Southern California Presbyterian Homes and Affiliates

(dba be.group)

Combined Financial Statements as of and
for the Years Ended December 31, 2016 and 2015,
and Independent Auditors' Report

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southern California Presbyterian Homes (dba be.group):

We have audited the accompanying combined financial statements of Southern California Presbyterian Homes and affiliates (dba be.group) ("be.group"), all of which are under common ownership and common management, which comprise the combined balance sheets as of December 31, 2016 and 2015, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to be.group's preparation and fair presentation of the combined 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 be.group'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of be.group as of December 31, 2016 and 2015, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described more fully in Note 2, these combined financial statements include the financial position, results of operations and cash flows of the be.group obligated group and its controlled affiliates, and excludes all non-controlled affiliates. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 27, 2017

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	$ 10,099	$ 8,797
INVESTMENTS (Notes 5 and 10)	97,967	89,515
INVESTMENTS DESIGNATED FOR THE HOMESHIP FUND (Note 5)	1,308	1,308
RESIDENT ACCOUNTS RECEIVABLE—Net of estimated allowances for doubtful accounts of $248 and $98 as of December 31, 2016 and 2015, respectively	4,672	4,852
OTHER ACCOUNTS RECEIVABLE (Notes 11 and 12)	5,348	2,376
PREPAID EXPENSES	2,589	1,988
ASSETS WHOSE USE IS LIMITED (Notes 5, 6, and 10)	19,382	66,181
INVESTMENTS HELD FOR RESTRICTED PURPOSES (Notes 5 and 10)	17,111	15,664
FACILITIES—Net (Note 7)	215,737	204,058
ASSETS HELD FOR SALE (Note 3)	5,096	
ADVANCES TO AFFORDABLE HOUSING PROJECTS (Note 12)	1,864	1,050
OTHER ASSETS (Note 15)	1,967	2,182
TOTAL	$383,140	$397,971

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 4,702	$ 4,901
Accrued expenses	11,253	9,706
Deposits from applicants for residency	980	883
Accrued liabilities (Note 11)	11,428	5,691
Accrued pension liabilities (Note 9)	8,493	11,865
Deferred revenue from entrance fees subject to refund (Note 3)	78,081	71,106
Deferred revenue from entrance fees (Note 3)	48,328	47,306
Long-term debt—net (Notes 8 and 10)	167,897	205,204
Life income obligations to beneficiaries under charitable trust agreements	136	420
Total liabilities	331,298	357,082
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (Note 4):		
Unrestricted	13,059	8,076
Unrestricted—noncontrolling interest (Note 13)	21,773	16,126
Temporarily restricted	11,975	11,554
Permanently restricted	5,035	5,133
Total net assets	51,842	40,889
TOTAL	$383,140	$397,971

See notes to combined financial statements. (Concluded)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
REVENUES AND OTHER SUPPORT:		
Resident service fees	$ 86,582	$ 82,774
Amortization of entrance fees (Note 3)	15,102	14,858
Management fees (Note 12)	1,426	1,411
Net assets released from restrictions	1,548	1,214
Total revenues and other support	104,658	100,257
EXPENSES (Note 14):		
Medical services	26,373	24,580
Dietary	15,442	14,711
Plant	11,137	10,707
Housekeeping	4,181	3,992
Resident activities	4,429	4,130
Marketing	4,629	5,147
General and administrative	19,210	17,520
Depreciation	13,587	12,718
Leases and rentals	263	270
Interest—operations (Note 8)	10,147	8,810
Insurance	1,851	1,927
Total expenses	111,249	104,512
LOSS FROM OPERATIONS	(6,591)	(4,255)
OTHER GAINS (LOSSES):		
Unrestricted contributions	1,309	814
Investment income (Note 5)	3,318	3,397
Change in unrealized gain (loss) on trading securities—net	2,396	(4,235)
Other income	279	219
Total other gains—net	7,302	195
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES AND OTHER GAINS	711	(4,060)
DISCONTINUED OPERATIONS (Note 3)—Net loss		(50)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SUPPORT OVER EXPENSES, OTHER GAINS, AND DISCONTINUED OPERATIONS	$ 711	$ (4,110)

See notes to combined financial statements.

