Friends Association of Services for the Elderly

Independent Auditors' Report

and

Financial Statements

For the Years Ended March 31, 2019 and 2018

HANSEN HUNTER & CO. P.C.
Certified Public Accountants

CONTENTS

HANSEN HUNTER & CO. P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Friends Association of Services for the Elderly
Santa Rosa, California

We have audited the accompanying financial statements of Friends Association of Services for the Elderly (a California non-profit corporation), which comprise the statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 financial statements.

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

Office 503.244.2134 | *Fax* 503.244.9754 | *Toll Free* 800.547.3159 | 8930 SW Gemini Drive, Beaverton, Oregon 97008 | *www.hhc-cpa.com*

HANSEN HUNTER & CO. P.C.
Certified Public Accountants

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2019 and 2018, Friends Association of Services for the Elderly adopted new accounting guidance related to not-for-profit entities. Our opinion is not modified with respect to this matter.

Hansen Hunter & Co. P.C.

July 18, 2019

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FINANCIAL POSITION

ASSETS

	March 31, 2019	March 31, 2018
Current assets		
Cash and cash equivalents	$ 2,866,130	$ 2,954,924
Accounts receivable, net	1,681,292	643,008
Prepaid expenses and inventory	340,075	377,367
Total current assets	4,887,497	3,975,299
Property and equipment, net	4,142,156	4,352,818
Other assets		
Deferred gift annuities	58,185	66,742
Other investment	91,738	91,738
Assets whose use is limited	292,901	292,901
Total other assets	442,824	451,381
Total assets	$ 9,472,477	$ 8,779,498

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FINANCIAL POSITION
(Continued)

LIABILITIES AND NET ASSETS

	March 31, 2019	March 31, 2018
Current liabilities		
Accounts payable and accrued expenses	$ 370,808	$ 390,101
Prepaid revenue	57,624	-
Refundable deposits	293,118	342,109
Notes payable, current	20,000	10,115
Management fees payable	51,763	42,131
Total current liabilities	793,313	784,456
Deferred revenue from entrance fees		
Potentially refundable	3,577,847	3,579,432
Non-refundable	2,852,011	2,299,848
Total deferred revenue from entrance fees	6,429,858	5,879,280
Long-term liabilities		
Notes payable, net of current portion	180,000	200,000
Charitable remainder trust	90,000	90,000
Total long-term liabilities	270,000	290,000
Total liabilities	7,493,171	6,953,736
Net assets		
Without donor restrictions	591,296	475,561
With donor restrictions	1,388,010	1,350,201
Total net assets	1,979,306	1,825,762
Total liabilities and net assets	$ 9,472,477	$ 8,779,498

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF ACTIVITIES

	Years Ended March 31,	
	2019	2018
Changes in net assets without donor restrictions:		
Revenue, gains, and other support		
Skilled nursing facility revenue	$ 3,634,064	$ 4,138,438
Less: provison for bad debts	(42,830)	(55,601)
Net skilled nursing facility revenue	3,591,234	4,082,837
Housing related fees	2,796,463	2,615,347
Amortization of entrance fees	1,047,090	992,092
Contributions	93,761	67,178
Investment income	3,658	3,480
Other income	276,265	141,619
	7,808,471	7,902,553
Net assets released - restricted purposes met	20,838	17,098
Total revenue, gains, and other support	7,829,309	7,919,651
Expenses		
Program costs:		
Residential services	1,830,608	1,827,300
Assisted living	545,179	467,528
Skilled nursing	3,679,414	3,382,427
General and administrative	1,658,373	1,561,801
Total expenses	7,713,574	7,239,056
Change in net assets from operations	115,735	680,595
Non-operating		
Gain on involuntary conversion of fixed assets	-	55,244
Change in net assets without donor restrictions	115,735	735,839

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

STATEMENTS OF ACTIVITIES
(Continued)

	Years Ended March 31, 2019	2018
Changes in net assets with donor restrictions:		
Contributions	$ 66,593	$ 64,842
Investment income	611	274
Change in present value of gift annuities	(8,557)	(4,094)
Net assets released - restricted purposes met	(20,838)	(17,098)
Change in net assets with donor restrictions	37,809	43,924
Change in total net assets	153,544	779,763
Net assets, beginning of year	1,825,762	1,045,999
Net assets, end of year	$ 1,979,306	$ 1,825,762

