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

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Mueller Prost
CPAs + Business Advisors

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To the Board of Directors
Palm Village Retirement Community
St. Louis, Missouri

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated financial statements of *Mennonite Brethren Homes, Inc. DBA Palm Village Retirement Community* (a nonprofit health care entity), and affiliate (collectively, the "Organization") which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 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 auditor's 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *Palm Village Retirement Community* and affiliate as of December 31, 2016, and the results of its activities and 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.

Change for New Pronouncement

As described in Note 2 to the financial statements, the Company adopted FASB ASC 835-30, affecting the presentation of loan costs on the statement of financial position and amortization of the loan costs on the statement of activities. Our opinion is not modified with respect to that matter.

Mueller Prost LC

April 28, 2017
St. Louis, Missouri

Certified Public Accountants

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

		2016		2015
ASSETS				
Current Assets				
Cash and cash equivalents	$	2,899,806	$	2,230,574
Accounts Receivable				
Resident, net		1,179,237		1,093,271
Other		-		25,029
Prepaid expenses		542,985		430,983
Supplies inventory		19,051		22,267
Current portion of assets limited as to use		673,118		648,104
Total Current Assets		5,314,197		4,450,228
Assets Limited as to Use				
Under indenture agreement, held for debt service		225,001		216,913
Internally board designated		613,942		582,375
Resident funds		59,176		65,729
Total Assets Limited as to Use		898,119		865,017
Less: current portion shown above		(673,118)		(648,104)
Assets Limited as to Use (Net of Current Portion)		225,001		216,913
Fixed Assets				
Land		998,567		998,567
Buildings and improvements		20,848,664		20,491,099
Furniture and equipment		3,999,560		3,884,013
Vehicles		213,649		213,649
Total Fixed Assets		26,060,440		25,587,328
Accumulated depreciation		(14,428,040)		(13,600,084)
Net Fixed Assets		11,632,400		11,987,244
Other Assets				
Deferred letter of credit renewal fees		30,880		33,359
Total Other Assets		30,880		33,359
Total Assets	**$**	**17,202,478**	**$**	**16,687,744**

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2016 AND 2015

LIABILITIES AND NET ASSETS	2016	2015
Current Liabilities		
Accounts payable	$ 291,104	$ 189,817
Accrued salaries, payroll taxes and benefits	698,082	659,842
Accommodation fee deposits	33,905	16,250
Current portion of refundable accommodation fees	-	109,323
Current maturities of long-term debt	540,000	520,000
Capital lease	736	-
Income tax liability	113,831	-
Other current liabilities	129,892	121,126
Total Current Liabilities	1,807,550	1,616,358
Long-Term Debt		
Bonds payable, less current portion	5,940,000	6,480,000
Less: deferred financing costs, net	(351,809)	(389,102)
Total Long-Term Debt	5,588,191	6,090,898
Other Liabilities		
Refundable accommodation fees	2,858,162	2,611,789
Deferred revenue from accommodation fees	2,031,569	1,963,783
Total Other Liabilities	4,889,731	4,575,572
Total Liabilities	12,285,472	12,282,828
Net Assets		
Unrestricted	4,917,006	4,404,866
Temporarily restricted	-	50
Total net Assets	4,917,006	4,404,916
Total Liabilities and Net Assets	**$ 17,202,478**	**$ 16,687,744**

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue			
Residential services, net	$ 13,147,203	$ -	$ 13,147,203
Amortization of accommodation fees	906,505	-	906,505
Consulting income	141,509	-	141,509
Other income	83,198	-	83,198
Total Revenue	14,278,415	-	14,278,415
Net Assets Released from Restrictions	50	(50)	-
Total Unrestricted Revenue	14,278,465	(50)	14,278,415
Operating Expenses			
Nursing services	4,153,166	-	4,153,166
Resident services	58,859	-	58,859
Assisted living	547,748	-	547,748
Dietary	1,937,853	-	1,937,853
Housekeeping	387,319	-	387,319
Laundry	231,804	-	231,804
Restorative	923,278	-	923,278
Plant operations and maintenance	905,558	-	905,558
Activities and social services	537,598	-	537,598
Administrative	2,159,629	-	2,159,629
Utilities	610,826	-	610,826
Marketing	277,517	-	277,517
Interest	29,005	-	29,005
Financing	66,982	-	66,982
Depreciation and amortization	868,769	-	868,769
Total Operating Expenses	13,695,911	-	13,695,911
Change in Net Assets from Operations	582,554	-	582,554
Other Income (Expense)			
Interest income	20,404	-	20,404
Fundraising costs	(15,168)	-	(15,168)
Contributions	150,448	-	150,448
Other expense	(226,098)	-	(226,098)
Total Other Income (Expense)	(70,414)	-	(70,414)
Changes in Net Assets	512,140	-	512,140
Net Assets, Beginning of Year	4,404,866	50	4,404,916
Net Assets, End of Year	**$ 4,917,006**	**$ -**	**$ 4,917,006**

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

MENNONITE BRETHREN HOMES, INC.

