

FISCAL YEAR ENDED:  
3/31/2014

ANNUAL REPORT CHECKLIST

PROVIDER: Friends Association of Services for the Elderly

CCRC(S): Friends House

CONTACT PERSON: Anita Tucker

TELEPHONE NO.: (541) 857-7624 EMAIL: atucker@retirement.org

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

- Annual Report Checklist
- Annual Provider Fee in the amount of: \$ 4,644.88
- 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.

**FORM 1-1  
RESIDENT POPULATION**

<u>Line</u>	<b>Continuing Care Residents</b>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	80
[2]	Number at end of fiscal year	76
[3]	Total Lines 1 and 2	156
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x 0.50
[5]	Mean number of continuing care residents	78
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	102
[7]	Number at end of fiscal year	102
[8]	Total Lines 5 and 6	204
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x 0.50
[10]	Mean number of all residents	102
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places).	0.76

**FORM 1-2  
ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1]	<b>6,358,088</b>
[a]	252,031
[b]	31,978
[2]	<b>284,009</b>
[3]	<b>6,074,079</b>
[4]	<b>0.76</b>
[5]	<b>4,644,884</b>
[6]	x 0.001
	<b>4,644.88</b>

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



# FRIENDS HOUSE

*A Quaker-Inspired Elder Community*

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AUG 04 2014

Established in 1984  
CONTINUING CARE  
CONTRACTS BRANCH

July 29, 2014

Allison Nakatomi  
Department of Social Services  
744 "P" Street, M. S. 10-90  
Sacramento, CA 95814

Re: Annual Report of Friends Association of Services for the Elderly (dba Friends House)  
Certification by Assistant Clerk (Assistant Chairman) of the Board

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

To the best of my knowledge every continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

As of July 29, 2014, Friends House is maintaining the required liquid reserve and refund reserve.

Sincerely,

Assistant Clerk (Assistant Chairman) of the Board  
Friends Association of Services for the Elderly (Friends House)





# INSURANCE BINDER

RECEIVED  
 DATE (MM/DD/YYYY)  
 12/31/2013  
 BINDER # 0014  
 4 2014

THIS BINDER IS A TEMPORARY INSURANCE CONTRACT, SUBJECT TO THE CONDITIONS SHOWN ON PAGE 2 OF THIS FORM.

AGENCY <b>Peace Church Risk Retention Group</b> 2160 Lincoln Highway East Lancaster, PA 17602		COMPANY <b>PCRRG (a reciprocal)</b>		BINDER # <b>0014</b>
PHONE (A/C, No, Ext): <b>717-293-7840</b>		FAX (A/C, No): <b>717-293-7854</b>		CONTINUING EXPIRATION DATE <b>03/01/2014</b>
CODE: _____ SUB CODE: _____		DATE <b>01/01/2014</b>	EFFECTIVE TIME <b>12:01</b>	TIME <input checked="" type="checkbox"/> AM <input type="checkbox"/> PM
AGENCY CUSTOMER ID: INSURED AND MAILING ADDRESS <b>Friends House</b> <b>684 Benicia Drive</b> <b>Santa Rosa, CA 95409</b>		<input checked="" type="checkbox"/> THIS BINDER IS ISSUED TO EXTEND COVERAGE IN THE ABOVE NAMED COMPANY PER EXPIRING POLICY #: <b>PCRRG-014-13</b>		
		DESCRIPTION OF OPERATIONS / VEHICLES / PROPERTY (Including Location)		

COVERAGES		LIMITS		
TYPE OF INSURANCE	COVERAGE / FORMS	DEDUCTIBLE	COINS %	AMOUNT
<b>PROPERTY</b> CAUSES OF LOSS <input type="checkbox"/> BASIC <input type="checkbox"/> BROAD <input type="checkbox"/> SPEC				
<b>GENERAL LIABILITY</b> <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS MADE <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> <b>Professional</b>	<b>PCRRG-0014-14</b>  RETRO DATE FOR CLAIMS MADE: <b>01/01/2004</b>	EACH OCCURRENCE DAMAGE TO RENTED PREMISES MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG		\$ \$ \$ \$ <b>\$ 3,000,000.</b> \$
<b>VEHICLE LIABILITY</b> <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS		COMBINED SINGLE LIMIT BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE MEDICAL PAYMENTS PERSONAL INJURY PROT UNINSURED MOTORIST		\$ \$ \$ \$ \$ \$
<b>VEHICLE PHYSICAL DAMAGE</b> DED <input type="checkbox"/> COLLISION: <input type="checkbox"/> OTHER THAN COL:	<input type="checkbox"/> ALL VEHICLES <input type="checkbox"/> SCHEDULED VEHICLES	ACTUAL CASH VALUE STATED AMOUNT		\$ \$
<b>GARAGE LIABILITY</b> <input type="checkbox"/> ANY AUTO		AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY: EACH ACCIDENT AGGREGATE		\$ \$ \$ \$
<b>EXCESS LIABILITY</b> <input type="checkbox"/> UMBRELLA FORM <input type="checkbox"/> OTHER THAN UMBRELLA FORM	RETRO DATE FOR CLAIMS MADE:	EACH OCCURRENCE AGGREGATE SELF-INSURED RETENTION		\$ \$ \$
<b>WORKER'S COMPENSATION AND EMPLOYER'S LIABILITY</b>		PER STATUTE E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT		\$ \$ \$
<b>SPECIAL CONDITIONS / OTHER COVERAGES</b> <b>per claim \$1,000,000</b>		FEES TAXES ESTIMATED TOTAL PREMIUM		\$ \$ \$

<b>NAME &amp; ADDRESS</b>		<input type="checkbox"/> MORTGAGEE <input type="checkbox"/> LOSS PAYEE	<input type="checkbox"/> ADDITIONAL INSURED
		LOAN #: _____	
		AUTHORIZED REPRESENTATIVE <p style="text-align: center;"><b>Charlotte H Hess, CIC AAI</b></p>	

## CONDITIONS

This Company binds the kind(s) of insurance stipulated on page 1 of this form. The Insurance is subject to the terms, conditions and limitations of the policy(ies) in current use by the Company.