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FUNCTIONAL EXPENSES

	For the Year Ended March 31, 2019					
	Residential Services	Assisted Living Services	Skilled Nursing Services	Total Program Costs	General and Adminisrative	Total
Salaries and benefits	$ 799,422	$ 452,564	$ 2,743,998	$ 3,995,984	$ 437,900	$ 4,433,884
Supplies	136,734	46,337	148,167	331,238	19,133	350,371
Other purchased services	65,348	6,119	308,473	379,940	315,991	695,931
Repairs and maintenance	153,278	8,436	25,561	187,275	3	187,278
Utilities	218,687	10,876	30,657	260,220	-	260,220
Depreciation and amortization	363,713	18,088	50,988	432,789	-	432,789
Other	73,199	2,759	371,570	447,528	885,346	1,332,874
Fund disbursements	20,227	-	-	20,227	-	20,227
Total expenses	$ 1,830,608	$ 545,179	$ 3,679,414	$ 6,055,201	$ 1,658,373	$ 7,713,574

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

	For the Year Ended March 31, 2018					
	Residential Services	Assisted Living Services	Skilled Nursing Services	Total Program Costs	General and Adminisrative	Total
Salaries and benefits	$ 729,796	$ 385,552	$ 2,366,934	$ 3,482,282	$ 513,207	$ 3,995,489
Supplies	128,888	32,001	164,858	325,747	18,189	343,936
Other purchased services	50,490	3,298	284,987	338,775	198,980	537,755
Repairs and maintenance	157,608	7,930	22,649	188,187	267	188,454
Utilities	210,115	10,450	29,456	250,021	-	250,021
Depreciation and amortization	445,381	22,150	62,437	529,968	-	529,968
Other	88,198	6,147	451,106	545,451	831,158	1,376,609
Fund disbursements	16,824	-	-	16,824	-	16,824
Total expenses	$ 1,827,300	$ 467,528	$ 3,382,427	$ 5,677,255	$ 1,561,801	$ 7,239,056

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF CASH FLOWS

	Years Ended March 31,	
	2019	2018
Cash flows from operating activities		
Cash received from residents	$ 5,570,678	$ 7,152,479
Cash received from entrance fees	1,884,080	2,018,212
Investment income received	4,269	3,754
Proceeds from contributions	160,354	126,843
Interest paid	(8,930)	(11,137)
Cash paid to suppliers and employees	(7,164,214)	(6,696,469)
Net cash provided by operating activities	446,237	2,593,682
Cash flows from investing activities		
Net purchases of fixed assets	(221,399)	(438,761)
Change in limited use assets	-	212,090
Insurance proceeds received	-	55,554
Net cash provided by (used in) investing activities	(221,399)	(171,117)
Cash flows from financing activities		
Principal payments on notes payable	(10,115)	(150,000)
Payments on capital lease obligation	-	(21,292)
Refunds of unearned entrance fees	(286,412)	(770,827)
Payment on accounts payable: short-term financing of fixed asset purchases	(17,105)	(37,489)
Net cash used in financing activities	(313,632)	(979,608)
Net change in cash	(88,794)	1,442,957
Cash, beginning of year	2,954,924	1,511,967
Cash, end of year	$ 2,866,130	$ 2,954,924
Supplemental disclosures:		
Non-cash investing and financing activities:		
Fixed assets included in accounts payable	$ 728	$ 17,105
Donated fixed assets	$ -	$ 5,176
Insurance proceeds and expense reimbursement not yet received	$ -	$ 105,315

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF CASH FLOWS
(Continued)

	Years Ended March 31, 2019	2018
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 153,544	$ 779,763
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of earned entrance fees	(1,047,090)	(992,092)
Depreciation expense	432,789	362,477
Unearned entrance fees received from residents	1,884,080	1,882,812
Change in present value of gift annuities	8,557	4,094
Loss on asset disposal	-	167,491
Gain on involuntary conversion of fixed assets	-	(55,244)
Donated fixed assets	-	(5,176)
Change in deposit program	6,009	3,464
Expense reimbursement	-	(100,000)
(Increase) decrease in operating assets:		
Accounts receivable	(1,038,284)	221,676
Entrance fee receivable	-	135,400
Prepaid expenses and inventory	37,292	148,746
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(2,916)	(43,662)
Prepaid rent	57,624	-
Refundable deposits	(55,000)	91,000
Management fees payable	9,632	(7,067)
Net cash provided by operating activities	$ 446,237	$ 2,593,682

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

Note 1 – Nature of Business

Friends Association of Services for the Elderly (the "Association"), is a California non-profit corporation that owns and operates Friends House, a facility that provides residential apartments, skilled nursing and assisted living housing facilities and related services for the elderly in Santa Rosa, California.

