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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Mueller Prost
CPAs + Business Advisors

Advising with Vision®

www.muellerprost.com

Phone 314.862.2070 | Fax 314.862.1549 | www.muellerprost.com
St. Louis | 7733 Forsyth Blvd. | Suite 1200 | St. Louis | MO | 63105
St. Charles | 2460 Executive Drive | St. Charles | MO | 63303
Irvine | 3 Park Plaza | Suite 400 | Irvine | CA | 92614

TABLE OF CONTENTS

To the Board of Directors
Mennonite Brethren Homes, Inc
d/b/a Palm Village Retirement Community
Reedley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of *Mennonite Brethren Homes, Inc. d/b/a Palm Village Retirement Community* (a nonprofit health care entity), and affiliate (collectively, the "Organization") which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, statements of functional expenses, and consolidated statements of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Mennonite Brethren Homes, Inc. d/b/a Palm Village Retirement Community* and affiliate as of December 31, 2019 and 2018, and the results of its operations, 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.

Mueller Prost LC
Certified Public Accountants

June 26, 2020
St. Louis, Missouri

Phone 314.862.2070 | Fax 314.862.1549 | www.muellerprost.com
St. Louis | 7733 Forsyth Blvd. | Suite 1200 | St. Louis | MO | 63105
St. Charles | 2460 Executive Drive | St. Charles | MO | 63303
Irvine | 3 Park Plaza | Suite 400 | Irvine | CA | 92614

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

		2019		2018
ASSETS				
Current Assets				
Cash	$	4,174,633	$	3,748,022
Accounts receivable				
Resident, net		1,124,489		1,119,092
Consulting, net		81,562		93,736
Other		7,310		8,375
Prepaid expenses		256,953		232,697
Supplies inventory		20,808		20,756
Current portion of assets limited as to use		819,767		675,766
Total Current Assets		6,485,522		5,898,444
Assets Limited as to Use				
Under indenture agreement, held for debt service		260,873		243,546
Internally board designated		800,479		652,697
Chapel fund - resident designated funds		1,111		2,289
Resident funds		18,177		20,780
Total Assets Limited as to Use		1,080,640		919,312
Less: current portion shown above		(819,767)		(675,766)
Assets Limited as to Use (Net of Current Portion)		260,873		243,546
Fixed Assets				
Land		998,567		998,567
Buildings and improvements		22,209,458		21,799,026
Furniture and equipment		4,240,653		4,168,747
Vehicles		229,164		220,549
Total Fixed Assets		27,677,842		27,186,889
Accumulated depreciation		(16,820,774)		(16,059,304)
Net Fixed Assets		10,857,068		11,127,585
Other Assets				
Deferred letter of credit renewal fees		27,927		25,734
Total Other Assets		27,927		25,734
Total Assets	**$**	**17,631,390**	**$**	**17,295,309**

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS	2019	2018
Current Liabilities		
Accounts payable	$ 590,926	$ 231,148
Accrued salaries, payroll taxes and benefits	891,167	812,370
Accommodation fee deposits	23,200	14,200
Current portion of refundable accommodation fees	50,000	50,000
Deferred revenue from consulting services	97,277	-
Current maturities of long-term debt	605,000	585,000
Capital lease	736	736
Income tax liability	1,039	1,039
Other current liabilities	421,389	271,567
Total Current Liabilities	2,680,734	1,966,060
Long-Term Debt		
Bonds payable, less current portion	4,190,000	4,795,000
Less: deferred financing costs, net	(239,931)	(277,223)
Total Long-Term Debt	3,950,069	4,517,777
Other Liabilities		
Deferred revenue from cottage commons	197,617	42,536
Refundable accommodation fees	2,378,815	2,399,623
Deferred revenue from accommodation fees	2,413,997	2,566,946
Total Other Liabilities	4,990,429	5,009,105
Total Liabilities	11,621,232	11,492,942
Net Assets		
Without donor restrictions	5,975,707	5,801,267
With donor restrictions	34,451	1,100
Total Net Assets	6,010,158	5,802,367
Total Liabilities and Net Assets	**$ 17,631,390**	**$ 17,295,309**

