

April 25, 2013

California Department of Social Services  
Continuing Care Provider Fee Fund  
Account #84130  
744 P. Street M.S. 11-90  
Sacramento, CA 95814

To Whom It May Concern:

I certify that to the best of my knowledge the Annual Audited Report of the California P.E.O. Home for the fiscal year ending December 31, 2012 is correct.

Secondly, I certify that the California Department of Social Services has approved the Continuing Care Contract used by the California P.E.O. Home.

Lastly, I certify that the Approved Fund Reserve satisfies required funding levels as of December 31, 2012.

Respectfully,



William R. Platt  
President & CEO

COMMERCIAL CRIME COVERAGE PART  
DECLARATIONS PAGE

POLICY EFFECTIVE 12/05/2011

POLICY NO. 1275-710

NAMED INSURED CALIFORNIA PEO HOME

LOCATIONS

PREMISES ARE THE SAME AS SHOWN ON THE COMMERCIAL  
PROPERTY COVERAGE PART DECLARATIONS PAGE

COVERAGES, LIMITS OF INSURANCE AND DEDUCTIBLE

BOND - EMPLOYEE DISHONESTY COVERAGE FORM A - BLANKET CR0001

	LIMITS OF INSURANCE	DEDUCTIBLE AMOUNT
ALL OFFICERS AND EMPLOYEES - HONESTY	\$250,000	-0-

BOND - FORGERY AND ALTERATIONS COVERAGE FORM B CR0003

	LIMITS OF INSURANCE	DEDUCTIBLE AMOUNT
DEPOSITORS FORGERY	\$50,000	-0-

12/03/2011

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CONTINUING CARE  
COMMUNITY ASSOCIATION

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

Financial Statements and Supplemental Information for the  
Year Ended December 31, 2012 with Comparative Totals  
for the Year Ended December 31, 2011  
and  
Independent Auditor's Report



**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
California P.E.O. Home  
DBA Navigage  
700 North Stoneman Avenue  
Alhambra, CA 91801

### *Report on the Financial Statements*

We have audited the financial statements of California P.E.O. Home (the Home), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities 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.

The 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 Home'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 Home's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used in 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.

Board of Directors  
California P.E.O. Home  
DBA Navigage

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California P.E.O. Home as of December 31, 2012, 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.

***Report on Summarized Comparative Information***

We have previously audited the Home's 2011 financial statements, and our report dated April 19, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses in the supplemental information section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Vicenti, Lloyd & Stutzman LLP*  
VICENTI, LLOYD & STUTZMAN LLP

April 22, 2013

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**STATEMENT OF FINANCIAL POSITION  
December 31, 2012  
with Comparative Totals as of December 31, 2011**

<u>ASSETS</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b>Current Assets:</b>		
Cash and cash equivalents (Note 2)	\$ 677,841	\$ 242,900
Cash held in trust:		
Resident accounts	19,945	4,483
Redstone Foundation for Ageless Living (Note 16)	1,139	1,159
Investments (Note 3)	10,343,207	10,434,847
Accounts receivable	87,353	119,427
Inventory, prepaid expenses and deposits	33,040	76,604
<b>Total Current Assets</b>	<u>11,162,525</u>	<u>10,879,420</u>
<b>Entrance Fees Held in Escrow (Note 1)</b>	-	384,477
<b>Temporarily and Permanently Restricted Investments (Note 3)</b>	2,336,560	1,469,104
<b>Charitable Remainder Interest Receivable (Note 4)</b>	10,710	10,710
<b>Beneficial Interest in Trusts (Note 4)</b>	<u>2,120,929</u>	<u>2,035,943</u>
	4,468,199	3,900,234
<b>Property, Plant and Equipment, net (Note 5)</b>	<u>5,216,962</u>	<u>12,227,009</u>
<b>Total Assets</b>	<u>\$ 20,847,686</u>	<u>\$ 27,006,663</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 90,382	\$ 299,692
Accrued expenses	215,746	210,909
Line of credit (Note 7)	5,836,634	6,492,279
Mortgage loan (Note 9)	-	2,000,000
Trust liabilities:		
Resident accounts	19,945	4,483
Redstone Foundation for Ageless Living (Note 16)	1,139	1,159
Security deposits	-	27,030
Current portion - capital lease (Note 8)	6,072	36,556
<b>Total Current Liabilities</b>	<u>6,169,918</u>	<u>9,072,108</u>
<b>Long-Term Debt, less current portion</b>		
Capital lease (Note 8)	-	6,066
<b>Entrance Fees Held in Escrow (Note 1)</b>	-	384,477
<b>Deferred Revenue from Entrance Fees (Note 1)</b>	<u>505,123</u>	<u>723,694</u>
<b>Total Liabilities</b>	<u>6,675,041</u>	<u>10,186,345</u>
<b>Net Assets:</b>		
Unrestricted	7,737,830	10,468,407
Temporarily restricted (Note 11)	1,627,671	1,638,004
Permanently restricted (Note 12)	<u>4,807,144</u>	<u>4,713,907</u>
<b>Total Net Assets</b>	<u>14,172,645</u>	<u>16,820,318</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 20,847,686</u>	<u>\$ 27,006,663</u>

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

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2012  
with Comparative Totals for the Year Ended December 31, 2011**

	December 31, 2012			December 31, 2011	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>OPERATING REVENUE</b>					
Residence fees, net (Note 10)	\$ 2,934,649	\$	\$	\$ 2,934,649	\$ 3,385,803
Entrance fees - amortization	218,446			218,446	241,030
Investment income	479,765	77,331		557,096	523,634
Other service fees and miscellaneous revenue	54,443			54,443	68,035
Total revenue	<u>3,687,303</u>	<u>77,331</u>	<u>-</u>	<u>3,764,634</u>	<u>4,218,502</u>
<b>OPERATING EXPENSES</b>					
Health care	1,219,507			1,219,507	1,233,607
Assisted living	166,162			166,162	230,287
Housekeeping and laundry	30,587			30,587	50,334
Dietary	618,318			618,318	658,701
General and administrative	2,322,187			2,322,187	2,488,638
Plant operations and maintenance	613,243			613,243	647,083
Total expenses before Redstone marketing and depreciation	<u>4,970,004</u>	<u>-</u>	<u>-</u>	<u>4,970,004</u>	<u>5,308,650</u>
Redstone marketing	158,338			158,338	761,854
Depreciation (Note 5)	415,813			415,813	831,474
Total Redstone marketing & depreciation	<u>574,151</u>	<u>-</u>	<u>-</u>	<u>574,151</u>	<u>1,593,328</u>
Change in net assets from operations	<u>(1,856,852)</u>	<u>77,331</u>	<u>-</u>	<u>(1,779,521)</u>	<u>(2,683,476)</u>
<b>NON-OPERATING GAINS (LOSSES) AND OTHER CHANGES IN NET ASSETS</b>					
Contributions and gifts (Note 1)	352,026	25,183	8,251	385,460	867,259
Incidental rental gain (loss), net (Note 15)	(91,286)			(91,286)	20,563
Unrealized gains (loss) on investments (Note 3)	601,337	23,743		625,080	(103,885)
Realized gains (loss) on investments (Note 3)	(174,975)	33,583		(141,392)	7,354
Change in charitable remainder interest receivable				-	5,361
Change in beneficial interest in perpetual trusts			84,986	84,986	(62,749)
Loss on discontinuation of Redstone project (Note 17)	(2,304,878)			(2,304,878)	-
Gain on sale of apartment complex	573,878			573,878	-
Total non-operating gains (losses)	<u>(1,043,898)</u>	<u>82,509</u>	<u>93,237</u>	<u>(868,152)</u>	<u>733,903</u>
Net assets released from restrictions (Note 11)	170,173	(170,173)	-	-	-
Total non-operating gains (losses) and other changes in net assets	<u>(873,725)</u>	<u>(87,664)</u>	<u>93,237</u>	<u>(868,152)</u>	<u>733,903</u>
Change in net assets	<u>(2,730,577)</u>	<u>(10,333)</u>	<u>93,237</u>	<u>(2,647,673)</u>	<u>(1,949,573)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>10,468,407</u>	<u>1,638,004</u>	<u>4,713,907</u>	<u>16,820,318</u>	<u>18,769,891</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 7,737,830</u>	<u>\$ 1,627,671</u>	<u>\$ 4,807,144</u>	<u>\$ 14,172,645</u>	<u>\$ 16,820,318</u>