The facility consists of 67 housing units and apartments, a 6-room assisted living facility and a 34-bed skilled nursing facility. The Association enters into Continuing Care Contracts, as defined by the California Health and Safety Code, with the residents of Friends House. Pursuant to these regulations, all residential apartments are licensed under the Residential Care Facilities for the Elderly (RCFE) classification.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation **–** The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Friends Association of Services for the Elderly. Friends Association of Services for the Elderly's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Friends Association of Services for the Elderly or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions – Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

Note 2 – Summary of Significant Accounting Policies (continued)

Contributions *(continued)* – When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets being placed in service.

Expenses incurred to prepare and sell the donated property are capitalized. Proceeds from the sale of the property are netted against the cost basis, including capitalized costs, and a realized gain or loss is recorded when the asset is sold.

Performance Indicator – “Change in net assets without donor restrictions” as reflected in the accompanying statements of activities is the performance indicator. Change in net assets without donor restrictions excludes all net assets with donor restrictions activity.

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

Cash and Cash Equivalents **–** The Association considers all highly liquid instruments, with a maturity of three months or less at the time of purchase, to be cash equivalents, excluding assets whose use is limited.

Accounts Receivable **–** Accounts receivable primarily represents monthly fees and amounts due from residents and third party payors for health care services. Receivables are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is based upon an analysis of the collectability of outstanding receivables. Accounts deemed uncollectible are charged against the allowance. Subsequent collections of bad debts are credited to the allowance. Accounts receivable due over 90 days totaled $1,155,810 and $123,341 as of March 31, 2019 and 2018, respectively.

Inventories **–** Inventories consisting of dietary, operating and health care supplies are valued at cost using the first-in, first-out (FIFO) method.

Assets Whose Use is Limited **–** Assets whose use is limited represents cash related to a charitable remainder trust and the funds of an endowment which are considered restricted by donors or agreements.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue Recognition – Under the residency agreement, membership fees paid by residents upon entering the Association are recorded as deferred revenue and are amortized into income over the expected remaining life of the resident. The period of amortization is reevaluated annually based on the estimated remaining life expectancy. Any remaining unamortized fees (net of refunds) are recognized as income in the year the residency is terminated.

Residents' monthly fees and nursing services revenue are recognized according to contracted rates and in the period when the service is provided.

Gift Annuities **–** The Association has beneficial interests in several gift annuities held and managed by the Friends Fiduciary Corporation. The agreements provide that the Association will receive its share of the trust assets after the death of the trust beneficiaries. The funds are restricted as to their use by the donors. The Association's interests in the gift annuities have been recorded as temporarily restricted net assets measured at the present value of future cash receipts from the gift annuity assets. Changes in the amount reported as assets are recorded as increases or decreases to temporarily restricted net assets in the statement of activities.

Charitable Remainder Trust – The Association is the trustee for a trust estate in the amount of $90,000 as of March 31, 2019 and 2018, which is classified on the accompanying statements 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 31, 2019 and 2018, 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 resident 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 death of the contingent beneficiary, all remaining assets will be earned by the Association, and this liability will be relieved.

Property and Equipment **–** Property and equipment acquisitions in excess of $2,000 are capitalized at cost. Maintenance, repairs and renewals which neither materially add to the value of the property nor materially prolong its life are charged to expense as incurred. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Building, building improvements and land improvements	5-40 years
Furniture, equipment and vehicles	5-25 years

Note 2 – Summary of Significant Accounting Policies (continued)

Obligation to Provide Future Services – The Association annually calculates the present value of the costs of future services and the use of facilities to be provided to current residents and compares that amount to expected resident service income and deferred revenue from unearned entrance fees. The calculation is based on actuarial future cash flow, which is based on the present value of cash outflows and inflows (using a discount rate of 6% for 2019 and 2018) and adjusted for certain non-cash items as compared to the balance of unearned entrance fees. This calculation indicates that no net liability for future services to current residents exists at March 31, 2019 and 2018.

