FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2020 AND 2019

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

CONTENTS

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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, 2020 and 2019, 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.

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, 2020 and 2019, 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 Principles

As discussed in Note 2 to the financial statements, in 2020 and 2019, Friends Association of Services for the Elderly adopted new accounting guidance related to contributions received and contributions made, revenue from contracts with customers and the statement of cash flows. Our opinion is not modified with respect to these matters.

Hansen Hunter & Co. P.C.

July 23, 2020

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FINANCIAL POSITION

ASSETS

	March 31, 2020	March 31, 2019
Current assets		
Cash and cash equivalents	$ 3,764,268	$ 2,866,130
Investments	83,221	-
Accounts receivable, net	1,026,331	1,681,292
Prepaid expenses and inventory	233,201	340,075
Total current assets	5,107,021	4,887,497
Property and equipment, net	4,334,043	4,142,156
Other assets		
Deferred gift annuities	39,993	58,185
Other investment	91,738	91,738
Assets whose use is limited	292,901	292,901
Total other assets	424,632	442,824
Total assets	$ 9,865,696	$ 9,472,477

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, 2020	March 31, 2019
Current liabilities		
Accounts payable and accrued expenses	$ 637,830	$ 370,808
Prepaid revenue	-	57,624
Refundable deposits	357,167	293,118
Notes payable, current	130,000	20,000
Payable to management company	48,585	51,763
Total current liabilities	1,173,582	793,313
Deferred revenue from entrance fees		
Potentially refundable	3,152,925	3,577,847
Non-refundable	3,044,770	2,852,011
Total deferred revenue from entrance fees	6,197,695	6,429,858
Long-term liabilities		
Notes payable, net of current portion	70,000	180,000
Charitable remainder trust	90,000	90,000
Total long-term liabilities	160,000	270,000
Total liabilities	7,531,277	7,493,171
Net assets		
Without donor restrictions	978,985	591,296
With donor restrictions	1,355,434	1,388,010
Total net assets	2,334,419	1,979,306
Total liabilities and net assets	$ 9,865,696	$ 9,472,477

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,	
	2020	2019
Changes in net assets without donor restrictions:		
Revenue, gains, and other support		
Skilled nursing facility revenue	$ 3,823,101	$ 3,634,064
Less: provison for bad debts	(149,679)	(42,830)
Net skilled nursing facility revenue	3,673,422	3,591,234
Housing related fees	2,906,557	2,796,463
Amortization of entrance fees	1,121,251	1,047,090
Contributions	103,474	93,761
Investment return, net	(12,626)	3,658
Other income	115,039	276,265
	7,907,117	7,808,471
Net assets released - restricted purposes met	73,890	20,838
Total revenue, gains, and other support	7,981,007	7,829,309
Expenses		
Program costs:		
Residential services	1,893,326	1,830,608
Assisted living	586,555	545,179
Skilled nursing	3,569,852	3,679,414
General and administrative	1,543,585	1,658,373
Total expenses	7,593,318	7,713,574
Change in net assets without donor restrictions	387,689	115,735

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

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF ACTIVITIES
(Continued)

	Years Ended March 31, 2020	2019
Changes in net assets with donor restrictions:		
Contributions	$ 58,905	$ 66,593
Investment return, net	601	611
Change in present value of gift annuities	(18,192)	(8,557)
Net assets released - restricted purposes met	(73,890)	(20,838)
Change in net assets with donor restrictions	(32,576)	37,809
Change in total net assets	355,113	153,544
Net assets, beginning of year	1,979,306	1,825,762
Net assets, end of year	$ 2,334,419	$ 1,979,306

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, 2020					
	Residential Services	Assisted Living Services	Skilled Nursing Services	Total Program Costs	General and Adminisrative	Total
Salaries and benefits	$ 771,674	$ 482,916	$ 2,860,174	$ 4,114,764	$ 347,050	$ 4,461,814
Supplies	152,417	53,815	151,631	357,863	17,239	375,102
Other purchased services	38,809	4,804	82,678	126,291	321,571	447,862
Repairs and maintenance	141,206	7,219	20,886	169,311	323	169,634
Utilities	231,240	11,500	32,417	275,157	-	275,157
Depreciation and amortization	396,852	19,737	55,634	472,223	-	472,223
Other	77,520	2,449	354,832	434,801	857,402	1,292,203
Fund disbursements	862	-	-	862	-	862
Loss on asset disposal	82,746	4,115	11,600	98,461	-	98,461
Total expenses	$ 1,893,326	$ 586,555	$ 3,569,852	$ 6,049,733	$ 1,543,585	$ 7,593,318

