FISCAL YEAR ENDED:
3/31/2017

ANNUAL REPORT CHECKLIST

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

CCRC(S): **Friends House**

CONTACT PERSON: Jordan Cole

TELEPHONE NO.: (541) 857-7607 **EMAIL:** jcole@retirement.org

● ●

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

[x] Annual Report Checklist

[x] Annual Provider Fee in the amount of: $ 4,601.62

[ ] If applicable, late fee in the amount of: $__________

[x] Certification by the provider's chief executive officer that:

- [x] The reports are correct to the best of his/her knowledge.
- [x] Each continuing care contract form in use or offered to new residents has been approved by the Department.
- [x] The Provider is maintaining the required *liquid* reserves and, when applicable, the required refund reserve.

[x] Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

[x] Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

[x] Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

[x] Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for ***each*** community

[ ] Provider's Refund Reserve Calculation(s) - Form 9-1 and/or Form 9-2, if applicable.

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

PART 1
ANNUAL PROVIDER FEES

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents		TOTAL
[1]	Number at beginning of fiscal year		76
[2]	Number at end of fiscal year		76
[3]	Total Lines 1 and 2		152
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x	0.50
[5]	Mean number of continuing care residents		76
	All Residents		
[6]	Number at beginning of fiscal year		112
[7]	Number at end of fiscal year		113
[8]	Total Lines 5 and 6		225
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x	0.50
[10]	Mean number of all residents		112.5
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places).		0.68

FORM 1-2
ANNUAL PROVIDER FEE

Line				TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)			7,300,908
[a]	Depreciation	475,656		
[b]	Debt Service (Interest Only)	13,642		
[2]	Subtotal (add Line 1a and 1b)			489,298
[3]	Subtract Line 2 from Line 1 and enter result.			6,811,610
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)			0.68
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)			4,601,621
			x	0.001
[6]	Total Amount Due (multiply Line 5 by .001)			4,601.62

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

PART 2
CERTIFICATION BY CHAIRMAN OF THE BOARD

FRIENDS HOUSE

A Quaker-Inspired Elder Community *Established in 1984*

July 26, 2017

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

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

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

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

As of July 26, 2017, Friends House is maintaining the required liquid reserve and refund reserve.

Sincerely,

Margaret Sorrel

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

PART 3
EVIDENCE OF FIDELITY BOND

Client#: 91023 PACIRETI©

ACORD™ CERTIFICATE OF LIABILITY INSURANCE©

DATE (MM/DD/YYYY): 10/06/2016©

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IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to© the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the© certificate holder in lieu of such endorsement(s).©

PRODUCER©	
Propel Insurance© Tacoma Commercial Insurance© 1201 Pacific Ave, Suite 1000© Tacoma, WA 98402©	CONTACT NAME:© Julie Valley© PHONE© (A/C, No, Ext):© 800 499-0933© FAX© (A/C, No):© 866 577-1326© E-MAIL© ADDRESS:©

INSURER(S) AFFORDING COVERAGE©	NAIC #©
INSURER A :© Travelers Casualty & Surety Co.©	31194©
INSURER B :©	
INSURER C :©	
INSURER D :©	
INSURER E :©	
INSURER F :©	

INSURED©

dba: Friends House©
1 West Main Street Suite 303©
Medford, OR 97501©

COVERAGES© **CERTIFICATE NUMBER:©** **REVISION NUMBER:©**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIODy INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THISy CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS,y EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.y

INSR© LTR©	TYPE OF INSURANCE©	ADDL INSR©	SUBR© WVD©	POLICY NUMBER©	POLICY EFF© (MM/DD/YYYY)©	POLICY EXP (MM/DD/YYYY)©	LIMITS	
	COMMERCIAL GENERAL LIABILITY© CLAIMS-MADE OCCURy GEN'L AGGREGATE LIMIT APPLIES PER:y POLICYy PRO-y JECTy LOC OTHER:y						EACH OCCURRENCEy	$y
							DAMAGE TO RENTEDy PREMISES (Ea occurrence)	$
							MED EXP (Any one person)y	$y
							PERSONAL & ADV INJURYy	$y
							GENERAL AGGREGATEy	$
							PRODUCTS - COMP/OP AGGy	$y
								$y
	AUTOMOBILE LIABILITY© ANY AUTOy ALL OWNEDy AUTOSy SCHEDULEDy AUTOSy HIRED AUTOSy NON-OWNEDy AUTOSy						COMBINED SINGLE LIMITy (Ea accident)y	$
							BODILY INJURY (Per person)y	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGEy (Per accident)y	$
								$y
	UMBRELLA LIAB OCCURy EXCESS LIAB© CLAIMS-MADE DEDy RETENTION $ y						EACH OCCURRENCEy	$y
							AGGREGATEy	$y
								$ y
	WORKERS COMPENSATION© AND EMPLOYERS' LIABILITY© ANY PROPRIETOR/PARTNER/EXECUTIVEy OFFICER/MEMBER EXCLUDED?y Y / N© (Mandatory in NH)© If yes, describe undery DESCRIPTION OF OPERATIONS belowy	N / A©					PERy STATUTEy OTH-y ERy	
							E.L. EACH ACCIDENT	$y
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMITy	$
A©	Crime©			106604489©	10/01/2016©	10/01/2017©	$1,000,000 Empl. Theft© $10,000 Deductible© $500,000 ERISA©	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)©