Entrance Fees – The entrance fee entitles a resident to reside in a specific accommodation and to use the services of the Association during his or her lifetime. The fee, net of the portion that is estimated as a potentially refundable entrance fee, is recorded as deferred revenue and amortized into income using the straight-line method over the expected remaining life of the resident. Resident life expectancy is reevaluated annually. Upon death or withdrawal, the remaining unamortized, nonrefundable portion of the entrance fee is recognized as income.

The residency 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. For residency agreements signed prior to March 1, 2017, 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. For residency agreements signed after March 1, 2017, if the apartment is vacated after the first 90 days, the Association retains 30% of the entry fee for the first year plus 2.083% for each month, or part of a month, in excess of the first year. No refund is made after four years of residency. Refunds are made within 90 days of the date the Association is notified of the contract termination, or within 14 calendar days from the date the unit is made available, whichever is later.

Third-Party Payer Reimbursement Contracts – The Association renders services to residents under contractual arrangements with Medi-Cal and Medicare. Under the terms of these contracts, the Association receives payments at certain interim rates. The difference between interim rates and the final settlement, based upon an annual cost report, is subject to audit by the payor but historically has not been material to the operation of the Association. Net revenues include contractual adjustments, which represent the difference between customary charges and actual payments.

Donated Services – A number of people have donated their time to the Association. The financial statements do not reflect the value of those donated services, as no reliable basis exists for reasonably determining the amounts involved.

Donated Property – Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the asset must be used, the contribution is recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising and Marketing Costs – Advertising costs are charged to expense as incurred. Total advertising costs for the years ended March 31, 2019 and 2018, were $43,825 and $34,297, respectively, included in administrative and marketing expenses on the accompanying statements of activities.

Functional Expenses – The costs of providing the various programs and other activities of the Association have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses which are allocated include the following:

Expense	Method of Allocation
Dining	Meals
Environment services	Square footage
Maintenance	Square footage
Utilities	Square footage
Depreciation and amortization	Square footage
Interest	Square footage

Financial Instruments – The Association's financial instruments consist of accounts receivable, deferred gift annuities, other investment, limited use assets, accounts payable, accrued expenses, refundable deposits and notes payable. It is management's opinion that the Association is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

Income Taxes – The Association is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and applicable state laws. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Association follows the provisions of the Income Tax Topic of the FASB Accounting Standards Codification relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Association is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Association believes that it has not generated any unrelated business income as defined by IRS regulations, and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions for the Association as of March 31, 2019.

Reclassification – Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year's presentation.

Note 2 – Summary of Significant Accounting Policies (continued)

Adoption of Accounting Standards Changes – During the year ended March 31, 2019, the Association adopted new accounting guidance related to not-for-profit entities. The new guidance related to not-for-profit entities addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these items accordingly. The guidance has been applied retrospectively to all periods presented.

Note 3 – Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at March 31, 2019:

Cash and cash equivalents	$	2,866,130
Less board designated funds		(234,090)
	$	2,632,040

As part of the Association's liquidity management plan, it invests cash in excess of its daily requirements in short-term investments which can be sold and used for operations if necessary. The board designated funds, as disclosed in Note 14, are available for use if deemed necessary by the board. As more fully described in Note 10, the Association also has a committed line of credit in the amount of $1,500,000, which it could draw upon in the event of an unanticipated liquidity need.

Note 4 – Accounts Receivable

Accounts receivable, net consists of the following as of:

	March 31, 2019	March 31, 2018
Health center	$ 1,656,767	$ 567,681
Resident monthly fees	64,429	8,203
Expense reimbursement	-	100,000
Insurance proceeds	-	5,315
Due from PRSMI	5,000	-
	1,726,196	681,199
Less: allowance for doubtful accounts	(44,904)	(38,191)
	$ 1,681,292	$ 643,008

Expense reimbursement represents funds expected to be received from the Association's insurance carrier to reimburse expenditures made as a result of wildfire evacuation in October 2017. The related expenditures have been reduced by expense reimbursement in the amount of $100,000 for the year ended March 31, 2018, included in administrative and marketing expenses on the accompanying statements of activities.