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, 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 CASH FLOWS

	Years Ended March 31, 2020	Years Ended March 31, 2019
Cash flows from operating activities		
Cash received from residents	$ 7,408,979	$ 5,570,678
Cash received from entrance fees	1,143,392	1,884,080
Investment income received	4,754	4,269
Proceeds from contributions	162,379	160,354
Interest paid	(6,555)	(8,930)
Cash paid to suppliers and employees	(6,972,970)	(7,164,214)
Net cash provided by (used in) operating activities	1,739,979	446,237
Cash flows from investing activities		
Purchases of fixed assets	(487,537)	(238,504)
Purchase of investment	(100,000)	-
Net cash provided by (used in) investing activities	(587,537)	(238,504)
Cash flows from financing activities		
Principal payments on notes payable	-	(10,115)
Refunds of unearned entrance fees	(254,304)	(286,412)
Net cash provided by (used in) financing activities	(254,304)	(296,527)
Net change in cash, cash equivalents and restricted cash	898,138	(88,794)
Cash, cash equivalents and restricted cash, beginning of year	2,866,130	2,954,924
Cash, cash equivalents and restricted cash, end of year	$ 3,764,268	$ 2,866,130
Supplemental disclosures:		
Non-cash investing and financing activities:		
Fixed assets included in accounts payable	$ 275,762	$ 728

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, 2020	2019
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ 355,113	$ 153,544
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of earned entrance fees	(1,121,251)	(1,047,090)
Depreciation expense	472,223	432,789
Unearned entrance fees received from residents	1,143,392	1,884,080
Change in present value of gift annuities	18,192	8,557
Loss on asset disposal	98,461	-
Unrealized loss on investment	16,779	-
Change in deposit program	5,049	6,009
(Increase) decrease in operating assets:		
Accounts receivable	654,961	(1,038,284)
Prepaid expenses and inventory	106,874	37,292
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(8,012)	(2,916)
Prepaid rent	(57,624)	57,624
Refundable deposits	59,000	(55,000)
Management fees payable	(3,178)	9,632
Net cash provided by (used in) operating activities	$ 1,739,979	$ 446,237

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.

During the year ended March 30, 2020, the Board of Directors voted on and approved a motion to wind down the skilled nursing facility. On March 6, 2020, the California Department of Social Services was notified of the decision. At March 30, 2020, the Association was in progress of determining the timeline and specifics to begin the closure procedures of the skilled nursing facility.

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 April 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 $519,621 and $1,155,810 as of March 31, 2020 and 2019, 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)

Investments – Investments in securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. The fair value of investments is estimated based on quoted market prices for those of similar investments. Investment transactions are recorded on a trade-date basis. The cost of securities sold is based on the specific identification method. Interest is as earned is accrued as earned and dividends are recorded on the ex-dividend date. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in net assets without donor restrictions, unless its use is restricted by explicit donor stipulations or law.

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.

The Association's principal activity is operating a continuing care facility. Revenue is derived primarily from private pay, Medicare and Medi-Cal residents. The Association recognizes revenue as its performance obligations are completed. Routine resident services are treated as a single performance obligation satisfied over time as services are rendered. These routine services represent a bundle of services that are not capable of being distinct. The performance obligations are satisfied over time as the resident simultaneously receives and consumes the benefits of the continuing care services provided.

The Association determines the transaction price based on established billing rates reduced by contractual adjustments provided to third party payors. Contractual adjustments are based on contractual agreements and historical experience. The Association considers the resident's ability and intent to pay the amount of consideration upon admission. Subsequent changes resulting from a resident's ability to pay are recorded as bad debt expense.