Named Insured: Friends House; Located: 684 Benicia Drive, Santa Rosa, CA 95401; ©

CERTIFICATE HOLDER©	CANCELLATION©
Evidence of Insurance©	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE© THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN© ACCORDANCE WITH THE POLICY PROVISIONS.© AUTHORIZED REPRESENTATIVE©

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Client#: 91023© PACIRETI©

ACORD TM

CERTIFICATE OF LIABILITY INSURANCE©

DATE (MM/DD/YYYY) 3/07/2017©

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PRODUCER© Propel Insurance© Tacoma Commercial Insurance© 1201 Pacific Ave, Suite 1000© Tacoma, WA 98402©	CONTACT NAME:© Julie Valley© PHONE© (A/C, No, Ext):© 800 499-0933© FAX© (A/C, No):© 866 577-1326© E-MAIL© ADDRESS:©

INSURER(S) AFFORDING COVERAGE©	NAIC #©
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INSURED©
dba: Friends House©
c/o Pacific Retirement Services Inc.©
1 West Main Street Suite 303©
Medford, OR 97501©

COVERAGES© CERTIFICATE NUMBER:© REVISION NUMBER:©

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INSR© LTR©	TYPE OF INSURANCE©	ADDL INSR©	SUBR© WVD©	POLICY NUMBER©	POLICY EFF© (MM/DD/YYYY)©	POLICY EXP (MM/DD/YYYY)©	LIMITS	
A©	X© COMMERCIAL GENERAL LIABILITY©			AB1703822©	01/01/2017©	01/01/2018©	EACH OCCURRENCEy	$y 1,000,000©
	X© CLAIMS-MADEy [ ] OCCURy						DAMAGE TO RENTEDy PREMISES (Ea occurrence)	$ 100,000©
	X© Empl. Ben. Liab.©			Retro Date©	01/01/2016©		MED EXP (Any one person)y	$y 10,000©
	X© Professional Liab.©						PERSONAL & ADV INJURYy	$y Included©
	GEN'L AGGREGATE LIMIT APPLIES PER:y						GENERAL AGGREGATEy	$ 3,000,000©
	X© POLICYy [ ] PRO-y JECTy [ ] LOC						PRODUCTS - COMP/OP AGGy	$y Included©
	OTHER:y							$y
	AUTOMOBILE LIABILITY©						COMBINED SINGLE LIMITy (Ea accident)y	$
	ANY AUTOy						BODILY INJURY (Per person)y	$
	ALL OWNEDy AUTOSy / SCHEDULEDy AUTOSy						BODILY INJURY (Per accident)	$
	HIRED AUTOSy / NON-OWNEDy AUTOSy						PROPERTY DAMAGEy (Per accident)y	$
								$y
	UMBRELLA LIAB© [ ] OCCURy						EACH OCCURRENCEy	$y
	EXCESS LIAB© [ ] CLAIMS-MADEy						AGGREGATEy	$y
	DEDy [ ] RETENTION $ y							$ y
	WORKERS COMPENSATION© AND EMPLOYERS' LIABILITY© Y / N©						PERy STATUTEy / OTH-y ERy	
	ANY PROPRIETOR/PARTNER/EXECUTIVEy OFFICER/MEMBER EXCLUDED?y [ ]	N / A©					E.L. EACH ACCIDENTy	$y
	(Mandatory in NH)©						E.L. DISEASE - EA EMPLOYEE	$ y
	If yes, describe undery DESCRIPTION OF OPERATIONS belowy						E.L. DISEASE - POLICY LIMITy	$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)©

Named Insured: Friends House; Located: 684 Benicia Drive, Santa Rosa, CA 95401; ©

CERTIFICATE HOLDER©	CANCELLATION©
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PART 4
AUDITED FINANCIAL STATEMENTS

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

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, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2017 and 2016, 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.

Hansen Hunter & Co. P.C.