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Residential services	$ 14,229,412	$ -	$ 14,229,412
Accommodation fees	1,010,458	-	1,010,458
Consulting	201,753	-	201,753
Other	221,126	-	221,126
Total Revenue	15,662,749	-	15,662,749
Net Assets Released from Restrictions	-	-	-
Total Revenue Without Donor Restrictions	15,662,749	-	15,662,749
Operating Expenses			
Palm Village Retirement Community			
Program services	13,206,668	-	13,206,668
Support services			
Management and general	1,774,081	-	1,774,081
Fundraising	40,555	-	40,555
	15,021,304	-	15,021,304
Peer Services, Inc.			
Financing	75	-	75
Administrative	131,880	-	131,880
Payroll expenses	270,642	-	270,642
Professional fees	148,522	-	148,522
Utilities	1,624	-	1,624
Bad debts	56,000	-	56,000
Marketing	35,140	-	35,140
	643,883	-	643,883
Total Operating Expenses	15,665,187	-	15,665,187
Change in Net Assets from Operations	(2,438)	-	(2,438)
Other Income (Expense)			
Investment income, net	24,234	-	24,234
Fundraising costs	(13,165)	-	(13,165)
Contributions	158,897	33,351	192,248
Other income, net	6,912	-	6,912
Total Other Income	176,878	33,351	210,229
Changes in Net Assets	174,440	33,351	207,791
Net Assets, Beginning of Year	5,801,267	1,100	5,802,367
Net Assets, End of Year	**$ 5,975,707**	**$ 34,451**	**$ 6,010,158**

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

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Residential services	$ 14,108,676	$ -	$ 14,108,676
Accommodation fees	793,062	-	793,062
Consulting	414,263	-	414,263
Other	24,093	-	24,093
Total Revenue	15,340,094	-	15,340,094
Net Assets Released from Restrictions	37,504	(37,504)	-
Total Revenue Without Donor Restrictions	15,377,598	(37,504)	15,340,094
Operating Expenses			
Palm Village Retirement Community			
Program services	12,778,434	-	12,778,434
Support services			
Management and general	1,608,820	-	1,608,820
Fundraising	52,921	-	52,921
	14,440,175	-	14,440,175
Peer Services, Inc.			
Financing	165	-	165
Administrative	270,285	-	270,285
Payroll expenses	349,102	-	349,102
Professional fees	226,400	-	226,400
Utilities	2,198	-	2,198
Bad debt recoveries, net	(24,000)	-	(24,000)
Marketing	49,163	-	49,163
	873,313	-	873,313
Total Operating Expenses	15,313,488	-	15,313,488
Change in Net Assets from Operations	64,110	(37,504)	26,606
Other Income (Expense)			
Investment income, net	24,115	-	24,115
Fundraising costs	(20,222)	-	(20,222)
Contributions	126,742	1,100	127,842
Other expense	(67,878)	-	(67,878)
Total Other Income	62,757	1,100	63,857
Changes in Net Assets	126,867	(36,404)	90,463
Net Assets, Beginning of Year	5,674,400	37,504	5,711,904
Net Assets, End of Year	**$ 5,801,267**	**$ 1,100**	**$ 5,802,367**

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

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

		Support Services		
	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 5,868,509	$ 933,861	$ -	$ 6,802,370
Other benefits	1,586,480	237,060	-	1,823,540
Payroll taxes	509,606	76,148	-	585,754
Accounting	-	67,205	-	67,205
Legal	25,321	55,278	-	80,599
Supplies	701,161	104,771	-	805,932
Telephone	18,805	2,810	-	21,615
Postage	9,274	-	3,974	13,248
Occupancy and utilities	659,775	33,922	-	693,697
Printing and publication	15,249	-	6,536	21,785
Travel	56,328	8,417	-	64,745
Interest	126,747	6,517	-	133,264
Depreciation and amortization	763,386	39,249	-	802,635
Contribution	29,333	-	-	29,333
Dues and subscriptions	39,600	-	-	39,600
Miscellaneous	15,509	-	-	15,509
Education	44,614	-	-	44,614
Licenses and taxes	92,174	-	-	92,174
Repairs and maintenance	126,573	6,508	-	133,081
Security	65,051	-	-	65,051
Advertising	70,106	-	30,045	100,151
Creative	41,476	6,198	-	47,674
Insurance	287,009	14,756	-	301,765
Professional services	1,180,374	176,378	-	1,356,752
Food	809,891	-	-	809,891
Strategic research	-	5,003	-	5,003
Minor equipment	20,040	-	-	20,040
Transportation	502	-	-	502
Fines and penalties	43,775	-	-	43,775
Total Expenses	**$ 13,206,668**	**$ 1,774,081**	**$ 40,555**	**$ 15,021,304**