Insurance proceeds represent funds expected to be received from the Association's insurance carrier in relation to the involuntary conversion of fixed assets.

Due from PRSMI represents funds due from PRS Management, Inc., the previous management company.

Resident accounts receivable, gross consists of the following as of:

	March 31, 2019	March 31, 2018
Private pay	7%	18%
Medicare	32%	29%
Medi-Cal	51%	34%
HMO/Other	10%	19%
	100%	100%

Note 5 – Other Investment

Investment in Captive Insurance Company – On January 1, 2004, the Association invested in the captive insurance holding company Peace Church Risk Retention Group (PCRRG). As of January 1, 2016, the Association withdrew from PCRRG. As of March 31, 2019 and 2018, the Association owned 0% of PCRRG. The remaining paid in surplus account was $91,738 as of March 31, 2019 and 2018 and will be evaluated annually.

There were no premiums paid to PCRRG during the years ended March 31, 2019 and 2018. PCRRG insured claims related to general liability through December 31, 2015. As of January 1, 2016, PCRRG insures the Association for claims which may arise from events that occurred during the period of January 1, 2004 through December 31, 2015. The extended coverage for general liability is from January 1, 2016 through December 31, 2018.

Note 6 – Assets Whose Use is Limited

	March 31, 2019	March 31, 2018
Charitable remainder trust	$ 90,000	$ 90,000
Endowment	202,901	202,901
	$ 292,901	$ 292,901

Assets whose use is limited consists of cash held in interest bearing accounts.

Note 7 – Property and Equipment

	March 31, 2019	March 31, 2018
Land	$ 1,306,535	$ 1,306,535
Buildings, building improvements and land improvements	10,651,537	10,403,751
Furniture, equipment and vehicles	1,235,127	1,200,940
	13,193,199	12,911,226
Less: accumulated depreciation	(9,087,488)	(8,654,699)
	4,105,711	4,256,527
Construction-in-process	36,445	96,291
Property and equipment, net	$ 4,142,156	$ 4,352,818

Note 8 – Fair Value of Financial Instruments

The Association has adopted the requirements of the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. The Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. These additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

The Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. It also specifies that transaction costs should not be considered in the determination of fair value. According to the Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

The Topic establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

As required by the Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Note 8 – Fair Value of Financial Instruments (continued)

The following tables show the Association's financial assets that were accounted for at fair value on a recurring basis as of March 31, 2019 and 2018:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2019				
Assets:				
Other investment:				
Insurance investment	$ 91,738	$ -	$ -	$ 91,738
Gift annuities	58,185	-	-	58,185
Total assets	$ 149,923	$ -	$ -	$ 149,923
March 31, 2018				
Assets:				
Other investment:				
Insurance investment	$ 91,738	$ -	$ -	$ 91,738
Gift annuities	66,742	-	-	66,742
Total assets	$ 158,480	$ -	$ -	$ 158,480

Note 8 – Fair Value of Financial Instruments (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Insurance Investment	Gift Annuities (Planned Giving)	Total
Assets:			
April 1, 2017	$ 91,738	$ 70,836	$ 162,574
Change in present value	-	(4,094)	(4,094)
March 31, 2018	91,738	66,742	158,480
Change in present value	-	(8,557)	(8,557)
March 31, 2019	$ 91,738	$ 58,185	$ 149,923

Fair value for Level 3 assets is determined by calculating the present value of cash flows expected to be received, using various discount rates and life expectancy tables. There were no assets or liabilities valued using Level 1 and Level 2 inputs and no liabilities valued using Level 3 inputs.

Note 9 – 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, 2019, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 2.13% and 3.13% per annum. At March 31, 2018, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 1.27% and 2.33% per annum. Deposits are refundable upon a 90 day notice, but are generally held for more than one year. Deposits held as of March 31, 2019 and 2018, were $223,118 and $217,109, respectively, and are included in refundable deposits on the accompanying statements of financial position.

Application fees and entrance fees paid by a resident to reserve a unit are refundable for a period prior to move-in. Application fees are recorded as income when a resident signs the residency agreement. The entrance fee deposit is combined with the resident's final payment upon move-in and is recorded as deferred revenue. These refundable amounts as of March 31, 2019 and 2018, were $70,000 and $125,000, respectively, and are included in refundable deposits on the accompanying statements of financial position.

