CALIFORNIA FRIENDS HOMES

dba ROWNTREE GARDENS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

WITH

INDEPENDENT AUDITOR'S REPORT

kdp
Certified Public Accountants, LLP
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CALIFORNIA FRIENDS HOMES
dba ROWNTREE GARDENS

Year Ended December 31, 2017

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Friends Homes
dba Rowntree Gardens

We have audited the accompanying financial statements of California Friends Homes, dba Rowntree Gardens (a non-profit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Friends Homes, dba Rowntree Gardens as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mark E. Damon CPA, Partner
KDP Certified Public Accountants, LLP
Medford, Oregon
April 25, 2018

CALIFORNIA FRIENDS HOMES
STATEMENT OF FINANCIAL POSITION
December 31, 2017

Assets:	
Current assets:	
Cash and cash equivalents	$ 697,908
Assets held on behalf of residents	43,309
Accounts receivable, net	1,009,220
Supplies and prepaid expenses	270,329
Total current assets	2,020,766
Property and equipment, net	8,906,640
Other assets:	
Capital investments	813,489
Note receivable	686,979
Total other assets	1,500,468
Total assets	$ 12,427,874
Liabilities and Net Assets:	
Current liabilities:	
Accounts payable and accrued expenses	$ 1,240,344
Assets held on behalf of residents	43,309
Current portion long-term debt	65,604
Line of credit	571,571
Settlment payable	420,000
Total current liabilities	2,340,828
Long-term debt, net of current portion	2,148,700
Deferred revenue from entrance fees	3,031,480
Total liabilities	7,521,008
Net assets:	
Unrestricted	4,856,136
Temporarily restricted	50,730
Total net assets	4,906,866
Total liabilities and net assets	$ 12,427,874

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Resident service fees	$ 10,265,558	$ -	$ 10,265,558
Health center revenue	6,655,800	-	6,655,800
Entrance fees earned	558,498	-	558,498
Contributions	-	40,659	40,659
Interest income	91	-	91
Interest income, note receivable	26,422	-	26,422
Other revenue	373,204	-	373,204
	17,879,573	40,659	17,920,232
Net assets released from restriction	39,002	(39,002)	-
Total revenue, gains and support	17,918,575	1,657	17,920,232
Expenses:			
Program services:			
Dietary services	3,161,850	-	3,161,850
Facility services and utilities	2,316,297	-	2,316,297
Health and social services	9,009,492	-	9,009,492
General and administrative:			
Administrative and marketing	3,499,882	-	3,499,882
Interest	129,611	-	129,611
Depreciation	946,338	-	946,338
Total expenses	19,063,470	-	19,063,470
Operating income (loss)	(1,144,895)	1,657	(1,143,238)
Other Income/(Loss):			
Unrealized change in value of capital investments	(434,855)	-	(434,855)
Settlement expense	(420,000)	-	(420,000)
Total other income/(loss)	(854,855)	-	(854,855)
Change in net assets (deficit)	(1,999,750)	1,657	(1,998,093)
Net assets, beginning of year	6,855,886	49,073	6,904,959
Net assets, end of year	$ 4,856,136	$ 50,730	$ 4,906,866

See notes to financial statements

CALIFORNIA FRIENDS HOMES
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

Cash Flows from Operating Activities:	
Cash received from customers	$ 16,841,964
Entrance fees received from new residents, net of refund paid	759,799
Other operating cash receipts	399,717
Cash paid to employees and suppliers	(18,086,537)
Interest paid	(129,611)
Contributions received	40,659
Net cash provided (used) by operating activities	(174,009)
Cash Flows from Investing Activities:	
Purchases of property and equipment	(998,213)
Payments received, note receivable	206,514
Net cash provided (used) by investing activities	(791,699)
Cash Flows from Financing Activities:	
Proceeds from long-term debt	300,000
Principal payments toward long-term debt	(64,019)
Net cash provided (used) by financing activities	235,981
Net increase (decrease) in cash and cash equivalents	(729,727)
Cash and cash equivalents, January 1, 2017	1,427,635
Cash and cash equivalents, December 31, 2017	$ 697,908

Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:	
Increase (decrease) in net assets	$ (1,998,093)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation	946,338
Entrance fees received from new residents	859,999
Entrance fee refund on early termination	(100,200)
Entrance fees earned	(558,498)
Unrealized change in value of capital investment	434,855
Net changes in:	
Accounts receivable, net	(79,394)
Supplies and prepaid expenses	(78,371)
Accounts payable and accrued expenses	(20,645)
Settlement payable	420,000
Net cash provided (used) by operating activities	$ (174,009)

See notes to financial statements

CALIFORNIA FRIENDS HOMES
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – ORGANIZATION

California Friends Homes, dba Rowntree Gardens (formerly dba Quaker Gardens) Senior Living (the Corporation) was founded in 1962 as a California non-profit public benefit corporation for charitable purposes. The corporation was established to provide residential facilities, health and welfare programs, and various services and sponsor programs for the elderly and operates a continuing care retirement community in Stanton, California. The community consists of 181 independent and assisted living apartments, 58 bed skilled nursing facility, and 54 memory care beds.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting and are presented in accordance with accounting for financial statements of not-for-profit Corporations, which requires classification of an Corporation's net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be presented in a statement of financial position and that the amounts of change in each of those classes of net assets be presented in a statement of activities. The Corporation does not currently have any permanently restricted net assets. The assets, liabilities, revenues, expenses, and net assets of the Corporation are reported in the following categories:

> *Unrestricted net assets:* represent unrestricted resources available to support the Corporation's operations and temporarily restricted revenues which have become available for use by the Corporation in accordance with the intention of the donor.
>
> *Temporarily restricted net assets:* represent contributions that are limited in use by the Corporation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Corporation according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets. Temporarily restricted net assets are available primarily for chapel expenses as designated by the donors.

Performance Indicator - "Unrestricted operating income/(loss)" as reflected in the accompanying statements of activities and changes in net assets (deficit) is the performance indicator. Unrestricted operating income/(loss) includes all changes in unrestricted net assets (deficit), excluding unrealized change in capital investments, and excluding receipt of restricted contributions, and assets released from donor restrictions related to long-lived assets, extraordinary items, and investment returns restricted by donors or law.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents - Cash and cash equivalents include cash and other commercial paper with maturities of three months or less at the date of acquisition.

Assets held on behalf of residents – Assets held on behalf of residents include cash deposits held in the Corporation's name. These monies are distributed to residents when necessary or in the case of death.

Accounts Receivable - Accounts receivable primarily represent amounts due from residents for living accommodations, services, and amounts due from third parties. An allowance for doubtful accounts is established based on past collection history and specific identification of uncollectable amounts. The Corporation's policy is to charge off uncollectible receivables when management determines the receivable will not be collected.

Supplies inventory - The accounting method used to record inventory is the FIFO (First In First Out) method. Inventory is valued at the lower of cost or market value as of December 31, 2017.

Property and Equipment - Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value as of the date of contribution. Maintenance, repairs, and minor replacements are charged to expense when incurred. Replacements and betterments with a cost of $1,000 or more are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the Statement of Activities and Changes in Net Assets for the period.

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. No impairment losses were present for the year ended December 31, 2017.

Refundable Fees - The Corporation requires each applicant for independent living and assisted living to pay a $1,175 application fee; and each applicant for memory care and skilled nursing care pay a $495 application fee. This fee will be refunded if no move-in occurs. Should the resident move out within the first three months, the fee is subject to a pro-rated refund.

Deferred Revenue from Entrance Fees - Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over the estimated remaining actuarial life expectancy of the resident. The Corporation has two different non-refundable continuing care contracts, a Lifecare (Type A) contract and a Modified (Type B) contract. California law requires a 90 day cancellation period during which the resident is entitled to a refund of the amounts subject to a fee to process the cancelation. After the cancelation period, residents are entitled to refunds of their entrance fee reduced by 1.67% for each month of residency should they withdraw within the first 60 months. There is no refund of the entrance fee in the event of death. No refunds were pending at December 31, 2017.

