

FISCAL YEAR ENDED:

06 / 30 / 13

ANNUAL REPORT CHECKLIST

PROVIDER(S): Town and Country Manor

CCRC(S): Town and Country Manor

CONTACT PERSON: Gina Kolb

TELEPHONE NO.: ( 714 ) 547-7581

EMAIL: gkolb@tcmanor.com

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 3,536
  - 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* reserves and, when applicable, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for *each* community.
- Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

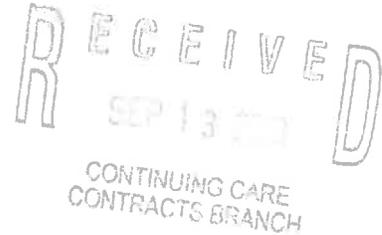


The Christian and Missionary Alliance  
RETIREMENT & HEALTHCARE CENTER

555 East Memory Lane  
Santa Ana, CA. 92706

(714) 547-7581 Tel.  
(714) 547-0435 Fax

Dirk E. De Wolfe  
Executive Administrator



**September 20, 2013**

**Certification of Chief Executive Officer**

**Re: Required Reserves Report and Accompanying Schedules of Town & Country Manor of The Christian and Missionary Alliance fiscal year ended June 30, 2013.**

**According to the best of my knowledge and belief, all the information contained in the enclosed document is true, complete and correct.**

**Further, I certify that each monthly care agreement in use by new residents has been approved by the Department (as per Health and Safety Code Section 1792.6) and is not subject to the refund reserve requirement (as per Health and Safety Code Section 1775.5(b)), as entrance fees are not refundable after five years.**

Signed: 

**Dirk DeWolfe  
Executive Administrator  
Town & Country Manor**

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

RECEIVED  
SEP 13 2013

CONTINUING CARE  
CONTRACTS BRANCH

Board of Directors  
Town and Country Manor of The Christian and Missionary Alliance  
Santa Ana, California

We have audited the financial statements of Town and Country Manor of The Christian and Missionary Alliance (Town and Country) as of and for the year ended June 30, 2013, and have issued our report thereon dated September 11, 2013 which contained an unmodified opinion on those financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Forms 5-1 through 5-5 of the accompanying Annual Reserve Report (Multi-CRC Provider) derived from the aforementioned financial statements is presented for purposes of additional analysis, and for compliance with the requirements of the State of California Health and Safety Code Section 1792, 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 and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional 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 as a whole.

This report is intended solely for the information and use of the Board of Directors and management of Town and Country and for filing with the State of California Department of Social Services and is not intended to be and should not be used for any other purpose or by anyone other than these specified parties.

*BKD, LLP*

Colorado Springs, Colorado  
September 11, 2013

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

<u>Line</u>	<b>Continuing Care Residents</b>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	71
[2]	Number at end of fiscal year	45
[3]	Total Lines 1 and 2	116
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	58
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	250
[7]	Number at end of fiscal year	250
[8]	Total Lines 6 and 7	500
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	250
[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).	0.23

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

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$16,104,701
[a]	Depreciation	\$827,868
[b]	Debt Service (Interest Only)	\$36,825
[2]	Subtotal (add Line 1a and 1b)	\$864,693
[3]	Subtract Line 2 from Line 1 and enter result.	\$15,240,008
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	23%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$3,535,682
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$3,536

**PROVIDER:** Town and Country Manor  
**COMMUNITY:** Town and Country Manor

**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	10/01/90		\$16,953		\$16,953
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>			\$16,953	\$0	\$16,953

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

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

Series 1990 bonds were refinanced \$7.7M in variable rate demand limited obligation tax-exempt bonds issued by the California Municipal Finance Authority approved by CDSS on 5/18/3 and is reported on Form 5-2.

**PROVIDER:** Town and Country Manor

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	05/13/13	\$19,872	\$11,345	12	\$136,140
2			\$0	0	\$0
3			\$0	0	\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
<b>TOTAL:</b>		\$19,872	\$11,345	12	\$136,140

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

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

**PROVIDER:** Town and Country Manor

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

<b>Line</b>		<b>TOTAL</b>
1	Total from Form 5-1 bottom of Column (e)	<u>\$16,953</u>
2	Total from Form 5-2 bottom of Column (e)	<u>\$136,140</u>
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>	<u><u>\$153,093</u></u>

**PROVIDER:** Town and Country Manor

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$16,104,701
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	\$36,825
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	\$827,868
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$11,846,468
	f. Extraordinary expenses approved by the Department	
3	Total Deductions	\$12,711,161
4	Net Operating Expenses	\$3,393,540
5	Divide Line 4 by 365 and enter the result.	\$9,297
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount.	<b>\$697,303</b>

**PROVIDER:** Town and Country Manor  
**COMMUNITY:** Town and Country Manor

**FORM 5-4  
RECONCILIATION OF REVENUES  
FROM THOSE WITHOUT A CONTINUING CARE CONTRACT**

Provider Name:  
Fiscal Year Ended:

Town & Country Manor  
6-30-2013

**Patient Revenues Reported on Audited Stmt of Operations (page 4):** **\$ 11,835,816**

	F/S Code	Amount	
Less charges included in net patient service revenue			
AL Meal Credits	5770-1000	37	
AL Supplies Chgs	5990-0030	904	
AL Other Services	5990-0040	14,498	
AL Maintenance Chgs	5990-0091	1,207	
AL Housekeeping Chgs	5990-0200	6,555	23,201
Add Back other misc. revenue:			
SNF Other Chgs	5900-0150	0	
SNF Supplies Chgs	5990-0050	1,380	
SNF Beauty Shop Chgs	5991-0014	13,924	
SNF Donations	9103-0100	18,549	33,853

**Adjusted Patient Revenues:** **\$ 11,846,468**

**Revenues Reported on Form 5-4, Line 2e:** **\$ 11,846,468**



**FORM 5-5  
ANNUAL RESERVE CERTIFICATION - ATTACHMENT**

Provider Name: Town & Country Manor  
 Fiscal Year Ended: 6-30-2013

Description and amount of all reserves the provider currently designates and maintains.

