

RECEIVED
MAY 01 2015

CONTINUING CARE
CONTRACTS BRANCH

**ANNUAL REPORT
CHECKLIST**

for
FISCAL YEAR ENDED:
12/31/2014

PROVIDER: Mennonite Brethren Homes, Inc.

FACILITY(IES): Palm Village Retirement Community

CONTACT PERSON: Joanne Brannan, Controller

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



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

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 7,185
- ✓ If applicable, late fee in the amount of: _____
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required *liquid reserve* and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (3 copies total)

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



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April 23, 2015

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

RE: Certification by Chief Executive Officer

Dear Sir or Madam:

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

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

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

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

Sincerely,

David K. Reimer
CEO/President

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

PHONE: 559 638 6933 ■ PHONE: 800 928 6545 ■ FAX: 559 638 8463 ■ www.palmvillage.com ■ LIC. #100404809 COA170

COMMERCIAL CRIME COVERAGE PART
DECLARATIONS PAGE

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POLICY EFFECTIVE 03/01/2014

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CONTRACTS 9821-300

NAMED INSURED MENNONITE BRETHERN HOMES

LOCATIONS

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

COVERAGES, LIMITS OF INSURANCE AND DEDUCTIBLE

BOND - EMPLOYEE DISHONESTY COVERAGE FORM A - BLANKET CR0001

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

BOND - FORGERY AND ALTERATIONS COVERAGE FORM B CR0003

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

THEFT, DISAPPEARANCE AND DESTRUCTION COVERAGE FORM C CR0004

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

03/05/2014

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**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2014 AND 2013

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Palm Village Retirement Community
Reedley, California

We have audited the accompanying consolidated financial statements of Mennonite Brethren Homes, Inc. dba Palm Village Retirement Community (Palm Village) (a nonprofit organization) and affiliates, which comprise the consolidated statements of financial position, as of December 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

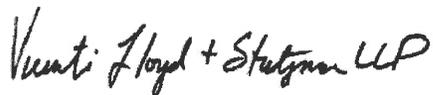
The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Palm Village and affiliate as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
April 13, 2015

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,069,583	\$ 3,449,774
Accounts receivable		
Resident, net	1,554,171	1,064,744
Other	2,000	-
Prepaid expenses	505,683	440,466
Supplies inventory	22,035	22,223
Current portion of assets limited as to use	636,458	438,857
Total Current Assets	4,789,930	5,416,064
Assets Limited as to Use:		
Under indenture agreement: held for debt service	207,163	199,354
Internally board designated	604,840	375,428
Resident funds	31,618	63,429
Total Assets Limited as to Use	843,621	638,211
Less: current portion shown above	(636,458)	(438,857)
Assets Limited as to Use (Net of Current Portion)	207,163	199,354
Property and Equipment:		
Land and improvements	998,567	998,567
Buildings and improvements	20,054,540	19,444,995
Furniture and equipment	3,752,618	3,598,483
Vehicles	211,582	204,213
Construction in progress	28,714	28,714
Total	25,046,021	24,274,972
Less: accumulated depreciation	(12,811,366)	(12,126,248)
Total Property and Equipment (at Depreciated Cost)	12,234,655	12,148,724
Other Assets:		
Deferred financing costs	425,895	462,688
Total Assets	\$ 17,657,643	\$ 18,226,830

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(continued)
December 31, 2014 and 2013

	2014	2013
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 296,017	\$ 417,149
Accrued salaries, payroll taxes and benefits	567,730	508,661
Accommodation fee deposits	16,250	319,200
Current portion of refundable accommodation fees	100,484	100,196
Deferred revenue	165,973	211,659
Current maturities of long-term debt	555,000	635,000
Current portion of capital lease	4,444	18,952
Other current liabilities	141,558	130,112
Total Current Liabilities	1,847,456	2,340,929
Long-Term Debt:		
Bonds payable, less current portion	7,000,000	7,500,000
Capital lease payable, less current portion	-	2,506
Total Long-Term Debt	7,000,000	7,502,506
Other Liabilities:		
Refundable accommodation fees	2,279,847	1,937,755
Deferred revenue from accommodation fees	2,023,151	1,959,568
Total Other Liabilities	4,302,998	3,897,323
Total Liabilities	13,150,454	13,740,758
Net Assets:		
Unrestricted	4,507,139	4,483,072
Temporarily restricted	50	3,000
Total Net Assets	4,507,189	4,486,072
Total Liabilities and Net Assets	\$ 17,657,643	\$ 18,226,830

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

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

CONSOLIDATED STATEMENTS OF ACTIVITIES
For The Years Ended December 31, 2014 and 2013