July 25, 2017

FRIENDS ASSOCIATION OF SERVICES FOR THE ELDERLY

STATEMENTS OF FINANCIAL POSITION

ASSETS

	March 31, 2017	March 31, 2016
Current assets		
Cash and cash equivalents	$ 1,511,967	$ 929,741
Accounts receivable, net	759,369	316,874
Entrance fee receivable	135,400	-
Prepaid expenses and inventory	526,113	164,830
Total current assets	2,932,849	1,411,445
Property and equipment, net	4,427,369	4,440,739
Other assets		
Deferred gift annuities	70,836	73,218
Other investment	91,738	91,738
Assets whose use is limited	504,991	292,901
Total other assets	667,565	457,857
Total assets	$ 8,027,783	$ 6,310,041

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, 2017	March 31, 2016
Current liabilities		
Accounts payable and accrued expenses	$ 454,147	$ 435,910
Entrance fee refunds payable	-	149,508
Refundable deposits	247,645	323,483
Capital lease obligation, current	10,236	9,474
Notes payable, current	150,000	125,000
Management fees payable	49,198	55,170
Total current liabilities	911,226	1,098,545
Deferred revenue from entrance fees		
Potentially refundable	3,675,394	2,875,433
Non-refundable	2,083,993	1,899,912
Total deferred revenue from entrance fees	5,759,387	4,775,345
Long-term liabilities		
Capital lease obligation, net of current portion	11,056	21,291
Notes payable, net of current portion	210,115	460,115
Charitable remainder trust	90,000	90,000
Total long-term liabilities	311,171	571,406
Total liabilities	6,981,784	6,445,296
Net assets		
Unrestricted	(260,277)	(867,612)
Temporarily restricted	1,103,375	529,456
Permanently restricted	202,901	202,901
Total net assets	1,045,999	(135,255)
Total liabilities and net assets	$ 8,027,783	$ 6,310,041

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, 2017	2016
Changes in unrestricted net assets:		
Revenue, gains, and other support		
Skilled nursing facility revenue	$ 3,936,818	$ 3,352,185
Less: provison for bad debts	-	(96,500)
Net skilled nursing facility revenue	3,936,818	3,255,685
Housing related fees	2,418,550	2,243,598
Less: provison for bad debts	-	(17,858)
Net housing related fees revenue	2,418,550	2,225,740
Amortization of entrance fees	866,639	1,060,891
Contributions	311,792	93,639
Investment income	620	7,991
Other income	329,360	212,954
	7,863,779	6,856,900
Net assets released - restricted purposes met	44,464	42,998
Total unrestricted revenue, gains, and other support	7,908,243	6,899,898
Expenses		
Program expenses:		
Dietary	790,055	814,676
Facility services and utilities	1,049,638	888,724
Health and social services	2,825,773	2,813,629
Assisted living	353,940	394,779
General and administrative expenses:		
Administrative and marketing	1,471,727	1,305,677
Depreciation	475,656	320,629
Fund disbursements	44,348	42,896
Management services	266,732	249,996
Interest and fees	20,120	29,200
Loss on asset disposal	2,919	-
Total expenses	7,300,908	6,860,206
Change in unrestricted net assets	607,335	39,692

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, 2017	Years Ended March 31, 2016
Changes in temporarily restricted net assets:		
Contributions	$ 620,649	$ 91,584
Investment income	116	102
Change in present value of gift annuities	(2,382)	(14,003)
Net assets released - restricted purposes met	(44,464)	(42,998)
Change in temporarily restricted net assets	573,919	34,685
Change in total net assets	1,181,254	74,377
Net assets, beginning of year	(135,255)	(209,632)
Net assets, end of year	$ 1,045,999	$ (135,255)

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, 2017	2016
Cash flows from operating activities		
Cash received from residents	$ 6,164,683	$ 5,925,801
Cash received from entrance fees	1,864,900	1,332,316
Investment income received	736	8,093
Proceeds from contributions	411,273	179,982
Interest paid	(20,226)	(28,459)
Cash paid to suppliers and employees	(7,186,902)	(6,555,499)
Net cash provided by operating activities	1,234,464	862,234
Cash flows from investing activities		
Net purchases of fixed assets	(427,716)	(307,842)
Change in limited use assets	(212,090)	-
Net withdrawal of investments	-	85,183
Net cash used in investing activities	(639,806)	(222,659)
Cash flows from financing activities		
Principal payments on notes payable	(220,000)	(83,500)
Proceeds on line of credit	-	200,000
Payments on line of credit	-	(200,000)
Payments on capital lease obligation	(9,473)	(8,770)
Refunds of unearned entrance fees	(299,127)	(401,976)
Contributions restricted for long-term purposes	516,168	-
Net cash used in financing activities	(12,432)	(494,246)
Net change in cash	582,226	145,329
Cash, beginning of year	929,741	784,412
Cash, end of year	$ 1,511,967	$ 929,741
Supplemental disclosures:		
Non-cash investing and financing activities:		
Fixed assets included in accounts payable	$ 37,489	$ 19,182

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

STATEMENTS OF CASH FLOWS
(Continued)