Obligation to Provide Future Services - Every five years the Corporation calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. At December 31, 2017, no future service liability is deemed to exist.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Liability Policy - The Corporation has secured claims-made policies for general liability insurance with self-insured retentions of $1,000,000 per claim and $3,000,000 aggregate per policy period. The Corporation has also secured excess general and professional liability insurance with limits of $5,000,000 aggregate per policy period. Policy period begins January 1, 2017 and ends January 1, 2018. The Corporation has not accrued a liability associated with, or claims incurred but not yet reported as amounts could not be estimated and are considered by management to be immaterial. These liabilities would be included in accounts payable and accrued expenses in the accompanying statement of financial position.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as temporarily restricted contributions and net assets released from restriction in the accompanying financial statements.

Revenue Recognition - Service fees and health center revenues are recognized in the month in which services are provided and collectability is reasonably assured. In addition, health center revenue is presented net of third party rate adjustments. Other revenue is recognized as the related services are provided and include guest services income, catering income, and other miscellaneous income.

Charity Care - As part of its charitable mission, the Corporation provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Total charges for charity care services amounted to $188,683 for the year ended December 31, 2017.

Tax-Exempt Status - The Corporation has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying statements of activities and changes in net assets.

The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2017, there were no such uncertain tax positions.

Advertising - The Corporation expenses advertising costs as incurred. The Corporation incurred advertising costs for the year ended December 31, 2017 of $493,247.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk - The Corporation maintains cash balances in several financial institutions located in California. These balances may subject the Corporation to concentrations of risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2017 cash balances exceeded amounts insured by the FDIC. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Concentration of credit risk results from the Corporation granting credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables at December 31, 2017 from residents and third-party payors, is listed at Note 3.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 consisted of the following:

Resident monthly fees	$	222,825
Health care		825,958
Miscellaneous receivables		46,625
Subtotal accounts receivable		1,095,408
Less allowance for doubtful accounts		(45,647)
Total accounts receivable	$	1,049,761

Health care accounts receivable, gross by payor mix, consisted of the following at December 31, 2017:

Self pay	21%
Medicare	28%
HMO	51%

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consisted of the following:

Land improvements	$ 1,313,857
Building	16,526,521
Furniture and equipment	4,651,667
Automobiles	216,700
Total	22,708,745
Less accumulated depreciation	(14,841,491)
Land	1,039,386
	$ 8,906,640

NOTE 5 – CAPITAL INVESTMENTS

The Corporation has made two investments in which they are active participants: Captive Insurance Company and a Risk Retention Group.

Captive Insurance Company: The Corporation is a shareholder with one other unaffiliated retirement communities in Alternative RE Holdings Limited; Cell 16L, a Bermuda holding company. The Corporation has a 50% ownership in the captive insurance company. There is a separate indemnification agreement where profits and losses are allocated based upon the percentage of participation and profitability of each facility. Arch Insurance Group maintains a re-insurance contract with Cell 16L of Alternative RE to be reimbursed for individual worker's compensation losses for the first $350,000 per claim. There is a separate re-insurance policy purchased by Cell 16L of Alternative RE for individual losses in excess of $350,000 and an aggregate loss limit that includes the two facilities. The group aggregate loss limit changes annually based upon the total payroll for the two facilities. The policy provides coverage as required by the statutory limits of the State of California.

The captive insurance company allocates premiums and losses on an entity-specific basis and therefore, the Corporation accounts for its investment based on its specifically identified premiums paid, hard costs incurred, paid losses, outstanding loss reserves and incurred but not reported reserves, plus the investment income, less dividend distributions multiplied by the percentage of cash in the captive as of the reporting date. Claim experience is identified to each participating entity within the captive insurance company and subsequent premiums will be modified based on the entity's experience. At December 31, 2017 the Corporation's estimated investment in Alternative RE Holdings Limited; was $376,930.