This binder may be cancelled by the Insured by surrender of this binder or by written notice to the Company stating when cancellation will be effective. This binder may be cancelled by the Company by notice to the Insured in accordance with the policy conditions. This binder is cancelled when replaced by a policy. If this binder is not replaced by a policy, the Company is entitled to charge a premium for the binder according to the Rules and Rates in use by the Company.

### Applicable in Arizona

Binders are effective for no more than ninety (90) days.

### Applicable in California

When this form is used to provide insurance in the amount of one million dollars (\$1,000,000) or more, the title of the form is changed from "Insurance Binder" to "Cover Note".

### Applicable in Colorado

With respect to binders issued to renters of residential premises, home owners, condo unit owners and mobile home owners, the insurer has thirty (30) business days, commencing from the effective date of coverage, to evaluate the issuance of the insurance policy.

### Applicable in Delaware

The mortgagee or Obligee of any mortgage or other instrument given for the purpose of creating a lien on real property shall accept as evidence of insurance a written binder issued by an authorized insurer or its agent if the binder includes or is accompanied by: the name and address of the borrower; the name and address of the lender as loss payee; a description of the insured real property; a provision that the binder may not be canceled within the term of the binder unless the lender and the insured borrower receive written notice of the cancellation at least ten (10) days prior to the cancellation; except in the case of a renewal of a policy subsequent to the closing of the loan, a paid receipt of the full amount of the applicable premium, and the amount of insurance coverage.

Chapter 21 Title 25 Paragraph 2119

### Applicable in Florida

Except for Auto Insurance coverage, no notice of cancellation or nonrenewal of a binder is required unless the duration of the binder exceeds 60 days. For auto insurance, the insurer must give 5 days prior notice, unless the binder is replaced by a policy or another binder in the same company.

### Applicable in Maryland

The insurer has 45 business days, commencing from the effective date of coverage to confirm eligibility for coverage under the insurance policy.

### Applicable in Michigan

The policy may be cancelled at any time at the request of the insured.

### Applicable in Nevada

Any person who refuses to accept a binder which provides coverage of less than \$1,000,000.00 when proof is required: (A) Shall be fined not more than \$500.00, and (B) is liable to the party presenting the binder as proof of insurance for actual damages sustained therefrom.

### Applicable in Oklahoma

All policies shall expire at 12:01 a.m. standard time on the expiration date stated in the policy.

### Applicable in Oregon

Binders are effective for no more than ninety (90) days. A binder extension or renewal beyond such 90 days would require the written approval by the Director of the Department of Consumer and Business Services.

### Applicable in the Virgin Islands

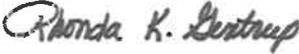
This binder is effective for only ninety (90) days. Within thirty (30) days of receipt of this binder, you should request an insurance policy or certificate (if applicable) from your agent and/or insurance company.



**R E C E I V E D**  
 AUG 04 2014  
 CONTINUING CARE  
 CONTRACTS BRANCH

**Caring Communities, a Reciprocal Risk Retention Group**  
**BINDER OF EXCESS INSURANCE**

<b>Effective Date of Coverage:</b>	01/01/2014 at 12:01AM
<b>Policy Number:</b>	CC-PCRRG-0014-14
<b>Insurer:</b>	Caring Communities, a Reciprocal Risk Retention Group
<b>POLICYHOLDER:</b>	Friends Association of Services for the Elderly
<b>Policy Form:</b>	Excess Senior Services Organization Liability Policy <b>Claims Made</b>
<b>Policy Term:</b>	01/01/2014 to 01/01/2015 both at 12:01AM
<b>Policy Retroactive Date :</b>	01/01/2004
<b>Underlying Insurance Requirements:</b>	
Senior Services Organization Professional Liability	\$1,000,000 Per CLAIM
Commercial General Liability	\$1,000,000 Per CLAIM
Employee Benefit Programs Liability	\$1,000,000 Per CLAIM
Automobile Liability	\$1,000,000 Each Accident
Employers' Liability	\$500,000 Per Accident
	\$500,000 Disease Each Employee
	\$500,000 Disease Policy Limit
<b>Excess Coverages Limits of Liability:</b>	
Senior Services Organization Professional Liability	\$7,000,000 Per CLAIM
Commercial General Liability	\$7,000,000 Per CLAIM
Advertising Injury Liability	\$5,000,000 Per CLAIM / Policy Period Aggregate
Watercraft Liability	\$5,000,000 Per CLAIM / Policy Period Aggregate
Employee Benefits Liability	\$5,000,000 Per CLAIM / Policy Period Aggregate
Automobile Liability	\$6,000,000 Each Accident

<b>Professional Liability losses originating in Florida, Arkansas and Louisiana Limit:</b>	\$2,000,000 Per CLAIM and Policy Period Aggregate
<b>Excess Coverages Policy Period Aggregate Limit:</b>	\$ 7,000,000
<b>Comments:</b>	<p>Caring Communities, a Reciprocal Risk Retention Group hereby binds the insurance specified above. This insurance is subject to the terms, conditions and limitations of the policy used by Caring Communities, a Reciprocal Risk Retention Group including provisions relating to cancellation.</p> <p>This BINDER OF INSURANCE expires 90 days from the Effective Date of Coverage.</p>
 Authorized Representative Caring Communities, a Reciprocal Risk Retention Group	<b>Issued:</b>  01/20/2014