Note 10 – 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. On September 2, 2015, the line of credit was extended through September 5, 2016, in the amount of $1,000,000, and provides for certain covenants as defined in the agreement. On January 9, 2017, the line of credit was extended through January 5, 2022, in the amount of $1,500,000 with a variable interest rate at the greater of the bank's index rate as defined in the agreement or 4.25%. As of March 31, 2019 and 2018, there was no outstanding balance on the line of credit.

Note 11 – Capital Lease

In December 2013, the Association obtained a piece of equipment through a capital lease. The equipment had a cost basis of $46,743. During the year ended March 31, 2018, the Association paid off the remainder of the lease and exercised their bargain purchase option.

Depreciation expense reported in the statements of activities includes depreciation of the leased asset in the amount of $0 and $6,407 for the years ended March 31, 2019 and 2018, respectively.

Note 12 – Notes Payable

	March 31, 2019	March 31, 2018
Notes are 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 April 2021.	$ 200,000	$ 210,115
Less current portion	(20,000)	(10,115)
Long-term portion	$ 180,000	$ 200,000

Future maturities of notes payable are as follows for the years ended March 31:

2020	$ 20,000
2021	130,000
2022	50,000
	$ 200,000

Note 13 – Deferred Revenue from Entrance Fees

	Years Ended March 31, 2019	Years Ended March 31, 2018
Balance, beginning of year	$ 5,879,280	$ 5,759,387
New entrance fees	1,884,080	1,882,812
Entrance fees refunded	(286,412)	(770,827)
Amortization of fees	(1,047,090)	(992,092)
Balance, end of year	$ 6,429,858	$ 5,879,280

Entrance fees still within a potentially refundable declining period at March 31, 2019 and 2018, were $3,577,847 and $3,579,432, respectively. Based on the past five years actual refunds have averaged $426,055 per year for the potentially refundable declining period.

Note 14 – Net Assets

Net assets without donor restrictions that have been designated by the Board were as follows:

	March 31, 2019	March 31, 2018
Capital improvements	$ 234,090	$ 234,090

Note 14 – Net Assets (continued)

Net assets with donor restrictions were as follows for the years ended:

	March 31, 2019	March 31, 2018
Special purpose:		
Annuities	$ 58,185	$ 66,742
Bray Bray Bequest (Non-Quaker entrance fees)	50,000	50,000
Capital Improvements	586,210	543,500
Development cost (fundraising)	22,075	27,306
Employee Holiday fund	26,581	4,952
Exploration	-	30
Friends House support - unobligated	332,227	331,635
Library fund	700	750
Maxwell Bequest (Quaker fees)	12,759	12,759
Monthly fee subsidy	51,882	51,882
Other funds	18,546	31,800
Palliative Care	18,244	18,244
Special needs (Good Samaritan) fund	7,700	7,700
Perpetual (donor restricted funds):		
Endowment General	202,901	202,901
	$ 1,388,010	$ 1,350,201

There were no endowment net assets without donor restrictions for the years ended March 31, 2019 and 2018.

Note 14 – Net Assets (continued)

Changes in endowment net assets were as follows for the years ended March 31, 2019 and 2018:

		Endowment Assets With Donor Restrictions
April 1, 2017	$	202,901
Investment return, net		274
Contributions		-
Appropriation of endowment assets for expenditure		(274)
March 31, 2018		202,901
Investment return, net		611
Contributions		-
Appropriation of endowment assets for expenditure		(611)
March 31, 2019	$	202,901

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 gift date. As a result of this interpretation, the Association classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Earnings from the endowment are classified as restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed under law. No new donations were made to the endowment fund during the years ended March 31, 2019 and 2018. The interest income, which is restricted to support general operating activities of the Association, was used for its intended purpose and was released from restriction within the current year. Interest income was $611 and $274 for the years ended March 31, 2019 and 2018, respectively.

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.

Note 15 – Retirement Plan

The Association has a 403(b) tax deferred annuity plan available to all employees. This defined contribution plan allows participants to contribute a portion of their salary up to the maximum limit allowed by the Internal Revenue Service. The Association matches employees' contributions up to $500 per employee per calendar year and, in addition, provides retirement benefits to contracted employees of the management company. Employer contributions totaled $31,169 and $26,644 for the years ended March 31, 2019 and 2018, respectively.