DBA: PALM VILLAGE RETIREMENT COMMUNITY

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue			
Residential services, net	$ 13,032,407	$ -	$ 13,032,407
Amortization of accommodation fees	933,238	-	933,238
Other income	37,735	-	37,735
Total Revenue	14,003,380	-	14,003,380
Operating Expenses			
Nursing services	4,330,775	-	4,330,775
Resident services	61,211	-	61,211
Assisted living	581,974	-	581,974
Dietary	1,904,014	-	1,904,014
Housekeeping	309,527	-	309,527
Laundry	235,852	-	235,852
Restorative	1,060,857	-	1,060,857
Plant operations and maintenance	923,987	-	923,987
Activities and social services	528,268	-	528,268
Administrative	2,329,442	-	2,329,442
Utilities	582,241		582,241
Marketing	306,205	-	306,205
Interest	3,312		3,312
Financing	72,931	-	72,931
Depreciation and amortization	831,965	-	831,965
Total Operating Expenses	14,062,561	-	14,062,561
Change in Net Assets from Operations	(59,181)	-	(59,181)
Other Income (Expense)			
Interest income	19,837	-	19,837
Fundraising costs	(33,144)	-	(33,144)
Contributions	183,231	-	183,231
Total Other Income (Expense) and Other Changes in Net Assets	169,924	-	169,924
Changes in Net Assets	110,743	-	110,743
Net Assets, Beginning of Year	4,294,123	50	4,294,173
Net Assets, End of Year	**$ 4,404,866**	**$ 50**	**$ 4,404,916**

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

MENNONITE BRETHREN HOMES, INC.

DBA: PALM VILLAGE RETIREMENT COMMUNITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from residents	$ 14,231,712	$ 14,618,642
Cash paid to suppliers and employees	(12,716,142)	(13,265,116)
Interest received	20,404	19,837
Contributions received	150,448	183,231
Interest paid	(29,005)	(3,312)
Net Cash Provided By Operating Activities	1,657,417	1,553,282
Cash Flows from Investing Activities		
Acquisitions of property and equipment	(473,112)	(676,470)
Purchases of assets whose use is limited	(33,102)	(21,396)
Net Cash Used in Financing Activities	(506,214)	(697,866)
Cash Flows from Financing Activities		
Refund of accommodation fees	-	(134,981)
Principal payment on long-term debt	(481,971)	(559,444)
Net Cash Used In Investing Activities	(481,971)	(694,425)
Increase (Decrease) in Cash	669,232	160,991
Cash - Beginning of Year	2,230,574	2,069,583
Cash - End of Year	**$ 2,899,806**	**$ 2,230,574**

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

MENNONITE BRETHREN HOMES, INC.
DBA: PALM VILLAGE RETIREMENT COMMUNITY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 512,140	$ 110,743
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	830,435	831,965
Provision for uncollectible accounts and bad debt write-off	14,010	87,513
(Gain) loss on disposals of fixed assets	-	11,685
Receipt of accommodation fees	1,043,505	1,409,000
Amortization of accommodation fees	(906,505)	(933,238)
(Increase) decrease in current assets		
Account receivable	(74,947)	437,871
Prepaid expenses and other assets	(112,002)	(142,164)
Inventories	3,216	(232)
Increase (decrease) in current liabilities		
Accounts payable	101,287	(106,200)
Accrued salaries, payroll taxes and benefits and other liabilities	47,006	71,680
Income tax liability	113,831	-
Deferred revenue	67,786	(225,341)
Accommodation fees deposit	17,655	-
Total Adjustments	1,145,277	1,442,539
Net Cash Provided By Operating Activities	**$ 1,657,417**	**$ 1,553,282**

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

NOTE 1 ORGANIZATION

Organization

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

In June 2014, Peer Services, Inc. ("Peer Services") was formed. Peer Services is a California corporation organized to provide consultation services to other retirement living service providers. 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 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.