**R E C E I V E D**  
**AUG 04 2014**

**CONTINUING CARE  
CONTRACTS BRANCH**

**Friends Association of Services  
for the Elderly**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**March 31, 2014 and 2013**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Friends Association of Services  
for the Elderly

We have audited the accompanying financial statements of Friends Association of Services for the Elderly (a California nonprofit corporation) (the "Association"), which comprise the statements of financial position as of March 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends Association of Services for the Elderly as of March 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*DZH Phillips LLP*

San Francisco, California  
July 28, 2014

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Friends Association of Services for the Elderly

STATEMENTS OF ACTIVITIES

Years ended March 31, 2014 and 2013

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues</b>								
Skilled nursing facility	\$ 3,008,277	\$ -	\$ -	\$ 3,008,277	\$ 2,593,424	\$ -	\$ -	\$ 2,593,424
Less: provision for bad debts	(40,000)	-	-	(40,000)	(139,590)	-	-	(139,590)
Net skilled nursing facility	2,968,277	-	-	2,968,277	2,453,834	-	-	2,453,834
Housing related fees	1,322,684	-	-	1,322,684	1,244,419	-	-	1,244,419
Entrance fees earned (Note C)	906,037	-	-	906,037	710,470	-	-	710,470
Contributions	173,040	114,297	-	287,337	489,127	64,600	-	553,727
Other revenue, net	363,771	-	-	363,771	335,640	-	-	335,640
<b>Total Revenues</b>	5,733,809	114,297	-	5,848,107	5,233,490	64,600	-	5,298,090
Net assets released from restrictions	114,023	(114,023)	-	-	19,956	(19,956)	-	-
<b>Total revenue and support</b>	5,847,832	274	-	5,848,107	5,253,446	44,644	-	5,298,090
<b>Expenses</b>								
Program expenses								
Dietary	717,537	-	-	717,537	661,766	-	-	661,766
Facility services and utilities	1,079,990	-	-	1,079,990	954,697	-	-	954,697
Health and social services	2,486,504	-	-	2,486,504	2,173,026	-	-	2,173,026
Assisted living	438,131	-	-	438,131	552,333	-	-	552,333
General and administrative expenses:								
Administrative and marketing	1,022,155	-	-	1,022,155	1,147,178	-	-	1,147,178
Depreciation	252,031	-	-	252,031	252,733	-	-	252,733
Other general and administrative	66,395	-	-	66,395	19,954	-	-	19,954
Management services	249,996	-	-	249,996	225,005	-	-	225,005
Loss on disposal of property and equipment	1,269	-	-	1,269	4,721	-	-	4,721
<b>Total expenses</b>	6,314,008	-	-	6,314,008	5,991,413	-	-	5,991,413
<b>Total operating (loss) income</b>	(466,176)	274	-	(465,901)	(737,967)	44,644	-	(693,323)
Other income (expense)								
Note receivable write off	-	-	-	-	(65,000)	-	-	(130,000)
Interest income	786	-	-	786	12,685	-	-	12,685
Change in value of charitable remainder trusts	-	16,443	-	16,443	(1,486)	-	-	(1,486)
Unrealized loss	(48)	-	-	(48)	(1,194)	-	-	(1,194)
Interest expense and fees	(44,080)	-	-	(44,080)	(49,987)	-	-	(49,987)
<b>Total other income (expense)</b>	(43,342)	16,443	-	(26,899)	(103,496)	(66,486)	-	(169,982)
<b>CHANGE IN NET ASSETS</b>	(509,518)	16,717	-	(492,801)	(841,463)	(21,842)	-	(863,305)
Net assets - beginning of year	(243,159)	451,645	202,901	411,387	598,304	473,487	202,901	1,274,692
<b>Net assets - end of year</b>	<u>\$ (752,677)</u>	<u>\$ 468,362</u>	<u>\$ 202,901</u>	<u>\$ (81,414)</u>	<u>\$ (243,159)</u>	<u>\$ 451,645</u>	<u>\$ 202,901</u>	<u>\$ 411,387</u>

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

STATEMENTS OF CASH FLOWS

Years ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows provided by (used in) operating activities:		
Cash received from residents	\$ 4,740,709	\$ 3,761,495
Cash received from entrance fees	816,996	749,781
Cash received from contributions and bequests	266,322	638,885
Other cash receipts	891,314	44,797
Cash paid to suppliers and employees	(6,511,324)	(5,707,898)
Cash paid for interest and fees	<u>(37,172)</u>	<u>(49,987)</u>
Net cash provided by (used in) operating activities	<u>166,845</u>	<u>(562,927)</u>
Cash flows provided by (used in) investing activities:		
Proceeds from sale of investments	20,845	248,788
Additions to property and equipment	(190,604)	(175,585)
Cash restricted for endowment	<u>-</u>	<u>(202,901)</u>
Net cash used in investing activities	<u>(169,759)</u>	<u>(129,698)</u>
Cash flows provided by (used in) financing activities:		
Increase (decrease) in deposit program liability - net	959	(114,862)
Loan repayment	(355,000)	(200,000)
Loan proceeds	<u>25,115</u>	<u>70,000</u>
Net cash used in financing activities	<u>(328,926)</u>	<u>(244,862)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(331,840)	(937,487)
Cash and cash equivalents - beginning of year	<u>1,622,374</u>	<u>2,559,861</u>
Cash and cash equivalents - end of year	<u>\$ 1,290,534</u>	<u>\$ 1,622,374</u>