**Total Qualifying Assets as Filed**

Description	Debt Service Reserve	Operating Reserve	Totals	Additional Comments
Cash & Cash Equivalents	0	1,718,970	1,718,970	Operating cash, CD's and money mkt mutual funds (less restricted funds)
Investment Securities	0	2,556,192	2,556,192	Mutual funds (govt bonds and foreign emerging mkts)
Equity Securities	0	1,710,042	1,710,042	
Debt Service Reserve	433,075	0	433,075	Mutual Fund
<b>Total Qualifying Assets as Filed</b>	<b>433,075</b>	<b>5,985,204</b>	<b>6,418,279</b>	<b>Total Short-Term Investments</b>
<b>Reserve &amp; Designation</b>				
Designated for Debt Service	36,825	0	36,825	Interest Paid, Current Year
Designated for Operating Expense Reserves	0	697,303	697,303	As Calculated on Form 5-4, line 6
<b>Total Reserves</b>	<b>36,825</b>	<b>697,303</b>	<b>734,128</b>	
<b>Remaining Reserves</b>	<b>396,250</b>	<b>5,287,901</b>	<b>5,684,151</b>	

**FORM 5-5**  
**ANNUAL RESERVE CERTIFICATION - SUPPLEMENTAL INFORMATION**

Provider Name: Town & Country Manor  
Fiscal Year Ended: 6-30-2013

**Per Capita Cost of Operations**

Net Operating Expenses	from Form 5-4, line 6	697,303
Mean number of continuing care residents	from Form 1-1, line 5	58.0
Total continuing care days	from Form 1-1, line 5 x 366	21,228
<hr/>		
	Per Capita Cost of Operations	<u>32.85</u>

**TOWN & COUNTRY MANOR  
INTEREST RECONCILIATION  
6/30/2013**

Acct #	Description	F/S Code	Balance 6/30/2013	Interest	Amortization	Fees	Total
7500-0000	Interest - PPE	760000	0				0
7600-0000	Interest - Bonds	760000	36,825	36,825			36,825
7601-0200	Bond Fees	760000	14,791			14,791	14,791
7601-0300	LOC Fees Expense	760000	102,650			102,654	102,654
7601-0400	LOC Extension Fees Expense	760000	0				0
			<u>154,266</u>	<u>36,825</u>	<u>0</u>	<u>117,445</u>	<u>154,270</u>
			(a)	(b)		(c)	

**TOWN & COUNTRY MANOR  
DEPRECIATION / AMORTIZATION RECONCILIATION  
6/30/2013**

Acct #	Description	F/S Code	Balance 6/30/2013
7110-0000	Deprec/Amort - Land Improvements	710000	13,622
7120-0000	Deprec/Amort - Bldgs & Improvements	710000	448,189
7130-0000	Deprec/Amort - LHI	710000	1,806
7140-0000	Deprec/Amort - Equipment	710000	311,583
7140-0100	Deprec - Office Equipment	710000	0
7150-0000	Amort - Goodwill	710000	0
7160-0002	Deprec/Amort - Other	710000	17,440
7601-0100	Amortized Bond Costs	710000	35,227
			<u>827,868</u> (d)

**Notes:**

- (a) total agrees to the bond interest expense total on page 3 of the financial stmts.
- (b) total entered on Form 1-2, line b and Form 5-1, column c and Form 5-4, line 2a.
- (c) total is included on Form 5-4, line 1 (total operating expenses) but is not deducted
- (d) total agrees to the depreciation & amortization total on page 3 of the financial stmts.

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

09/10/2013  
**RECEIVED**  
SEP 13 2013

FACILITY NAME: Town and Country Manor  
 ADDRESS: 555 East Memory Lane Santa Ana, California ZIP CODE: 92706 PHONE: 714-547-7581  
 PROVIDER NAME: Town and Country Manor FACILITY OPERATOR: \_\_\_\_\_  
 RELATED FACILITIES: n/a RELIGIOUS AFFILIATION: Christian Missionary Alliance  
 YEAR OPENED: 1975 NO. OF ACRES: 10 MULTI-STORY:  SINGLE STORY:  BOTH:   
 MILES TO SHOPPING CTR: 1/2 mile MILES TO HOSPITAL: 1 mile

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>41</u>	ASSISTED LIVING <u>57</u>
APARTMENTS - 1 BDRM	<u>71</u>	SKILLED NURSING <u>95</u>
APARTMENTS - 2 BDRM	<u>15</u>	SPECIAL CARE <u>0</u>
COTTAGES/HOUSES	<u>0</u>	DESCRIBE SPECIAL CARE: _____
% OCCUPANCY AT YEAR END	<u>86%</u>	

TYPE OF OWNERSHIP:  NOT FOR PROFIT  FOR PROFIT  ACCREDITED:  Y  N BY: \_\_\_\_\_  
 FORM OF CONTRACT:  LIFE CARE  CONTINUING CARE  FEE FOR SERVICE  
 ASSIGN ASSETS  EQUITY  ENTRY FEE  RENTAL  
 REFUND PROVISIONS (Check all that apply):  90%  75%  50%  PRORATED TO 0%  OTHER: \_\_\_\_\_  
 RANGE OF ENTRANCE FEES: \$ 29,880 TO \$ 58,360 LONG-TERM CARE INSURANCE REQUIRED?  Y  N  
 HEALTH CARE BENEFITS INCLUDED IN CONTRACT: no  
 ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: any OTHER: \_\_\_\_\_