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

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**STATEMENT OF CASH FLOWS  
For The Year Ended December 31, 2012  
with Comparative Totals for the Year Ended December 31, 2011**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES AND NON-OPERATING GAINS(LOSSES):</u></b>		
Cash received from resident fees	\$ 2,966,723	\$ 3,412,745
Cash received from other operating activities	54,443	68,035
Cash received from incidental rental income	247,579	342,269
Contributions	377,209	866,279
Investment income received	508,409	520,836
Interest payment on line of credit/capital lease	(497,680)	(651,649)
Cash paid to suppliers and employees	(5,108,779)	(5,489,805)
Net cash used in operating activities and non-operating gains (losses)	(1,452,096)	(931,290)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Acquisition of property and equipment	(336,766)	(210,173)
Proceeds from sale of the apartment complex	5,200,000	-
Purchase of investments	(2,988,602)	(3,447,351)
Proceeds from sale and maturity of investments	2,696,474	5,076,559
Net cash provided by investing activities	4,571,106	1,419,035
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Proceeds from contributions restricted for:		
Investment in endowment fund	8,251	980
Payments on mortgage loan	(2,000,000)	-
Payment on line of credit	(655,645)	(500,000)
Payment on capital lease	(36,550)	(36,549)
Refunds for entrance fees	(125)	(40,822)
Net cash used by financing activities	(2,684,069)	(576,391)
Net increase (decrease) in cash and cash equivalents	434,941	(88,646)
<b>CASH BALANCES - BEGINNING OF YEAR</b>	242,900	331,546
<b>CASH BALANCES - END OF YEAR</b>	\$ 677,841	\$ 242,900

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

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2012**  
*with Comparative Totals for the Year Ended December 31, 2011*

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES AND NON-OPERATING GAINS(LOSSES):</b>		
Change in net assets	\$ (2,647,673)	\$ (1,949,573)
Adjustments to reconcile change in net assets to net cash used by operating activities and non-operating gains (losses):		
Amortization of entrance fees	(218,446)	(241,030)
Amortization of loan costs	21,333	26,667
Depreciation	415,813	831,474
Net realized and unrealized (gain) on investments	(483,688)	96,531
Change in charitable remainder interest	-	(5,361)
Change in beneficial interest in perpetual trusts	(84,986)	62,749
Contributions restricted for long-term investments	(8,251)	(980)
Gain on sale of fixed assets	(573,878)	-
Loss on discontinuation of Redstone project	2,304,878	-
Decrease in operating assets:		
Accounts receivable	32,074	11,942
Inventory, prepaid expenses and deposits	22,231	33,941
Increase (decrease) in operating liabilities:		
Accounts payable	(209,310)	167,902
Accrued expenses	4,837	35,398
Security deposits	(27,030)	(950)
Net cash used by operating activities and non-operating gains (losses)	<u>\$ (1,452,096)</u>	<u>\$ (931,290)</u>

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

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012  
*with Comparative Totals for the Year Ended December 31, 2011***

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

***Nature of Activities*** - California P.E.O. Home, dba Navigage, (the Home) is a California non-profit public corporation trust as described in Section 501(c)(3) of the Internal Revenue Code and as such is exempt from federal income taxes. The Home is exempt from state franchise taxes under similar provisions for the State of California. The Home operates a continuing care retirement community (CCRC), Marguerite Gardens, located in Alhambra, California. The Home serves approximately 45 P.E.O. members and other community residents, under continuing care contracts and monthly rental agreements, providing services that enhance quality of life for those served through independent retirement living, assisted living and skilled nursing care.

***Basis of Accounting*** - The financial statements of the Home have been prepared on the accrual basis of accounting.

To account for the limitations and restrictions placed on the use of resources available to the Home, its accounts are maintained in accordance with the principles of fund accounting. Inter-fund transactions are not reflected in the financial statements as generally accepted accounting principles requires inter-fund activity to be eliminated.

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

***Net Asset Classes*** - The Home classifies its net assets into three categories; unrestricted, temporarily restricted and permanently restricted.

***Unrestricted net assets*** generally result from revenues from providing services, receiving unrestricted contributions, and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from the Home's mission as defined in its articles of incorporation and bylaws.

***Temporarily restricted net assets*** are those whose use by the Home has been limited by donors to a specific time period or purpose.

***Permanently restricted net assets*** have been restricted by donors to be maintained by the Home in perpetuity.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)**

***Cash and Cash Equivalents*** - Cash and cash equivalents include short term investments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

***Investments*** - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position.

***Accounts Receivable*** - Accounts receivable are stated at unpaid balances. Bad debts are accounted for by the direct write-off method, which is not materially different from the allowance method, as the Home does not expect to incur any significant uncollectible accounts. Receivables are considered impaired if full payment is not received in accordance with contractual terms. It is the Home's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

***Inventory, Prepaid Expenses and Deposits*** - Inventory consists of food and kitchen supplies and is valued at cost. Payments made to vendors for goods or services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which goods or services are consumed. Additionally, amounts paid for fees associated with the mortgage loan are capitalized and amortized to incidental rental gains or losses over the life of the loan. These costs were amortized using the straight-line method. See note 9 for additional information.

***Property and Equipment*** - Property and equipment are stated at cost. Donated property is recorded at its estimated fair value at the date of receipt, which is then treated as cost. The Home maintains a capitalization threshold of \$500. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Depreciation is computed on the straight-line basis over the estimated useful life of the assets. The estimated useful life for buildings and site improvements is 30-40 years and for equipment is 2-10 years. Beginning in 2007-08, certain items anticipated to be demolished per the proposed master plan, discussed in Note 17, were depreciated according to the anticipated construction phase. In August 2008, property with an apartment complex was purchased. The Home recorded the appraised value of the apartment complex as a building and accelerated the related depreciation over its estimated useful life. The apartment complex was fully depreciated during the 2011 fiscal year and was sold during the 2012 fiscal year.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012  
*with Comparative Totals for the Year Ended December 31, 2011***

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)**

***Antique Collection*** - The antique collection includes donated furnishings, fine art, fine china and other collectibles. All items in the collection are deemed inexhaustible assets and therefore are not depreciated.

***Security Deposit*** - Security deposits are collected for incidental apartment rentals. Security deposits were transferred with the sale of the apartment complex.

***Entrance Fees Held in Escrow*** - Entrance fee deposits were accepted and held in escrow to reserve new living units associated with the Home's Redstone Project discussed in Note 17. Entrance fee deposits totaled \$384,477 as of December 31, 2011. With the discontinuation of the Redstone Project, all entrance fee deposits were returned in 2012.

***Deferred Revenue from Entrance Fees*** - Fees paid by a resident upon entering the Home are recorded as deferred revenue and are amortized to income using the straight-line method over the remaining life expectancy of the resident. The entrance fees received under contract are generally refundable over a 100-month period and are amortized over the residents' life expectancy. At December 31, 2012 and 2011, the balance of unamortized entrance fees was \$505,123 and \$723,694, respectively. Of these amounts, \$91,572 and \$408,040, respectively, are subject to the refund provisions in the contracts. Management believes the estimated amount of advance fees that is expected to be refunded to current residents under the terms of the contract and based on previous experience is not material and, as such, a provision for the liability has not been reported separately as a current liability.

***Charity Care*** - Charity care is health care services provided to a patient with demonstrated inability to pay. The Home provided care to residents under the non Medi-Cal program for which the costs to provide such care exceeds reimbursement. Costs for this program in excess of reimbursement were \$50,396 and \$50,510 for the years ended December 31, 2012 and 2011, respectively.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)**

***Obligation to Provide Future Services*** - The Home annually calculates the present value of the net cost of future services and use of facilities to be provided to current continuing care contract residents and compares that amount with the future cash inflows from monthly fees and the balance of deferred revenue from advance fees. If the estimated present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability is recorded with a corresponding charge to income. For the years ended December 31, 2012 and 2011, the calculation resulted in no future service liability.

