budget and Finance Committee of the Board of Directors for average payroll increases of 2.8%.
- Guidelines from Budget and Finance Committee of the Board of Directors for capital improvements.
- CPI Healthcare San Francisco region.

Processes used:

- Each department projected costs for the year, which included salaries.
- Budgets reviewed and analyzed by President/CEO and Controller.
- Revisions made and resubmitted.

Final product submitted to Budget and Finance Committee of the Board of Directors for approval. Once the Budget and Finance Committee approves the budget, it is submitted to the Board of Directors for approval. Current budget reflects the approved amounts and the increases for the monthly fees.

NORTHERN CALIFORNIA CONGREGATIONAL RETIREMENT HOMES, INC.

Refund Reserve Requirement

December 31, 2013

A Refund Reserve is not applicable because there are no contracts that are refundable for the seventh year of residency and thereafter.



# Worksheet for KIR for 2013

## OPERATIONAL STATISTICS

### 1. Average Annual Occupancy by Site (%)

Use actual occupied units not units sold (which is 100%)  
as of 12/31 - 131, total units available 148

## MARGIN (PROFITABILITY) INDICATORS

### 2. Net Operating Margin (%)

I A	Ttl Inc from Operations	14,211,318	
I B	Less - Entrance Fees	(3,879,524)	
	(Should tie to DS G)		10,331,794
	Total Expenses	(14,387,442)	
I C	Add back Interest	224,772	
I D	Add back Depreciation	2,034,516	
	Should tie to DS H)		(12,128,154)
			(1,796,360)
			-17.39%

### 3. Net Operating Margin - Adjusted (%)

I A	Ttl Inc from Operations	14,211,318	
I B	Less - Entrance Fees	(3,879,524)	
DS F	Plus - Net Entrance Fee Collected	1,590,120	
			11,921,914
	Total Expenses	(14,387,442)	
I C	Add back Interest	224,772	
I D	Add back Depreciation	2,034,516	
	Should tie to DS H)		(12,128,154)
			(206,240)
			-1.73%

## LIQUIDITY INDICATORS

### 4. Unrestricted Cash and Investments (\$000)

II O	Total Unrestricted Cash	1,771,031	
II P	Total Unrestricted Investments	15,154,153	
			16,925,184

### 5. Days Cash on Hand (Unrestricted)

Line 44	Unrestricted Cash and Investments	16,925,184
Line 34	Total Operating Expenses	12,128,154
	Total Expenses - Line 33 / by 365	33,228
	Days Cash - Line 48 / Line 52	509

## CAPITAL STRUCTURE INDICATORS

## Worksheet for KIR for 2013

### 6. Deferred Revenue from Entrance Fees (\$000)

I B	Entrance Fees Income	3,879,524
-----	----------------------	-----------

### 7. Net Annual E/F proceeds (\$000)

DS F	Plus - Net Entrance Fee Collected	1,590,120
------	-----------------------------------	-----------

### 8. Unrestricted Net Assets (\$000)

II J	Unrestricted Net Assets	21,358,854
------	-------------------------	------------

### 9. Annual Capital Asset Expenditure (\$000)

III K	Capital Expenditures	2,313,801
-------	----------------------	-----------

### 10. Annual Debt Service Coverage

#### Revenue Basis (x)

I L	Total Excess of Rev over Exp	2,052,717	
I C	Add back Interest	224,772	
I D	Add back Depreciation	2,034,516	
I B	Deduct Entrance Fees Income	(3,879,524)	
			432,481

VIII M	Annual Debt Service	803,059
--------	---------------------	---------

	Line 80 / Line 82	0.54
--	-------------------	------

### 11. Annual Debt Service Coverage (x)

I L	Total Excess of Rev over Exp	2,052,717	
I C	Add back Interest	224,772	
I D	Add back Depreciation	2,034,516	
			4,312,005

VIII M	Annual Debt Service	803,059
--------	---------------------	---------

	Line 91 / Line 93	5.37
--	-------------------	------

### 12. Annual Debt Service/Revenue (%)

VIII M	Annual Debt Service	803,059
--------	---------------------	---------

DS G	Operating Revenue	10,349,294	
III Q	Net Assets Released from Restriction	131,805	
I R	Contributions	210,908	
I S	Gain (Loss) on Sale of Investment	645,784	
			11,337,791

	Line 99 / Line 105	7.08%
--	--------------------	-------

### 13. Average Annual Effective Interest Rate (%)

## Worksheet for KIR for 2013

VIII V	Annual Debt Service		209,148
II T	Long Term debt	4,072,849	
II U	Current Portion of Long Term Deb	100,766	
VIII W	Current Year Principal Paid	593,911	
			4,767,526
	Line 111 / Line 116		4.39%

### 14. Unrestricted Cash & Investments/ Long-Term Debt (%)

II O	Total Unrestricted Cash	1,771,031	
II P	Total Unrestricted Investments	15,154,153	
			16,925,184
II T	Long Term debt		4,072,849
	Line 125 / Line 127		415.56%

### 15. Average Age of Facility (years)

PCC Rpt	Accumulated Depreciation		23,671,647
I W	Depreciation Expense		2,034,516
	Line 133 / Line 135		11.64

---