Beginning December 1, 2015, the Corporation elected to be fully insured through an outside source for all new future claims. The Captive will continue to pay all claims applicable to the coverage period.

NOTE 5 – CAPITAL INVESTMENTS (continued)

Risk Retention Group: The Corporation invested in a traditional risk retention group which converted to a reciprocal mutual insurance exchange. It was formed under the Federal Liability Risk Retention Act to insure various affiliated members (subscribers) of a group of faith-based retirement Corporations. The investment amount is recorded at cost plus a reciprocal adjustment, for a total of $436,559 at December 31, 2017. The fair value of the investment is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value. The Corporation documents authorize the return of the charter capital account of a discontinued or withdrawing subscriber within seven years without interest as long as it doesn't cause substantial harm to the group's asset position.

NOTE 6 – OPERATING LEASES

The Corporation has operating leases associated with office equipment. Lease expenses associated with the operating leases was $16,567 for the year ended December 31, 2017. The future minimum lease payments for these leases are as follows:

Year Ending December 31,		
2018	$	16,567
2019		16,567
2020		16,567
	$	49,701

NOTE 7 – LINE OF CREDIT

The Corporation has a commercial credit line commitment Farmers & Merchants Bank. The credit line is in the amount of $700,000 with interest at 6.5%. On June 10, 2016, Farmers & Merchants changed the terms of the agreement, extending the maturity date of the principal to July 1, 2018. The amount outstanding at December 31, 2017 was $571,571. The amount charged to interest expense was $22,989 for the year ended December 31, 2017.

NOTE 8 – LONG-TERM DEBT

On January 30, 2014, the Corporation entered into a $2,500,000 Business Loan Agreement and Promissory Note with Farmers & Merchants Bank of Long Beach (the Bank). The Corporation entered into the Business Loan Agreement for the purpose of assisting with the cost of deferred maintenance and upgrades. Monthly payments of principal and interest of $14,360 are due commencing March 1, 2014 (actual payments commenced on May 30, 2014 as the first draw on the note did not occur until April 2014). The initial fixed rate payment was calculated using a term of 300 months. Interest will be fixed at 4.75% for the first 60 months and will then reset to 2.75% over the weekly 10-year nominal constant maturity U.S. Treasury. The loan matures with a final balloon payment on February 1, 2024. The loan is secured by a Deed of Trust on the real property owned by the Corporation.

NOTE 8 – LONG-TERM DEBT (continued)

The loan agreement contains a subjective acceleration clause, which gives the Bank the right to accelerate repayment upon the Bank's determination of a material adverse change in the Corporation's financial position. Management has evaluated the likelihood of the Bank exercising the clause to be remote. As a result, the amounts owed are classified based upon the stated payment schedule.

Interest associated with long-term debt charged to expense for the year ended December 31, 2017 totaled $106,622.

Maturities of long-term debt and line of credit are shown as follows:

Year Ending December 31,		
2018	$	65,604
2019		68,789
2020		72,129
2021		75,631
2022		79,302
Thereafter		1,852,849
	$	2,214,304

NOTE 9 – RELATED PARTY TRANSACTIONS

Friends Church Southwest Yearly Meeting (FCSYM) is the sole corporate member of California Friends Inc. (CFI), CFI is the sole corporate member of the Corporation. CFI is also the sole corporate member of California Friends Foundation, Inc. (CFF).

The Corporation carries a note receivable with CFF in the amount of $686,979 at December 31, 2017. The note receivable is classified as a long term asset as the note does not require annual principal payments. Interest is accrued at 4% per annum. Unpaid interest of $26,422 was accrued to the note receivable balance for the year ended December 31, 2017. Management has determined the full amount of this receivable to be collectible after an evaluation of the underlying assets of CFF.

During the year ended December 31, 2017, the Corporation received payments against the note receivable from CFF totaling $206,514.