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

STATEMENTS OF CASH FLOWS (continued)

Years ended March 31, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Cash flows provided by (used in) operating activities:		
Change in net assets	\$ (492,801)	\$ (863,305)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Proceeds from new entrance fees	1,109,810	1,240,000
Refunds of entrance fees	(292,814)	(490,219)
Proceeds from charitable remainder trust	47,628	-
Deferred revenue amortization	(906,037)	(710,470)
Non cash contributions	(68,643)	-
Depreciation	252,031	252,733
Write off of note receivable	-	130,000
Loss on asset disposal	1,269	4,721
Net realized/unrealized loss (gain) on investments (including assets in charitable remainder trust)	(20,220)	12,044
Changes in operating assets and liabilities:		
Accounts receivable	590,372	(395,148)
Bequests receivable	-	85,158
Prepays and inventory	982	(118)
Other assets	(2,829)	-
Accounts payable and accrued expenses	(420,207)	171,677
Due to management company	(21,732)	-
Refundable deposits	387,878	-
Other liabilities	2,158	-
Net cash provided by (used in) operating activities	<u>\$ 166,845</u>	<u>\$ (562,927)</u>
Supplemental disclosure of cash flow information		
Property and equipment included in accounts payable	<u>\$ 22,658</u>	<u>\$ 3,080</u>
Cash paid for interest	<u>\$ 37,172</u>	<u>\$ 49,247</u>

The accompanying notes are an integral part of these statements.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS

March 31, 2014 and 2013

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

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

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

Basis of accounting

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

Net assets and changes therein are classified as follows:

*Unrestricted:*

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

*Temporarily restricted:*

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

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

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

Basis of accounting (continued)

*Permanently restricted:*

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

Endowment fund

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

In accordance with UPMIFA, the Association has adopted investment and spending policies for the endowment assets in order to preserve and enhance the value of the corpus in perpetuity, provide a relatively steady stream of earnings, and to balance the current and future funding needs of the Association. The current policy is to hold the endowment fund in an interest bearing account and appropriate the interest income for operational needs each year.

Cash and cash equivalents

Cash and cash equivalents include short-term demand deposits, money market funds, petty cash and all highly liquid investments purchased with an original maturity of three months or less.

Concentration of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. Credit risk also results from the Association granting credit without collateral to its residents, most of whom are local residents of Friends House.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

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

Accounts receivable

Trade accounts receivable primarily represent amounts due from residents for living accommodations, services, and amounts due from third party payers. Receivables are stated at the amount management expects to collect from balances outstanding at year end. The Association provides for an allowance for doubtful accounts based on management's estimate of the collectability of accounts receivable.

Inventory

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

Fair value measurements

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

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

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

Property and equipment

Land, buildings and equipment are carried at cost. Donated assets are recorded at fair market value at the date of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets, which range from three to forty years.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

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

Property and equipment (continued)

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Contributions

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

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

Gifts and bequests

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

Skilled nursing revenue

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

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

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

Medicare and Medi-Cal programs

Laws and regulations governing Medicare and Medi-Cal programs are complex and are subject to interpretation. The Association believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the program.

Apartment living and assisted living revenue

The apartment living and assisted living revenue is recognized in the period when the service has been provided. Monthly fees are charged at Board-established rates.

Advertising expenses

The Association expenses advertising costs as incurred. The Association's advertising expense for the years ended March 31, 2014 and 2013 were \$59,788 and \$37,717, respectively.

Functional expenses

Expenses have been charged to program or general and administrative classifications based on direct expenditures incurred. Indirect expenses are allocated to program or general and administrative classifications based on related usage.

Income taxes

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

Each year, management considers whether the Association has engaged in any activities that could affect the Association's income tax status or result in taxable income. Management believes that any positions the Association has taken are supported by substantial authority and would more likely than not be sustained upon examination by the applicable taxing authority. Accordingly there are no potential liabilities to be recorded or disclosed in the financial statements. Tax returns for years subsequent to 2010 are subject to examination by federal and state tax authorities.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

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

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the deferred revenue from entrance fees at March 31, 2014 and 2013, which is based on life expectancies, and the refundable portion of entrance fees expected to be paid within the next year, which is based on historical trends and consideration of recent refunds paid. It is at least reasonably possible that these estimates will change within the next year (refer to Note C).

Subsequent events

For the purposes of the accompanying financial statements, subsequent events have been evaluated through July 28, 2014, which represents the date the financial statements were available to be issued.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE B - OPERATING DEFICITS

The Association has experienced operating losses and has a deficit in unrestricted net assets at March 31, 2014 and 2013, and negative working capital at March 31, 2014. The first two months of the subsequent fiscal year show a reduction in operating losses. Management has made reductions in operating costs and has raised monthly fees in an effort to eliminate losses. Fundraising opportunities are also being considered. These financial statements do not reflect any adjustments that might be necessary if the Association's plans for eliminating operating losses are not achieved.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE C - DEFERRED REVENUE

Current residents and certain applicants for future vacancies of the residential apartments have signed contracts with the Association for life-long apartment use, subject to certain restrictions. Entry fees received pursuant to these contracts are recorded as deferred revenue and are then amortized over the life expectancy for the related resident after occupancy.