The discounted rate used for both years was 4.0%, based on the expected long-term rate of return on government obligations. The Home estimates the cost of future services and the use of facilities in calculating the future obligation. The estimated amount of the obligation is based on actuarial assumptions such as life expectancy, projected future monthly resident fees, projected future operating costs and estimated future inflation rate. Actual results will differ from those estimates.

***Net Patient Service Revenue*** - The Home has agreements with third-party payors that provide for payments to the Home at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

***Contributions and Donor-Restricted Gifts*** - Contributions, including unconditional promises to give are recognized as revenues in the period the contribution or unconditional promise is received. Contributions of assets other than cash are recorded at their estimated fair value at the time of the gift. See note 10 for additional information.

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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When a donor's restriction is met within the same year as the donation, the donation is reported as unrestricted.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)**

***Contributed Services*** - During the years ended December 31, 2012 and 2011, the value of non-cash contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, individuals volunteer their time and perform a variety of tasks that assist the Home, but these services do not meet the criteria for recognition as contributed services.

***Redstone Marketing Costs*** - The Home was advertising to promote the Redstone Project (Note 17); the ongoing advertising costs are expenses as incurred. Advertising expense for the years ended December 31, 2012 and 2011 were \$158,338 and \$761,854, respectively.

***Change in Net Assets from Operations*** - The statement of activities includes the change in net assets from operations. Changes in net assets which are excluded from the change in net assets from operations include realized and unrealized gains and losses on investments, net gains or losses from incidental activities, and contributions, including contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

***Comparative Totals*** - The financial statements and notes include certain prior-year summarized comparative information in total, but not by net asset class. Accordingly, such information should be read in conjunction with the Home's financial statements for the year ended December 31, 2011.

***Income Taxes*** - The Home has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Home's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

The Home files informational returns in the U.S. federal jurisdiction and the state of California. With few exceptions, the Home is no longer subject to U.S. federal and state examinations by tax authorities for generally three and four years, respectively.

***Supplemental Statement of Cash Flow Information*** - Interest paid on external debt for the years ended December 31, 2012 and 2011 amounted to \$497,680 and \$651,649, respectively.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES: (continued)**

*Reclassification / Change in Accounting Principal* - Certain reclassifications of the December 31, 2011 amounts were made in order to conform to the December 31, 2012 presentation. The Home has retroactively adopted Accounting Standards Update – Health Care Entities (Topic 954) No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. As such, \$15,000 in bad debt expense associated with patient service revenues has been reclassified from an operating expense to a deduction from patient service revenues in the 2011 statement of activities and schedule of functional expense.

*Subsequent Events* - The Home has evaluated subsequent events through April 22, 2013, which is the date these financial statements were available to be issued.

**NOTE 2 - CONCENTRATION OF CREDIT RISK:**

Custodial credit risk is the risk that in the event of a bank failure, the Home's deposits may not be returned to it. The Home maintains cash balances that at times are in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2012 and 2011 the Home had no cash balances in financial institutions that exceeded FDIC limits.

The Home routinely invests its surplus operating funds in marketable equity and debt securities. These investments are not insured or guaranteed by the U.S. Government; however, management believes that credit risk to these investments is minimal.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012  
with Comparative Totals for the Year Ended December 31, 2011**

**NOTE 3 - INVESTMENTS:**

The Home's investments at December 31, 2012 and 2011 are as follows:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
<u>Level 1</u>				
U.S. Government securities	\$ 54,290	\$ 52,322	\$ 29,440	\$ 27,341
Corporate bonds	8,214,449	7,988,271	8,334,371	8,158,022
Equity securities	3,879,192	3,598,357	3,485,926	3,656,186
Other investments	501,836	501,836	24,214	24,214
	<u>12,649,767</u>	<u>12,140,786</u>	<u>11,873,951</u>	<u>11,865,763</u>
<u>Level 3</u>				
Investment land	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
 Total investments	 <u>\$ 12,679,767</u>	 <u>\$ 12,170,786</u>	 <u>\$ 11,903,951</u>	 <u>\$ 11,895,763</u>
 Unrestricted Investments	 \$ 10,343,207		 \$ 10,434,847	
Temporarily and Permanently				
Restricted Investments	<u>2,336,560</u>		<u>1,469,104</u>	
	<u>\$ 12,679,767</u>		<u>\$ 11,903,951</u>	

For fair value measurement and disclosure purposes, levels 1 through 3 have been assigned to the fair value measurement of investments. The fair value level of measurement is determined as follows:

Level 1 - quoted prices in an active market for identical assets.

Level 2 - quoted prices for similar assets and market-corroborated inputs.

Level 3 - the Home's own assumptions about market participation, including assumptions about risk, developed based on the best information available in the circumstances.

**CALIFORNIA P.E.O. HOME  
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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 3 - INVESTMENTS: (continued)**

All investments held by the Home are level 1 – quoted prices in an active market for identical assets, with the exception of donated investment land. The investment land is located in Fremont, Wyoming and generates monthly royalty payments for mineral rights. The fair value of the investment land, measured at level 3, is the amount offered to purchase the investment land in February 2011 from a joint shareholder.

There no changes in assets measured at fair value using level 3 inputs on a recurring basis for the year ended December 31, 2012.

The investment income and net realized and unrealized gains and losses for the years ended December 31, 2012 and 2011 are as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Interest and dividends	\$ 632,488	\$ 610,318
Investment expense	<u>(75,392)</u>	<u>(86,684)</u>
Net investment income	\$ <u>557,096</u>	\$ <u>523,634</u>
Net unrealized gains (losses)	\$ 625,080	\$ (103,885)
Net realized gains (losses)	(141,392)	7,354

**NOTE 4 - CHARITABLE REMAINDER AND INCOME BENEFICIARY TRUSTS:**

**Charitable Remainder Interest Receivable**

The Home is the beneficiary of a charitable gift annuity administered by the Presbyterian Church (U.S.A) Foundation. In accordance with the donors' instruction upon the donors' death, the Home is to receive 50% of the remainder value of the life income fund held in the administrator's custody. Based on actuarial assumptions, the present value expected to be received by the Home at December 31, 2012 and 2011 is \$10,710, respectively. The amount is reported as a receivable from charitable remainder interests, since the contribution will be received after the contributor's death. The Home classifies the receivable as unrestricted.

**CALIFORNIA P.E.O. HOME  
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**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 4 - CHARITABLE REMAINDER AND INCOME BENEFICIARY TRUST: (continued)**

**Beneficial Interest in Trust**

The Home is an income beneficiary in two trusts. The Phelps trust is held in perpetuity on behalf of the Home while the Home is a beneficiary of the Brame Trust; as such, both trusts are recorded in the Home's statement of financial position. The Brame Trust assets will be held on behalf of its beneficiaries for twenty years at which time the assets will be distributed. The Brame Trust is irrevocable and was established in 2008. On December 31, 2012 and 2011, the market values of the trusts' assets totaled \$2,120,929 and \$2,035,943, respectively. Income distributed to the Home by the trusts amounted to \$89,744 and \$44,982 in years ended December 31, 2012 and 2011, respectively. Earnings are unrestricted and available for general operating expenses.