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries and wages	$ 5,760,363	$ 792,545	$ 4,204	$ 6,557,112
Other benefits	1,324,729	198,094	977	1,523,800
Payroll taxes	495,982	74,167	366	570,515
Accounting	-	79,540	-	79,540
Legal	25,321	20,242	-	45,563
Supplies	741,815	110,846	-	852,661
Telephone	18,834	2,814	-	21,648
Postage	9,840	-	4,217	14,057
Occupancy and utilities	636,400	32,720	-	669,120
Printing and publication	7,414	-	3,178	10,592
Travel	49,424	7,385	-	56,809
Interest	131,234	6,747	-	137,981
Depreciation and amortization	804,689	41,372	-	846,061
Contribution	85,383	-	-	85,383
Dues and subscriptions	43,452	-	-	43,452
Miscellaneous	14,009	-	-	14,009
Education	37,818	-	-	37,818
Licenses and taxes	84,001	-	-	84,001
Repairs and maintenance	106,314	5,466	-	111,780
Security	60,760	-	-	60,760
Advertising	93,285	-	39,979	133,264
Creative	26,367	3,940	-	30,307
Insurance	278,705	14,329	-	293,034
Professional services	1,090,799	162,993	-	1,253,792
Food	827,524	-	-	827,524
Strategic research	-	55,620	-	55,620
Minor equipment	23,612	-	-	23,612
Transportation	360	-	-	360
Total Expenses	**$ 12,778,434**	**$ 1,608,820**	**$ 52,921**	**$ 14,440,175**

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

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from residents	$ 15,716,364	$ 14,775,418
Cash received from consulting services	213,927	425,242
Cash paid to suppliers and employees	(14,225,238)	(14,201,578)
Income tax paid	(1,631)	(78,619)
Interest received	24,234	24,115
Contributions received	192,248	127,842
Interest paid	(83,913)	(84,282)
Net Cash Provided by Operating Activities	1,835,991	988,138
Cash Flows from Investing Activities		
Payments for property, equipment, and construction in progress	(490,953)	(473,438)
Purchases of assets whose use is limited	(161,328)	68,810
Net Cash Used in Investing Activities	(652,281)	(404,628)
Cash Flows from Financing Activities		
Refund of accommodation fees	(172,099)	(82,176)
Principal payment on long-term debt	(585,000)	(560,000)
Net Cash Used in Financing Activities	(757,099)	(642,176)
Increase (Decrease) in Cash	426,611	(58,666)
Cash - Beginning of Year	3,748,022	3,806,688
Cash - End of Year	**$ 4,174,633**	**$ 3,748,022**

MENNONITE BRETHREN HOMES, INC.
DBA PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities		
Change in Net Assets	$ 207,791	$ 90,463
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	796,569	844,763
Change in allowance for doubtful accounts	53,328	463
Provision for bad debts	82,504	20,370
Amortization of accommodation fees	(1,010,458)	(793,062)
(Increase) decrease in current assets		
Account receivable	(127,990)	(139,950)
Prepaid expenses	(24,256)	178,789
Supplies inventory	(52)	4,472
Increase (decrease) in liabilities		
Accounts payable	359,778	(24,815)
Accrued salaries, payroll taxes and benefits	78,797	67,838
Accommodation fee deposits	9,000	3,000
Deferred revenue from consulting services	97,277	-
Income tax liability	-	(68,658)
Other current liabilities	149,822	15,469
Deferred revenue from cottage commons	155,081	19,251
Refundable accommodation fees	(219,200)	17,745
Deferred revenue from accommodation fees	1,228,000	752,000
Total Adjustments	1,628,200	897,675
Net Cash Provided By Operating Activities	**$ 1,835,991**	**$ 988,138**

NOTE 1 ORGANIZATION

Organization

Mennonite Brethren Homes, Inc. d/b/a Palm Village Retirement Community (Palm Village) is a not-for-profit corporation located in Reedley, California licensed as a Continuing Care Retirement Community. Palm Village consists of 120 nursing beds, 53 residential/personal care facility units, 16 memory care units and 79 independent living complex units. The mission of Palm Village is to provide post-acute care and residential services to the elderly community.

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

Collectively the consolidated entity (Palm Village and Peer Services) is referred to as the "Organization."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Consolidated Financial Statement Presentation of Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, the following:

	2019	2018
Emergency Funds	$ 800,479	$ 652,697
Chapel Fund – Resident Use	1,111	2,289
Total	**$ 801,590**	**$ 654,986**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation of Net Assets (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received and recorded as pledges receivable. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as contributions without donor restrictions.

Income Taxes

Palm Village is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Therefore, there is no provision for income taxes reflected in the consolidated financial statements related to the activities of Palm Village.

Peer Services is not a tax-exempt organization and is therefore subject to income taxes at the federal and state levels. Peer Services has a net accrued income tax liability of $1,039 as of both December 31, 2019 and 2018. Peer Services paid $1,631 and $78,619 of federal and state income tax in 2019 and 2018, respectively.

