

Grace Village Retirement Community

Board of Directors

CEO Report for 2006

By

Jeff Carroll

November 2006

December 7, 2006

Dear Board Members,

Fiscal year 2006 has been a very busy year with mixed results. We have finished with a lot of great progress and at the same time, not quite the bottom line financially, that we would like to have. Of course, the great financial progress that we made in fiscal year 2005 got the attention and involvement of a bigger rated bank, Fifth Third. This bank's involvement allowed us to reduce our letter of credit fee by 1% with substantiated interest savings, going forward. New auditors brought us to a higher level of excellence with their scrutiny of our books. However, they discovered an error from the previous auditing firm that caused us to take a hit of \$340,633 from the assets on the balance sheet. This amount ended up not being too material because of 2 assets not recorded at market value: 1) Grace Village's royalty interest in an oil well in Long Beach California valued at \$55,753 and 2) Our interest in the Samaritan Alliance should be valued at \$150,000. It is on the books at \$20,000.

Also when we refinanced the current Bond issue, we had to take all unamortized Bond issuance cost in the year of refinance. This expense negatively affected the bottom line in the amount of \$152,433.

The building projects have required concentrated time and oversight and we have not added any additional staff to help in these projects. We look forward to their completion in the spring for the Robin Hood quadplex and roadway and summer of the Health Care expansion. With these projects well underway, we are better able to focus on operations and controlling costs. Our focus is beginning to pay off and will be reflected in the October 2006 statements that show a bottom line of around \$11,700! At the writing of this report, I have just received word that 5th Third has given their approval for the waiver of the leverage covenant, elimination of the leverage covenant from future measurement and replacement with a tangible net worth covenant of \$2.6 million and an increase in the liquidity covenant from \$1 million to \$2million. These covenants should be managed easily.

All in all, we are optimistic about the future even though we have many challenges of the horizon. Grace Village continues to be a challenging organization to lead and manage. I'm thankful for you, the Board for your help, insight, encouragement and prayers. We the management team could not do it alone. We have a deep sense of God's leading and provision and we are grateful for his guidance. Thank you for making a difference in the lives of our residents in 2006.

During Fiscal Year 2006, the staff with board support and approval:

- Saw the Caring Friends Endowment grow to nearly \$520,000.
- Completed purchase and lease of 706 Elder Lane property.
- Completed investment policy document to comply with auditor's request.
- Reviewed and completed interest rate swap to better fix interest expense.
- Recruited and installed a new Director of Nursing.
- Reduced and have almost eliminated outside nursing pool usage to better serve residents with consistent care.

- Installed a new Retirement Chaplain
- Completed analysis of Health Care expansion, completed refinance, finalized drawings, and broke ground for new Health Care expansion. Total Project \$2.8 million
- With the consistent financial progress secured new letter of credit bank 5th /3rd, a higher rated bank.
- With much Board in put and help recruited four new board members.
- Encountered a title issue with 5th/3rd regarding the land behind Lamp Post Manor owned by Grace College. This was corrected in December 2006
- As a part of the refinance with new bank, we secured funding for Robin Hood Phase IV which will complete road and sewer infrastructure. Started the first quadplex in new phase with all four condominiums leased.
- Began process of acquiring 1326 Sunset Drive in a swap agreement for a new Robin Hood unit.
- Began work on plans for new Robin Hood Community Center.
- Kept facility in compliance with State Department of Health
- Engaged new auditors Crowe-Chizek of South Bend as new auditors.
- Maintaining strong occupancy throughout facility.
- Received from Samaritan Alliance a dividend of \$20,000.
- Held Annual Staff retreat to better prepare our team for the future.
- Completed a mock survey to prepare our annual state survey.
- Resident population has now grown to a record 320 residents.

	<u>7/31/05</u>	<u>8/31/05</u>	<u>9/30/05</u>	<u>10/31/05</u>	<u>11/30/05</u>	<u>12/31/05</u>	
RH	89.5	92.1	98	95	97	95	
RET	90	87	84	86	86	89	
HC	99	91	99	95	91	91	
AL	98	100	96	96	98	98	
	<u>1/31/06</u>	<u>2/28/06</u>	<u>3/31/06</u>	<u>4/30/06</u>	<u>5/31/06</u>	<u>6/30/06</u>	<u>AVG</u>
RH	95	97	100	100	97	95	95.88
RET	89	89	86	86	89	88	87.42
HC	100	100	98.6	96	99	95	96.22
AL	96	96	96	98	100	98	97.5

Respectfully Submitted,

Jeff Carroll