**NOTE 5 - PROPERTY AND EQUIPMENT:**

A summary of property and equipment at December 31, 2012 and 2011 follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Land	\$ 924,073	\$ 5,549,163
Buildings and improvements	14,855,937	16,352,077
Furniture and equipment	<u>2,391,580</u>	<u>2,402,230</u>
	18,171,590	24,303,470
Less accumulated depreciation	<u>(13,023,958)</u>	<u>(14,137,496)</u>
	5,147,632	10,165,974
Antiques	69,330	69,330
Construction in progress	<u>-</u>	<u>1,991,705</u>
	<u>\$ 5,216,962</u>	<u>\$ 12,227,009</u>

There was no capitalized interest recorded for the years ended December 31, 2012 and 2011. Depreciation expense for the years ended December 31, 2012 and 2011 was \$415,813 and \$831,474.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 6 - INTER-FUND BORROWING:**

In July 2011, the Board approved an internal loan of \$1 million from endowment funds to provide for working capital. In August 2012, the Board approved to increase the internal loan to \$2 million. The internal loan bears an interest rate of 4.25%. Interest is due quarterly with the principal amount due January 2015. Inter-fund borrowing transactions are not reflected in the financial statements as U.S. generally accepted accounting principles require inter-fund activity to be eliminated. However, reported in the statement of activities are the transactions that occur between unrestricted and temporarily restricted net assets.

During 2012 and 2011, the general fund borrowed \$1,020,000 and \$780,000, respectively. During 2012, the principal balance of \$1,800,000 was paid off with the proceeds of the sale of the apartment complex. For the year ended December 31, 2011, inter-fund activity totaling \$782,798 for principal and interest was eliminated. For the year ended December 31, 2012, inter-fund activity of \$50,000 for principal was eliminated. The allocation of interest expense on restricted endowment borrowing is recognized in expenses for the general and administrative supporting services reported in the schedule of functional expenses, while investment income is recognized in temporarily restricted activities. Interest expense for the fiscal years ended December 31, 2012 and December 31, 2011 were \$48,687 and \$2,798, respectively.

**NOTE 7 - LINE OF CREDIT:**

The Home has an operating line of credit for \$7.0 million with American Business Bank. Interest is payable monthly at a fixed interest rate of 5.75%. The line of credit is secured by the unrestricted investment account. The line of credit was scheduled to expire November 2010. Through an agreement between both parties the expiration date was extended to February 2013 with a fixed interest rate of 5.75%. In November 2012, the line of credit was renewed, decreasing the fixed interest rate to 4.5%. The outstanding balance at December 31, 2012 and 2011 was \$5,836,634 and \$6,492,279, respectively.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 8 - CAPITAL LEASE OBLIGATION:**

During the fiscal year 2008, the Home acquired a capital lease at a cost of \$182,710. Depreciation expense for the years ended December 31, 2012 and 2011 was \$24,361 and \$36,552, respectively. The future minimum payment obligations under capital leases as of December 31, 2012 includes the final payment of \$6,072 and is due in 2013.

**NOTE 9 - MORTGAGE LOAN:**

In February 2010, the Home entered into a mortgage loan for \$2.0 million. The mortgage was secured by the apartment complex. The principal payment of \$2.0 million was due August 1, 2012 with an option to extend the loan. The mortgage loan was refinanced in April 2012. The principal amount of \$2.0 million had a fixed interest rate of 4.15% for the first five years before converting to a variable interest rate with a maximum of 9.15% thereafter. In October 2012, the apartment complex was sold and the loan was paid in full.

Original loan costs of \$80,000 were incurred and amortized over 30 months. Amortization of loan costs for the years ended December 31, 2012 and 2011 were \$21,333 and \$26,667, and are recorded as a component of incidental rental gain or loss on the statement of activities. The loan costs were completely amortized as of December 31, 2012. Loan costs of \$21,595 from the refinancing were incurred and recognized in 2012 as a component of incidental rental loss on the statement of activities.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 10 – RESIDENCE FEES AND PATIENT SERVICE REVENUE:**

Residence fees and patient service revenue at December 31, 2012 and 2011 is as follows:

	<b>2012</b>	<b>2011</b>
Independent living	\$ 690,947	\$ 918,186
Assisted living	260,326	432,160
Skilled nursing	1,983,376	2,035,457
Total residence fees, net	\$ 2,934,649	\$ 3,385,803
Skilled nursing	\$ 2,393,785	\$ 2,408,227
Less contractual provisions	(396,075)	(357,770)
Less bad debt	(14,334)	(15,000)
Net patient service revenue	\$ 1,983,376	\$ 2,035,457

**NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets at December 31, 2012 are available for the following purposes:

	Beginning Balance December 31, 2011	Net Assets Received or Transferred	Net Assets Released	Ending Balance December 31, 2012
<b>PURCHASES OF BUILDING AND EQUIPMENT</b>				
Alhambra Unit	\$ 1,480,208	\$ -	\$ -	\$ 1,480,208
	1,480,208	-	-	1,480,208
<b>PURCHASE FOR SPECIFIC OPERATING PURPOSES</b>				
P.E.O. Sisters	794			794
Golden Account	1,400			1,400
Benevolent Fund	-	2,748	(2,748)	-
Health Unit	30,501		(14,021)	16,480
Sunshine	17,942	22,435	(18,747)	21,630
Brame Trust	107,159			107,159
Endowment (Note 12)	-	134,657	(134,657)	-
	157,796	159,840	(170,173)	147,463
	\$ 1,638,004	\$ 159,840	\$ (170,173)	\$ 1,627,671

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS: (continued)**

Temporarily restricted net assets at December 31, 2011 are available for the following purposes:

	Beginning Balance <u>December 31, 2010</u>	Net Assets Received or Transferred	Net Assets Released	Ending Balance <u>December 31, 2011</u>
<b>PURCHASES OF BUILDING AND EQUIPMENT</b>				
Alhambra Unit	\$ 1,479,908	\$ 300	\$ -	\$ 1,480,208
	<u>1,479,908</u>	<u>300</u>	<u>-</u>	<u>1,480,208</u>
<b>PURCHASE FOR SPECIFIC OPERATING PURPOSES</b>				
P.E.O. Sisters	794			794
Golden Account	1,400			1,400
Benevolent Fund	-	2,832	(2,832)	-
Health Unit	40,634		(10,133)	30,501
Sunshine	15,886	8,629	(6,573)	17,942
Brame Trust	107,159			107,159
Endowment (Note 12)	141,305	71,452	(212,757)	-
	<u>307,178</u>	<u>82,913</u>	<u>(232,295)</u>	<u>157,796</u>
	<u>\$ 1,787,086</u>	<u>\$ 83,213</u>	<u>\$ (232,295)</u>	<u>\$ 1,638,004</u>

**NOTE 12 - PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets are as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Endowment Fund - Earnings which are Unrestricted	\$ 2,451,301	\$ 2,443,050
Harvey W. And Alice H. Parmelee Fund	342,074	342,074
Beneficial Interest in Perpetual Trusts: Phelps Memorial Trust	2,013,769	1,928,783
	<u>\$ 4,807,144</u>	<u>\$ 4,713,907</u>

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 13 - ENDOWMENT:**

The Home's endowment consists of two individual endowments, the unrestricted endowment fund and the Parmalee Endowment, established for the Home's charitable purpose. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Home does not currently have board designated funds functioning as endowments.

**Interpretation of Relevant Law** - The Board of Directors of the Home have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Home classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**Return Objectives, Risk Parameters and Strategies** - The Home has adopted an investment policy which maximizes return at an appropriate level of risk within the constraints of general economic conditions. The primary investment objective of the portfolio is to earn a total return over time, sufficient to meet the budgetary need for current income plus preserve the real (inflation adjusted) purchasing power of the endowment. The endowment portfolio is diversified both by asset class (equities and fixed-income securities) and within asset classes (within equities by economic sector, geographic area, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the portfolio's aggregate results.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 13 - ENDOWMENT: (continued)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy -** The Home has a policy of appropriating for distribution each year up to 5%.

**Funds with Deficiencies -** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA required the Home to retain as a fund of perpetual duration. Deficiencies of this nature, totaling \$397,586 as of December 31, 2012 and \$532,243 as of December 31, 2011, have been reported in unrestricted net assets in accordance with generally accepted accounting principles.