The Organization follows FASB ASC 740-10, *Income Taxes – Overall*. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and positions related to the potential sources of unrelated business income taxes (UBIT). The tax benefits and liabilities recognized in the consolidated financial statements from such a position are measured based on whether it has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization has assessed its federal and state tax positions and determined that there were no unrelated business income taxes and no uncertainties or possible related effects that need to be recorded as of or for the year ended December 31, 2019.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains its cash demand deposit accounts at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At various times during the years ended December 31, 2019 and 2018, the Organization's cash balances may have exceeded the federally insured limit.

Cash and Cash Equivalents

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

Operating Revenue

Resident services revenue is reported at the amount that reflects the consideration, to which the Organization expects to be entitled in exchange for providing resident services. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the residents and third-party payors several days after the services are performed or the resident no longer needs care. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time are related to residents in our facilities receiving in-resident post-acute care services or residents receiving services in their homes (home care, patio home). The Organization measures the performance obligation from admission into the assisted living unit, or the commencement of the assisted living service, to the point when it is no longer required to provide services to that resident, which is generally at the time that the resident elects to move from the facility, or passes away. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our residents in a retail setting (for example, personal care services and additional meals not covered in the resident contract) and the Organization does not believe it is required to provide additional goods or services related to that sale.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue (continued)

Peer Services contracts with customers all have performance obligations with durations of less than one year, therefore, for these contracts, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a 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 Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured residents in accordance with the Organization's policy (charity care), and implicit price concessions provided to uninsured residents. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of residents.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare: Certain in-resident post-acute care services are paid at prospectively determined rates per service based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Our licensed nursing facility which participated in the Medicare program for the years ended December 31, 2019 and 2018 was reimbursed based on the Prospective Payment System (PPS). This program is administered by the United States Department of Health and Human Services. The PPS is a per diem price-based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

Medi-Cal: Reimbursements for Medi-Cal services are generally paid at prospectively determined rates per type of service, per occasion of service, or per covered member. The Medi-Cal program is administered by the California Department of Health and Human Services Agency, Department of Health Services. The department determines Medi-Cal rates for the facility every August 1. The rates are determined by re-basing all filed cost reports every three years.

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

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per service, discounts from established charges, and prospectively determined daily rates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue (continued)

Peer Services provides consulting services to other long-term care facilities, providing staffing, training, accounting, assistance and advisory services over the duration of contracts lasting less than one year. Consulting revenue is earned by Peer Services, Inc. as fee for service revenue.

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received request for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization’s compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident services. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization’s historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the year’s ended December 31, 2019 and 2018.

Generally, residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured residents, and offers those uninsured residents a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident service revenue in the period of the change. For the years ended, December 31, 2019 and 2018, a reduction of revenue of $2,576,621 and $2,445,798, respectively, was recognized due to changes in its estimated implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the resident’s ability to pay are recorded as bad debt expense.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue (continued)

Consistent with the Organization’s mission, care is provided to residents regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured residents and residents with other uninsured balances, for example, copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to residents and the amounts the Organization expects to collect based on its collection history with those residents.

Residents who meet the Organization’s criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Costs for these programs in excess of reimbursement were estimated to be approximately $323,545 and $437,724 for the years ended December 31, 2019 and 2018, respectively.

The composition of residential services revenue by primary payors for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Medi-Cal	$ 5,607,583	$ 5,464,759
Medicare	2,214,786	2,006,875
Managed care	364,582	240,052
Commercial insurers	2,407,851	2,656,469
Private – Independent living	840,325	785,636
Private – Assisted living	2,747,388	2,877,801
Other	46,897	77,084
	$ 14,229,412	**$ 14,108,676**

Revenue from resident’s deductibles and coinsurance are included in the preceding categories based on the primary payor.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue (continued)

The composition of total disaggregated operating revenue based on the service lines the Organization provides, its lines of business and timing of revenue recognition for the years ended December 31, 2019 and 2018 is as follows:

	2019				
	Independent Living	Assisted Living	Skilled Nursing	Other	Total
Services Area					
Medical Services	$ -	$ -	$ 10,521,650	$ -	$ 10,521,650
Non-Medical Services	1,925,590	2,789,794	-	304	4,715,688
Long-term Care Facility Consulting	-	-	-	201,753	201,753
Other	4,553	2,578	-	216,527	223,658
	$ 1,930,143	**$ 2,792,372**	**$ 10,521,650**	**$ 418,584**	**$ 15,662,749**
Timing of Revenue and Recognition					
Resident and Other Services Transferred Over Time	$ 1,874,162	$ 2,760,623	$ 10,521,650	$ 201,753	$ 15,358,188
Various Other Revenue Earned at Point in Time	55,981	31,749	-	216,831	304,561
	$ 1,930,143	**$ 2,792,372**	**$ 10,521,650**	**$ 418,584**	**$ 15,662,749**