The residence agreement provides for the Association to refund the entire entry fee if the apartment is vacated during the first 90 days from the date of occupancy. If the apartment is vacated after the first 90 days, the Association retains 20% of the entry fee for the first year plus 1.33% for each month, or part of a month, in excess of the first year. No refund is made after six years of residency. The maximum amount of potential refund obligations under existing agreements at March 31, 2014 and 2013 was \$2,285,896 and \$2,142,110, respectively. Refunds of the entry fees are made within 90 days of the date the Association is notified of contract termination, or within 14 calendar days from the date the unit is made available, whichever is later.

Deferred revenue consists of the following for the years ended March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Balance - beginning of the year	\$ 4,468,898	\$ 4,429,587
Add: new entrance fees	<u>1,109,810</u>	<u>1,240,000</u>
	5,578,708	5,669,587
Less: amounts included in operating revenue	(906,037)	(710,470)
Less: refunds	<u>(308,950)</u>	<u>(490,219)</u>
Balance - end of year	4,363,721	4,468,898
Less: current portion	<u>(430,000)</u>	<u>(425,000)</u>
	<u>\$ 3,933,721</u>	<u>\$ 4,043,898</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE C - DEFERRED REVENUE (continued)

Deferred revenue is presented in the financial statements as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Current liabilities:		
Deferred revenue - refundable	\$ 430,000	\$ 425,000
Other liabilities:		
Deferred revenue - refundable	1,855,896	1,717,110
Deferred revenue - non-refundable	<u>2,077,825</u>	<u>2,326,788</u>
	<u>\$ 4,363,721</u>	<u>\$ 4,468,898</u>

The current portion of refundable deferred revenue represents an estimate of the balance which will be refunded within 12 months. This estimate is based on the Association's historical refund experience. The non-current portion of refundable deferred revenue is representative of the refundable portion of the entrance fee for contracts within the 72 month refundable period. The non-current portion of non-refundable deferred revenue is representative of the unamortized balances of the non-refundable portion of all contracts. It is anticipated that approximately \$594,000 of the total non-current balance of deferred revenue will be amortized to income in the subsequent fiscal year 2015.

NOTE D – ACCOUNTS RECEIVABLE

Accounts receivable, net at March 31, consisted of the following:

	<u>2014</u>	<u>2013</u>
Health Center	\$ 528,759	\$ 528,125
Resident Monthly Fees	30,082	32,660
Other	<u>32,338</u>	<u>7,891</u>
	591,179	568,676
Less: Allowance for doubtful accounts	<u>(78,398)</u>	<u>(55,878)</u>
	<u>\$ 512,781</u>	<u>\$ 512,798</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE E – OTHER INVESTMENTS

Other investments consists of an investment in an insurance cooperative, which is recorded at fair market value. Investment income, which consists of dividends and realized and unrealized gains/(losses) is shown in the statement of activities.

The cost and fair market value of the investment at March 31, 2014 and 2013 is as follows:

March 31, 2014	Cost	Market Value	Unrealized Appreciation
Insurance cooperative	<u>\$ 80,530</u>	<u>\$ 174,880</u>	<u>\$ 94,350</u>
March 31, 2013	Cost	Market Value	Unrealized Appreciation
Insurance cooperative	<u>\$ 80,530</u>	<u>\$ 172,051</u>	<u>\$ 91,521</u>

NOTE F - FAIR VALUE MEASUREMENTS

At March 31, 2014 and 2013, fair values of assets measured on a recurring basis are as follows:

	2014			
	Fair Value Measurements Using			
March 31, 2014	Fair Value	Level 1	Level 2	Level 3
Insurance cooperative	<u>\$ 174,880</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,880</u>
Charitable remainder trusts	<u>91,572</u>	<u>-</u>	<u>-</u>	<u>91,572</u>
	<u><u>\$ 266,452</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 266,452</u></u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS (continued)

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

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value for the contribution receivable from a beneficial interest in charitable remainder trusts is determined using the income approach based on calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 1.8% discount rate at March 31, 2014 and 2013. The Association recognizes transfers into and out of levels at the end of the reporting period.

The table below includes a roll-forward for the years ended March 31, 2014 and 2013 for the amounts recorded within level 3 of the fair value hierarchy.

	Total	Charitable Remainder Trust	Insurance Cooperative
Fair value - April 1, 2012	\$ 287,221	\$ 119,169	\$ 168,052
Total gains or losses	<u>2,514</u>	<u>(1,485)</u>	<u>3,999</u>
Fair value - March 31, 2013	289,735	117,684	172,051
Proceeds on termination	(47,629)	(47,629)	-
Contributions	5,074	5,074	-
Total gains or losses	<u>19,272</u>	<u>16,443</u>	<u>2,829</u>
Fair value - March 31, 2014	<u>\$ 266,452</u>	<u>\$ 91,572</u>	<u>\$ 174,880</u>

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE G – CHARITABLE REMAINDER TRUSTS

The Association is party to several charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. At the end of the trust's term, the remaining assets are available for the Association's use. The portion of the trust attributable to the future interest of the Association was recorded in the statement of activities as temporarily restricted contributions in the period the trust was established. Assets held in the charitable remainder trusts at March 31, 2014 and 2013 were recorded at fair value in the statement of financial position, using the present value of the estimated future payment (income approach) calculated using a discount rate of 1.8%, and the applicable mortality tables. It is at least reasonably possible that the estimate of the receivable from the charitable remainder trusts will change in the near future.

The Association is the trustee for a trust estate in the amount of \$90,000, which is classified on the statement of financial position as a charitable remainder trust liability. The surviving contingent beneficiary currently receives quarterly payments of the interest earned on these funds. For the years ended March 2014 and 2013, interest of 3% was paid to the contingent beneficiary. This amount is carried as a liability through the life of the beneficiary. In the event the beneficiary is admitted to the Association's residential care facility or skilled nursing unit, and the assets available to the contingent beneficiary are not sufficient to pay the fees, the principal may be applied. Upon the death of the contingent beneficiary, all remaining assets will be earned by the Association, and this liability will be relieved.