On February 28, 2013, the Boards of Directors of California Friends Inc. and the Corporation elected to retain the services of a current Board Member of the Corporation. The current Board Member is serving as the contract Chief Executive Officer for the Corporation. For the year ended, December 31, 2017, the Corporation paid $186,624 to this Board Member for management and oversight services.

NOTE 10 – DEFERRED COMPENSATION PLAN

The Corporation had one non-qualified deferred compensation plan for a former member of executive management, the Deferred Compensation Agreement (a defined benefit plan).

The Deferred Compensation Agreement provided vested payments in the amount of $40,000 per year, through the termination of the agreement after payment of the vested amount in 2017. On October 19, 2011, the board of directors renegotiated the deferred compensation package for the former member of executive management. The Deferred Compensation Agreement was amended to change the vested amount to $44,000 per year beginning in 2012 through the termination of the agreement after payment of the vested amount in 2017.

The deferred compensation expense for the year ended December 31, 2017 was $44,000.

NOTE 11 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

Approximately 55% of health center revenue for the year ended December 31, 2017, was derived under federal third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, the changes in net assets, or cash flows of the Corporation.

NOTE 12 – RETIREMENT PLAN

On June 1, 2011 the Corporation adopted a new 403(b) matching retirement plan that covers employees who have reached the age of 21 and have completed 12 months of eligibility service. Employees who normally work fewer than 30 hours per week are not covered under the plan for purposes of receiving employer contributions. Contributions to the plan are based on a match of the employee's own contribution, which is discretionary, up to a maximum of 2.5% of employee's eligible compensation.

Total contributions charged to expense for the plan was $90,634 for the year ended December 31, 2017.

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted contributions have been received and are available for the following purposes at December 31, 2017:

Activities	$ 1,357
Chapel	10,191
Chapel maintenance	5,302
Employee general purpose	23,516
Employee assistance	10,364
Total temporarily restricted net assets	$ 50,730

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 *Fair Value Measurements and Disclosures* defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investment in the near term.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position at December 31, 2017, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Corporation has an interest in a Captive Insurance Company. The Corporation accounts for its investment based upon on its specifically identified premiums paid, hard costs incurred, paid losses, outstanding loss reserves and incurred but not reported reserves, plus the investment income, less dividend distributions multiplied by the percentage of cash in the captive as of the reporting date.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and refundable fees approximate fair value due to the short maturity of such instruments.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Capital investment in Captive Insurance	-	-	376,930	376,930
Total assets	$ -	$ -	$ 376,930	$ 376,930

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying financial statements using significant unobservable (Level 3) inputs:

	Level 3 Funds
Balance, January 1, 2017	$ 811,785
Total realized and unrealized gains and losses:	
Included in changes in unrestricted net assets	(434,855)
Balance, December 31, 2017	$ 376,930

NOTE 15 – SETTLEMENT PAYABLE

Subsequent to December 31, 2017, the Corporation entered into a Stipulation of Settlement in connection with a complaint filed in Orange County Superior Court. In connection with the Stipulation of Settlement, the Corporation agreed to pay certain class representatives $420,000. Assuming approval, the Corporation will be required to pay the $420,000 by December 31, 2018.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Litigation – The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Asbestos Abatement – The Corporation is aware of the existence of asbestos in certain of its buildings. The Corporation has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonable estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, the Corporation will record an estimate of the costs of the required asbestos abatement.

Health Care Reform – In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. To fund the expansion, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Corporation; however, it is not determinable at this time.

Lifecare Agreement – The Corporation has agreed to enter into a Lifecare Agreement with a former member of executive management and his spouse. As part of this agreement, the entrance fee and all monthly fees (at all levels of care) will be waived. On January 16, 2012, the Lifecare Agreement was executed. The former executive has yet to move into the facility.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements were available to be issued.

The Corporation evaluated all events or transactions that occurred after December 31, 2017 up through April 25, 2018, the date the financial statements were available to be issued.