**FACILITY SERVICES AND AMENITIES**

COMMON AREA AMENITIES	SERVICES AVAILABLE		INCLUDED IN FEE	FOR EXTRA CHARGE
	AVAILABLE	FEE FOR SERVICE		
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH <u>4</u>	
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY <u>3</u>	
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE <u>yes</u>	
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"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>
LIBRARY	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>
OTHER _____	<input 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:** Town and Country Manor

	2010	2011	2012	2013
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (excluding amortization of entrance fee income)	\$14,681,283	\$14,296,722	\$14,229,680	\$15,360,722
<b>LESS OPERATING EXPENSES</b> (excluding depreciation, amortization, & interest)	\$14,619,804	\$14,116,985	\$14,142,622	\$15,240,190
<b>NET INCOME FROM OPERATIONS</b>	\$61,479	\$179,737	\$87,058	\$120,532
<b>LESS INTEREST EXPENSE</b>	\$16,487	\$21,083	\$29,692	\$36,825
<b>PLUS CONTRIBUTIONS</b>	\$5,597	\$34,512	\$146,302	\$62,267
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	\$279,270	\$814,194	\$83,057	\$407,649
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	\$329,859	\$1,007,360	\$346,109	\$553,623
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	\$314,800	\$38,280	\$35,880	\$96,324

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

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
Comerica Bank	\$7,700,000		05/13/13	05/13/18	5 years

**FINANCIAL RATIOS (see next page for ratio formulas)**

	2009 CCAC Medians 50 <sup>th</sup> Percentile (optional)	2011	2012	2013
<b>DEBT TO ASSET RATIO</b>		.38	0.00	.36
<b>OPERATING RATIO</b>		.99	.99	.99
<b>DEBT SERVICE COVERAGE RATIO</b>		7.26	1.57	2.75
<b>DAYS CASH-ON-HAND RATIO</b>		209	186	193

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

	2010	%	2011	%	2012	%	2013
STUDIO	\$2,365	1.7%	\$2,405	2.1%	\$2,455	3.0%	\$2,505
ONE BEDROOM	\$3,036	1.3%	\$3,075	0.2%	\$3,138	3.0%	\$3,226
TWO BEDROOM	\$3,527	1.1%	\$3,567	1.4%	\$3,617	2.5%	\$3,667
COTTAGE/HOUSE		0.0%		0.0%		0.0%	
ASSISTED LIVING	\$3,557	1.9%	\$3,845	7.0%	\$3,870	2.4%	\$3,930
SKILLED NURSING	\$300	0.0%	\$300	0.0%	\$300	3.0%	\$335
SPECIAL CARE		0.0%		0.0%		0.0%	

**COMMENTS FROM PROVIDER:** \_\_\_\_\_

### FINANCIAL RATIO FORMULAS

#### LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

#### OPERATING RATIO

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

#### DEBT SERVICE COVERAGE RATIO

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

#### DAYS CASH ON HAND RATIO

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

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

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

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$2,490 - \$4,736</u>	<u>\$3,660 - \$4,200</u>	<u>\$250 - \$400</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>2.5% to 4%</u>	<u>2.4% to 3.4%</u>	<u>3%</u>

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

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

[4] Check each of the appropriate boxes:

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

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

**PROVIDER:** Town and Country Manor  
**COMMUNITY:** Town and Country Manor





R E C E I V E D  
SEP 13 2013

CONTINUING CARE  
CONTRACTS BRANCH

**Town and Country Manor of The  
Christian and Missionary Alliance**

Independent Auditor's Report and Financial Statements

June 30, 2013 and 2012

# Town and Country Manor of The Christian and Missionary Alliance

June 30, 2013 and 2012

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## Independent Auditor's Report on Financial Statements

Board of Directors  
Town and Country Manor of The  
Christian and Missionary Alliance  
Santa Ana, California

RECEIVED  
SEP 13 2013  
CONTINUING CARE  
CONTRACTS BRANCH

We have audited the accompanying financial statements of Town and Country Manor of The Christian and Missionary Alliance (Town and Country), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of operations, 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 misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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 Town and Country'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 Town and Country'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.

Board of Directors  
Town and Country Manor of The  
Christian and Missionary Alliance

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Town and Country as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**BKD, LLP**

Colorado Springs, Colorado  
September 11, 2013

# Town and Country Manor of The Christian and Missionary Alliance

## Balance Sheets June 30, 2013 and 2012

### Assets

	<u>2013</u>	<u>2012</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 391,479	\$ 522,148
Accounts receivable, net of allowance; 2013 - \$381,081 and 2012 - \$387,599	1,658,593	1,719,436
Short-term investments	7,559,955	7,241,127
Other receivables	1,093	2,522
Inventories	211,321	184,263
Prepaid expenses	252,766	199,832
Total current assets	<u>10,075,207</u>	<u>9,869,328</u>
<b>Assets Limited as to Use</b>		
Under bond indenture agreement	512,444	1,477,170
Donor-restricted	255,968	328,533
Board-designated	127,828	127,828
Total assets limited as to use	<u>896,240</u>	<u>1,933,531</u>
<b>Long-term Investments</b>	121,586	252,596
<b>Investment in Captive Insurance</b>	192,330	384,583
<b>Property and Equipment, Net</b>	9,612,899	9,953,285
<b>Other Assets, Net</b>	359,415	289,192
Total assets	<u>\$ 21,257,677</u>	<u>\$ 22,682,515</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 419,858	\$ 376,309
Accrued expenses	693,104	704,676
Current maturities of long-term debt	-	8,700,000
Current portion of deferred revenue from advance fees	96,669	98,944
Total current liabilities	<u>1,209,631</u>	<u>9,879,929</u>
<b>Long-term Debt</b>	7,700,000	-
<b>Deferred Revenue from Advance Fees, Less Current Portion</b>	586,207	660,840
Total liabilities	<u>9,495,838</u>	<u>10,540,769</u>
<b>Net Assets</b>		
Unrestricted	11,505,871	11,813,213
Temporarily restricted	15,985	88,550
Permanently restricted	239,983	239,983
Total net assets	<u>11,761,839</u>	<u>12,141,746</u>
Total liabilities and net assets	<u>\$ 21,257,677</u>	<u>\$ 22,682,515</u>