	Years Ended March 31, 2017	2016
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 1,181,254	$ 74,377
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of earned entrance fees	(866,639)	(1,060,891)
Depreciation expense	475,656	320,629
Unearned entrance fees received from residents	2,000,300	1,332,316
Contributions restricted for long-term purposes	(516,168)	-
Contributions to gift annuities	-	(5,241)
Change in present value of gift annuities	2,382	14,003
Loss on asset disposal	2,919	-
Forgiveness of note payable	(5,000)	-
Change in deposit program	1,712	1,304
(Increase) decrease in operating assets:		
Accounts receivable	(442,495)	173,872
Entrance fee receivable	(135,400)	-
Prepaid expenses and inventory	(361,283)	(57,742)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(19,252)	(10,686)
Refundable deposits	(77,550)	57,550
Management fees payable	(5,972)	22,743
Net cash provided by operating activities	$ 1,234,464	$ 862,234

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

NOTES TO 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 68 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.

Performance Indicator – "Change in unrestricted net assets" as reflected in the accompanying statements of activities is the performance indicator. Change in unrestricted net assets excludes all temporarily or permanently restricted net asset 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 $111,407 and $106,277 as of March 31, 2017 and 2016, respectively.

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

Note 2 – Summary of Significant Accounting Policies (continued)

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

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, 2017 and 2016, 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, 2017 and 2016, 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

Change in accounting estimate – The Association reviews the estimated useful lives of its property and equipment on an ongoing basis. This review indicated that the actual lives of certain property and equipment differed from the estimated useful lives used for depreciation purposes in the Association's financial statements. Also, this review indicated that the depreciable bases of certain property and equipment were greater than the depreciable bases used for depreciation purposes in the Association's financial statements. As a result, effective April 1, 2016, the Association changed its estimates of the depreciable bases and useful lives of certain property and equipment to better reflect the depreciable value and estimated periods during which these assets will remain in service. The effect of this change in estimate was to increase depreciation expense and decrease the change in net assets for the year ended March 31, 2017, by approximately $147,950.

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 2017 and 2016) 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, 2017 and 2016.

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.

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

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.

Contributions – The Association accounts for contributions in accordance with the recommendations of the Revenue Recognition Topic of the FASB Accounting Standards Codification. In accordance with this Topic, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2017 and 2016, were $31,368 and $25,676, respectively.

Functional Expenses **–** Expenses have been charged to program or general and administrative classifications based on direct expenditures incurred. Indirect expenses are allocated to program or general and administrative classifications based on related usage. The expenses of the Association are presented according to their functional classification in the accompanying statements of activities. There were no fundraising costs incurred for the year ending March 31, 2017. There were fundraising costs in the amount of $769 incurred for the year ending March 31, 2016.

Financial Instruments **–** The Association's financial instruments consist of accounts receivable, entrance fee receivable, deferred gift annuities, other investment, limited use assets, accounts payable, accrued expenses, refundable deposits, a capital lease obligation 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, 2017.

Note 3 – Accounts Receivable

Accounts receivable, net consists of the following as of:

	March 31, 2017	March 31, 2016
Health center	$ 776,466	$ 368,423
Resident monthly fees	20,400	11,358
	796,866	379,781
Less: allowance for doubtful accounts	(37,497)	(62,907)
	$ 759,369	$ 316,874

Accounts receivable, gross consists of the following as of:

	March 31, 2017	March 31, 2016
Private pay	7%	23%
Medicare	25	41
Medi-Cal	40	20
HMO	28	16
	100%	100%

Note 4 – 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, 2017 and 2016, the Association owned 0% of PCRRG.

The balance of the subscriber savings allocation account held with PCRRG was paid to the Association in the amount of $85,183 during the year ended March 31, 2016. The remaining paid in surplus account was $91,738 as of March 31, 2017 and 2016 and will be evaluated annually.

The Association paid premiums of $158,790 and $129,919 for the years ended March 31, 2017 and 2016, respectively. 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.

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 5 – Assets Whose Use is Limited

	March 31, 2017	March 31, 2016
Charitable remainder trust	$ 90,000	$ 90,000
Endowment	202,901	202,901
Board restricted	212,090	-
	$ 504,991	$ 292,901

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

Note 6 – Property and Equipment

	March 31, 2017	March 31, 2016
Land	$ 1,306,535	$ 1,306,535
Buildings, building improvements and land improvements	10,140,137	9,681,001
Furniture, equipment and vehicles	1,149,472	1,092,895
	12,596,144	12,080,431
Less: accumulated depreciation	(8,342,655)	(7,888,046)
	4,253,489	4,192,385
Construction-in-process	173,880	248,354
Property and equipment, net	$ 4,427,369	$ 4,440,739

Note 7 – 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 7 – 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, 2017 and 2016:

		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, 2017				
Assets:				
Other investments:				
Insurance investment	$ 91,738	$ -	$ -	$ 91,738
Gift annuities	70,836	-	-	70,836
Total assets	$ 162,574	$ -	$ -	$ 162,574
March 31, 2016				
Assets:				
Other investments:				
Insurance investment	$ 91,738	$ -	$ -	$ 91,738
Gift annuities	73,218	-	-	73,218
Total assets	$ 164,956	$ -	$ -	$ 164,956

NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 7 – 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, 2015	$ 176,921	$ 81,980	$ 258,901
Contribution	-	5,241	5,241
Withdrawal	(85,183)	-	(85,183)
Change in present value	-	(14,003)	(14,003)
March 31, 2016	91,738	73,218	164,956
Withdrawal	-	-	-
Change in present value	-	(2,382)	(2,382)
March 31, 2017	$ 91,738	$ 70,836	$ 162,574

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 8 – 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, 2017, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.70% and 1.39% per annum. At March 31, 2016, deposits earned monthly interest based on the One Year Treasury Security index plus a fractional rate for rates ranging between 0.77% and 1.11% 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, 2017 and 2016, were $213,645 and $211,933, 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, 2017 and 2016, were $34,000 and $111,550, respectively, and are included in refundable deposits on the accompanying statements of financial position.

Note 9 – 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, 2017 and 2016, there was no outstanding balance on the line of credit.

Note 10 – Capital Lease

The Association obtained a piece of equipment through a capital lease. The equipment has a cost basis of $46,743. The amount of accumulated depreciation in the statements of financial position that relates to the leased asset was $15,757 and $9,349 at March 31, 2017 and 2016, respectively. Depreciation expense reported in the statements of activities includes depreciation of the leased asset in the amount of $6,408 and $4,674 for the years ended March 31, 2017 and 2016, respectively.

The annual minimum future lease payments required under the lease agreement are as follows for the years ended March 31:

2018	$	11,526
2019		11,526
		23,052
Less interest		(1,760)
	$	21,292

Note 11 – Notes Payable

	March 31,			
	2017		2016	
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.	$	360,115	$	585,115
Less current portion		(150,000)		(125,000)
Long-term portion	$	210,115	$	460,115

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

2018	$	150,000
2019		10,115
2020		20,000
2021		130,000
2022		50,000
	$	360,115

In April 2016, the Association paid off a $100,000 note payable due in February 2018, upon the agreeable request of the Trust upon death of the note holder.

Note 12 – Deferred Revenue from Entrance Fees

	Years Ended March 31, 2017	2016
Balance, beginning of year	$ 4,775,345	$ 5,055,404
New entrance fees	2,000,300	1,332,316
Entrance fees refunded	(149,619)	(551,484)
Amortization of fees	(866,639)	(1,060,891)
Balance, end of year	$ 5,759,387	$ 4,775,345

Entrance fees still within a potentially refundable declining period at March 31, 2017 and 2016, were $3,675,394 and $2,961,432, respectively. Based on the past five years actual refunds have averaged $374,441 per year for the potentially refundable declining period.

Note 13 – Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted to use for the following as of:

	March 31, 2017	2016
Resident support funds	$ 428,366	$ 364,345
Palliative care	18,244	18,244
Charitable gift annuities	70,836	73,218
Capital funds	543,500	27,332
Other funds	42,429	46,317
	$ 1,103,375	$ 529,456

Note 14 - Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of:

	March 31, 2017	March 31, 2016
Permanently restricted – endowment fund	$ 202,901	$ 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 temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed under law. No new donations were made to the endowment fund during the years ended March 31, 2017 and 2016. 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 $116 and $102 for the years ended March 31, 2017 and 2016, 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 $18,944 and $38,175 for the years ended March 31, 2017 and 2016, respectively.

Note 16 – Related Party Transactions

The Association maintains refundable deposits as part of the deposit program (see note 8) for a board member in the amount of $52,134 and $51,703 as of March 31, 2017 and 2016, respectively.

Note 17 – Management Services

The Association has an agreement with PRS Management and Consulting, LLC, whereby PRS Management and Consulting, LLC will provide management services for the Association. The agreement was signed on April 10, 2012. The fee for these services is an annual base fee of $250,000. In addition to the base management fee, the Association will pay 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 requires 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. The Association entered into a new management services agreement with PRS Management, Inc. effective July 20, 2017, see Note 21 – Subsequent Events for details. Management fees and incentive fees charged were $266,732 and $249,996 for the years ended March 31, 2017 and 2016, respectively.

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, 2017, were sufficient to meet this requirement.