**Changes in Endowment Net Assets for the Year Ended December 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (532,243)	\$ -	\$ 2,785,124	\$ 2,252,881
Investment return:				
Investment income, net of expenses		77,331		77,331
Net appreciation (realized and unrealized)		57,326		57,326
Total investment return	-	134,657	-	134,657
Other changes:				
Contributions			8,251	8,251
Recognition of estimated fund deficiencies	134,657	(134,657)		-
Total other changes	134,657	(134,657)	8,251	8,251
<b>Endowment net assets, end of year</b>	<b>\$ (397,586)</b>	<b>\$ -</b>	<b>\$ 2,793,375</b>	<b>\$ 2,395,789</b>

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 13 - ENDOWMENT: (continued)**

**Changes in Endowment Net Assets for the Year Ended December 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 141,305	\$ 2,784,144	\$ 2,925,449
Investment return:				
Investment income, net of expenses		90,813		90,813
Net appreciation (realized and unrealized)		(19,361)		(19,361)
Total investment return	-	71,452	-	71,452
Other changes:				
Contributions			980	980
Transfers and distributions		(745,000)		(745,000)
Recognition of estimated fund deficiencies	(532,243)	532,243		-
Total other changes	(532,243)	(212,757)	980	(744,020)
<b>Endowment net assets, end of year</b>	<b>\$ (532,243)</b>	<b>\$ -</b>	<b>\$ 2,785,124</b>	<b>\$ 2,252,881</b>

**NOTE 14 - RETIREMENT PLAN:**

The Home adopted a 403(b) Retirement Savings Plan, a defined-contribution plan, for its employees effective March 1, 1997. The plan covers all employees who are at least 21 years of age with one or more years of service. The Home's contribution is based on 100% of the first 3% of salary deferral elected by each individual employee. The Home's contributions for the years ended December 31, 2012 and 2011 were \$68,705 and \$70,837, respectively. The Home has no liability for the administration or payment of the plan and accordingly, the present value of the related vested benefits is not reflected in these financial statements.

The Qualified Retirement Plan (the Plan) is administered by American United Life Insurance Company, the trustee. The Home has less than 100 participants.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 15 - INCIDENTAL RENTAL GAIN/LOSS:**

In August 2008, in conjunction with the Redstone Project, property was purchased. The property includes an occupied apartment complex. Since construction was not anticipated to start for several years, the Home continued renting the apartment units. For the year ended December 31, 2012, incidental rental loss of \$91,286 was recorded, which consists of \$274,609 in income, \$116,354 in interest expense and \$249,541 in other expenses. For the year ended December 31, 2011, incidental rental gain of \$20,563 was recorded, which consists of \$343,219 in income, \$225,000 in interest expense and \$97,656 in other expenses. Incidental rental gain, net of expense, or loss is reported under non-operating gains (losses) and other changes in net assets on the statement of activities. The apartment complex was fully depreciated in 2011. Depreciation expense for the year ended December 31, 2011 was \$344,621 and included in operating expense. In October 2012 the apartment complex was sold in conjunction with the discontinuation of the Redstone Project (Note 17).

**NOTE 16 - REDSTONE FOUNDATION FOR AGELESS LIVING:**

The Redstone Foundation for Ageless Living (the Foundation) is a 501(c)(3) non-profit corporation whose sole purpose was to raise money on behalf of the Home. During 2011, the decision to dissolve the foundation was made and \$36,316 was contributed to the Home as an unrestricted contribution. Distribution after all debts and liabilities of the Foundation to a non-profit organization, such as the Home, is allowable according to the articles of incorporation. It is anticipated that the Foundation will be legally dissolved in 2013.

The Foundation's cash account is managed by the Home and is reported in the financial statements as cash held in trust and trust liabilities. Balances totaled \$1,139 and \$1,159 as of December 31, 2012 and 2011, respectively.

Under a service agreement the Home provided facilities use, accounting services and other operating expense such as legal fees and website development to the Foundation. The value of such assistance has been estimated at \$5,300 for the years ended December 31, 2011. No value for assistance was estimated for 2012.

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

*with Comparative Totals for the Year Ended December 31, 2011*

**NOTE 17 - REDEVELOPMENT PLAN AND AB 1169 DISCLOSURE:**

**Redstone Project**

In August 2007, the Home conducted a project summary and financial feasibility analysis in connection with the proposed repositioning master plan of the Alhambra, California campus. Based upon that study, the project included additional one and two bedroom independent living (residential) apartments, assisted living units, an aquatic/fitness center, various activity and common areas and underground parking. The master plan, referred to as the Redstone Project, was designed to meet the needs of the organization by providing additional housing and facilities for residents, which is consistent with the Home's tax exempt status.

A line of credit for approximately \$7.0 million (Note 7) and mortgage loan for \$2.0 million (Note 9) were designated for the Redstone Project. As of December 31, 2011, approximately \$12.5 million had been expended and the principal amount of \$500 thousand was paid on the line of credit.

In August 2012, the Board of Directors approved to discontinue the Redstone Project. As of December 31, 2012 approximately \$13.5 million had been expended. Property purchased for the project was sold for \$5.2 million, the mortgage loan for \$2.0 million was paid off and \$1.2 million in principal payments have been paid on the line of credit. As a result of the discontinuance of the Redstone Project, the Home incurred a loss of approximately \$2.3 million associated with the write off of construction in progress.

**Navigage Solutions Network**

In August 2012, the Board of Directors approved the business plan for a Navigage Solutions Network, now branded as Sherpa. Sherpa is a membership community designed to provide personalized services and options for members in areas such as lifelong learning, career changes, concierge support, technology education, and social connections. All residents of Marguerite Gardens are current members, which enhances their lifestyle experience by providing a better quality of life through events, lectures, classes, dances, social gatherings, and professional assistance, which is consistent with the Home's tax exempt status. This membership community will provide revenue to the Home through annual membership fees, class fees, event fees, and revenue sharing. As of December 31, 2012, approximately \$180,000 has been expended. Management will continue to operate Marguerite Gardens for as long as it is economically feasible.

**SUPPLEMENTAL INFORMATION**

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**SCHEDULE OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2012  
with Comparative Totals for the Twelve Months Ended December 31, 2011**

	PROGRAM SERVICES					SUPPORTING SERVICES				Total Expenses 2011
	Health Care	Assisted Living	Housekeeping and Laundry	Dietary	Total Program Services	General and Administrative	Plant Operations Maintenance	Supporting Services	Total Expenses 2012	
Salaries and wages	\$ 840,213	\$ 122,027	\$ 1,474	\$ 192,035	\$ 1,155,749	\$ 865,018	\$ 238,896	\$ 1,103,914	\$ 2,259,663	\$ 2,468,683
Employee benefits	200,692	23,890	82	32,543	257,207	222,492	68,722	291,214	548,421	534,408
Workers' compensation insurance	60,740	16,578		13,743	91,061	24,688	21,065	45,753	136,814	111,211
Other administrative expenses	1,223			1,055	2,278	79,157	484	79,641	81,919	79,395
Dues, licenses and subscriptions	76				76	38,774		38,774	38,850	29,076
Insurance						197,676		197,676	197,676	198,191
Interest expense - external						381,326		381,326	381,326	426,649
Interest expense - internal						48,687		48,687	48,687	2,798
Professional fees	12,628				12,628	97,812		97,812	110,440	139,401
Contract services	32,231	2,130		156,399	156,399	251,949		296,585	156,399	172,262
Purchased services				5,906	40,267				336,852	371,126
Fund raising and fund development						166		166	166	6,602
Repairs and maintenance							44,636		40,385	48,561
Supplies and equipment	70,654	1,537	29,031	216,637	317,859	23,596	19,389	42,985	360,844	400,756
Taxes						77,384		77,384	77,384	82,421
Telephone	1,050				1,050	8,863	1,326	10,189	11,239	11,960
Board expense						4,599		4,599	4,599	14,099
Utilities							178,340	178,340	178,340	211,051
Total expenses before Redstone marketing and depreciation	1,219,507	166,162	30,587	618,318	2,034,574	2,322,187	613,243	2,935,430	4,970,004	5,308,650
Redstone marketing						158,338		158,338	158,338	761,854
Depreciation	\$ 1,219,507	\$ 166,162	\$ 30,587	\$ 618,318	\$ 2,034,574	\$ 2,480,525	\$ 1,029,056	\$ 415,813	\$ 4,158,131	\$ 831,474
									\$ 5,544,155	\$ 6,901,978

See Independent Auditor's Report

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CONTRACTS BRANCH

**CALIFORNIA P.E.O. HOME  
DBA NAVIGAGE**

**STATE OF CALIFORNIA  
CONTINUING CARE RESERVE REPORT**

**For the Year Ended December 31, 2012  
and  
Independent Auditor's Report**



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
California P.E.O. Home  
DBA Navigage

We have audited the accompanying continuing care reserve report of California P.E.O. Home (the Home), a California Not-For-Profit Corporation, as of and for the year ended December 31, 2012.