# Town and Country Manor of The Christian and Missionary Alliance

## Statements of Operations Years Ended June 30, 2013 and 2012

	2013	2012
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue	\$ 11,835,816	\$ 11,114,605
Resident services, including amortization of advance fees; 2013 - \$157,232 and 2012 - \$139,540	3,630,369	3,303,714
Contributions	62,268	146,302
Other income	51,769	33,958
Net assets released from restrictions	72,565	11,450
Total unrestricted revenues, gains and other support	15,652,787	14,610,029
<b>Expenses</b>		
Salaries and wages	6,970,749	6,831,799
Employee benefits	1,514,235	1,537,189
Medical supplies and drugs	970,523	779,690
Professional and contracted services	2,056,211	1,843,621
Telephone and utilities	428,509	419,329
Insurance	224,069	217,932
Other	2,489,670	2,298,373
Depreciation and amortization	827,868	819,686
Interest	154,266	166,046
Provision for bad debts	468,601	78,335
Total expenses	16,104,701	14,992,000
<b>Operating Loss</b>	<b>(451,914)</b>	<b>(381,971)</b>
<b>Other Income (Expense)</b>		
Investment return	760,590	200,087
Loss on extinguishment of debt	(190,512)	-
Total other income (expense)	570,078	200,087
<b>Excess (Deficiency) of Revenues Over Expenses Before Change in Investment in Captive Insurance</b>	<b>118,164</b>	<b>(181,884)</b>
<b>Change in Investment in Captive Insurance</b>	<b>(425,506)</b>	<b>(303,273)</b>
<b>Deficiency of Revenues Over Expenses</b>	<b>\$ (307,342)</b>	<b>\$ (485,157)</b>

# Town and Country Manor of The Christian and Missionary Alliance

## Statements of Changes in Net Assets Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (307,342)	\$ (485,157)
Decrease in unrestricted net assets	<u>(307,342)</u>	<u>(485,157)</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	-	100,000
Net assets released from restrictions	<u>(72,565)</u>	<u>(11,450)</u>
Increase (decrease) in temporarily restricted net assets	(72,565)	88,550
<b>Change in Net Assets</b>	<u>(379,907)</u>	<u>(396,607)</u>
<b>Net Assets, Beginning of Year</b>	<u>12,141,746</u>	<u>12,538,353</u>
<b>Net Assets, End of Year</b>	<u>\$ 11,761,839</u>	<u>\$ 12,141,746</u>

# Town and Country Manor of The Christian and Missionary Alliance

## Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (379,907)	\$ (396,607)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Proceeds from advance fees	96,324	35,880
Depreciation	792,058	788,267
Amortization	35,810	31,419
Loss on disposal of equipment	7,538	-
Net realized losses (gains) on investments	(226,450)	40,457
Net unrealized gains on investments	(320,493)	(96,014)
Amortization of deferred revenue from advance fees	(157,232)	(139,540)
Change in investment in captive insurance	425,506	303,273
Provision for bad debts	468,601	78,335
Forgiveness of related party note receivable	7,160	7,160
Loss on extinguishment of debt	190,512	-
Changes in		
Accounts receivable	(407,758)	(70,527)
Other receivables	1,429	129,820
Other assets	6,165	-
Inventories	(27,058)	-
Prepaid expenses	(52,934)	26,273
Accounts payable	(3,749)	11,402
Other liabilities	(11,572)	82,749
	443,950	832,347
<b>Net cash provided by operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Acquisition of property and equipment	(463,210)	(708,962)
Proceeds from disposition of property and equipment	4,000	-
Net payments into captive insurance investment	(233,253)	(135,911)
Purchase of investments	(9,385,077)	(4,353,344)
Proceeds from sales of investments	9,744,202	4,422,329
Change in assets limited as to use	1,037,291	(138,922)
	703,953	(914,810)
<b>Net cash provided by (used in) investing activities</b>		
<b>Cash Flows from Financing Activities</b>		
Payments of deferred financing costs	(262,572)	-
Principal payments on long-term debt	(8,700,000)	-
Proceeds from issuance of long-term debt	7,700,000	-
Refunds of advance fees	(16,000)	-
	(1,278,572)	-
<b>Net cash used in financing activities</b>		

# Town and Country Manor of The Christian and Missionary Alliance

## Statements of Cash Flows (Continued) Years Ended June 30, 2013 and 2012

	2013	2012
Decrease in Cash and Cash Equivalents	(130,669)	(82,463)
Cash and Cash Equivalents, Beginning of Year	522,148	604,611
Cash and Cash Equivalents, End of Year	\$ 391,479	\$ 522,148
<b>Supplemental Disclosure of Cash Flows Information</b>		
Interest paid	\$ 142,921	\$ 166,046
Construction-in-progress included in accounts payable	\$ -	\$ 47,929
Deferred financing costs included in accounts payable	\$ 47,298	\$ -
Sale of interest in property for note receivable from related party	\$ -	\$ 71,601

# **Town and Country Manor of The Christian and Missionary Alliance**

## **Notes to Financial Statements June 30, 2013 and 2012**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Town and Country Manor of The Christian and Missionary Alliance (Town and Country) is a not-for-profit organization that provides housing, health care, and other related services to residents through the operation of a retirement facility containing 127 residential units, 57 assisted living units, and a 95-bed health care facility, which provides skilled nursing care. Town and Country's sole member is The Christian and Missionary Alliance (the Denomination), a Colorado nonprofit corporation.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

Town and Country considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of certificates of deposit.