As the performance obligations relate to contracts with a duration of one year or less, the Association has elected to apply the optional exemption provided in FASB ASC 606, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Association has minimal unsatisfied performance obligations at the end of the reporting period as our residents are typically under no obligation to remain at the facility or under the Association's care.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Charitable Remainder Trust – The Association is the trustee for a trust estate in the amount of $90,000 as of March 31, 2020 and 2019, 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, 2020 and 2019, 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

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 2020 and 2019) 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, 2020 and 2019.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Advertising and Marketing Costs – Advertising costs are charged to expense as incurred. Total advertising costs for the years ended March 31, 2020 and 2019, were $16,540 and $43,825, 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, investments, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2020.

Adoption of Accounting Standards Changes – During the year ended March 31, 2020, the Association adopted new accounting guidance related to contributions received and contributions made, revenue from contracts with customers and the statement of cash flows. The new guidance related to contributions received and contributions made provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should accounted for as a contribution versus an exchange. The new guidance has not resulted in any change in presentation from prior periods. The guidance related to revenue from contracts with customers provides a principles-based framework for recognizing revenue and requires certain enhanced disclosures. The new guidance has not resulted in any change in presentation from prior periods and disclosures have been adjusted accordingly. The new guidance related to the statement of cash flows requires the statement to explain the change during the period in total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The Association has adjusted the presentation of these items accordingly.

Note 3 – Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at March 31, 2020:

Cash and cash equivalents	$	3,764,268
Investments		83,221
Less board designated funds		(234,090)
	$	3,613,399

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 13, 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 4 – Accounts Receivable

Accounts receivable, net consists of the following as of:

	March 31, 2020	March 31, 2019
Health center	$ 980,212	$ 1,656,767
Resident monthly fees	86,297	64,429
Due from PRSMI	2,803	5,000
	1,069,312	1,726,196
Less: allowance for doubtful accounts	(42,981)	(44,904)
	$ 1,026,331	$ 1,681,292

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, 2020	March 31, 2019
Private pay	8%	7%
Medicare	29%	32%
Medi-Cal	31%	51%
HMO/Other	32%	10%
	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, 2020 and 2019, the Association owned 0% of PCRRG. The remaining paid in surplus account was $91,738 as of March 31, 2020 and 2019 and will be evaluated annually.

There were no premiums paid to PCRRG during the years ended March 31, 2020 and 2019. 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, 2020	March 31, 2019
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, 2020	March 31, 2019
Land	$ 1,306,535	$ 1,306,535
Buildings, building improvements and land improvements	11,132,125	10,651,537
Furniture, equipment and vehicles	978,927	1,235,127
Computer software	27,500	-
	13,445,087	13,193,199
Less: accumulated depreciation	(9,160,075)	(9,087,488)
	4,285,012	4,105,711
Construction-in-process	49,031	36,445
Property and equipment, net	$ 4,334,043	$ 4,142,156

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, 2020 and 2019:

	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, 2020				
Assets:				
Investments:				
Investment pool - corporate bonds and common stock	$ 83,221	$ 83,221	$ -	$ -
Other investment:				
Insurance investment	91,738	-	-	91,738
Gift annuities	39,993	-	-	39,993
Total assets	$ 214,952	$ 83,221	$ -	$ 131,731
March 31, 2019				
Assets:				
Other investment:				
Insurance investment	$ 91,738	$ -	$ -	$ 91,738
Gift annuities	58,185	-	-	58,185
Total assets	$ 149,923	$ -	$ -	$ 149,923

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, 2018	$ 91,738	$ 66,742	$ 158,480
Change in present value	-	(8,557)	(8,557)
March 31, 2019	91,738	58,185	149,923
Change in present value	-	(18,192)	(18,192)
March 31, 2020	$ 91,738	$ 39,993	$ 131,731

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. 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 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, 2020, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 2.41% and 1.56% per annum. 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. Deposits are refundable upon a 90 day notice, but are generally held for more than one year. Deposits held as of March 31, 2020 and 2019, were $228,167 and $223,118, 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, 2020 and 2019, were $129,000 and $70,000, respectively, and are included in refundable deposits on the accompanying statements of financial position.

NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 2020 and 2019, there was no outstanding balance on the line of credit.