### **Management's Responsibility for the Continuing Care Reserve Report**

Management is responsible for the preparation and fair presentation of the continuing care reserve report in accordance with the reporting provisions of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the continuing care reserve report that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the continuing care reserve report 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 continuing care reserve report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the continuing care reserve report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the continuing care reserve report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Home's preparation and fair presentation of the continuing care reserve report 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 Home'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 continuing care reserve report.

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, such continuing care reserve report Forms 5-1 through 5-5 present fairly, in all material respects, the liquid reserve requirements of the Home at December 31, 2012, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

## **Basis of Accounting**

The continuing care reserve report is prepared for the purpose of complying with the California Health and Safety Code Section 1792 and is not intended to be a complete presentation of the Home's assets, liabilities, revenues and expenses and as such is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## **Restriction of Use**

This report is intended solely for the information and use of the board of directors and management of the Home and for filing with the California Department of Social Services and is not intended to be and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

*Vicenti, Lloyd & Stutzman LLP*  
VICENTI, LLOYD & STUTZMAN LLP

April 23, 2013

**FORM 1-1**  
**RESIDENT POPULATION - ALHAMBRA**

<u>LINE</u>	<u>CONTINUING CARE RESIDENTS</u>	<u>TOTAL</u>
1	NUMBER AT BEGINNING OF FISCAL YEAR	42
2	NUMBER AT END OF FISCAL YEAR	36
3	TOTAL LINES 1 AND 2	78
4	MULTIPLY LINE 3 BY ".50" AND ENTER RESULT ON LINE 5	x.50
5	MEAN NUMBER OF CONTINUING CARE RESIDENTS	39
<b>ALL RESIDENTS</b>		
6	NUMBER AT BEGINNING OF FISCAL YEAR	61
7	NUMBER AT END OF FISCAL YEAR	45
8	TOTAL LINES 6 AND 7	106
9	MULTIPLY LINE 8 BY ".50" AND ENTER RESULT ON LINE 10	x.50
10	MEAN NUMBER OF ALL RESIDENTS	53
11	DIVIDE LINE 5 BY LINE 10 AND ENTER THE RESULT	0.74

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>LINE</u>		<u>TOTAL</u>
1	TOTAL OPERATING EXPENSES	5,544,155
a	DEPRECIATION	415,813
b	DEBT SERVICE( INTEREST ONLY)	456,326
2	SUBTOTAL (add Line 1a and 1b)	872,139
3	SUBTRACT LINE 2 FROM LINE 1 AND ENTER RESULT	4,672,016
4	PERCENTAGE ALLOCATED TO CONTINUING CARE RESIDENT (LINE11)	0.74
5	TOTAL OPERATING EXPENSE OF CONTINUING CARE RESIDENTS	
	MULTIPLY LINE 3 BY LINE 4	3,457,292
6	TOTAL AMOUNT DUE (LINE 5 BY .001)	3,457

PROVIDER: CALIFORNIA P.E.O. HOME

COMMUNITY: MARGUERITE GARDENS

FORM 1-1 and FORM 1-2

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	8/26/2008	655,645	376,502	0	1,032,147
2	2/26/2010	0	75,000	2,000,000	2,075,000
3	2/22/2008	36,549	4,824	0	41,373
4	Various	0	24,863	780,000	804,863
5					
6					
7					
8					
		TOTAL	481,189	2,780,000	3,953,383

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

Note: For column (b), do not include voluntary payments made to pay down principal.

Provider: California PEO Home

Comments from Provider: 1) Line of Credit - Balance is \$5,836,634 as of December 31, 2012. An interest payment was made in Jan 2012 for \$32,147.

Subsequently, quarterly payments of \$250,000 were made towards the principle balance and the interest during 2012.

2) Mortgage Loan - Balance is \$0 as of December 31, 2012. In April 2012 the loan was refinanced for a lower interest rate.

On October 30, 2012 the loan was paid off with the proceeds from the sale of the apartment complex. Total Interest payments for the original mortgage loan was \$75,000 and for the refinanced loan was \$41,354. Interest for the refinanced loan are appropriately excluded from the schedule.

3) Capital lease - Balance is \$6,072 as of December 31, 2012.

4) Internal Debt - Balance is \$0 as of December 31, 2012. During 2012, an additional \$1,080,000 was borrowed from the Endowment. In November 2012, the principal balance of \$1,800,000 was repaid to the Endowment with the proceeds from the sale of the apartment complex. Interest for the 2011 borrowing was \$24,863 and for the 2012 borrowing was \$23,834. Interest for the 2012 borrowing are appropriately excluded from the schedule.

**FORM 5-2  
LONG-TERM DEBT INCURRED  
DURING FISCAL YEAR  
(INCLUDING BALLOON DEBT)**

	(a)	(b)	(c)	(d)	(e)
Long-Term Debt Obligation	Date Incurred	Total Interest Paid During Fiscal Year	Amount of Most Recent payment on the Debt	Number of Payments over next 12 months	Reserve Requirement (see instruction 5) (columns (c) x (d))
1					-
2					-
3					-
4					-
5					-
	TOTAL	0	0	0	0

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

Comments from Provider:

NOTE: For column (b), do not include voluntary payments made to pay down principal.

Provider: California P.E.O. Home

Comments from Provider:

**FORM 5-3**  
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

<b>LINE</b>		<b>TOTAL</b>
1	Total from form 5-1 bottom of Column (e)	3,953,383
2	Total from form 5-2 bottom of Column (e)	<u>0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	<u>0</u>
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>	<b><u>3,953,383</u></b>

**PROVIDER: CALIFORNIA P.E.O. HOME**

**FORM 5-4  
CALCULATION OF NET OPERATING EXPENSES**

MOUNT	TOTAL
1 TOTAL OPERATING EXPENSE FROM FINANCIAL STATEMENT	5,544,155
2 DEDUCTIONS	
a INTEREST PAID ON LONG-TERM DEBT	456,326
b CREDIT ENHANCEMENT PREMIUMS PAID FOR LONG-TERM DEBT	0
c DEPRECIATION	415,813
d AMORTIZATION	0
e REVENUE RECEIVED DURING FISCAL YEAR FOR SERVICES TO RESIDENTS WHO DID NOT HAVE A CONTINUING CARE CONTRACT	622,671
f EXTRAORDINARY EXPENSES APPROVED BY THE DEPARTMENT	0
3 TOTAL DEDUCTIONS	1,494,810
4 NET OPERATING EXPENSES	4,049,345
5 DIVIDE LINE 4 BY 365 AND ENTER THE RESULT	11,094
6 MULTIPLY LINE 5 BY 75 AND ENTER THE RESULT	832,050