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
UNRESTRICTED NET ASSETS:		
Excess (deficiency) of revenues and other support over expenses, other gains, and discontinued operations	$ 711	$ (4,110)
Net assets released from restrictions—acquisition of facilities	282	53
Pension related changes other than net periodic pension cost (Note 9)	3,148	3,439
Deficiency of revenues and other support over expenses, other gains, and discontinued operations attributable to noncontrolling interest	2,562	2,212
Effect of combination with tax credit projects (Note 13)	(937)	796
Equity transfers to Cornerstone Affiliates	(783)	
Increase in unrestricted net assets	4,983	2,390
UNRESTRICTED NET ASSETS—Noncontrolling interest:		
Deficiency of revenues and other support over expenses, other gains, and discontinued operations attributable to noncontrolling interest	(2,562)	(2,212)
Equity contribution (Note 13)	8,209	2,179
Increase (decrease) in unrestricted net assets—noncontrolling interest	5,647	(33)
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts and bequests	1,196	1,227
Investment income (Note 5)	506	987
Unrealized gain (loss)—marketable securities—net	509	(1,088)
Change in value of split-interest agreements	122	(68)
Net assets distributed to donors under trust agreements	(82)	(95)
Net assets released for acquisition of facilities	(282)	(53)
Net assets released for other specific purposes	(848)	(865)
Net assets released for benevolence	(700)	(349)
Increase (decrease) in temporarily restricted net assets	421	(304)
PERMANENTLY RESTRICTED NET ASSETS—Contributions—net of refunds	(98)	434
INCREASE IN NET ASSETS	10,953	2,487
NET ASSETS—Beginning of year	40,889	38,402
NET ASSETS—End of year	$51,842	$40,889

See notes to combined financial statements.

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
(dba be.group)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third-party payors	$ 83,266	$ 81,317
Proceeds from entrance fees	30,021	26,524
Other receipts from operations	1,708	1,679
Unrestricted contributions	1,309	814
Investment income	3,318	3,398
Proceeds from temporarily restricted contributions:		
Investment income	506	987
Gifts and bequests	1,318	1,159
Cash paid to employees and suppliers	(81,546)	(78,937)
Interest paid—net of bond amortization	(10,133)	(8,390)
Net cash provided by operating activities	29,767	28,551
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of facilities	(25,576)	(20,098)
Purchase of assets whose use is limited	(9,771)	(65,866)
Sale of assets whose use is limited	56,663	26,520
Purchase of investments	(64,051)	(51,854)
Sale of investments	57,057	45,008
Cash received in combination with tax credit projects	1,309	4,343
Advances to Affordable Housing projects	(814)	23
Net cash provided by (used in) investing activities	14,817	(61,924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash refunds of entrance fees and deposits	(6,922)	(6,414)
(Refund) contributions restricted for long-term investment	(98)	434
Proceeds from issuance of long-term debt	11,418	54,899
Payments of long-term debt	(54,704)	(14,499)
Cash paid under charitable remainder trust agreements	(82)	(95)
Payment of deferred loan costs	(320)	(658)
Equity transfers to Cornerstone Affiliates	(783)	
Equity contribution	8,209	2,179
Net cash (used in) provided by financing activities	(43,282)	35,846
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,302	2,473
CASH AND CASH EQUIVALENTS—Beginning of year	8,797	6,324
CASH AND CASH EQUIVALENTS—End of year	$ 10,099	$ 8,797

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES
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COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)

	2016	2015
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	$ 10,953	$ 2,487
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Proceeds from entrance fees	30,021	26,524
Amortization of entrance fees	(15,102)	(14,858)
Refund (contributions) restricted for long-term investment	98	(434)
Amounts distributed to donors under trust agreements	82	95
Change in value of split-interest agreements	(122)	68
Change in value of obligation to beneficiaries	(284)	(339)
Unrealized (gains) losses on investments	(2,905)	5,324
Depreciation and amortization	14,005	13,156
Pension related changes other than net periodic pension cost	(3,148)	(3,439)
Equity transfers to Cornerstone Affiliates	783	
Equity contribution	(8,209)	(2,179)
Effect of combination with tax credit projects	937	(796)
Change in:		
Accounts receivable	(2,686)	(214)
Prepaid expenses and other assets	(231)	(1,096)
Accounts payable	(1,528)	1,251
Accrued expenses	7,103	3,001
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 29,767	$ 28,551
SUPPLEMENTAL CASH FLOW INFORMATION—Facilities acquisitions in accounts payable	$ 1,740	$ 623
EQUITY TRANSFERS—Intercompany	$ 1,712	$ -

See notes to combined financial statements. (Concluded)

1. MISSION STATEMENT

Southern California Presbyterian Homes and affiliates (dba be.group) ("be.group") is a California nonprofit public-benefit corporation dedicated to providing quality housing, health, and support services to its residents, primarily older adults of all faiths, that enrich the physical, social, and spiritual dimensions of their lives. be.group is also committed to acting as a resource for the communities in which it operates.