	2014			2013		
	Temporarily		Total	Temporarily		Total
	Unrestricted	Restricted		Unrestricted	Restricted	
REVENUE						
Residential services, net	\$ 12,779,261	\$ -	\$ 12,779,261	\$ 12,392,154	\$ -	\$ 12,392,154
Amortization of accommodation fees	804,571		804,571	742,197		742,197
Other income	103,065		103,065	74,728		74,728
Total Operating Revenue	<u>13,686,897</u>	<u>-</u>	<u>13,686,897</u>	<u>13,209,079</u>	<u>-</u>	<u>13,209,079</u>
OPERATING EXPENSES						
Nursing services	4,396,901		4,396,901	4,025,292		4,025,292
Resident services	1,065,666		1,065,666	810,681		810,681
Assisted living	470,407		470,407	464,367		464,367
Dietary	1,875,770		1,875,770	1,786,304		1,786,304
Housekeeping	282,585		282,585	291,345		291,345
Laundry	205,326		205,326	212,882		212,882
Ancillary	759,514		759,514	768,641		768,641
Plant operations and maintenance	1,542,852		1,542,852	1,470,039		1,470,039
Activities and social services	469,525		469,525	430,911		430,911
Administrative	1,633,227		1,633,227	1,721,379		1,721,379
Marketing	325,786		325,786	280,173		280,173
Interest	11,788		11,788	20,831		20,831
Depreciation and amortization	870,973		870,973	814,388		814,388
Total Operating Expenses	<u>13,910,320</u>	<u>-</u>	<u>13,910,320</u>	<u>13,097,233</u>	<u>-</u>	<u>13,097,233</u>
Change in net assets from operations	<u>(223,423)</u>	<u>-</u>	<u>(223,423)</u>	<u>111,846</u>	<u>-</u>	<u>111,846</u>
OTHER INCOME (EXPENSE) AND OTHER CHANGES IN NET ASSETS						
Interest income	23,181		23,181	30,903		30,903
Fundraising costs	(18,202)		(18,202)	(25,432)		(25,432)
Contributions	236,498	3,063	239,561	207,362	17,876	225,238
Total Other Income (Expense)	<u>241,477</u>	<u>3,063</u>	<u>244,540</u>	<u>212,833</u>	<u>17,876</u>	<u>230,709</u>
Net assets released from restrictions	<u>6,013</u>	<u>(6,013)</u>	<u>-</u>	<u>16,863</u>	<u>(16,863)</u>	<u>-</u>
Total Non-operating Gains (Losses) and Other Changes in Net Assets	<u>247,490</u>	<u>(2,950)</u>	<u>244,540</u>	<u>229,696</u>	<u>1,013</u>	<u>230,709</u>
Change in net assets	24,067	(2,950)	21,117	341,542	1,013	342,555
NET ASSETS, BEGINNING OF YEAR	<u>4,483,072</u>	<u>3,000</u>	<u>4,486,072</u>	<u>4,141,530</u>	<u>1,987</u>	<u>4,143,517</u>
NET ASSETS, END OF YEAR	<u>\$ 4,507,139</u>	<u>\$ 50</u>	<u>\$ 4,507,189</u>	<u>\$ 4,483,072</u>	<u>\$ 3,000</u>	<u>\$ 4,486,072</u>

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents	\$ 13,559,263	\$ 13,047,244
Cash paid to suppliers and employees	(13,160,719)	(12,357,954)
Interest received	23,181	30,903
Contributions received	239,561	225,238
Interest paid	(12,476)	(20,831)
Net cash provided by operating activities	648,810	924,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment, net	(920,110)	(732,610)
Net change in assets whose use is limited	(205,410)	(31,991)
Net cash used by investing activities	(1,125,520)	(764,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Refund of accommodation fees	(306,467)	(140,580)
Payments for deferred financing costs	-	(5,000)
Principal payments on long-term debt	(597,014)	(579,252)
Net cash used by financing activities	(903,481)	(724,832)
Net decrease in cash and cash equivalents	(1,380,191)	(564,833)
Cash and cash equivalents at the beginning of the year	3,449,774	4,014,607
Cash and cash equivalents at the end of the year	\$ 2,069,583	\$ 3,449,774

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

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)**

For The Years Ended December 31, 2014 and 2013

	2014	2013
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 21,117	\$ 342,555
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	870,973	814,388
Provision for uncollectible accounts and bad debt write-off	118,618	26,501
Receipt of accommodation fees	1,517,000	751,500
Amortization of accommodation fees	(804,571)	(742,197)
(Increase) decrease in current assets:		
Accounts receivable	(610,045)	(317,488)
Prepaid expenses and other assets	(65,217)	(1,071)
Inventories	188	(5,535)
Increase (decrease) in current liabilities:		
Accounts payable	(121,132)	(76,835)
Accrued salaries, payroll taxes and benefits, and other liabilities	70,515	12,933
Deferred revenue	(45,686)	(96,951)
Accommodation fees deposit	(302,950)	216,800
Net cash provided by operating activities	\$ 648,810	\$ 924,600

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization

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

In June 2014, Peer Services, Inc. (Peer Services) was formed. Peer Services is a California Corporation organized to provide consultation services to other retirement living service providers. The Organization owns 100% of the outstanding stock of Peer Services and, accordingly, the activity of Peer Services has been consolidated in these financial statements.