	2018				
	Independent Living	Assisted Living	Skilled Nursing	Other	Total
Services Area					
Medical Services	$ -	$ -	$ 10,329,982	$ -	$ 10,329,982
Non-Medical Services	1,643,978	2,920,426	-	392	4,564,796
Long-term Care Facility Consulting	-	-	-	414,263	414,263
Other	6,167	3,922	-	20,964	31,053
	$ 1,650,145	**$ 2,924,348**	**$ 10,329,982**	**$ 435,619**	**$ 15,340,094**
Timing of Revenue and Recognition					
Resident and Other Services Transferred Over Time	$ 1,599,698	$ 2,891,657	$ 10,329,982	$ 414,263	$ 15,235,600
Various Other Revenue Earned at Point in Time	50,447	32,691	-	21,356	104,494
	$ 1,650,145	**$ 2,924,348**	**$ 10,329,982**	**$ 435,619**	**$ 15,340,094**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenue (continued)

The Organization charges an entrance fee upon executing a life care contract with a new resident. The entrance fee varies based on the size of the initial patio independent living home that the resident will be occupying. The entrance fee is refundable and becomes progressively non-refundable at the rate of 2% or 1.38% per month, depending on whether a fifty-month or seventy-two-month contract was signed, respectively, and becomes fully non-refundable upon the end of the respective contract's refundable period. The entrance fee is recorded as deferred revenue upon receipt and is amortized over the life expectancy of the resident into entrance fee revenue.

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

Occupancy Percentages

For the years ended December 31, 2019 and 2018, the occupancy percentages of the Organization were as follows:

	2019	2018
Health center (including Wiebe Center)	94.7%	95.5%
Assisted living (including memory care)	84.9%	87.3%
Independent living apartments	95.8%	97.1%

The total census for the Health Center by source of payment at December 31, 2019 and 2018, is as follows:

	2019		2018	
	Days	Percentage	Days	Percentage
Medicare and HMO	4,251	10.3%	3,982	9.5%
Medi-Cal	29,380	70.8%	28,426	68.0%
Private and other	7,833	18.9%	9,419	22.5%
Total	**41,464**	**100.0%**	**41,827**	**100.0%**

Accounts Receivable

Resident accounts receivable represents amounts due from residents and third-party payers such as Medi-Cal and Medicare for services provided. Medi-Cal and Medicare represent the Organization's most significant third-party payers. Consulting accounts receivable represents amounts due from consulting clients. The Organization provides an allowance for doubtful accounts based on historical collection trends and management judgment. No collateral is required for services rendered. Payment for services is due upon receipt of invoice. Accounts are individually analyzed on a monthly basis for collectability.

Once accounts are deemed uncollectible, the amounts are written off to bad debt expense. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was $92,643 and $39,315 as of December 31, 2019 and 2018, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses

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

Supplies Inventory

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

Property and Equipment

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

Buildings and improvements	5-50 years
Furniture and equipment	5-10 years
Vehicles	5 years

Depreciation expense for the years ended December 31, 2019 and 2018 was $761,470 and $804,596, respectively.

Assets Limited as to Use

Assets limited as to use include assets held by the trustee under the bond agreements and board designated amounts for capital expenditures. These assets are primarily invested in cash and cash equivalents. Investment income or loss (including realized gains and losses on investments and interest and dividend income), shown net of investment fees, is included in other income (expense) on the consolidated statements of activities.

Resident Funds

The Organization maintains savings accounts on behalf of certain residents and acts as trustee of these funds which are maintained for the personal use of those residents. The funds are expanded at the direction of the residents. The balance in the resident funds was $18,177 and $20,780 at December 31, 2019 and 2018, respectively.

Letter of Credit Fees

The Organization pays letter of credit fees on an annual basis relating to the issuance of the Series 2005 Certificates of Participation. For the years ended December 31, 2019 and 2018, the Organization paid letter of credit fees of $47,873 and $44,113, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accommodation Fees

Accommodation fees are charged to residents of the independent living facility. The accommodation fees are lump sum payments made to the Organization, which entitles the resident to reside in the facility and participate in certain benefits of the facility. The Organization recognizes as a liability, the portion of the accommodation fee that is refundable according to the terms of the accommodation fee contract with the balance recorded as deferred revenue. The Organization offers accommodation fee contracts with a 72 month schedule for refunds after which time the entire accommodation fee is non-refundable. There were 14 and 17 contracts on a 72 month schedule for the years ended December 31, 2019 and 2018, respectively.