Note 16 – Related Party Transactions

The Association maintains refundable deposits as part of the deposit program (see note 9) for a board member in the amount of $54,407 and $52,976 as of March 31, 2019 and 2018, respectively.

Note 17 – Management Services

The Association had an agreement with PRS Management and Consulting, LLC, whereby PRS Management and Consulting, LLC provided management services for the Association. The agreement was signed on April 10, 2012. The fee for these services was an annual base fee of $250,000. In addition to the base management fee, the Association paid a performance incentive fee of 5% of the improvement, if any, over the net operating income defined by the management agreement. The term of the agreement was five years from the effective date. The service agreement required a 180 day notice by either party to terminate the contract. On April 10, 2017, the Association submitted written notice of termination to PRS Management and Consulting, LLC, effective October 10, 2017. Beginning April 10, 2017, the services continued while the agreement was in the process of negotiation for renewal with PRS Management, Inc.

Effective July 20, 2017, the Association entered into a management services agreement with PRS Management, Inc., whereby PRS Management, Inc. provided management services for the Association. As defined by the new management services agreement, the 2012 agreement with PRS Management and Consulting, LLC was terminated as of July 20, 2017. The term of the new agreement was three years from the effective date, to be automatically renewed for an additional two years unless a written notice of termination was delivered by either party within 180 days in advance of the termination date. The fee for these services was an annual base fee of $250,000. In addition to the base management fee, the Association paid a performance incentive fee of $10,000 per quarter if the quarterly and fiscal year-to-date performance exceeds the budgeted core operating ratio defined by the annual budget. On July 1, 2018 the management service agreement with PRS Management, Inc. was terminated. As defined in the new management services agreement, PRS Management, Inc. continued to provide transition services and the Association paid all or a portion of its management fee until the commencement date of September 1, 2018. Management fees, transition fees and incentive fees charged were $104,165 and $269,996 for the years ended March 31, 2019 and 2018, respectively.

Note 17 – Management Services (continued)

Effective July 1, 2018, the Association entered into a management services agreement with Covia Group, whereby Covia Group will provide management services for the Association. The term of the new agreement is three years from the commencement date, unless sooner terminated. The fee for the services is an amount equal to five percent of operating revenue accrued in the previous month, paid in arrears. Management fees charged were $217,133 for the year ended March 31, 2019.

Note 18 – Statutory Reserves

The Association is certified as a Continuing Care Retirement Community (CCRC) by the State of California Department of Social Services. California Code Chapter 10, Article 6, Section 1792 requires CCRCs to establish "liquid reserves" (cash, marketable securities, etc.) equal to, or greater than the annual principal and interest payments on long-term obligations plus 75 days of the CCRC's adjusted operating expenses. The Association’s liquid reserves at March 31, 2019, were sufficient to meet this requirement.

Note 19 – Contingencies

The Association is subject to other various claims for damages that arise in the normal course of business. All claims have been referred to the Association’s insurance carrier and are in various stages of investigation, discovery or pretrial. In management’s opinion, although the outcomes of these claims are unknown at this time, any losses that may occur would be covered by the Association’s insurance company, and therefore, should not have a material impact on the Association’s financial position or activities.

The Association is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare and Medi-Cal billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of 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 fines and penalties, as well as significant repayments for patient services previously billed. The Association has implemented a voluntary corporate compliance program which includes guidance for all Association employees’ adherence to applicable laws and regulations. Management is not aware of any actions or potential actions at March 31, 2019.

Note 20 – Concentrations of Credit Risk

The Association provides care to residents under the Medicare and Medi-Cal programs. Noridian Healthcare Solutions, LLC and the State of California Department of Health are the agencies responsible for payment for services to Medicare and Medi-Cal residents, respectively. Total Medicare revenues for the years ended March 31, 2019 and 2018, were $830,205 and $1,374,172, respectively. Total Medi-Cal revenues for the years ended March 31, 2019 and 2018, were $1,381,301 and $1,275,181, respectively.

The Association's operations are concentrated in the elderly housing market in Santa Rosa, California. In addition, the Association grants credit to its private residents on an unsecured basis.

At various times during the years, and at March 31, 2019 and 2018, the Association had balances in excess of the coverage under Federal Deposit Insurance Corporation insurance.

Note 21 – Subsequent Events

The Association did not have any subsequent events through July 18, 2019, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended March 31, 2019.