A part of be.group's mission is to provide resources to the broader community. This mission is fulfilled by providing information and referral services for elder care, family support groups, training and mentoring of college interns, community education seminars, meeting space and refreshments for community organizations, financial and staff support in community fairs, and polling sites in facilities for elections. In addition to other activities for the greater community benefit, be.group's staff members donate their time and services to several community organizations that promote be.group's mission.

2. ORGANIZATION

Parent Organization—In July 2015, the be.group Board of Directors announced plans to affiliate with American Baptist Homes of the West (ABHOW), a nonprofit senior living provider. On May 1, 2016 in conjunction with the approval by state regulators of the be.group and ABHOW affiliation, California Life Plan Communities ("Parent Organization" or CLPC) became the sole member of be.group. The combined entity provides continuing care, affordable housing, and assisted living and memory support to more than 10,000 residents in more than 80 communities across California, Arizona, Nevada, Washington, Oklahoma, and Idaho. CLPC, formerly American Baptist Properties, Inc., is a California nonprofit public benefit corporation. CLPC is the sole member of Terraces at San Joaquin Gardens, Cornerstone Affiliates, be.group, Redwood Senior Homes and Services (RSHS), Westminster Gardens, and ABHOW. Effective June 1, 2017, CLPC will be rebranded as HumanGood and Southern California Presbyterian Homes and affiliates will be doing business as HumanGood.

Operations—be.group, including four continuing care retirement communities of Royal Oaks Manor, White Sands, Windsor Manor, and Regents Point (collectively, "Southern California Presbyterian Homes"), together with RSHS and Westminster Gardens are part of the be.group obligated group. The be.group obligated group, together with its controlled affiliates, Kirkwood Assisted Living Residence at Orange ("Kirkwood Orange") and Palmer House LP ("Palmer House"), own and operate retirement communities, freestanding assisted living communities, and adult day centers, primarily in Southern California. Residents of the retirement communities receive residence, service, and care in exchange for an entrance fee and a monthly fee, which is redetermined annually. In addition, residents of the skilled nursing facilities are charged for the costs of medical services provided. The communities include an average of approximately 864 residential units, 267 personal care beds, and 232 skilled nursing beds. be.group also provides a range of long-term care services that are affordable to low and moderate income seniors. These

services include adult day social care, adult day health care, and on-site outpatient therapy.

Southern California Presbyterian Homes Foundation (the "Foundation") is a not-for-profit organization that is committed to building financial support from gifts for be.group. The resources received and managed by the Foundation are directed to be.group to provide housing and support service that will enhance the physical, social, and spiritual well-being of the residents who reside within the communities. be.group has a home care service ("Home Care") that offers assistance with shopping, transportation, and various other customer needs. Home Care customers are charged an hourly rate. be.group also provides management services to 1,305 units of subsidized housing under Housing and Urban Development (HUD) agreements. These facilities are not included in these combined financial statements as controlling financial interest rests with HUD due to existing mortgage and related HUD restrictions on the property (see Note 12).

Southern California Presbyterian Homes has entered into various agreements with established partners to acquire, develop, construct, and maintain low-income housing tax credit projects. As a result, Casa de la Paloma consisting of Casa de la Paloma, L.P., Casa de la Paloma, Inc., and Casa de la Paloma, L.L.C.; Andres Duarte Terrace II consisting of Andres Duarte Terrace II, L.P. and Andres Duarte Terrace II, L.L.C.; Covenant Manor consisting of Covenant Manor, L.P., Sycamore Terrace, Inc., and Covenant Manor, L.L.C.; Royal Vista Terrace Apartments consisting of Royal Vista Terrace Apartments, L.P., Sycamore Terrace, Inc., and Royal Vista Terrace Apartments, L.L.C.; Sycamore Terrace consisting of Sycamore Terrace Upland, L.P. and Sycamore Terrace, L.L.C.; and Westminster Court consisting of Westminster Court, L.P., Westminster Court, Inc., and Westminster Court, L.L.C. are included in be.group's combined financial statements (see Notes 8 and 13). These communities include 560 units of subsidized housing under HUD agreements.