Beginning in 2009, the Organization also began offering reduced entrance fees for a limited amount of independent living units. These contracts amortize over 50 months. There were 59 and 63 contracts on a 50 month schedule for the years ended December 31, 2019 and 2018, respectively.

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

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

I. If cancellation occurs during the first 90 days of occupancy, the Organization shall retain a reasonable processing fee to cover cost and the reasonable value of the services rendered plus an additional 2% of the entrance fee for each month (or portion thereof) of occupancy.

II. The Organization shall retain any portion of the entrance fee necessary to pay any unpaid indebtedness to the Organization incurred by the resident, including any unpaid monthly service fees and any unpaid expenses incurred by the resident for health or other services.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Obligation to Provide Future Services

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

Accommodation Fee Deposits

Guaranty deposits of $1,000 are required for each resident entering the independent or assisted living facilities within Palm Village. In addition, some residents prepay part of their accommodation fee before moving in. Management accounts for these prepayments within the accommodation fee deposit account. The deposits are subtracted from the amount of accommodation fees due at the time the resident moves in. Total deposits as of December 31, 2019 and 2018 were $23,200 and $14,200, respectively.

Advertising

Advertising costs are charged to operations when incurred. Advertising and marketing expense was, $135,290 and $182,427, for the years ended December 31, 2019 and 2018, respectively.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs according to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

> Level I – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
>
> Level II – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level II input must be observable for substantially the full term of the asset or liability.
>
> Level III – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

The following is a description of the valuation methodologies used for assets measured at fair value.

Commingled investment funds: The fair values of the Organization's investments have been estimated using the net asset value per share (NAV) as reported by the administrator of the fund. Accounting standards provide for the use of NAV as a practical expedient for estimating fair value. The NAV is based on the fair value of the underlying assets owned by the fund, less liabilities, and then divided by the number of units outstanding.

Investments Measured Using the Net Asset Value per Share Practical Expedient

Based on the terms and conditions in effect at December 31, 2019, the Organization's investments valued at NAV are as follows:

Investment Type	Fair Value	Investment Strategy	Unfunded Commitment	Redemption Terms
Internally Board Designated				
BVI Growth Fund	$800,479	See (a) below	N/A	Can redeem with 3 – 5 business days notification

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

30%	Bloomberg Barclays U.S. Government/Credit Bond Index
70%	MSCI All Country World Index (Net)

Based on the terms and conditions in effect at December 31, 2018, the Organization's investments valued at NAV are as follows:

Investment Type	Fair Value	Investment Strategy	Unfunded Commitment	Redemption Terms
Internally Board Designated				
BVI Growth Fund	$652,697	See (a) below	N/A	Can redeem with 3 – 5 business days notification

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

30%	Bloomberg Barclays U.S. Government/Credit Bond Index
70%	MSCI All Country World Index (Net)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

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

Functional Allocation of Expenses

The nature of operations of Palm Village will continue to own and operate a nursing home and services for skilled nursing, assisted living, independent living and memory care as one program for the Consolidated Statements of Functional Expenses. Peer Services is a for profit subsidiary of Palm Village and is not included in the Consolidated Statements of Functional Expenses.

For the year ended December 31, 2019, operating expenses were as follows:

Consolidated Statements of Activities, Total Operating Expenses	$	15,665,187
Less: Total Peer Services Expenses		643,883
Total Expenses per, Consolidated Statements of Functional Expenses	**$**	**15,021,304**

For the year ended December 31, 2018, operating expenses were as follows:

Consolidated Statements of Activities, Total Operating Expenses	$	15,313,488
Less: Total Peer Services Expenses		873,313
Total Expenses per, Consolidated Statements of Functional Expenses	**$**	**14,440,175**

The costs of providing program and supporting services for Palm Village have been summarized on a functional basis. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The consolidated financial statements report certain categories of expenses that are attributed to more than one category or function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include:

- Salaries and wages, employee benefits and related expenses, payroll taxes are allocated on the basis of time and effort;
- Office supplies, telephone, travel, creative, and professional services are allocated based upon benefit received; and
- Occupancy/utilities, interest expense, repairs and maintenance, insurance, depreciation and amortization expense are allocated on a square footage basis.

Investment Income

Investment income and expenses are to be netted on the Consolidated Statements of Activities, which include interest income, dividend income, unrealized and realized gain or loss and any investment advisory expense.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to Palm Village's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Palm Village records donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended December 31, 2019 and 2018, respectively.

Adoption of Accounting Pronouncements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative non-governmental U.S.GAAP.