THIS IS THE PROVIDER'S OPERATING EXPENSE RESERVE AMT

**PROVIDER: CALIFORNIA PEO HOME**

**COMMUNITY: MARGUERITE GARDENS**

**NON-CCRC RESIDENTS FEE FOR FY 12/12**

ALHAMBRA		ADM DATE	DISCH DATE	Monthly fees	P/C fees	parking	phone	TOTAL FY 12/12 REVENUE	TOTAL BY LEVEL
ILU								-	-
ALU									
EAGAN, OLIVE	4/4/2011	2/18/2012	6,316	(512)			26	5,830	5,830
SNF									
ELLIS, BEATRICE	8/14/2011		88,140				312	88,452	
FOLEY, CAROLE	11/17/2010	7/21/2012	48,780				78	48,858	
WULLENWABER, MARY ANN	4/5/2011	1/7/2012	1,440				-	1,440	138,750
MEDI-CAL RATE			per day						
			161.95/161.43						
DOKES, LILLIAN	4/25/2011		59,169					59,169	
GOVEA, RICHARD	3/28/2011		54,643					54,643	
HAVECKER, ELIZABETH	3/23/2011		59,169					59,169	
HERNANDEZ, ZENaida	3/25/2011		59,175					59,175	
KUJOLIC, RUTH	10/1/2011		58,502					58,502	
NAKATSUKA, HATSUKO	4/11/2011		59,194					59,194	
SORTEBERG, DORIS	5/2/2011		59,194					59,194	
VILLAGOMEZ-BENITES, ENRIQUETA	4/6/2011		59,194					59,194	468,240
									612,820
								<b>Non-CCRC resident revenue</b>	<b>612,820</b>
								GUEST/EMP MEAL REVENUE	1,681
								SUPP & SERV MISC- from non-residents	-
								CATERING REVENUE	396
								GUEST ROOM RENTAL REVENUE	7,774
								<b>TOTAL NON-RES REVENUE</b>	<b>622,671</b>
								SUPP & SERV MISC- Residents	14,081
								PARKING	840
								LAUNDRY, LINEN	2,638
								PROCESSING FEE	-
								PHONE	11,424
									<b>28,983</b>
								<b>CONT. ADJ</b>	
									28,983
<b>NON-CCRC RESIDENTS FEE FOR FY 12/12</b>									

California P.E.O. Home  
 Continuing Care Contract Annual Report -  
 Reconciliation Page  
 December 31, 2012

Form 5-4

[2] [e]

Revenues received during the fiscal  
 year for services to residents who did  
 not have a continuing care contract:

Cash received from residents (Statement of Cash Flows)	2,966,723
Continuing Care Contract monthly fees: Marguerite Gardens	<u>(2,344,052)</u>
	<u><u>622,671</u></u>

subtract  
 total should agree with d33 below when completed

Detailed Explanaton on Deduction:

Resident fees (non-continuing care) Marguerite Gardens	-
Assisted Living Fees Marguerite Gardens	5,830
Skilled Nursing Facility Marguerite Gardens	606,990
Other non-resident revenue Marguerite Gardens	<u>9,851</u>
	<u><u>622,671</u></u>

**FORM 5-5  
ANNUAL RESERVE CERTIFICATION**

**PROVIDER NAME: CALIFORNIA PEO HOME  
FISCAL YEAR ENDED: 12/31/12**

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/12 and are in compliance with those requirements

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

**AMOUNT**

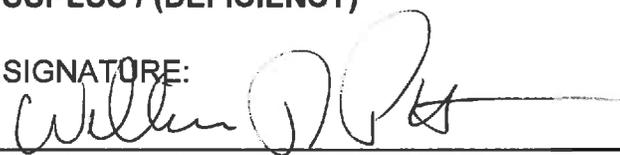
1	DEBT SERVICE RESERVE AMOUNT	3,953,383
2	OPERATING EXPENSE RESERVE AMOUNT	832,050
3	<b>TOTAL LIQUID RESERVE AMOUNT</b>	<b>4,785,433</b>

QUALIFYING ASSETS SUFFICIENT TO FULFILL THE ABOVE REQUIREMENTS ARE HELD AS FOLLOWS:

**AMOUNT  
(MARKET VALUE AT END OF YEAR )**

<u>QUALIFYING ASSETS DESCRIPTION</u>	<u>DEBT SERVICE RESERVE</u>	<u>OPERATING RESERVE</u>
4 CASH AND CASH EQUIVALENTS		677,841
5 INVESTMENT SECURITIES	7,019,731	
6 EQUITY SECURITIES		3,323,476
7 UNUSED/AVAIL. LINES OF CREDIT	1,163,366	-
8 UNUSED/AVAIL. LETTERS OF CREDIT		-
9 DEBT SERVICE RESERVE	-	
10 OTHER: (DESCRIBE)		
<b>TOTAL AMOUNT OF QUALIFYING ASSETS LISTED FOR RESERVE OBLIGATION:</b>	11 align="right"> <b>8,183,097</b>	12 align="right"> <b>4,001,317</b>
<b>RESERVE OBLIGATION AMOUNT</b>	13 align="right"> <b>3,953,383</b>	14 align="right"> <b>832,050</b>
<b>SUPLUS / (DEFICIENCY)</b>	15 align="right"> <b>4,229,714</b>	16 align="right"> <b>3,169,267</b>

SIGNATURE:



AUTHORIZED REPRESENTATIVE

Chief Executive Officer  
TITLE

DATE 4-25-13

**CCRC FORM 5-5 WORKSHEET  
FY12/12**

<b>CASH</b>	<u>ALH</u>	<u>SJ</u>	<u>TREAS</u>	<u>TOTAL</u>
CONCENT ACCT	-			
CHECKING	2,220.11	-	-	
PAYROLL	23.09	-	-	
SHORTER	1,139.49			
SUNSHINE	23,056.99			
PETTY CASH	3,700.00	-		
WELLS FARGO	(20.00)	-		
	<u>30,119.68</u>	-	-	30,119.68
UNRESTRICTED MONEY MARKET				<u>647,721.37</u>
<b>TOTAL CASH AND EQUIVALENT</b>				<b><u>677,841.05</u></b>
			CK	677,841.00
				0.05

**UNRESTRICTED INVESTMENT SECURITIES**

FIXED INCOME, A RATED		7,019,731.00	7,019,731.00
FIXED INCOME, B RATED		-	
(Norfolk Southern)		<u>7,019,731.00</u>	
			<u><u>7,019,731.00</u></u>

**EQUITY SECURITIES**

<b>EQUITY SECURITIES</b>		<b>3,323,475.95</b>
<b>CASH &amp; EQUIV</b>		<u>677,841.05</u>
<b>TOTAL PORTFOLIO</b>		11,021,048.00
	CK	11,021,048.00

**DSS - Reserve Report Part of Form 5-5  
Description of Reserves Under SB 1212**

Total Qualifying Assets as Filed:	
Cash and Cash Equivalents	677,841
Investment Securities	10,343,207
Unused Line of Credit	1,163,366
Total Qualifying Assets as Filed	12,184,414
Reservations and Designations:	
None	
Remaining Liquid Reserves	12,184,414
<hr/>	
<b>Per Capital Cost of Operations</b>	
Operating Expenses (Form 5-4, line #1)	5,544,155
Mean # of CCRC Residents (Form 1-1, line #10)	53
Per Capita Cost of Operations	104,607

Disclosure Statement

General Information

FACILITY NAME: MARGUERITE GARDENS  
 ADDRESS: 700 NORTH STONEMAN AVE, ALHAMBRA, CALIFORNIA ZIP CODE: 91801 PHONE: (626) 300-0400  
 PROVIDER NAME: CALIFORNIA P.E.O. HOME FACILITY OPERATOR: CALIFORNIA P.E.O. HOME  
 RELATED FACILITIES: \_\_\_\_\_ RELIGIOUS AFFILIATION: NONE  
 YEAR OPENED: 1976 (ccrc) NO. OF ACRES: 2.19 MULTI-STORY \_\_\_\_\_ SINGLE STORY: \_\_\_\_\_ BOTH: X  
 MILES TO SHOPPING CENTER: 1/2 MILE MILES TO HOSPITAL: 3 1/2 MILES

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
	APARTMENT - STUDIO <u>58</u>	ASSISTED LIVING <u>26</u>
	APARTMENT - 1 BDRM <u>16</u>	SKILLED NURSING <u>44</u>
	APARTMENT - 2 BDRM <u>1</u>	SPECIAL CARE _____
	COTTAGE/HOUSES <u>0</u>	DESCRIBE SPECIAL CARE <u>NON-CCRC</u>
% OCCUPANCY AT YEAR END	<u>30%</u>	