Southern California Presbyterian Homes, the Foundation, RSHS, Kirkwood Orange, Westminster Gardens, Casa de la Paloma, Inc., Sycamore Terrace, Inc., and Westminster Court, Inc. are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes pursuant to Section 501(a) of the IRC. All members of Palmer House, Casa de la Paloma, L.L.C., Andres Duarte Terrace II, L.L.C., Covenant Manor, L.L.C., Royal Vista Terrace Apartments, L.L.C., Sycamore Terrace L.L.C., and Westminster Court L.L.C. are not-for-profit corporations as described in Section 501(c)(3) of the IRC and are exempt from federal income taxes pursuant to Section 501(a) of the IRC. Accordingly, no provision for federal income tax has been recorded in the accompanying combined financial statements. These entities have received favorable determination letters from the Internal Revenue Service indicating that they qualify for tax-exempt status. They are also exempt from California franchise taxes and real and personal property taxes, exclusive of special assessments and voter-approved assessments.

Casa de la Paloma, L.P., Andres Duarte Terrace II, L.P., Covenant Manor, L.P., Royal Vista Terrace Apartments, L.P., Sycamore Terrace Upland, L.P., and Westminster Court, L.P., have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Accordingly, these combined financial statements do not reflect a provision for income taxes.

The combined financial statements include the accounts of the be.group obligated group and its controlled affiliates, the Foundation, Kirkwood Orange, Palmer House, Casa de la Paloma, Andres Duarte Terrace II, Covenant Manor, Royal Vista Terrace Apartments,

Sycamore Terrace Upland, and Westminster Court. All significant intercompany balances and transactions have been eliminated in combination. Non-controlled affiliates of ABHOW, Terraces at San Joaquin Gardens and Cornerstone Affiliates are excluded from the combined financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Performance Indicator—be.group considers the excess (deficiency) of revenues and other support over expenses and other gains to be its performance indicator. The excess (deficiency) of revenues and other support over expenses and other gains includes all changes in unrestricted net assets, excluding noncontrolling interest, except for results of discontinued operations, net assets released from restrictions for acquisition of facilities, pension related changes other than net periodic pension cost, effects of combination with tax credit projects, tax credit project equity contributions, and equity transfers.

Discontinued Operations—In 2013, be.group made the decision to close its Twelve Oaks Lodge community and effective November 1, 2013, operations were terminated. In 2015, management entered into settlement discussions regarding litigation pertaining to the closure of Twelve Oaks Lodge and effective July 27, 2015, related property was sold for a promissory note of $500,000 set to mature on August 19, 2025. As of December 31, 2016 and 2015, the promissory note receivable had a present value of $328,000 (based on level 2 inputs) and is reported in other assets in the combined balance sheets.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 205-20, *Presentation of Financial Statements—Discontinued Operations*, prior period results of operations for Twelve Oaks Lodge are reported separately in discontinued operations in the combined statements of operations. Unless otherwise indicated, all disclosures and amounts in the combined financial statements and notes to the combined financial statements relate to be.group's continuing operations, with the exception of the combined statements of changes in net assets and combined statements of cash flows.

Balance sheet information for Twelve Oaks Lodge, including intercompany payables of $1,587,000, other liabilities of $125,000, and an unrestricted net deficit of $1,712,000 are included in the combined balance sheets as of December 31, 2015.

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

Related-Party Transactions—Effective in December 2016, be.group reimburses ABHOW for payroll and benefit costs incurred on its behalf. As of December 31, 2016, payables of $3,182,000 to ABHOW are recorded in accrued expenses in the combined balance sheets. During the year ended December 31, 2016, Cornerstone Affiliates incurred $783,000 of affiliation cost on be.group's behalf, funded by be.group, and recorded through equity transfers in the combined statement of changes in net assets as of December 31, 2016.

Cash and Cash Equivalents—be.group considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash and cash equivalents.

Investments—Investments consist principally of investments purchased by be.group, various donated investments, and charitable remainder trusts for which be.group has been designated as trustee. Investments are carried at fair value, which approximates current trading value, in the combined balance sheets. The cost of securities sold is based on the specific identification method. Investment income (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are included in other gains (losses), unless restricted by donor or law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts in the combined financial statements.