Tax Exempt Status

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

Peer Services is not a tax exempt organization and is therefore subject to income taxes at the federal and state levels. As of December 31, 2014, Peer Services has an estimated deferred tax benefit of \$5,200 which has not been recorded in these financial statements as it is deemed immaterial.

The Organization applies the income tax standard for uncertain tax positions. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the income tax standard. This standard prescribes recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Financial Statement Presentation

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

Unrestricted - Those resources over which the Board of Directors has discretionary control. Designated amounts represent amounts which the Board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. As of December 31, 2014, the Organization had \$50 in net assets temporarily restricted to purchase furniture. As of December 31, 2013, the Organization had \$3,000 in net assets temporarily restricted for the beauty shop and the ladies restroom in the basement.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of December 31, 2014 and 2013.

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received and recorded as pledges receivable. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments and certificates of deposit with a maturity of three months or less to be cash equivalents.

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013**

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

Residential Services Revenue

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

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

Provisions for estimated third-party payer settlements are provided in the period the related services are rendered. Differences between the amounts accrued and the subsequent settlements are recorded in operations in the year of settlement.

Third Party Reimbursement Agreements

Medi-Cal

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

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

Medicare

A licensed nursing facility which participated in the Medicare program for the years ended December 31, 2014 and 2013 was reimbursed based on a Prospective Payment System (PPS). This program is administered by the United States Department of Health and Human Services. The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013**

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

Occupancy Percentages

For the years ended December 31, 2014 and 2013, the occupancy percentages of the Organization were as follows:

	<u>2014</u>	<u>2013</u>
Health center (including Wiebe Center)	95.3 %	99.1 %
Assisted living (including memory care)	92.0 %	95.6 %
Independent living apartments	96.1 %	88.2 %

The total census for the Health center by source of payment as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Days</u>	<u>Percentage</u>	<u>Days</u>	<u>Percentage</u>
Medicare and HMO	4,637	11.1 %	3,888	9.0 %
Medi-Cal	29,221	70.0 %	28,179	64.9 %
Private and other	<u>7,878</u>	<u>18.9 %</u>	<u>11,342</u>	<u>26.1 %</u>
Total	<u>41,736</u>	<u>100.0 %</u>	<u>43,409</u>	<u>100.0 %</u>

Accounts Receivable

Resident accounts receivable represents amounts due from residents and third-party payers such as Medi-Cal and Medicare for services provided. Medi-Cal and Medicare represent the Organization's most significant third party payers. The Organization provides an allowance for uncollectible accounts using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice. Accounts are individually analyzed on a monthly basis for collectability.

Once accounts are deemed uncollectible, the accounts are written off. The allowance for uncollectible accounts was \$24,843 as of December 31, 2014 and \$34,002 as of December 31, 2013.

Prepaid Expenses

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Supplies Inventory

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

Property and Equipment

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

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

Depreciation expense for the years ended December 31, 2014 and 2013 was \$834,179 and \$777,595, respectively.

Assets Limited as to Use

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

Resident Funds

The Organization maintains savings accounts on behalf of certain residents and acts as trustee of these funds which are maintained for the personal use of those residents. The funds are expended at the direction of the residents. The balance in the Resident Trust Fund was \$31,618 and \$63,429 at December 31, 2014 and 2013, respectively.

Deferred Financing Costs

Costs incurred in connection with the issuance of debt are capitalized and amortized over the term of the related indebtedness on the Series 2005 certificates of participation using straight line amortization which approximates the effective interest method. The total cost incurred in relation to the issuance of the Series 2005 certificates was \$528,250. During 2010, an additional \$152,636 of costs was incurred in connection with the modification of the Series 2005 certificates and in 2013 an additional \$5,000 was incurred relating to the Series 2005 certificates. Deferred financing costs are net of accumulated amortization of \$259,991 and \$223,198 at December 31, 2014 and 2013, respectively. Total amortization expense was \$36,793 for 2014 and 2013.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Letter of Credit Fees

The Organization pays letter of credit fees on an annual basis relating to the issuance of the Series 2005 Certificates of Participation. For the years ended December 31, 2014 and 2013 the Organization paid letter of credit fees of \$69,671 and \$65,693, respectively.