NOTE H - PROPERTY AND EQUIPMENT - NET

At March 31, 2014 and 2013, property and equipment consist of the following:

	2014	2013
Land	\$ 1,306,535	\$ 1,306,535
Automobiles	15,026	7,500
Land improvements	495,968	496,274
Buildings and improvements	8,488,475	8,417,867
Equipment and furnishings	1,073,676	1,016,188
	<u>11,379,680</u>	<u>11,244,364</u>
Less: accumulated depreciation	<u>(7,309,369)</u>	<u>(7,089,718)</u>
	4,070,311	4,154,646
Pre-development costs	<u>78,570</u>	<u>37,352</u>
	<u>\$ 4,148,881</u>	<u>\$ 4,191,998</u>

Depreciation expense for the years ended March 31, 2014 and 2013 totaled \$252,031 and \$252,733, respectively.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE I - DEPOSIT PROGRAM AND REFUNDABLE DEPOSITS

The Association maintains a Deposit Program in which cash deposits (unrelated to entrance fees) are held on behalf of certain residents, as well as other supporters of the Association. At March 31, 2014, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.36% and 0.65% per annum. At March 31, 2013, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.40% and 0.71% per annum. Deposits are refundable upon 90 days notice, but are generally held for more than one year.

Refundable Deposits are comprised of entrance fees paid by residents to reserve a unit and application fees prior to move-in. Application fees are taken into income when a resident signs the Continuing Care Contract. The initial entrance fee deposit is combined with the resident's final payment upon move in and is recorded as Deferred Revenue.

NOTE J - LINE OF CREDIT

On May 21, 2013, the Association obtained a line of credit with a bank in the amount of \$1,500,000, with variable interest at the bank's index rate (initially 3.25% per annum). The line of credit is secured by a deed of trust on the Association's real property, as well as substantially all the assets of the Association, as defined in the line of credit agreement. The line of credit expires on June 5, 2015 and provides for certain covenants as defined in the agreement. At March 31, 2014, there was no outstanding balance on the line of credit.

NOTE K - LONG-TERM DEBT

Notes payable consists of the following:

	<u>2014</u>	<u>2013</u>
Notes payable to individuals with interest at 3% per annum, payable in quarterly installments of interest only. Principal amounts are due in lump sums under original terms of one to five years through March 2018.	\$ 953,615	\$ 1,330,000
Less: current portion	<u>(725,000)</u>	<u>(745,000)</u>
	<u>\$ 228,615</u>	<u>\$ 585,000</u>

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

March 31, 2014 and 2013

NOTE K - LONG-TERM DEBT (continued)

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

<u>Year ending March 31,</u>	
2015	\$ 725,000
2016	123,500
2017	5,115
2018	<u>100,000</u>
	<u>\$ 953,615</u>

NOTE L - RESTRICTED NET ASSETS

Temporarily restricted net assets

At March 31, 2014 and 2013, temporarily restricted net assets were held for the following purposes:

	<u>2014</u>	<u>2013</u>
Resident support funds	\$ 274,850	\$ 264,797
Palliative care	19,500	19,500
Charitable gift annuities	91,572	117,684
Capital funds	27,332	27,332
Other funds	<u>55,108</u>	<u>22,332</u>
	<u>\$ 468,362</u>	<u>\$ 451,645</u>

Endowment fund

Permanently restricted net assets (the endowment fund) consist primarily of general donations to be invested in perpetuity, the income of which is restricted to support general operating activities of the Association. The Association had \$202,901 of endowment net assets at March 31, 2014 and 2013, respectively.

There were no donations to the endowment fund, and the interest income amounted to \$415 and \$99, for the years ended March 31, 2014 and 2013, respectively. The interest income was used for operational expenses during the years ended March 31, 2014 and 2013.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE M - RETIREMENT PLAN

The Association has a tax-deferred annuity retirement plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees who have been employed for at least one year. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Association matches employees' contributions up to \$500 per employee per calendar year. The employer contributions charged to expense totaled \$32,011 and \$18,119 for the years ended March 31, 2014 and 2013, respectively.

NOTE N - RELATED PARTY TRANSACTIONS

Deposits maintained for a Board Member amounted to \$51,181 and \$50,985 at March 31, 2014 and 2013, respectively (see Note I).

NOTE O - COMMITMENT AND CONTINGENCIES

Commitments

*Therapy services agreement*

During the year ended March 31, 2013, the Association entered into an agreement with a contractor to provide therapy services for eligible residents which provides for automatic annual extensions on April 30<sup>th</sup> of each year, unless terminated within 30 days of the initial term. Subsequent to year end, the agreement was automatically extended for an additional year.

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

*Capital lease obligation*

On December 17, 2013, the Association entered into a capital lease agreement for a treadmill with a cost of \$46,743. The lease requires monthly payments of \$960 for 60 months, beginning April 1, 2014. The Association will own the equipment at the end of the lease term.

Friends Association of Services for the Elderly

NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2014 and 2013

NOTE O - COMMITMENT AND CONTINGENCIES (continued)

Contingencies

From time to time the Association is involved in litigation arising out of claims in the normal operations of the Association, which may be covered by insurance subject to deductible amounts. At March 31, 2014, the Association is involved in litigation for which there is potential legal liability. In the event of a negative outcome; the amount not covered by the Association's insurance is not expected to exceed \$75,000. No liability has been accrued at March 31, 2014 due to the uncertainty of the outcome of this litigation.