Split-Interest Agreements—The following instruments are recorded as income or net assets at the present value of be.group's beneficiary interest:

Charitable Remainder Trusts—be.group has been designated as trustee for several charitable remainder trusts. The Foundation administers these trusts. The trust agreements generally require be.group to make payments to beneficiaries based on stipulated interest rates, which ranged from 6.5% to 9% in both 2016 and 2015, applied to the fair market value of the trust assets determined annually or at inception of the trust. Assets are invested in government securities, certificates of deposit, mutual funds, stocks, and bonds. Upon the death of the beneficiaries, or other termination of the trusts as defined in the trust agreement, the remaining trust assets become contributions to be.group, as stipulated in the trust agreements. All charitable remainder trust assets are included at fair value in the accompanying combined balance sheets under investments held for restricted purposes and are considered to be temporarily restricted. The assets are recorded at their fair value when received and a liability is recorded for the present value of the estimated future payments. The difference between the fair value of the assets and the present value of the estimated future payments is recorded as temporarily restricted contributions at the date of the agreement. Subsequent changes to the fair value of the trust assets and the liability for the present value of the estimated future payments are reported in the combined statements of changes in net assets.

Charitable Gift Annuities—Donors have contributed assets to be.group in exchange for a promise by be.group to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists, as the assets received are held by, and the annual liability is an obligation of, be.group. Discount rates ranged from 1.2% to 6% in 2016 and 2015 and the liability is based upon the Internal Revenue Service group annuity tables.

Trusts Held by a Third Party—be.group is named as beneficiary and, in certain instances, receives income from trusts administered by organizations other than be.group. Under the terms of the trust agreements, be.group has the irrevocable right to receive all or a portion of the income earned on the trust assets, either in perpetuity or for the life of the trust. be.group does not control the assets held by an outside trust. be.group recognizes its interest in the trusts at fair value as either a temporarily or permanently restricted long-term receivable and a contribution. Subsequent changes in the fair value of be.group's beneficial interests in the trusts are reported in the combined statements of changes in net assets.

Assets Whose Use is Limited—Assets limited to use by third parties, other than a donor or a grantor, are segregated in the accompanying combined balance sheets. These assets primarily represent debt reserve funds of the various bond issues as well as deposit and trust account funds and other required reserves related to the various tax credit projects. Assets whose use is limited primarily consist of cash deposits and investments in mutual funds and corporate and US government debt obligations with maturities of generally less than five years and are reported at fair value.

Facilities—Facilities are stated at cost, net of accumulated depreciation. Donated property is recorded at its estimated fair value at the date of receipt, which is then treated as cost. Depreciation is computed using a straight-line method based on the following estimated useful lives:

Land improvements	10–15 years
Buildings and improvements	7–40 years
Vehicles, furniture, and equipment	5–20 years

Assets Held for Sale—be.group has entered into negotiations to sell an operating facility to unrelated parties. Management evaluated the accounting treatment of the land and building based on ASC Topic 360, *Property Plant, and Equipment*, and classified the net facilities balance as held for sale effective December 31, 2016. No impairment loss has been recorded in the combined statement of operations for the year ended December 31, 2016, as the fair value exceeds the net book value of the property. The carrying amount of the asset classified as held for sale included in the combined balance sheets and accounted for at lower of cost or fair value is $5,096,000 as of December 31, 2016.

Long-Lived Assets—In accordance with ASC Topic 360, long-lived assets are evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation includes comparing the estimated future net cash flows associated with the assets to the assets' carrying amount to determine whether impairment has occurred. If such assets are deemed impaired, an impairment loss equal to the amount by which the carrying amount exceeds the estimated fair value of the assets is recognized. If quoted market prices for the assets are not available, the fair value is calculated using the present value of estimated expected future net cash flows. The cash flow calculations are based on management's best estimates, using appropriate assumptions and projections at the date of the combined financial statements. No impairment losses were recorded for the years ended December 31, 2016 and 2015.

Prepaid Bond Insurance and Issuance Costs—Prepaid costs incurred upon the funding of the various bond issues are being amortized over the terms of the bonds using the effective interest method and are reported as a direct deduction from the face amount of the associated debt on the combined balance sheets. Amortization of debt issuance costs is reported as a component of interest expense in the combined statements of operations (see Note 8).