Accommodation Fees

Accommodation fees are charged to residents of the independent living facility. The accommodation fees are lump sum payments made to the Organization, which entitles the resident to reside in the facility and participate in certain benefits of the facility. The Organization recognizes as a liability the portion of the accommodation fee that is refundable according to the terms of the accommodation fee contract with the balance recorded as deferred revenue. Currently, the Organization offers accommodation fee contracts with a 72 month schedule for refunds after which time the entire accommodation fee is non-refundable. As of December 31, 2014, there were 32 contracts on a 72 month schedule.

Beginning in 2009, the Organization offered reduced entrance fees for a limited amount of independent living units. These contracts amortize over 50 months. The program is offered on an ongoing basis. As of December 31, 2014, there were 47 contracts on a 50 month schedule.

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

The Organization will refund a portion of the accommodation fee in accordance with the following terms:

- (i) If cancellation occurs during the first 90 days of occupancy, the Organization shall retain a reasonable processing fee to cover cost and the reasonable value of the services rendered plus an additional 2% of the entrance fee for each month (or portion thereof) of occupancy.
- (ii) The Organization shall retain any portion of the entrance fee necessary to pay any unpaid indebtedness to the Organization incurred by the resident, including any unpaid monthly service fees and any unpaid expenses incurred by the resident for health or other services.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Accommodation Fees (continued)

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

Obligation to Provide Future Services

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

Accommodation Fee Deposits

Guaranty deposits of \$1,000 are required for each resident entering the independent or assisted living facilities within Palm Village Retirement Community. In addition, some residents prepay part of their accommodation fee before moving in. Management accounts for these prepayments within the accommodation fee deposit account. The deposits are subtracted from the amount of accommodation fees due at the time the resident moves in. Total deposits as of December 31, 2014 and 2013 were \$16,250 and \$319,200, respectively.

Charity Care

The Organization provides care to residents under non Medi-Cal programs. Costs for these programs in excess of reimbursement were estimated to be approximately \$262,000 and \$352,000 for the years ended December 31, 2014 and 2013, respectively.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was \$151,985 and \$100,801 for the years ended December 31, 2014 and 2013, respectively.

Fair Value of Financial Instruments

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Fair Value of Financial Instruments (continued)

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

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

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

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

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

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

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

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013**

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

Fair Value of Financial Instruments (continued)

The fair value of assets measured on a recurring basis as of December 31, 2014 is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
		Level 1	Level 2
Brethren Foundation Funds	\$ 600,162	\$ -	\$ 600,162

The fair values of the Organization's investments have been estimated using the net asset value per share (NAV) as reported by the management of the respective alternative investment. Accounting standards provide for the use of NAV as a practical expedient for estimating fair value. Based on the Organization's ability to redeem its interest in the near term, NAV reported by each alternative investment fund is classified as a Level 2 or Level 3.

Based on the terms and conditions in effect at December 31, 2014, the Organization's alternative investment funds valued at NAV are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Strategy</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
<u>BRETHREN FOUNDATION FUNDS</u>				
SRI Growth Fund	\$ 600,162	See (a) below	n/a	Can redeem with 3 - 5 business days notification.

(a) Outperform the return of the benchmark, which will be a weighing of the following indexes that match the target asset allocation of the Fund:

30%	Barclays Capital U.S. Government/Credit Bond Index
20%	S&P 500 Index
9.50%	Russell 1000 Growth Index
9.50%	Russell Midcap Index
19%	MSCI EAFE Index
12%	Russell 2000 Index

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, other current liabilities, capital leases payable, and current notes payable approximate fair value due the short maturity of these financial instruments. The fair value of bonds payable with variable interest rates are based on quoted market prices for the same or similar issues. The carrying amount reported in the statement of financial position approximates fair value.

Subsequent Events

In preparing these financial statements, the Organization has considered events and transactions that have occurred through April 13, 2015, the date the financial statements were available to the users.