At March 31, 2013, the Association accrued a litigation liability in the amount of \$460,000 which was funded by insurance proceeds. The settlement of this claim included a write off of accounts receivable of \$44,157.

NOTE P – ART DONATION

On January 2, 2014, the Association received a donation of multiple art pieces for which a value has not been determined. Accordingly, the donation has not been recorded as a contribution at March 31, 2014. The Association is in the process of identifying a buyer for the artwork. At the time of sale, the donation will be recorded based on the sales proceeds.

NOTE Q - OTHER DISCLOSURES

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

At March 31, 2014 and 2013, the Association has not accumulated any funds for contingencies.

RECEIVED  
AUG 04 2014  
CONTINUING CARE  
CONTRACTS BRANCH

Friends Association of Services for the Elderly  
CONTINUING CARE RESERVE REPORT AND  
INDEPENDENT AUDITORS' REPORT  
March 31, 2014

INDEPENDENT AUDITORS' REPORT

CONTINUING CARE  
CONTRACTS BRANCH

Board of Directors  
Friends Association of Services for the Elderly

**Report on the Continuing Care Reserve Report**

We have audited the accompanying continuing care reserve report (the "Report") of Friends Association of Services for the Elderly (the "Association"), as of March 31, 2014. The accompanying Report was prepared for the purpose of complying with California Health and Safety Code Section 1792 and is not intended to be a complete presentation of the Association's financial statements.

**Management's Responsibility for the Report**

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

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Report. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Report.

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

INDEPENDENT AUDITORS' REPORT (continued)

**Opinion**

In our opinion, the Report presents fairly, in all material respects, the liquid reserve requirements of the Association as of March 31, 2014 in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

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

*DZH Phillips LLP*

San Francisco, California  
July 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	See Attached Schedule	-	31,460	-	31,460
2					
3					
4					
5					
6					
7					
8					
		<b>TOTAL</b>		-	31,460

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

**Provider: Friends Association of Services for the Elderly**

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

(a) Date Incurred	Principal	Payments	Apr-June	July-Sept	Oct-Dec	Jan-Mar	(e) Total Paid (columns (b) + (c) + (d))
9/4/2012	30,000		224	227	227	222	900
12/20/2012	25,000	donated \$25k on 3/14/14	187	189	189	150	715
5/1/2012	30,000		224	227	227	222	900
8/14/2012	30,000		224	227	227	222	900
4/1/2012	80,000	80,000	-			-	-
4/18/2012	5,000	5,000	7			-	7
4/1/2011	20,000		150	151	151	148	600
2/10/2012	30,000		224	227	227	222	900
4/7/2012	20,000	donated \$20k on 1/4/14	150	151	151	-	452
7/19/2012	250,000	250,000	1,870	349	-	-	2,219
5/8/2012	5,000		37	38	38	37	150
7/24/2012	150,000		1,122	1,134	1,134	1,110	4,500
4/18/2012	50,000		374	378	378	370	1,500
2/7/2012	25,000		187	189	189	185	750
2/23/2012	50,000		374	378	378	370	1,500
2/28/2012	100,000		748	756	756	740	3,000
2/22/2012	100,000		748	756	756	740	3,000
6/6/2012	20,000		150	151	151	148	600
8/8/2012	5,000		37	38	38	37	150
4/7/2012	5,000		37	38	38	37	150
2/22/2012	20,000		150	151	151	148	600
5/16/2012	20,000		150	151	151	148	600
5/16/2012	40,000	donated \$1,500 Dec 2013	299	302	302	285	1,189
3/22/2013	100,000		748	756	756	740	3,000
4/1/2011	100,000		748	756	756	740	3,000
7/31/2012	20,000	20,000	150	28	-	-	178
<b>TOTAL</b>		355,000	9,319	7,750	7,373	7,018	31,460

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

Total principal payments to be paid during the year ending March 31, 2015. These payments will be paid from cash & cash equivalents 725,000

**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 next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	see attached schedule	518	20,000	1	20,000
2					
3					
4					
5					
6					
7					
8					
			-	-	20,000

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

**Provider: Friends Association of Services for the Elderly**



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

LINE	TOTAL
1 Total from Form 5-1 bottom of column (e)	<u>31,460</u>
2 Total from Form 5-2 bottom of Column (e)	<u>20,000</u>
3 Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	<u>-</u>
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>51,460</u></u>

PROVIDER: Friends Association of Services for the Elderly

Form 5-3

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

		Amounts	TOTAL
1	Total operating expenses from financial statements		6,358,088
2	Deductions		
	a Interest paid on long-term debt (see instructions)	31,978	
	b Credit enhancement premiums paid for long-term debt (see instructions)	-	
	c Depreciation	252,031	
	d Amortization	-	
	e Revenues received during the fiscal year for services to residents who did not have continuing care contract	3,691,204	
	f Extraordinary expenses approved by the Department	-	
3	Total Deductions		3,975,213
4	Net Operating Expenses		2,382,875
5	Divide Line 4 by 365 and enter the result.		6,528
6	<b>Multiply Line 5 by 75 and enter the result.</b>		<b>489,600</b>

This is the provider's operating expense reserve amount for this community.