TYPE OF OWNERSHIP:  NOT FOR PROFIT  FOR PROFIT  ACCREDITED:  Y  N BY: \_\_\_\_\_

FORM OF CONTRACT:  LIFE CARE  CONTINUING CARE  FEE FOR SERVICE  
 ASSIGN ASSETS  EQUITY  ENTRY FEE  RENTAL

REFUND PROVISIONS (CHECK ALL THAT APPLY):  90%  75%  50%  PRORATED TO 0%  OTHER: \_\_\_\_\_

RANGE OF ENTRANCE FEES: \$ 67,000 TO \$ 200,000 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: none

ENTRY REQUIREMENTS: MINIMUM AGE: 60 PRIOR PROFESSION: N/A OTHER: NONE

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICE AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH <u>4</u>		
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY <u>3</u>		
BOWLING GREENS	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE <u>YES</u>		
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input type="checkbox"/>	<input checked="" type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>			
OTHER: <u>COMPUTER AREA</u>					

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

PROVIDER NAME: California P.E.O. Home - Marguerite Gardens

CCRCs	LOCATION (CITY, STATE)	PHONE ( with area code)
NONE		

**MULTI-LEVEL RETIREMENT COMMUNITIES**

NONE		

**FREE-STANDING SKILLED NURSING**

NONE		

**SUBSIDIZED SENIOR HOUSING**

NONE		

PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

**PROVIDER NAME: CALIFORNIA PEO HOME**  
**ACILITY: Marguerite Gardens**

	<u>FYE 2/29/10</u>	<u>FYE 12/31/10</u>	<u>FYE 12/31/11</u>	<u>FYE 12/31/12</u>
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>COME FROM ONGOING OPERATIONS:</b>				
<b>OPERATING INCOME</b>				
INCL. AMORTIZATION OF ENTRANCE FEE INCOME)	<u>\$ 4,127,725</u>	<u>\$ 3,070,582</u>	<u>\$ 3,992,472</u>	<u>\$ 3,546,188</u>
LESS OPERATING EXPENSES (INCL. DEPRECIATION, AMORTIZATION, & INTEREST)	<u>6,643,645</u>	<u>4,478,546</u>	<u>5,632,188</u>	<u>4,725,683</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>(2,515,920)</u>	<u>(1,407,964)</u>	<u>(1,639,716)</u>	<u>(1,179,495)</u>
LESS INTEREST EXPENSE	<u>(380,929)</u>	<u>(357,132)</u>	<u>(426,649)</u>	<u>(381,326)</u>
PLUS CONTRIBUTIONS	<u>365,156</u>	<u>362,289</u>	<u>867,259</u>	<u>385,460</u>
PLUS NON-OPERATING INCOME (EXPENSES) (EXCLUDING EXTRAORDINARY ITEMS)	<u>2,081,487</u>	<u>445,956</u>	<u>(133,356)</u>	<u>(1,253,612)</u>
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	<u>(450,206)</u>	<u>(956,851)</u>	<u>(1,332,462)</u>	<u>(2,428,973)</u>
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (TOTAL DEPOSITS LESS REFUNDS)	<u>-</u>	<u>-</u>	<u>(40,822)</u>	<u>(125)</u>

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
American Business Bank (Line of Credit is secured by the unrestricted investment account)	<u>\$ 5,836,634</u>	<u>4.50%</u>	<u>8/26/2008</u>	<u>3/30/2013</u>	<u>Option to renew annually</u>

**FINANCIAL RATIOS:**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>DEBT TO ASSET RATIO</b>	<u>29%</u>	<u>31%</u>	<u>31%</u>	<u>25%</u>
<b>OPERATING RATIO</b>	<u>170%</u>	<u>157%</u>	<u>152%</u>	<u>144%</u>
<b>DEBT SERVICE COVERAGE RATIO</b>	<u>(5.24)</u>	<u>(3.19)</u>	<u>(1.68)</u>	<u>(0.39)</u>
<b>DAYS CASH-ON-HAND RATIO</b>	<u>534</u>	<u>695</u>	<u>640</u>	<u>784</u>

**HISTORICAL MONTHLY SERVICE FEES  
AVERAGE FEE AND PERCENT CHANGE**

	<u>FYE 2/28/10</u>		<u>FYE 12/31/10</u>		<u>FYE 12/31/11</u>		<u>FYE 12/31/12</u>
	<b>2009</b>	<b>%</b>	<b>2010</b>	<b>%</b>	<b>2011</b>	<b>%</b>	<b>2012</b>
STUDIO	<u>2,139</u>	<u>10.73%</u>	<u>2,396</u>	<u>5.41%</u>	<u>2,533</u>	<u>4.95%</u>	<u>2,665</u>
ONE BEDROOM	<u>3,060</u>	<u>6.74%</u>	<u>3,281</u>	<u>9.64%</u>	<u>3,631</u>	<u>3.97%</u>	<u>3,781</u>
TWO BEDROOM	<u>2,895</u>	<u>8.39%</u>	<u>3,160</u>	<u>4.82%</u>	<u>3,320</u>	<u>16.37%</u>	<u>3,970</u>
COTTAGE/HOUSE	<u>N/A</u>		<u>N/A</u>		<u>N/A</u>		<u>N/A</u>
ASSISTED LIVING	<u>3,895</u>	<u>-4.45%</u>	<u>3,729</u>	<u>9.88%</u>	<u>4,138</u>	<u>5.85%</u>	<u>4,395</u>
SKILLED NURSING	<u>5,627</u>	<u>13.26%</u>	<u>6,487</u>	<u>-14.39%</u>	<u>5,671</u>	<u>5.94%</u>	<u>6,029</u>
SPECIAL CARE	<u>N/A</u>		<u>N/A</u>		<u>N/A</u>		<u>N/A</u>

**COMMENTS FROM PROVIDER:**

HISTORICAL MONTHLY FEE IS THE AVERAGE FEE CHARGED TO EXISTING RESIDENTS.

**FINANCE SUMMARY**

**FOR FORM 1**

	FY 12/12			
	ALH	SJ	Treas	TOTAL
OPER. EXP	5,544,155	-	0	5,544,155
DEPR	415,813	-		415,813
LOC INT. & MORTGAGE	494,340	-		494,340
CAPITAL LEASE	4,827	-		4,827

**FOR DISCLOSURE**

CONSOLIDATED	FY09/10	FY10	FY11	FY12	
OPERATING REVENUE	4,455,365	3,241,781	4,233,502	3,764,634	
AMORT. ENT FEE	(327,640)	(171,199)	(241,030)	(218,446)	
	<b>4,127,725</b>	<b>3,070,582</b>	<b>3,992,472</b>	<b>3,546,188</b>	
OPERATING EXP	8,017,558	5,704,400	6,916,978	5,544,155	
AMORTIZATION	0	-26,667	-26,667	-21,333	
DEPRECIATION	-992,984	-842,055	-831,474	-415,813	
	<b>7,024,574</b>	<b>4,835,678</b>	<b>6,058,837</b>	<b>5,107,009</b>	
LOC INTEREST, LEASE & MORTGAGE	<b>380,929</b>	<b>357,132</b>	<b>426,649</b>	<b>381,326</b>	<b>381,326</b>

ABB  
Cervenka  
Luther

# Marguerite Gardens

## Resident Monthly Fee Increase Calculation - Effective January 1, 2012

	YTD 08/11 Operating Expenses- excl. Depreciation.	% of Expenses	Projected Increase	Wage Increase	Assignable %
<b>Total Operating Expense ( Excl. Depreciation)</b>	<b>\$ 3,661,189</b>				
Salaries and Wages	\$ 1,832,186	50.04%		2.0%	1.00%
Commercial Package Insurance	\$ 135,011	3.69%	5%		0.18%
Employee Group Insurance	\$ 134,480	3.67%	15%		0.55%
	<u>\$ 2,101,676</u>				
<b>Other expenses</b>	<b>\$ 1,559,513</b>	<b>42.60%</b>	<b>3.8%</b>		<b>1.62%</b>
CPI increase from August 2010 to August 2011					
	<u>\$ 3,661,189</u>	<u>100.00%</u>			<b>3.35%</b>
<b>Monthly Fee Increase</b>					