NOTE 2 - ASSETS LIMITED AS TO USE:

The composition of assets limited as to use at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Debt Service Funds	\$ 207,163	\$ 199,354
Board Designated Reserve Fund	600,162	374,469
Chapel Fund	4,678	959
Resident Funds	<u>31,618</u>	<u>63,429</u>
Total	<u>\$ 843,621</u>	<u>\$ 638,211</u>

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

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 3 - LONG-TERM DEBT:

The Organization's long-term debt at December 31, 2014 and 2013 is summarized below:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Certificates of Participation, Series 2005, interest based on a variable rate is payable monthly, annual principal payments, mature October 1, 2026.	\$ 7,500,000	\$ 7,980,000
Unsecured Notes Payable to Individuals (due in varying amounts through 2014, interest ranging, up to 5.0%).	<u>55,000</u>	<u>155,000</u>
Total	7,555,000	8,135,000
Less: Current Maturities	<u>(555,000)</u>	<u>(635,000)</u>
Long-Term Debt	<u>\$ 7,000,000</u>	<u>\$ 7,500,000</u>

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 555,000
2016	520,000
2017	540,000
2018	560,000
2019	585,000
Thereafter	<u>4,795,000</u>
Total	<u>\$ 7,555,000</u>

Certificates of Participation

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 3 - LONG-TERM DEBT: (continued)

Certificates of Participation (continued)

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

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

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

Restrictive Covenants

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

Capital Lease

The Organization leases phone equipment under a capital lease. The assets are included in equipment as follows on December 31, 2014:

Equipment	\$ 78,999
Less: accumulated depreciation	<u>(77,856)</u>
Total	<u>\$ 1,143</u>

The lease expires in February 2015.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 4 - EMPLOYEE RETIREMENT PLAN:

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

NOTE 5 - CONCENTRATIONS OF CREDIT RISK:

The Organization maintains its cash and cash equivalents with financial institutions. Deposits maintained at the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times these balances may be in excess of the FDIC insurance limit. At December 31, 2014, cash and cash equivalents with financial institutions exceeded insurance limits by approximately \$3.3 million. The Organization also has investments with the Brethren Foundation Inc. These investments are uninsured and approximated \$600,000 as of December 31, 2014.

The Organization grants credit without collateral to its residents or their families, most of whom are local residents and many who are insured under third-party payer agreements. The mix of receivables from residents and third-party payers at December 31, 2014 and 2013 was as follows:

	<u>2014</u>		<u>2013</u>	
Medicare	16	%	21	%
Medi-Cal	52		36	
Private	8		30	
Other	<u>24</u>		<u>13</u>	
Total	<u>100</u>	%	<u>100</u>	%

**MENNONITE BRETHERN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 6 - CONTINGENCIES AND COMMITMENTS:

Government Regulations -Medi-Cal

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

Government Regulations -Medicare

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

Self-Insurance Plan and Stop Loss Insurance

The Organization operates a self insurance plan for employee health insurance benefits which is managed by a third party administrator. At December 31, 2014 and 2013, the accrual for estimated but not incurred liabilities was \$100,484 and \$53,000, respectively and is recorded in other current liabilities in the statement of financial position.

The Organization has entered into a stop-loss agreement with an insurance company to limit its losses on individual claims. Under the terms of the agreement, the insurance company will reimburse the Organization 100% of the cost of annual claims, in excess of an \$85,000 aggregate deductible, up to \$1,000,000 each covered period. The loss limit is \$85,000 per individual. Stop-loss insurance premiums of approximately \$160,000 and \$148,000 are included in operating expenses for the years ended December 31, 2014 and 2013, respectively.

Workers' Compensation Insurance

The Organization is part of a group self-insured plan for workers' compensation. Significant claims experienced could impact the results of operations based on independent audits performed by the state. There was no receivable from claims paid recorded as of December 31, 2014 and 2013. There are no estimated future claims for incurred incidents as of December 31, 2014 and 2013. Workers' compensation insurance expense for the years ended December 31, 2014 and 2013 totaled \$228,853 and \$288,915.

Other

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 6 - CONTINGENCIES AND COMMITMENTS: (continued)

Litigation

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

NOTE 7 - FUNCTIONAL CLASSIFICATION OF EXPENSES:

Functional classification of operating expenses for the years ended December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Program	\$ 11,448,128	\$ 10,618,564
Management and general support	<u>2,462,192</u>	<u>2,478,669</u>
Total operating expenses	<u>\$ 13,910,320</u>	<u>\$ 13,097,233</u>

Fund raising expenses incurred during the years ended December 31, 2014 and 2013 were included in Other Income (Expense) on the Statement of Activities.

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

NOTE 8 - REDEVELOPMENT PLAN OBLIGATION (AB 1169 Disclosure):

The Organization's planned projects are designed to meet the needs of the organization by providing additional housing and facilities for residents, consistent with the Organization's tax exempt status. During the year ended December 31, 2014 and 2013, the Organization expended approximately \$560,000 and \$350,000 for construction costs for its various facilities, including its new assisted living memory care unit. Projects are funded by notes payable and unrestricted net assets. The board has also designated \$600,162 and \$374,469 as of December 31, 2014 and 2013 to be available for potential future contingencies.