Note 19 –Contingencies

The Association is a defendant in a lawsuit claiming damages; the outcome of this claim is unknown as of the date the financial statements were issued. At March 31, 2017, the Association recorded an estimated payable in the amount of $49,504, included in accounts payable and accrued expenses on the accompanying balance sheets; however this amount could change. Although the outcome of the claim is unknown at this time in management’s opinion, any additional losses that may occur would be covered by the Association’s insurance company.

The Association was a defendant in a lawsuit claiming damages. On June 13, 2017, the lawsuit was settled and the judgement was paid in full. At March 31, 2017, the Association recorded a settlement payable in the amount of $26,000, included in accounts payable and accrued expenses on the accompanying balance sheets.

The Association is also 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.

Note 19 –Contingencies (continued)

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, 2017.

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 ending March 31, 2017 and 2016, were $1,453,745 and $1,274,847, respectively. Total Medi-Cal revenues for the years ending March 31, 2017 and 2016, were $948,041 and $660,162, 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, 2017 and 2016, the Association had balances in excess of the coverage under Federal Deposit Insurance Corporation insurance.

Note 21 – Subsequent Events

Effective July 20, 2017, the Association entered into a management services agreement with PRS Management, Inc., whereby PRS Management, Inc. will provide management services for the Association. As defined by the new management services agreement, the 2012 agreement with PRS Management and Consulting, LLC is terminated as of July 20, 2017. The term of the new agreement is three years from the effective date and shall be automatically renewed for an additional two years unless a written notice of termination is delivered by either party within 180 days in advance of the termination date. The fee for the services will be an annual base fee of $250,000; and in addition to the base fee the Association will pay 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.

The Association did not have any other subsequent events through July 25, 2017, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended March 31, 2017.

PART 5
<u>LIQUID RESERVES</u>

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 continuing care reserve report (the "Reports") of the Friends Association of Services for the Elderly (the "Association"), which comprise the continuing care liquid reserve schedules Form 5-1 through Form 5-5 as of March 31, 2017. The Reports have been prepared by management using the liquid reserve requirements of California Health and Safety Code Section 1792.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the Reports in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Reports that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the Reports present fairly, in all material respects, the liquid reserve schedules Form 5-1 through Form 5-5 of Friends Association of Services for the Elderly as of March 31, 2017, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Emphasis of Matter

The accompanying Reports were prepared in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Reports are not intended to be a complete presentation of the Association's assets, liabilities, revenues and expenses. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Hansen Hunter & Co. P.C.

July 26, 2017

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	See Attached Schedule	220,000	15,432	-	235,432
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					-
		TOTAL	15,432	-	235,432

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

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

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

(a) Date Incurred	Principal	Payments	Apr-June	July-Sept	Oct-Dec	Jan-Mar	(c) Total Interest Paid
7/17/2013	20,000	Paid 7/19/2016	150	150			299
2/10/2012	30,000		224	224	227	227	902
7/24/2012	150,000		1,122	1,122	1,134	1,134	4,512
4/18/2012	50,000		374	374	378	378	1,504
2/28/2012	100,000	Paid 4/05/2016	789				789
2/22/2012	100,000	Paid 2/21/2017	748	748	756	1,184	3,436
8/8/2012	5,000		37	37	38	38	150
8/17/2013	5,115		38	38	39	39	154
4/7/2012	5,000	Loan balance was donated to community 04/07/2016	37	37			75
2/22/2012	20,000		150	150	151	151	602
3/2/2013	100,000		748	748	756	756	3,008
			-	-	-	-	-
			-				-
TOTAL		220,000	4,417	3,628	3,479	3,907	15,432

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

Total principal payments due FY 2018. To be paid from cash & cash equivelents 150,000

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

Form 5-1 supporting schedule

Friends House
FYE 2017 Schedule of Interest, Credit Enhancements (LOC Fees), and Other Fees "Two Way Reconciliation"
March 31, 2017

Expenses included in audit

Notes Payable	15,432
Total Interest Paid	**15,432**
N/A	**-**
Credit enhancement payments	**-**
Issue Cost Amortization	**-**
Total Other Fees	**-**
Line of credit Fees	**-**
Interest paid on Chartiable remainder trust	**2,707**
Interest paid on Capital Lease	**2,086**
Total other interest / fees	**4,794**
Total Interest expense and financing fees	**20,226**
Total Expenses from audit	7,280,682
Interest expense and fees from audit	20,226
Total operating expense, **per audited financials**	**7,300,908**
Depreciation expense, **per audited financials**	**475,656**

FORM S-2
LONG-TERM DEBT INCURRED
During Fiscal Year
Including Balloon Debt

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

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

Provider: Friends Association of Services for the Elderly

FORM 5-3

CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

LINE		TOTAL
1	Total from Form 5-1 bottom of column (e)	235,432
2	Total from Form 5-2 bottom of Column (e)	
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	235,432