At June 30, 2013, Town and Country's cash accounts did not exceed federally insured limits.

Town and Country also has cash accounts with a financial institution that is backed by the National Credit Union Administration (NCUA), which federally insures up to \$250,000 per cash account. At June 30, 2013, Town and Country's cash accounts exceeded this federally insured limit by approximately \$278,000.

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value. Unrealized gains and losses on investments are included in excess of revenues over expenses as management considers all investments to be trading securities.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### ***Assets Limited as to Use***

Assets limited as to use include (1) assets held by trustees, (2) assets restricted by donors, and (3) assets set aside by the Board of Directors, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

### ***Accounts Receivable***

Town and Country reports accounts receivable for services rendered at net realizable amounts from third-party payers, residents and others. Town and Country provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Resident accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written-off as bad debts based on individual credit evaluation and specific circumstances of the account.

### ***Inventories***

Town and Country states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Expenditures for repairs that extend the estimated useful lives of assets and betterments of such assets are capitalized. Other expenditures for maintenance and repairs are charged to income. Upon disposal of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and a credit or charge to income reflecting the gain or loss on disposal, if any, is recorded. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	7 - 40 years
Building and improvements	10 - 15 years
Equipment and furniture	5 - 10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

# **Town and Country Manor of The Christian and Missionary Alliance**

## **Notes to Financial Statements**

**June 30, 2013 and 2012**

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

### ***Advance Fees and Resident Reserves***

Town and Country offers residents in the residential areas of the facility a Care and Resident Agreement (CRC) that requires an advance fee. Advance fees vary in amounts though they are required, at a minimum, to be 12 times the monthly fee for the unit. Advance fees paid by a resident upon admission are recorded as deferred revenue and are amortized into revenue over the estimated remaining life expectancy of the resident. Upon the demise of a resident, the amount of unamortized advance fees is recognized as income.

The advance fee does have provisions for refund in the event the contract is terminated by the resident or by Town and Country. There is a cancellation period of 90 days after the resident occupies the unit. Town and Country may cancel the contract without cause after giving the resident 30 days' notice within the cancellation period. After the 90 days cancellation period, the resident has the right to cancel the contract for any reason giving 90 days written notice. Town and Country will refund the entrance fee at a rate of 1/60<sup>th</sup> for each month or partial month from the date the resident occupied the unit.

The CRC contract does not provide for any future care in the skilled nursing facility nor is there a provision for a discount in the skilled nursing facility and there is no refund of any of the entrance fee in the event of death. Town and Country also offers a monthly contract that does not have a provision for an advance fee.

It has been Town & Country's experience that refunds have been infrequent and not significant. At June 30, 2013 and 2012, the aggregate maximum refundable advance fees for CRC contracts were approximately \$204,788 and \$234,998, respectively, before considering costs incurred.

Monthly maintenance fees are based upon the size of the resident's apartment and whether the apartment is occupied by one or two persons. The monthly maintenance fee is a recurring service fee, the payment of which entitles a resident to occupy a unit equipped with various amenities, safety features, parking, use of common areas and various resident services, including three meals per day, utilities, weekly maid service, unit maintenance, grounds maintenance, and scheduled transportation services. Town and Country is not obligated to provide future services to its residents. Should a resident require a higher level of care, any remaining advance fees are refunded and the use of the skilled nursing facilities is provided at current daily charges.

# **Town and Country Manor of The Christian and Missionary Alliance**

## **Notes to Financial Statements**

**June 30, 2013 and 2012**

### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by Town and Country has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Town and Country in perpetuity.

### ***Net Patient Service Revenue***

Town and Country has agreements with third-party payers that provide for payments to Town and Country at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

### ***Contributions***

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Town and Country records restricted contributions received and expended within the same year as unrestricted contributions.

### ***Income Taxes***

Town and Country has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes pursuant to Section 501(a) of the IRC and is exempt from state franchise tax under similar provisions in the California Franchise Tax Code. However, Town and Country is subject to federal income tax on any unrelated business taxable income.

Town and Country files tax returns in the U.S. federal jurisdiction. With a few exceptions, Town and Country is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

### ***Excess (Deficiency) of Revenues Over Expenses***

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

### ***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Note 2: Net Patient Service Revenue**

The components of net patient service revenue for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Medi-Cal	\$ 2,216,583	\$ 2,688,025
Medicare	3,891,158	4,003,338
Other resident service revenue	9,365,681	8,238,061
	15,473,422	14,929,424
Contractual adjustments and other deductions	(3,637,606)	(3,814,819)
Net patient service revenue	\$ 11,835,816	\$ 11,114,605

Town and Country has agreements with third-party payers that provide for payments to Town and Country at amounts different from its established rates. Contractual adjustments under third-party payment programs represent the difference between Town and Country's established rates for services and amounts reimbursed by third-party payers. Contractual adjustments are deducted from Town and Country's established rates to arrive at net patient service revenue.