VICENTI LLOYD & STUTZMAN LLP

MAKING A POSITIVE DIFFERENCE IN OUR WORLD

RECEIVED
MAY 01 2015

CONTINUING CARE
CONTRACTS BRANCH

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

**STATE OF CALIFORNIA CONTINUING CARE
RESERVE REPORT**

**December 31, 2014
and
Independent Auditor's Report**

RESPECT FOR
THE
INDIVIDUAL



HIGH ETHICAL
STANDARDS



INNOVATION
CREATIVITY
CHANGE



MUTUAL TRUST



UNEQUIVOCAL
EXCELLENCE



RECEIVED
MAY 01 2015

CONTINUING CARE
CONTRACTS BRANCH

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Palm Village Retirement Community

We have audited the accompanying continuing care reserve report of Mennonite Brethren Homes, Inc. dba Palm Village Retirement Community (Palm Village), a California Not-For-Profit Corporation, as of December 31, 2014.

Management's Responsibility for the Continuing Care Reserve Report

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

Auditor's Responsibility

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

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

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

Opinion

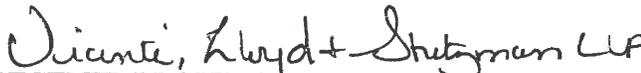
In our opinion, such continuing care reserve report Forms 1-1, 1-2, and 5-1 through 5-5 present fairly, in all material respects, the liquid reserve requirements of Palm Village, at December 31, 2014, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

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

Restriction of Use

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


VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
April 23, 2015

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	153
[2]	Number at end of fiscal year	167
[3]	Total Lines 1 and 2	320
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	X.50
[5]	Mean number of continuing care residents	160
All Residents		
[6]	Number at beginning of fiscal year	286
[7]	Number at end of fiscal year	293
[8]	Total Lines 6 and 7	579
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	X.50
[10]	Mean number of <i>all</i> residents	289.5
Divide the mean number of continuing care residents (Line 5) by the [11] mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).		0.55

Line

**FORM 1-2
ANNUAL PROVIDER FEE**

TOTAL

[1]	Total Operating Expenses (including depreciation and debt service - interest only)	13,910,320
[a]	Depreciation	834,179
[b]	Debt Service (Interest Only)	11,788
[2]	Subtotal (add Line 1 a and 1 b)	845,967
[3]	Subtract Line 2 from Line 1 and enter result.	13,064,353
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	55%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	7,185,394
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 7,185

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

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))	
1	8/25/2005	480,000	5,281	69,671	554,952	
2	various	100,000	5,722	-	105,722	
3	9/1/2008	2,524	0	-	2,524	
4	3/1/2012	14,490	785	-	15,275	
5			-			
6			-			
7			-			
8			-			
TOTAL:				11,788	69,671	678,473

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

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

PROVIDER: Mennonite Brethren Homes, Inc

FORM 5-2

LONG-TERM DEBT INCURRED

DURING FISCAL YEAR

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

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

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

PROVIDER: Mennonite Brethren Homes, Inc

For year ended 12/31/14
Form 5-1 & 5-2 Financial Statement Reconciliation

Audited Financial Statements: Cash Flows
from Principal Payments on Long-Term Debt 597,014

Form 5-2 Long-Term Debt Obligation	\$	-	
Form 5-1 Long-Term Debt Obligations			
1		480,000	
2		100,000	
3		2,524	
4		14,490	
			<u>597,014</u>
			<u>597,014</u>

Audited Financial Statements: Cash Flows paid to suppliers and employees	13,160,719
Less other operating expenses	(13,091,048)
Amounts paid for credit enhancement premiums	<u>69,671</u>
Form 5-1 (d) Credit Enhancement Premiums Paid	<u>69,671</u>

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

<u>Line</u>	<u>TOTAL</u>
1 Total from Form 5-1 bottom of Column (e)	678,473
2 Total from Form 5-2 bottom of Column (e)	-
3 Facility leasehold or rental payment paid by provider during fiscal year, (including related payments such as lease insurance)	0
4 TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	678,473

PROVIDER: Mennonite Brethren Homes, Inc

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	13,910,320
2	Deductions	
a	Interest paid on long-term debt (see instructions)	11,788
b	Credit enhancement premiums paid for long-term debt (see instructions)	69,671
c	Depreciation	834,179
d	Amortization	36,794
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	9,779,290
f	Extraordinary expenses approved by the Department	0
3	Total Deductions	10,731,722
4	Net Operating Expenses	3,178,598
5	Divide Line 4 by 365 and enter the result.	8,708
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	653,137

PROVIDER: Mennonite Brethren Homes, Inc

COMMUNITY: Palm Village Retirement Community

For year ended 12/31/14
Form 5-4 line 2-e

9,779,290

Resident Revenue

\$ 13,686,897

Less:

Amort of entrance fees (804,571)

Other revenue (103,065)

RCC & HCC (2,372,720)

Patio Home Maint Fees (627,251)

(3,907,607)

9,779,290

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Mennonite Brethren Homes, Inc.