PROVIDER: Friends Association of Services for the Elderly

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

		Amounts	TOTAL
1	Total operating expenses from financial statements		7,300,908
2	Deductions		
	a Interest paid on long-term debt (see instructions)	15,432	
	b Credit enhancement premiums paid for long-term debt (see instruction)	-	
	c Depreciation	475,656	
	d Amortization	-	
	e Revenues received during the fiscal year for services to residents who did not have continuing care contract	4,741,213	
	f Extraordinary expenses approved by the Department		
3	Total Deductions		5,232,302
4	Total Net Operating Expenses		2,068,606
5	Divide Line 4 by 365 and enter the result		5,667
6	**Multiply Line 5 by 75 and enter the result**		**425,025**
	This is the provider's operating expense reserve amount for this community.		

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

FH - Non CCRC Revenue
April 2016 - March 2017

LOC Type		Annual Revenue
Assisted Living		306,034
Total Non-CCRC Assisted Living	$	306,034
All Health Center revenues	$	3,936,818
CCRC Revenues		(5,441)
Total Non-CCRC receipts from health center	$	3,931,377
Other non-CCRC revenue:		
Guest Room Revenue		8,359
Administrative Revenue		171,705
Dining - Guest Meals		642
Dining - Employee Meal Tickets		10,684
Contributions		311,792
Investments		620
Total Non-CCRC other revenue	$	503,802
Total Non-CCRC Revenue		4,741,213
Per audited financial statements:		
Net skilled nursing facility revenue		3,936,818
Net housing related fees		2,418,550
Amortization of entrance fees		866,639
Contributions		311,792
Investment income		620
Total other revenue		329,360
Total CCRC/Non-CCRC Revenue	**$**	**7,863,779**
Total CCRC Revenue	**$**	**3,122,566**

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name:	Friends Association of Services for the Elderly
Fiscal Year Ended:	March 31, 2017

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the fiscal year ended March 31, 2017 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	235,432
[2]	Operating Expense Reserve Amount	425,025
[3]	**Total Liquid Reserve Amount:**	660,457

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

	Qualifying Asset Description		**Amount (market value at end of quarter)**		
	Description		**Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents		235,432		243,996
[5]	Investment Securities				
[6]	Equity Securities				
[7]	Unused/Available Lines of Credit				1,500,000
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve				
[10]	Other: Fixed Income Securities Large/Mid/Small Cap Growth/Value Deposit Account (describe qualify asset)				
	Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11]	235,432	[12]	1,743,996
	Reserve Obligation Amount:	[13]	235,432	[14]	425,025
	Surplus/(Deficiency):	[15]	-	[16]	1,318,971

Signature:

Sheri Logan
(Authorized Representative)

VP of Accounting
(Title)

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

Cash & Cash Equivalents		
Operating/Payroll/Petty	1,511,967	per audit
Less:		
Temp Restricted Funds **	(1,103,375)	per audit
Add:		
Deferred gift annuities	70,836	
included in temp restricted funds	**479,428**	

Investments		
Cash & Cash Equivalents		
Equity		
	0	

Per the March 2017 audit, the FH Reserves listed above are liquid and available for use as needed, with exception to those listed. If necessary, excess funds from the above investments will be used to cover any deficiency that may exist in the debt service reserve calculation on Form 5-5.
*** Note: These funds will not be included on Form 5-5, as they are restricted for use, NOT for the debt service or operating reserves.*

Per Capita Cost of Operations

Operating Expenses (Form 5-4 line # 1)	7,300,908
Mean # of CCRC Residents (Form 1-1 line 10)	113
Per Capita Cost of Operations	64,897

PART 6

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE STATEMENT

Date Prepared: 07/17/2017

CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT
GENERAL INFORMATION

FACILITY NAME: Friends Association of Services for the Elderly (FASE) dba: Friends House

ADDRESS: 684 Benicia Drive, Santa Rosa, CA		ZIP CODE: 95409	PHONE: (707) 538 - 0152
FACILITY OWNER: Friends House		FACILITY OPERATOR: PRS Management Inc.	
RELATED FACILITIES:		RELIGIOUS AFFILIATION: Religious Society of Friends (Quakers)	
YEAR OPENED: 1984	NO. OF ACRES: 7	MULTI-STORY:_______ SINGLE STORY: X BOTH:__________	
MILES TO SHOPPING CTR: 1/4 mile (approx)		MILES TO HOSPITAL: 3 miles (approx)	

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS -STUDIO	0	ASSISTED LIVING	6
APARTMENTS -1 BDRM	49	SKILLED NURSING	34
APARTMENTS - 2 BDRM	15	SPECIAL CARE	0
APARTMENTS - 3 BDRM		DESCRIBE SPECIAL CARE:	
COTTAGES/HOUSES	4		
% OCCUPANCY AT YEAR END	92.6%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ACCREDITED: ☐ Y ☐ N BY: ____________