Note 11 – Notes Payable

	March 31, 2020	March 31, 2019
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. Effective February 28, 2020, one of the notes was extended through February 28, 2024:	$ 200,000	$ 200,000
Less current portion	(130,000)	(20,000)
Long-term portion	$ 70,000	$ 180,000

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

2021	$ 130,000
2022	50,000
2023	-
2024	20,000
	$ 200,000

Note 12 – Deferred Revenue from Entrance Fees

	Years Ended March 31, 2020	Years Ended March 31, 2019
Balance, beginning of year	$ 6,429,858	$ 5,879,280
New entrance fees	1,143,392	1,884,080
Entrance fees refunded	(254,304)	(286,412)
Amortization of fees	(1,121,251)	(1,047,090)
Balance, end of year	$ 6,197,695	$ 6,429,858

Entrance fees still within a potentially refundable declining period at March 31, 2020 and 2019, were $3,152,925 and $3,577,847, respectively. Based on the past five years actual refunds have averaged $402,529 per year for the potentially refundable declining period.

Note 13 – Net Assets

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

	March 31, 2020	March 31, 2019
Capital improvements	$ 234,090	$ 234,090

Note 13 – Net Assets (continued)

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

	March 31, 2020	March 31, 2019
Special purpose:		
Annuities	$ 39,993	$ 58,185
Bray Bray Bequest (Non-Quaker entrance fees)	50,000	50,000
Capital Improvements	559,921	586,210
Development cost (fundraising)	22,075	22,075
Employee Holiday fund	35,773	26,581
Friends House support - unobligated	335,361	332,227
Library fund	279	700
Maxwell Bequest (Quaker fees)	12,759	12,759
Monthly fee subsidy	51,882	51,882
Other funds	18,546	18,546
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
	$ 1,355,434	$ 1,388,010

There were no endowment net assets without donor restrictions for the years ended March 31, 2020 and 2019.

Changes in endowment net assets were as follows for the years ended March 31, 2020 and 2019:

	Endowment Assets With Donor Restrictions
April 1, 2018	$ 202,901
Investment return, net	611
Contributions	-
Appropriation of endowment assets for expenditure	(611)
March 31, 2019	202,901
Investment return, net	601
Contributions	-
Appropriation of endowment assets for expenditure	(601)
March 31, 2020	$ 202,901

Note 13 – Net Assets (continued)

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, 2020 and 2019. 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 \$601 and \$611 for the years ended March 31, 2020 and 2019, 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 14 – 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 \$24,597 and \$31,169 for the years ended March 31, 2020 and 2019, respectively.

Note 15 – 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 \$55,597 and \$54,407 as of March 31, 2020 and 2019, respectively.

Note 16 – Management Services

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. The term of the 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 for the year ended March 31, 2019.

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 $390,006 and $217,133 for the years ended March 31, 2020 and 2019, respectively.

During the year ended March 31, 2020 and 2019, there were $48,585 and $51,763, respectively, due to Covia for certain shared expense reimbursements and management fees, which is included in the payable to management company on the accompanying statements of financial position.

Note 17 – 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, 2020, were sufficient to meet this requirement.

Note 18 – 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, 2020.

Prior to year-end, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Association's results is dependent on the breadth and duration of the pandemic and could be affected by other factors the Association is not currently able to predict. These impacts may include, but are not limited to, additional costs for responding to COVID-19, potential shortages of healthcare personnel, potential shortages of clinical supplies, loss of, or reduction to, revenue. Management believes the Association is taking appropriate actions to respond to the pandemic, however subsequent to year-end, the full impact is unknown and cannot be reasonably estimated at this time.

Note 19 – 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, 2020 and 2019, were $879,203 and $830,205, respectively. Total Medi-Cal revenues for the years ended March 31, 2020 and 2019, were $1,438,855 and $1,381,301, 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, 2020 and 2019, the Association had balances in excess of the coverage under Federal Deposit Insurance Corporation insurance.

Note 20 – Subsequent Events

Subsequent to year end, in response to the COVID-19 pandemic, the Association received $275,348 Provider Relief Funds from HHS via the CARES Act. The Association is to document lost revenue or increased expenses attributable to the pandemic. Repayment is not required unless the Association is not in compliance with the terms and conditions of the funds. The timeframe and method of reporting is undetermined as of the date of issuance.

The Association did not have any other subsequent events through July 23, 2020, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended March 31, 2020.