Fiscal Year Ended: 12/31/2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements

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

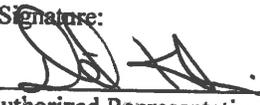
	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>678,473</u>
[2] Operating Expense Reserve Amount	<u>653,137</u>
[3] Total Liquid Reserve Amount:	<u>1,331,610</u>

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

**Amount
(market value at end of quarter)**

<u>Qualifying Asset Description</u>	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>1,500,000</u>	<u>1,176,664</u>
[5] Investment Securities	<u> </u>	<u> </u>
[6] Equity Securities	<u> </u>	<u> </u>
[7] Unused/Available Lines of Credit	<u> </u>	<u> </u>
[8] Unused/Available Letters of Credit	<u> </u>	<u> </u>
[9] Debt Service Reserve	<u> </u>	<u>(not applicable)</u>
[10] Other:	<u> </u>	<u> </u>
<hr/>		
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Liquid Reserve: [11]	<u>1,500,000</u>	[12] <u>1,176,664</u>
Total Amount Required: [13]	<u>678,473</u>	[14] <u>653,137</u>
Surplus/(Deficiency): [15]	<u>821,527</u>	[16] <u>523,527</u>

Signature:


(Authorized Representative)

Date:

4/29/15

President / CEO
(Title)

Reserve Disclosure as of 12/31/14

Bank Accounts at Bank of the Sierra (BOTS)

Reedley, CA

Account #s

#822777270

#1500577170

#822824870

CASH IN BANK - BOTS	\$	2,040,349	
PVSN CASH IN BANK	\$	500	
BOTS STAFF HEALTH INSURANCE	\$	35,653	
BRETHREN FOUNDATION	\$	600,162	
		<u>\$ 2,676,664</u>	

	Debt Service Reserve	Operating Reserve	
Debt Service Reserve	\$	1,500,000	
Operating Reserve		\$	1,176,664
Cash and Cash Equivalents (line 4)	\$	1,500,000	\$ 1,176,664 \$ 2,676,664

Bank Accounts at Bank of the Sierra (BOTS)

Reedley, CA

Account #s

#822750070

Total Amount of Qualifying Assets	\$	<u>1,500,000</u>	\$	<u>1,176,664</u>	
-----------------------------------	----	------------------	----	------------------	--

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

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>633.00 per month</u>	<u>102.00 per day</u>	<u>246.00 per day</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>4.90%</u>	<u>3.03%</u>	<u>2.92%</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: 1/1/2014
 (If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

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

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

PROVIDER: Mennonite Brethren Homes, Inc.

COMMUNITY: Palm Village Retirement Community



Report on CCRC Monthly Service Fees for 2014
Explanation of the Increase in Monthly Service Fees

Fee increases for Residential Living averaged 4.90%, Assisted Living averaged 3.03%, and Skilled Nursing averaged 2.92%. The rate increases were due to increases in the following expense areas: utilities, labor costs, capital improvements. Any excess in the rate increase was used to build reserves.

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

PHONE: 559 638 6933 ■ PHONE: 800 928 6545 ■ FAX: 559 638 8463 ■ www.palmvillage.com ■ LIC. #100404809 COA170

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

RECEIVED
Date Prepared: 4/14/2015
MAY 01 2015

FACILITY NAME: Palm Village Retirement Community
 ADDRESS: 701 W. Herbert, Reedley, CA ZIP CODE: 93654 PHONE: 559-838-8933
 PROVIDER NAME: Mennonite Brethren Homes, Inc. FACILITY OPERATOR: Mennonite Brethren Homes, Inc.
 RELATED FACILITIES: N/A RELIGIOUS AFFILIATION: Mennonite Brethren
 YEAR OPENED: 1942 # OF ACRES: 17 SINGLE STORY MULTI-STORY OTHER: _____
 MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 5

NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO: _____	ASSISTED LIVING: <u>69 suites</u>
APARTMENTS — 1 BDRM: _____	SKILLED NURSING: <u>105 beds</u>
APARTMENTS — 2 BDRM: _____	SPECIAL CARE: <u>15 beds</u>
COTTAGES/HOUSES: <u>79 units</u>	DESCRIPTION: <u>> Dementia</u>
RLU OCCUPANCY (%) AT YEAR END: <u>96.1%</u>	>

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

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

REFUND PROVISIONS: (Check all that apply) 90% 75% 50% FULLY AMORTIZED OTHER: 50 month amort.