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☑ FEE FOR SERVICE

☐ ASSIGN ASSETS ☐ EQUITY ☑ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (CHECK ALL THAT APPLY): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☑ OTHER: Amortized over 6 years

RANGE OF ENTRANCE FEES: $ 137,000 TO $ 289,000 LONG -TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: ____________________

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

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

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☐	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☐	☐
CHAPEL	☐	☐
COFFEE SHOP	☐	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLD COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☐	☐
SWIMMING POOL-INDOOR	☐	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☐	☐
OTHER Laundry, Commons	☑	☐
On-site Banking	☐	☐
On-site Physical Therapist	☑	☑

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	bi-weekly	
NUMBER OF MEALS/DAY	1	2
SPECIAL DIETS AVAILABLE		
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☐	☑
APARTMENT MAINTENANCE	☑	☐
CABLE TV	☐	☑
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	☐	☑
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☐	☐
PERSONAL NURSING/HOME CARE	☐	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER ____________________	☐	☐

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

PROVIDER NAME: Friends Association of Services for the Elderly

CCRCs	LOCATION (City, State)	PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

***PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

SINGLE-SITE FACILITY
FINANCIAL DISCLOSURE STATEMENT

FACILITY NAME: Friends House

	2013	2014	2015	2016	2017
INCOME FROM ONGOING OPERATIONS					
OPERATING INCOME (excluding amortization of entrance fee income)	4,033,893	4,655,521	5,179,532	5,702,467	6,685,348
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	5,738,680	6,061,980	6,225,578	6,510,372	6,805,132
NET INCOME FROM OPERATIONS	(1,704,787)	(1,406,459)	(1,046,046)	(807,905)	(119,784)
LESS INTEREST EXPENSE	49,987	44,081	29,917	29,200	20,120
PLUS CONTRIBUTIONS	553,727	287,338	420,210	185,223	932,441
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	(119,995)	16,395	28,871	(14,003)	(2,382)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	(1,321,042)	(1,146,807)	(626,882)	(665,885)	790,155
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	749,781	800,860	1,473,330	930,340	1,565,773

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD	AMORTIZATION PERIOD	AMORTIZATION PERIOD
Non-institutional lenders	365,115	3/2011	3/2021	Interest only	Interest only	Interest only
	-					

FINANCIAL RATIOS (see next page for ratio formulas)

	2013	2014	2015	2016	2017
DEBT TO ASSET RATIO	7.8%	3.5%	4.9%	7.3%	2.6%
OPERATING RATIO	143.5%	131.2%	120.8%	114.7%	102.1%
DEBT SERVICE COVERAGE RATIO	(13.8)	0.78	1.29	0.86	8.74
DAYS CASH-ON-HAND RATIO	76	49	34	26	81

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2013	%	2014	%	2015	%	2016		2017
STUDIO	$ -		$ -		$ -		$ -		$ -
ONE BEDROOM	$ 1,049.00	26.0%	$ 1,417.00	31.7%	$ 1,866.00	9.9%	$ 2,050.00	20.0%	$ 2,460.00
TWO & THREE BEDROOM	$ 1,518.00	26.0%	$ 2,050.00	19.5%	$ 2,450.00	13.7%	$ 2,785.00	20.0%	$ 3,342.00
COTTAGE/GARDEN APT	$ 1,634.00	25.9%	$ 2,206.00	18.6%	$ 2,617.00	2.4%	$ 2,680.00	20.0%	$ 3,216.00
ASSISTED LIVING	$ 5,500.00	0.0%	$ 5,500.00	0.0%	$ 5,500.00	5.0%	$ 5,775.00	3.0%	$ 5,948.00
SKILLED NURSING	$ 8,640.00	4.5%	$ 9,049.00	0.0%	$ 9,049.00	5.0%	$ 9,501.00	3.0%	$ 9,786.00
SPECIAL CARE	N/A		N/A		N/A		N/A		N/A

COMMENTS FROM PROVIDER:
Rate increase effective 04/01/2017 was 4% for IL, 3% for AL and 5% for HC.

Provider Name: Friends Association of Services for the Elderly

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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

PART 7
REPORT ON CCRC MONTHLY SERVICE FEES

FORM 7-1

REPORT ON CCRC MONTHLY SERVICE FEES

		INDEPENDENT LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period:	$2,460 - $3,342	$5,948	$8,912 - $10,676
[2]	Indicate percentage of increase in fees imposed during reporting period:	20%	3.00%	3.00%

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

[3] Indicate the date the fee increase was implemented: January 1, 2017

[4] Check each of the appropriate boxes:

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

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

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

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

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

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

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

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

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

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

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

We increased health center or assisted living fees 3%. Independent living fees increased by 20% for existing residents.

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

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