Consolidated Financial Statement Presentation

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

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

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time. The Organization does not have any temporarily restricted assets as of December 31, 2016. The Organization had $50 in net assets temporarily restricted for renovations as of December 31, 2015.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of December 31, 2016 and 2015.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation (Continued)

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

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 as of $113,831 as of December 31, 2016. Peer Services had a net deferred tax benefit of $467 as December 31, 2015, which has not been recorded in these consolidated financial statements as the amounts have been deemed to be immaterial.

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 taxable income ("UBIT"). The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that 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, 2016. The 2013, 2014, 2015, and 2016 federal tax returns of the Organization are subject to examination by the taxing authorities generally for three years after they were filed.

Use of Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues 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 the majority of their cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. At various times during the years ended December 31, 2016 and 2015, the Organization's cash balances may have exceeded the $250,000 limit.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Residential Services Revenue

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

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

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

Third Party Reimbursement Agreements

Medi-Cal

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

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

Medicare

A licensed nursing facility which participated in the Medicare program for the years ended December 31, 2016 and 2015 was reimbursed based on a Prospective Payment System (“PPS”). This program is administered by the United States Department of Health and Human Services. The PPS is a per diem price based system. Annual cost reports are submitted to the designated intermediary; however, they will not contain a cost settlement.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Occupancy Percentages

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

	2016	2015
Health center (including Wiebe Center)	92.7%	94.8%
Assisted living (including memory care)	87.0%	91.3%
Independent living apartments	95.6%	94.6%

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

	2016		2015	
	Days	Percentage	Days	Percentage
Medicare and HMO	3,114	7.6%	3,438	8.3%
Medi-Cal	26,216	64.0%	28,302	68.2%
Private and other	11,629	28.4%	9,775	23.5%
Total	**40,959**	**100.0%**	**41,515**	**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. The Organization provides an allowance for uncollectible accounts using management’s judgment. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice. Accounts are individually analyzed on a monthly basis for collectability.

Once accounts are deemed uncollectible, the accounts are written off. The allowance for uncollectible accounts was $38,853 and $24,843 as of December 31, 2016 and 2015, respectively.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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

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

Depreciation expense for the years ended December 31, 2016 and 2015 was $827,956 and $791,652, respectively.

Assets Limited as to Use

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

Resident Funds

The Organization maintains savings accounts on behalf of certain residents and acts as trustee of these funds which are maintained for the personal use of those residents. The funds are expanded at the direction of the residents. The balance in the Resident Trust Fund was $59,176 and $65,729 at December 31, 2016 and 2015, 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, 2016 and 2015, the Organization paid letter of credit fees of $52,937 and $57,186, respectively.

Accommodation Fees

Accommodation fees are charged to residents of the independent living facility. The accommodation fees are lump sum payments made to the Organization, which entitles the resident to reside in the facility and participate in certain benefits of the facility. The Organization recognizes as a liability, the portion of the accommodation fee that is refundable according to the terms of the accommodation fee contract with the balance recorded as deferred revenue. Until recently, the Organization offered accommodation fee contracts with a 72 month schedule for refunds after which time the entire accommodation fee is non-refundable. There were 20 contracts on a 72 month schedule and 25 contracts on a 72 month schedule for the years ended December 31, 2016 and 2015, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accommodation Fees (Continued)

Beginning in 2009, the Organization offered reduced entrance fees for a limited amount of independent living units. These contracts amortize over 50 months. The program is offered on an on-going basis. There were 58 contracts on a 50 month schedule and 53 contracts on a 50 month schedule for the years ended December 31, 2016 and 2015, 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 a refund of a portion of the amount paid under the agreement in accordance 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 homes originally determined market value, less any healthcare cost incurred during their stay at Palm Village, will be refunded to the resident's estate.

Obligation to Provide Future Services

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

Accommodation Fee Deposits

Guaranty deposits of $1,000 are required for each resident entering the independent or assisted living facilities within Palm Village Retirement Community. In addition, some residents prepay part of their accommodation fee before moving in. Management accounts for these prepayments within the accommodation fee deposit account. The deposits are subtracted from the amount of accommodation fees due at the time the resident moves in. Total deposits as of December 31, 2016 and 2015 were $33,905 and $16,250, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care

The Organization provides care to residents under non Medi-Cal programs. Costs for these programs in excess of reimbursement were estimated to be approximately $342,990 and $343,500 for the years ended December 31, 2016 and 2015, respectively.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $90,358 and $108,828 for the years ended December 31, 2016 and 2015, respectively.