In February 2016, the FASB issued ASU 2016-02, *Leases: Amendments to the FASB Accounting Standards Codification*, which amends the existing guidance on accounting for leases, and is effective for fiscal years beginning after December 15, 2020, for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the statements of consolidated financial position and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Organization has evaluated the impact of adopting ASU 2016-02 on the consolidated financial statements and related disclosures, and no adjustments were required to be made.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments, in addition to certain disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Organization has evaluated the impact of adopting ASU 2016-01 on the consolidated financial statements and related disclosures, and no adjustments were required to be made.

In June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to address questions stemming from FASB ASU No. 2014-09, *Revenue from Contracts with Customers*, regarding its implications on the grants and contracts of not-for-profit organizations. The Organization should apply the amendments in this ASU on contributions received to annual periods beginning after June 15, 2018, including interim periods within those annual periods. For nonreciprocal transactions (contributions), the next point to consider for both parties is whether conditions have been placed on the resources provided. The presence of conditions affects the timing of revenue and expense recognition by the resource recipient and resource provider, respectively. The Organization has evaluated the impact of adopting ASU 2018-08 on the consolidated financial statements and related disclosures, and no adjustments were required to be made.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the calendar year-ending December 31, 2020. Management is currently evaluating the impact of adopting ASU 2016-13 on the Organization's consolidated financial statements and related disclosures.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, as well as reductions for donor restrictions and Board designations, within one year of the Consolidated Statements of Financial Position as of December 31, 2019, comprise the following.

Cash	$ 4,174,633
Accounts Receivable Resident, Net of Allowance	1,124,489
Accounts Receivable Consulting, Net of Allowance	81,562
Accounts Receivable Other	7,310
Residents Funds	18,177
Debt Service Funds	260,873
Board Designated Emergency Fund	800,479
Chapel Fund – Resident Designated Funds	1,111
Total Financial Assets	**6,468,634**
Less: Resident Funds	(18,177)
Less: Chapel Fund	(1,111)
Less: Debt Service Funds	(260,873)
Less: General Renovations and Equipment For Independent and Assisted Living Units And Skilled Nursing Facility	(613,000)
Less: Board Designated Emergency Fund	(800,479)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	**$ 5,082,083**

The Organization, as part of its liquidity plan, puts its excess cash into the money market account and utilizes a bank sweep program that automatically transfers amounts that exceed, or fall short of, a certain level into a higher interest-earning investment option at the close of each business day. The Organization’s operating revenue covers its ongoing, operating expenditures and it is expected to be available to meet cash needs. In addition, the Organization has a line-of-credit of $500,000 with Bank of the Sierra that is available, if needed. The Organization also holds an irrevocable letter of credit with the bond trustee and irrevocable standby letter of credit with the Federal Home Loan Bank of San Francisco in the amount of $12,085,000 (face amount of the bonds) as discussed in Note 5.

NOTE 4 ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31, 2019 and 2018, is as follows:

	2019	2018
Debt Service Funds	$ 260,873	$ 243,546
Board Designated Reserves	800,479	652,697
Chapel Fund	1,111	2,289
Resident Funds	18,177	20,780
Total	**$ 1,080,640**	**$ 919,312**

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

NOTE 5 LONG-TERM DEBT

The Organization's long-term debt at December 31, 2019 and 2018, is summarized below:

	2019	2018
Certificates of Participation, Series 2005, payable in annual principal payments, bearing a variable interest rate, with final payment due on August 1, 2026. At December 31, 2019 and 2018, the interest rate was 1.66% and 1.76%, respectively.	$ 4,795,000	$ 5,380,000
Less: Current Maturities	(605,000)	(585,000)
Less: Deferred Financing Costs, Net	(239,931)	(277,223)
Total Long-Term Debt	**$ 3,950,069**	**$ 4,517,777**

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

Year Ending December 31,	Amount
2020	605,000
2021	630,000
2022	655,000
2023	685,000
2024	710,000
And thereafter	1,510,000
	$ 4,795,000

Certificates of Participation

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

NOTE 5 LONG-TERM DEBT (CONTINUED)

Certificates of Participation (Continued)

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

The Organization holds an irrevocable letter of credit with the bond trustee and an irrevocable standby letter of credit with the Federal Home Loan Bank of San Francisco for the face amount of the bonds. The standby letter of credit has been extended to August 2023. In the unlikely event remarketing is not successful, the letter of credit will be drawn upon to pay the bond trustee.

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

Restrictive Covenants

The provisions of the 2005 Certificates contain various restrictive covenants pertaining to financial and operational requirements of the Organization, debt service coverage, minimum net assets without donor restrictions and cash reserve held in trust.