Town and Country files Medi-Cal and Medicare cost reports with the intermediary on an annual basis. Laws and regulations governing the Medi-Cal and Medicare programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change in the near term.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 3: Concentration of Credit Risk

Town and Country grants credit without collateral to its residents, many of whom are insured under third-party payer agreements. The mix of accounts receivable from residents and third-party payers at June 30, are as follows:

	2013	2012
Medi-Cal	8%	14%
Medicare	16%	30%
Private pay and other	76%	56%
	100%	100%

### Note 4: Investments and Investment Return

Town and Country's investments, including assets limited as to use, consist of the following at June 30:

	2013	2012
Certificates of deposit	\$ 1,350,898	\$ 1,709,177
Cash	79,367	-
Money market mutual funds	721,780	142,951
Equity securities	1,710,042	1,447,563
Mutual funds invested in U.S. government bonds	2,046,129	1,777,694
Mutual funds invested in foreign emerging markets	510,063	883,956
Mutual funds invested in fixed income securities	-	1,477,170
Alternative investments	2,159,502	1,988,743
	8,577,781	9,427,254
Less long-term investments	(121,586)	(252,596)
Less assets limited as to use	(896,240)	(1,933,531)
Total short-term investments	\$ 7,559,955	\$ 7,241,127

Included in certificates of deposit and money market funds is \$1,214,063 and \$1,207,561 held with The Alliance Development Fund, Inc., an affiliate of the Denomination at June 30, 2013 and 2012, respectively.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

The Board-designated and donor-restricted funds are summarized as follows at June 30:

	2013	2012
Endowments	\$ 239,983	\$ 239,983
Employee fund	15,985	88,550
Board-designated for reserves	127,828	127,828
	\$ 383,796	\$ 456,361

### ***Assets Limited as to Use – Trustee Under Bond Indenture Agreement***

Town and Country's debt agreements for its Refunding Revenue Bonds, Series 2013 for June 30, 2013 and its Healthcare Facilities Revenue Bonds, Series 1990 for June 30, 2012, provide for funds to be established at various times by Town and Country and held by the trustee. These funds are invested as follows at June 30:

	2013	2012
Cash	\$ 79,369	\$ -
Money market mutual funds	433,075	-
Mutual funds - fixed income securities	-	1,477,170
	\$ 512,444	\$ 1,477,170

### ***Investment Return***

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income	\$ 213,647	\$ 144,530
Net realized gains (losses) on sales of trading securities	226,450	(40,457)
Net unrealized gains	320,493	96,014
	\$ 760,590	\$ 200,087

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 5: Property and Equipment

Property and equipment consisted of the following at June 30:

	2013	2012
Land and improvements	\$ 1,397,866	\$ 1,397,866
Buildings and improvements	19,900,732	19,304,803
Equipment and furniture	4,447,201	4,279,326
	25,745,799	24,981,995
Less accumulated depreciation	(17,373,009)	(16,583,061)
	8,372,790	8,398,934
Construction-in-progress	1,240,109	1,554,351
Property and equipment, net	\$ 9,612,899	\$ 9,953,285

### Note 6: Other Assets

Other assets consisted of the following at June 30:

	2013	2012
Deferred financing costs, net	\$ 302,134	\$ 224,751
Related party note receivable	57,281	64,441
Total other assets	\$ 359,415	\$ 289,192

During 2013, deferred financing costs relate to the issuance of the California Municipal Finance Authority Refunding Revenue Bonds, Series 2013. During 2012, they relate to the City of Santa Ana Multi-Modal Interchangeable Rate Healthcare Facilities Revenue Bonds, Series 1990, which were paid off with the Series 2013 bonds (see Note 8).

Prior to 2012, Town and Country obtained an interest in the personal residence of the Chief Executive Officer. During 2012, Town and Country gave the Chief Executive Officer a 2.8% interest in the property and agreed to sell the remaining interest, which resulted in a note receivable. The note receivable is payable over a 10-year period starting in September 2012. If the Chief Executive Officer is still employed by Town and Country on the date that each payment is due, then Town and Country agrees to forgive the amount due. During 2013 and 2012, \$7,160 was forgiven on the note receivable each year.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements June 30, 2013 and 2012

### Note 7: Line of Credit

During 2013, Town and Country obtained a \$750,000 revolving line of credit with the purchaser of the Series 2013 Bonds (see Note 8). Interest is due monthly at an interest rate equal to the LIBOR-based rate plus a margin of 250 basis points and is secured by real property. There was no amount outstanding on the line of credit at June 30, 2013.

### Note 8: Long-term Debt

Long-term debt is comprised of the following at June 30:

	2013	2012
California Municipal Finance Authority		
Refunding Revenue Bonds, Series 2013 (A)	\$ 7,700,000	\$ -
City of Santa Ana Multi-Modal Interchangeable		
Rate Health Facility Revenue Bonds,		
Series 1990 (B)	-	8,700,000
Less current maturities	-	8,700,000
	\$ 7,700,000	\$ -

- (A) In May 2013, the California Municipal Finance Authority (the Issuer) issued \$7,700,000 of Refunding Revenue Bonds, Series 2013. The proceeds were loaned to Town and Country pursuant to a loan agreement dated May 13, 2013 between the Issuer and Town and Country. The proceeds of the Series 2013 Bonds were used to refund the Series 1990 Bonds.

Pursuant to the indenture agreement between the Issuer and U.S. Bank National Association, the Series 2013 Bonds are direct purchase bonds with a variable rate of interest. The variable interest rate, at the option of the borrower, can be converted to a fixed rate. Prior to the fixed rate conversion date, the Series 2013 Bonds have no mandatory principal requirements; however, upon conversion to a fixed rate, the Series 2013 Bonds are subject to mandatory sinking fund redemptions. The Series 2013 Bonds have a maturity date of July 1, 2038 and are secured by funds established under the indenture and held by the trustee and by Town and Country's real property, under terms of the deed of trust.

While there is the above agreement with the Issuer, Town and Country has an agreement with the purchaser of the Series 2013 Bonds. Under this agreement, interest is paid monthly at an interest rate equal to the purchaser's LIBOR-based rate plus a margin of 170 basis points. If the LIBOR-based rate cannot be determined by the purchaser, the applicable interest rate will be the greater of the purchaser's prime rate or 2.50% per annum, plus, in either case, a margin of 170 basis points. The interest rate of the bonds at June 30, 2013 was 1.89%. Mandatory sinking fund redemptions are required of \$100,000 per year starting July 1, 2014 and the

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements June 30, 2013 and 2012

Series 2013 Bonds have an initial purchase term of five years at which time the purchaser will tender the Series 2013 Bonds for payment in full. The purchase term may be extended at the request of Town and Country in the purchaser's sole discretion and the purchaser has no obligation to extend the purchase term. Town and Country also has a revolving line of credit with the purchaser (see Note 7).