Fair Value of Financial Instruments

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

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

> Level 1– Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.
>
> Level 2– Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.
>
> Level 3– Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

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

The fair value of assets measured on a recurring basis as of December 31, 2016 is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2
Brethren Foundation Funds	$ 215,982	$ -	$ 215,982

The fair value of assets measured on a recurring basis as of December 31, 2015 is as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using Level 1	Level 2
Brethren Foundation Funds	$ 576,183	$ -	$ 576,183

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

Based on the terms and conditions in effect at December 31, 2016, the Organization's alternative investment funds valued at NAV are as follows:

Investment Type	Fair Value	Investment Strategy	Unfunded Commitment	Redemption Terms
Brethren Foundation Funds				
SRI Growth Fund	$215,982	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)

Fair Value of Financial Instruments (Continued)

Based on the terms and conditions in effect at December 31, 2015, the Organization's alternative investment funds valued at NAV are as follows:

Investment Type	Fair Value	Investment Strategy	Unfunded Commitment	Redemption Terms
Brethren Foundation Funds				
SRI Growth Fund	$576,183	See (a) below	n/a	Can redeem with 3 – 5 business days notification

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

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

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.

Reclassifications

Certain amounts in prior year have been reclassified to conform to current year presentation with no effect on previously reported net income.

Change for New Pronouncement

In 2016, the Partnership adopted the requirements in ASU 2015-03 for FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense in the statement of operations.

NOTE 3 ASSETS LIMITED AS TO USE

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

	2016	2015
Debt Service Funds	$ 225,001	$ 216,913
Board Designated Reserves	599,964	576,731
Chapel Fund	13,978	5,644
Resident Funds	59,176	65,729
Total	**$ 898,119**	**$ 865,017**

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 4 LONG-TERM DEBT

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

	2016	2015
Certificates of Participation, Series 2005, Interest based on a variable rate is payable monthly, annual principal payments, matures October 1, 2026	$ 6,480,000	$ 7,000,000
Total	6,480,000	7,000,000
Less: Current Maturities	(540,000)	(520,000)
Total Long-Term Debt	**$ 5,940,000**	**$ 6,480,000**

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

Year Ending December 31,	Amount
2017	$ 540,000
2018	560,000
2019	585,000
2020	605,000
2021	630,000
2022 and thereafter	3,560,000
	$ 6,480,000

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 4 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 as assets and liabilities of the Organization. The bonds are secured by substantially all of the Organization's assets.

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

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

Restrictive Covenants

The provisions of the 2005 Certificates contain various restrictive covenants pertaining to financial and operational requirements of the Organization, debt service coverage, minimum unrestricted net assets and cash 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 $334,077 and $296,784 at December 31, 2016 and 2015, respectively. Total amortization expense related to financing costs was $40,813 and $36,793 for December 31, 2016 and 2015, respectively.

NOTE 5 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 6 CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalents with financial institutions. At various times throughout the years ended December 31, 2016 and 2015, the Organizations may have had balances in excess of the federally insured limits. Management does not believe the solvency of the financial institution is of concern.

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, was as follows:

	2016	2015
Medicare	19%	20%
Medi-Cal	51%	42%
Private	15%	5%
Other	15%	33%
Total	**100%**	**100%**

NOTE 7 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, 2016 and 2015, the accrual for estimated but not incurred liabilities was $64,818 and $48,706, 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 $195,000 and $188,000 are included in operating expenses for the years ended December 31, 2016 and 2015, respectively.

NOTE 7 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Workers' Compensation Insurance

The Organization is part of a group–self-insured plan for works' compensation. Significant claims experienced could impact the results of operations based on independent audits performed by the state. There was no receivable from claims paid recorded as of December 31, 2016 and 2015. There are no estimated future claims for incurred incidents as of December 31, 2016 and 2015. Workers' compensation insurance expense for the years ended December 31, 2016 and 2015 totaled $480,797 and $592,489, 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 necessary 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.

Litigation

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

NOTE 8 FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	2016	2015
Program	$ 11,682,631	$ 11,782,552
Management and general	2,134,154	2,280,009
Fundraising	15,168	33,144
Total Operating Expenses	**$ 13,831,953**	**$ 14,095,705**

Fundraising expenses incurred during the years ended December 31, 2016 and 2015 were included in other income (expense) on the Statement of Activities.

NOTE 8 FUNCTIONAL CLASSIFICATION OF EXPENSES (CONTINUED)

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

NOTE 9 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, 2016 and 2015, the Organization expended approximately $357,000 and $437,000, respectively, for construction costs for its various facilities, including its new assisted living memory care unit. Projects are funded by notes payable and unrestricted net assets. The board has also designated $215,982 and $576,183 as of December 31, 2016 and 2015, respectively, to be available for potential future contingencies.

NOTE 10 SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 28, 2017, the date of the independent auditors’ report, the date the consolidated financial statements were available to be issued.