RANGE OF ENTRANCE FEES: \$ 78,000 - \$ 194,000 LONG-TERM CARE INSURANCE REQUIRED? YES NO

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

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

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > The residents select a resident representative to the board annually. They share in board discussions and are involved with board committees including the budget committee. The resident representative is free to share in discussion and board study. The representative is a non-voting member of the board.

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (<u>3</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input checked="" 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"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input 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 HOME CARE	<input checked="" 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 checked="" type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<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.
 Page 1 of 4

PROVIDER NAME: Mennonite Brethren Homes, Inc.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	12655018	12826935	12466882	12882326
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	11810360	12448872	12262014	13027559
NET INCOME FROM OPERATIONS	844658	378063	204868	-145233
LESS INTEREST EXPENSE	145278	29786	20831	11788
PLUS CONTRIBUTIONS	188630	207228	225238	239561
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	43294	41262	30903	23181
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	931304	596767	440178	105721
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	521524	753368	610920	1210533

.....
DESCRIPTION OF SECURED DEBT *(as of most recent fiscal year end)*

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

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

	2013 CCAC Medians 50th Percentile <i>(optional)</i>	<u>2012</u>	<u>2013</u>	<u>2014</u>
DEBT TO ASSET RATIO		.43	.41	.39
OPERATING RATIO		97.28	98.52	101.22
DEBT SERVICE COVERAGE RATIO		1.63	1.24	1.88
DAYS CASH ON HAND RATIO		117	103	57.93

.....
HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2011</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>
STUDIO							
ONE BEDROOM	560		560		560		588
TWO BEDROOM	603		603		603		633
COTTAGE/HOUSE							
ASSISTED LIVING	99		99		99		102
SKILLED NURSING	239		239		239		246
SPECIAL CARE	239		239		239		246

.....
COMMENTS FROM PROVIDER: >

> _____
 > _____
 > _____

PROVIDER NAME: Mennonite Brethren Homes, Inc.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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.

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MAY 26 2015

KEY INDICATORS REPORT

MENNONITE BRETHERN HOMES, INC. D/B/A PALM VILLAGE RETIREMENT COMMUNITY

CONFIDENTIAL
Community Executive Officer Signature

Date Prepared: May 16 2015

OPERATIONAL STATISTICS

	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
1. Average Annual Occupancy by Site (%)	91.1%	95.6%	95.6%	96.8%	95.0%	96.5%	94.4%	94.4%	94.4%	94.4%	94.4%

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)	6.5%	6.4%	7.5%	3.1%	2.1%	-0.6%	1.0%	1.1%	1.2%	1.3%	1.3%
3. Net Operating Margin - Adjusted (%)	13.7%	11.5%	11.2%	9.1%	8.2%	8.0%	6.2%	6.3%	6.4%	6.5%	6.6%

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)	3,695	3,898	4,218	4,385	3,825	2,674	2,666	2,683	2,664	2,628	2,562
5. Days Cash on Hand (Unrestricted)	113.4	116.9	131.7	125.2	107.0	75.0	76.8	76.1	74.4	72.3	69.4

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)	4,052	4,219	4,038	4,012	4,528	4,303	4,487	4,453	4,425	4,405	4,391
7. Net Annual E/F proceeds (\$000)	1,003	720	522	837	828	1,213	700	714	728	743	758
8. Unrestricted Net Assets (\$000)	1,758	2,427	3,549	4,142	4,483	4,267	4,752	4,982	5,166	5,322	5,440
9. Annual Capital Asset Expenditure (\$000)	351	236	538	403	733	920	443	465	488	513	538
10. Annual Debt Service Coverage Revenue Basis (x)	1.07	1.17	2.01	1.18	0.92	0.30	0.60	0.64	0.62	0.63	0.62
11. Annual Debt Service Coverage (x)	2.06	1.98	2.91	2.55	2.01	2.34	1.66	1.74	1.68	1.66	1.63
12. Annual Debt Service/Revenue (%)	7.8%	6.7%	4.3%	4.0%	4.2%	4.0%	4.9%	4.8%	5.0%	5.1%	5.3%
13. Average Annual Effective Interest Rate (%)	5.7%	4.7%	1.6%	1.3%	1.3%	1.4%	1.7%	2.2%	2.8%	3.3%	4.0%
14. Unrestricted Cash & Investments/Long-Term Debt (%)	34.3%	41.3%	48.5%	53.1%	48.1%	35.4%	41.4%	45.3%	49.5%	54.5%	60.4%
15. Average Age of Facility (years)	13.9	14.5	16.3	15.6	15.6	15.5	18.7	18.6	18.5	18.5	18.5