The Bond Covenants and Guaranty Agreement, requires Town and Country to maintain certain operational and financial covenants. At June 30, 2013, Town and Country was in compliance with these covenants.

- (B) On October 1, 1990, the City of Santa Ana (the Issuer) issued Multi-Modal Interchangeable Rate Facility Revenue Bonds, Series 1990 (the Series 1990 Bonds). At the time of issuance, the Series 1990 Bonds were subject to redemption in whole, or in part, at the direction of Town and Country. The letter of credit related to the Series 1990 bonds, expired in February 2013, but was extended through May 2013. As of June 30, 2013, the Series 1990 Bonds have been fully refunded with proceeds from the Series 2013 Bonds and a \$1,000,000 payment from assets limited as to use – under the Series 1990 Bond Indenture Agreement.

The annual maturities of long-term debt at June 30, 2013 are as follows:

2014	\$	-
2015		100,000
2016		100,000
2017		100,000
2018		100,000
Thereafter		<u>7,300,000</u>
		<u>\$ 7,700,000</u>

### Note 9: Functional Expenses

Town and Country provides services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2013</u>	<u>2012</u>
Program expenses	\$ 14,200,688	\$ 13,147,984
Administrative expenses	<u>1,904,013</u>	<u>1,844,016</u>
Total expenses	<u>\$ 16,104,701</u>	<u>\$ 14,992,000</u>

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 10: Related Party Transactions

Town and Country is leasing a portion of land to the Denomination upon which the lessee has built a church, known as the Santa Ana Community Bible Church of The Christian and Missionary Alliance. The lease expires in 2037 with annual rentals of \$1. The lessee is responsible for all maintenance, utilities, insurance, and upkeep of the property. In the event of the sale of the land by Town and Country prior to the expiration of the lease term, the lessee is entitled to receive the portion of the proceeds equivalent to the appraised value of the structure. Residents of Town and Country are entitled to use the premises for scheduled events.

Prior to 2012, Town and Country held, as miscellaneous assets, an undivided 28% interest in the personal residence of the CEO. During 2012, Town and Country agreed to sell the remaining interest to the CEO and has recorded a note receivable (see Note 6).

### Note 11: Pension Plan

Town and Country sponsors a defined contribution plan for which all employees with at least two years of service and 1,000 hours of service per year are eligible. During 2012, Town and Country contributed an amount equal to 2% of each participant's compensation. For those participants who elected to defer a portion of their salary, Town and Country made a matching contribution of up to 3% of the participant's total compensation. Effective January 1, 2013, Town and Country changed their plan and now makes a matching contribution amount equal to 25% of each participant's salary deferrals, limited to salary deferrals up to 4% of the participant's total compensation. Town and Country may also make a discretionary contribution each year. During 2013, no discretionary contribution was made. Town and Country contributed approximately \$76,828 and \$157,861 to the plan for the years ended June 30, 2013 and 2012, respectively.

### Note 12: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	<u>2013</u>	<u>2012</u>
Employee fund	<u>\$ 15,985</u>	<u>\$ 88,550</u>

During 2013 and 2012, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$72,565 and \$11,450, respectively.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

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### Note 13: Endowment

The State of California passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) or (the Act) that provides statutory guidance for the management, investment, and expenditure of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the “historical dollar value” rule for endowment funds, in favor of guidelines regarding what constitutes prudent spending and explicitly requires consideration of the following factors (if relevant):

1. Duration and preservation of the fund
2. Purposes of Town and Country and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of Town and Country; and
7. Investment policies of Town and Country

Town and Country’s endowment consists of funds established to support general operations. The endowments are donor-restricted. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Town and Country’s governing body has interpreted the State of California’s UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Town and Country classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The composition of net assets by type at June 30, 2013 and 2012 were:

		<b>2013</b>			
		<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	Donor-restricted endowment fund	\$ -	\$ -	\$ 239,983	\$ 239,983
		<b>2012</b>			
		<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
	Donor-restricted endowment fund	\$ -	\$ -	\$ 239,983	\$ 239,983

# Town and Country Manor of The Christian and Missionary Alliance

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Changes in endowment net assets for the years ended June 30, 2013 and 2012 were:

	<b>2013</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 239,983	\$ 239,983
Investment return				
Interest and dividends	20,772	-	-	20,772
Net depreciation	16,279	-	-	16,279
Appropriations	(37,051)	-	-	(37,051)
Endowment net assets, end of year	\$ -	\$ -	\$ 239,983	\$ 239,983
	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 239,983	\$ 239,983
Investment return				
Interest and dividends	8,110	-	-	8,110
Net depreciation	(2,911)	-	-	(2,911)
Appropriations	(5,199)	-	-	(5,199)
Endowment net assets, end of year	\$ -	\$ -	\$ 239,983	\$ 239,983

Town and Country has adopted investment and spending policies for endowment assets that attempt to achieve a balanced return of income and modest growth of principal. Endowment assets include those assets of donor-restricted endowment funds Town and Country must hold in perpetuity. Under Town and Country's policies, endowment assets are invested into securities that can be transacted quickly and efficiently for Town and Country, with minimal impact on interest price.

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To satisfy its long-term rate of return objectives, Town and Country relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Town and Country targets a diversified asset allocation that balances several different investment types including domestic bonds, mutual funds, and hedge funds. This is intended to achieve its long-term return objectives within prudent risk constraints.