Deferred Financing Costs

Costs incurred in connection with the issuance of debt are capitalized and amortized over the term of the related indebtedness on the Series 2005 Certificates of participation using straight-line amortization which approximates the effective interest method. The total cost incurred in relation to the issuance of the Series 2005 Certificates was $528,250. During 2010, an additional $152,636 of costs was incurred in connection with the modification of the Series 2005 Certificates and in 2013, an additional $5,000 was incurred relating to the Series 2005 Certificates. Deferred financing costs are net of accumulated amortization of $445,955 and $408,663,at December 31, 2019 and 2018, respectively. Total amortization expense related to financing costs was $41,165 and $41,465 for December 31, 2019 and 2018, respectively.

NOTE 6 NET ASSETS

Net assets with donor restrictions were as follows as of the years ended December 31, 2019 and 2018:

	2019	2018
Specific Purpose		
Memory care	$ 1,600	$ 1,100
Call-light system	1,000	-
Health Care Center audio visual project	1,851	-
Improvements to Heath Care Center	30,000	-
Total	**$ 34,451**	**$ 1,100**

Net assets with restrictions were released from restrictions by incurring expenditures satisfying the donor-restricted purposes or time requirements during the years ended December 31, 2019 and 2018:

	2019	2018
Call-light system	$ -	$ 37,504
Total	**$ -**	**$ 37,504**

NOTE 7 EMPLOYEE RETIREMENT PLAN

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

NOTE 8 CONCENTRATIONS OF CREDIT RISK

The Organization grants credit without collateral to its residents or their families, most of whom are local residents and many who are insured under third-party payer agreements. The mix of receivables from residents and third-party payers at December 31, 2019 and 2018, is as follows:

	2019	2018
Medicare	36%	34%
Medi-Cal	40%	41%
Private	19%	13%
Other	5%	12%
Total	**100%**	**100%**

NOTE 9 CONTINGENCIES AND COMMITMENTS

Government Regulations – Medi-Cal

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

Government Regulations – Medicare

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

Self-Insurance Plan and Stop Loss Insurance

The Organization operates a self-insurance plan for employee health insurance benefits which is managed by a third-party administrator. At December 31, 2019 and 2018, the accrual for medical and dental claims incurred but not reported was $134,804 and $134,814, respectively, and is recorded in other current liabilities in the consolidated statements of financial position.

The Organization has entered into a stop-loss agreement with an insurance company to limit its losses on individual claims. Under the terms of the agreement, the insurance company will reimburse the Organization 100% of the cost of annual claims, in excess of an $85,000 aggregate deductible, up to $1,000,000 each covered period. The loss limit is $85,000 per individual. Stop-loss insurance premium of approximately $224,000 and $201,000 are included in operating expenses for the years ended December 31, 2019 and 2018, respectively.

Workers' Compensation Insurance

The Organization is part of a group self-insured plan for workers' compensation. Significant claims experienced could impact the results of operations based on independent audits performed by the state. Receivables from excess premiums paid were $14,502 and $16,953 as of the years ended December 31, 2019 and 2018, respectively. There are no estimated future claims for incurred incidents as of December 31, 2019 and 2018. Workers' compensation insurance expense for the years ended December 31, 2019 and 2018 totaled $699,751 and $548,684, respectively.

Other

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

NOTE 9 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Litigation

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. Management is unable to determine whether the disposition of these matters will have a material effect on the Organization's financial condition or results of operations.

NOTE 10 REDEVELOPMENT PLAN OBLIGATIONS (AB 1169 DISCLOSURE)

The Organization's planned projects are designed to meet the needs of the Organization by providing additional housing and facilities for residents, consistent with the Organization's tax-exempt status. During the years ended December 31, 2019 and 2018, the Organization expended approximately, $490,953 and $196,000, respectively, for construction costs for its various facilities, including renovating a two-bedroom Patio Home into a three-bedroom Patio Home. Projects are funded by notes payable and net assets without donor restrictions. The board has also designated $288,792 and $234,958 as of December 31, 2019 and 2018, respectively, to be available for potential future contingencies.

NOTE 11 RECLASSIFICATIONS

Certain reclassifications have been made to the prior year consolidated financial statements to conform with the current year presentation. Changes in net assets were not affected.

NOTE 12 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus a pandemic. As a result, economic uncertainties have arisen which may impact the Organization. Such impact is unknown at this time.

In April and May 2020, Palm Village received $639,741 from the U.S. Department of Health & Human Services as part of the CARES Act Provider Relief Fund. Palm Village is not required to repay this amount.

Subsequent to year end, the Organization also received proceeds under the Paycheck Protection Program (PPP), established as part of the CARES Act. The PPP provides loans to qualifying businesses to be used to cover certain payroll expenses, rent, and utilities. The Organization expects this loan to be forgiven during the 2020 year.

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the consolidated financial statements were issued.