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

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

**Provider Name:** Friends Association of Services for the Elderly  
**Fiscal Year Ended:** March 31, 2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the fiscal year ended March 31, 2014 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>51,460</u>
[2] Operating Expense Reserve Amount	<u>489,600</u>
[3] Total Liquid Reserve Amount:	<u>541,060</u>

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

Qualifying Asset Description	Amount (market value at end of quarter)	
	Debt Service Reserve	Operating Reserve
[4] Cash and Cash Equivalents	51,460	47,284
[5] Investment Securities		
[6] Equity Securities		
[7] Unused/Available Lines of Credit		1,500,000
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		
[10] Other: Fixed Income Securities Large/Mid/Small Cap Growth/Value Deposit Account (describe qualify asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11] 51,460	[12] 1,547,284
Reserve Obligation Amount:	[13] 51,460	[14] 489,600
Surplus/(Deficiency):	[15] -	[16] 1,057,684

Signature:  
Margaret Somel  
 (Authorized Representative)  
Assistant Clerk (Chair) FASE  
 (Title)

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

<u>Cash &amp; Cash Equivalents</u>	
Operating/Payroll/Petty	1,290,534
<i>Less:</i>	
Charitable remainder trust liability	(90,000)
Temp Restricted Funds **	(468,362)
Current portion of long-term debt	(725,000)
<i>Add:</i>	
Charitable remainder trust asset Included in Temp Restricted Funds	91,572
	<u>98,744</u>

<u>Investments</u>	
Cash & Cash Equivalents	
Equity	<u>0</u>

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

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

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<b>Per Capita Cost of Operations</b>	
Operating Expenses (Form 5-4 line # 1)	6,358,088
Mean # of CCRC Residents (Form 1-1 line 10)	102
<b>Per Capita Cost of Operations</b>	<u>62,334</u>

**Friends House**  
**FYE 2014 Schedule of Interest, Credit Enhancements (LOC Fees), and Other Fees**  
**"Two-Way Reconciliation"**  
**March 31, 2014**

**Expenses included in audit**

Notes Payable	<u>31,978</u>
<b>Total Interest Paid</b>	<b>31,978</b>
N/A	<u>-</u>
<b>Credit enhancement payments</b>	<b>-</b>
Issue Cost Amortization	<u>-</u>
<b>Total Other Fees</b>	<b>-</b>
<b>total other interest / fees</b>	<b>12,103</b>
<b>Total Interest expense and financing fees</b>	<u><b>44,081</b></u>
Total Expenses from Audit	6,314,008
Interest sepense and fees from Audit	44,080
<b>Total operating expense, per audited financials</b>	<b>6,358,088</b>
Depreciation expense, <b>per audited financials</b>	<b>252,031</b>

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

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	<u>INDEPENDENT LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period:	<u>\$1,367 - \$2,206</u>	<u>\$5,500</u>	<u>\$8,213 - 9,885</u>
[2] Indicate percentage of increase in fees imposed during reporting period:	<u>15% - 35%</u>	<u>0.00%</u>	<u>0%</u>

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

[3] Indicate the date the fee increase was implemented: April 1, 2013

[4] Check each of the appropriate boxes:

Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

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

FORM 7-1

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

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

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

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

We did not raise health center or assisted living fees. Independent living fees did increase by 15% for existing residents.

Our goal has been to build and staff Friends House to provide a great place for you to live a happy and healthy life. We will be monitoring our services and implementing change as necessary.

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

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

Date Prepared: 07/30/14

**RECEIVED**  
**AUG 04 2014**

FACILITY NAME: Friends Association of Services for the Elderly (FASE) dba: Friends House  
 ADDRESS: 684 Benicia Drive, Santa Rosa, CA ZIP CODE: 95409 PHONE: (707) 538 - 0152  
 FACILITY OWNER: Friends House FACILITY OPERATOR: Retirement Services, LLC  
 RELATED FACILITIES: \_\_\_\_\_ RELIGIOUS AFFILIATION: Religious Society of Friends (Quakers)  
 YEAR OPENED: 1984 NO. OF ACRES: 7 MULTI-STORY: \_\_\_\_\_ SINGLE STORY: X BOTH: \_\_\_\_\_  
 MILES TO SHOPPING CTR: 1/4 mile (approx) MILES TO HOSPITAL: 3 miles (approx)

**NUMBER OF UNITS:**

**INDEPENDENT LIVING**

**HEALTH CARE**

APARTMENTS -STUDIO	<u>0</u>	ASSISTED LIVING	<u>6</u>
APARTMENTS -1 BDRM	<u>49</u>	SKILLED NURSING	<u>32</u>
APARTMENTS - 2 BDRM	<u>15</u>	SPECIAL CARE	<u>0</u>
APARTMENTS - 3 BDRM	_____	DESCRIBE SPECIAL CARE:	_____
COTTAGES/HOUSES	<u>3</u>		
% OCCUPANCY AT YEAR END	<u>88.1%</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: Amortized over 6 years

RANGE OF ENTRANCE FEES: \$ 124,750 TO \$ 262,360 LONG -TERM CARE INSURANCE REQUIRED?  Y  N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: \_\_\_\_\_

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

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement): Each year, the resident association elects two residents to serve on the board for a one year term.

**FACILITY SERVICES AND AMENITIES**

**COMMON AREA AMENITIES**

**SERVICES AVAILABLE**

	AVAILABLE	FEE FOR SERVICE		INCLUDED IN FEE bi-weekly	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>1</u>	<u>2</u>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY		
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE		
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLD COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
OTHER <u>Laundry, Commons</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
On-site Banking	<input type="checkbox"/>	<input type="checkbox"/>			
On-site Physical Therapist	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			

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





**FINANCIAL RATIO FORMULAS**

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

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

**OPERATING RATIO**

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

**DEBT SERVICE COVERAGE RATIO**

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

**DAYS CASH ON HAND RATIO**

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

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