### Note 14: Investment in Captive Insurance

Town and Country is a shareholder, together with two other non-related not-for-profit organizations, in Alternative RE Holdings Limited, a Bermuda holding company. Town and Country has a 33-1/3% ownership in the captive for the years ended June 30, 2013 and 2012, respectively. There is a separate shareholder agreement where profits and losses are allocated based on an agreed-upon formula of which Town and Country has a 25.01% and 10.05% share as of June 30, 2013 and 2012, respectively. The captive insurance company maintains group worker's compensation insurance coverage on an occurrence basis and is responsible for the first \$350,000 deductible for any single major loss. The group has an aggregate deductible for all losses of \$1,850,000. The current policy provides coverage of \$1,000,000 per accident/employee. The captive insurance company allocates premiums and losses on an entity-specific basis and therefore, Town and Country accounts for its investment based on its specifically identified premiums paid, interest earned, losses incurred and expenses paid. Claim experience is identified to each participating entity within the captive insurance company and subsequent premiums will be modified based on the entity's experience.

As of June 30, 2013 and 2012, Town and Country's investment in the captive insurance was \$192,330 and \$384,583, respectively.

### Note 15: Disclosures About Fair Value of Assets and Liabilities

The Codification of Financial Accounting Standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial Accounting Standards specify a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

# Town and Country Manor of The Christian and Missionary Alliance

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**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

### ***Recurring Measurements***

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012:

	<b>2013</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market mutual funds	\$ 721,780	\$ 721,780	\$ -	\$ -
Equity securities	1,710,042	1,710,042	-	-
Mutual funds invested in U.S. government bonds	2,046,129	2,046,129	-	-
Mutual funds invested in foreign emerging markets	510,063	510,063	-	-
Alternative investments	2,159,502	-	943,647	1,215,855

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements June 30, 2013 and 2012

	2012			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	\$ 142,951	\$ 142,951	\$ -	\$ -
Equity securities	1,447,563	1,447,563	-	-
Mutual funds invested in				
U.S. government bonds	1,777,694	1,777,694	-	-
Mutual funds invested in				
foreign emerging markets	883,956	883,956	-	-
Mutual funds invested in				
fixed income securities	1,477,170	1,477,170	-	-
Alternative investments	1,988,743	-	738,266	1,250,477

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### ***Investments and Assets Limited as to Use***

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Currently, Town and Country does not have any Level 2 or Level 3 securities.

### ***Alternative Investments***

The value of certain investments, classified as alternative investments, is determined using net assets value as a practical expedient. Investments for which Town & Country expects to have the ability to redeem its investments with the investee with 12 months after the report date are

# Town and Country Manor of The Christian and Missionary Alliance

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categorized as Level 2. Investments for which Town & Country does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Financial Officer's office. The Chief Financial Officer's office contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Chief Financial Officer's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Alternative investments held at June 30 consist of the following:

2013			
	Net Asset Value	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds - Level 2 and Level 3 (A)	\$ 1,262,303	Quarterly or Annually	75 - 90 days (See additional restrictions on tickmark A)
Multi-strategy hedge funds - Level 2 (B)	897,199	Quarterly or Annually	60 days
Total	\$ 2,159,502		
2012			
	Net Asset Value	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds - Level 3 (A)	\$ 1,250,477	Quarterly or Annually	75 - 90 days
Multi-strategy hedge funds - Level 2 (B)	738,266	Quarterly or Annually	60 days
Total	\$ 1,988,743		

(A) The equity long/short hedge funds seek to achieve positive investment returns in rising and falling markets with substantially less volatility than traditional equity and fixed income securities. Effective April 30, 2009, investments representing approximately 4% and 11% at June 30, 2013 and 2012, respectively, of the investments in this fund announced the commencement of an orderly liquidation of its investment portfolio. The fund will distribute

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## Notes to Financial Statements June 30, 2013 and 2012

to its partners their underlying pro-rata share of the net proceeds received. Town and Country expects to receive their net asset value over the next 12 months. The remaining investments in this fund have redemption restrictions including a holdback and lock-up periods.

- (B) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fund achieves its investment strategy by investing substantially all of its assets through a master/feeder structure. There are no redemption restrictions for this fund.

### **Level 3 Reconciliation**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

Balance, July 1, 2011	\$ 1,777,000
Total realized and unrealized gains and (losses)	(500,989)
Purchases, issuances and settlements	<u>(25,534)</u>
Balance, June 30, 2012	<u>1,250,477</u>
Total realized and unrealized gains and (losses)	107,098
Purchases, issuances and settlements	(95,272)
Transfers out of Level 3 <sup>(a)</sup>	<u>(46,448)</u>
Balance, June 30, 2013	<u><u>\$ 1,215,855</u></u>
Total gains (losses) for the period included in change in net assets attributable to the change in realized losses on impairment related to assets and liabilities still held at the reporting date	<u><u>\$ 107,098</u></u>

- (a) The transfer from Level 3 to Level 2 was due to the value of one investment able to be determined using net asset value as a practical expedient in accordance with the application of Accounting Standards Update (ASU) 2009-12 and in which Town and Country expects to have the ability to redeem within 12 months after the reporting date.

# Town and Country Manor of The Christian and Missionary Alliance

## Notes to Financial Statements

June 30, 2013 and 2012

### ***Unobservable (Level 3) Inputs***

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	<b>Fair Value at June 30, 2013</b>	<b>Valuation Technique</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Alternative investments	\$ 1,215,855	Net asset value	Lack of redeemability/liquidity in the following 12 months	Not available

### **Note 16: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### ***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

#### ***Professional Liability Coverage and Claims***

Town and Country pays fixed premiums for annual professional liability insurance coverage under an occurrence based policy. There were no claims outstanding for the years ended June 30, 2013 and 2012, and Town and Country is not aware of any unasserted claims or unreported incidents that are expected to exceed malpractice insurance coverage limits.