Entrance Fees—Entrance fees are paid by a resident upon entering into a continuing care retirement community contract. Entrance fees, net of entrance fees subject to refund, are recorded as deferred revenue from entrance fees and are amortized to income using a straight-line method over the estimated remaining life expectancy of the resident.

Under the classic or fully amortizing resident contracts, a portion of the entrance fees is refundable for up to five years. Under the repayable resident contracts, 75% of the

entrance fee is refundable for the life of the contract. In accordance with Accounting Standards Update (ASU) No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities—Refundable Advance Fees*, refundable advance fees that are contingent upon reoccupancy by a subsequent resident, but are not limited to the proceeds of reoccupancy, are accounted for and reported in deferred revenue from entrance fees subject to refund in the combined balance sheets. The aggregate amount of entrance fees subject to refund as of December 31, 2016 and 2015, is approximately $78,081,000 and $71,106,000, respectively.

Entrance fees subject to refund and actual refunds disbursed as of December 31, 2016, are as follows (in thousands):

Years Ended December 31	**Entrance Fees Subject to Refund as of December 31**	**Actual Refunds Disbursed for Years Ended December 31**
2016	$78,081	$6,922
2015	71,106	6,414
2014	66,300	4,982
2013	59,363	3,932
2012	46,245	3,506

The change in entrance fees for the years ended December 31, 2016 and 2015, is as follows (in thousands):

	2016	**2015**
Entrance fees—January 1:		
Refundable fees	$ 71,106	$ 66,300
Deferred revenue	47,306	46,860
Subtotal	118,412	113,160
Add—new entrance fees	30,021	26,524
Less:		
Amortization	(11,135)	(11,323)
Termination	(3,967)	(3,535)
Refunds	(6,922)	(6,414)
Total	$126,409	$118,412
Entrance fees—December 31:		
Refundable fees	$ 78,081	$ 71,106
Deferred revenue	48,328	47,306
Total	$126,409	$118,412

Resident Service Fees—Resident service fees are recorded net of the provision for contractual allowances. The contractual allowance represents the difference between established rates and per diem reimbursement. On a basis of historical experience, a significant portion of uninsured residents are able to pay for the services rendered. Thus, a significant provision for bad debts related to uninsured residents in the period the services are provided is not recorded. Management, on a quarterly basis, reviews related accounts aged more than 30 days to determine if accounts are collectible or should be further evaluated.

Obligation to Provide Future Services—be.group calculates the present value of the net cost of future services and use of facilities to be provided to current residents (the "estimated obligation") and compares that amount with the balance of deferred revenue from entrance fees. If the estimated obligation exceeds the deferred revenue from entrance fees, a liability is recorded with a corresponding charge to income. As of December 31, 2016 and 2015, the estimated obligation was less than the balance of deferred revenue from entrance fees; and therefore, no obligation to provide future services was recorded. The obligation was calculated assuming 4% long-term rate of inflation and a discount rate of 6% at December 31, 2016 and 2015.

Donor-Restricted Contributions—Unconditional promises to give cash and other assets to be.group are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions have been met. 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 combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements. Temporarily restricted net assets are composed of be.group's interest in various charitable remainder trusts and unexpended restricted contributions. All such assets are included in the combined balance sheets under investments or other assets.

Recent Accounting Pronouncements—In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The objective of this update is to clarify the criteria for reporting discontinued operations and states that an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on operations and financial results. It further requires entities to present, for each comparative period, the assets and liabilities of a disposal group separately in the asset and liability sections, respectively, of the statement of financial position. The provisions of ASU No. 2014-08 were applicable for be.group effective January 1, 2016 and did not have a material impact on be.group's combined financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU requires significantly expanded disclosures about revenue recognition. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of Effective Date*, which formally delayed

the effective date of the standard by one year and allowed for early adoption as of the original effective date. The provisions of ASU No. 2015-14 are applicable for be.group effective January 1, 2018. Management is currently evaluating the impact on be.group's combined financial statements.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation* (Topic 810): *Amendments to the Consolidation Analysis*. The objective of this update is to clarify the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The update clarifies the additional requirements that must be met to qualify as a voting interest entity and reduces the number of consolidation models. The provisions of ASU No. 2015-02 are applicable for be.group effective January 1, 2017 and are not expected to have a material impact on be.group's combined financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30)*. Amendments require that debt issuance costs related to associated debt shall be reported in the combined balance sheets as a direct deduction from the face amount of that debt and that amortization of debt issuance costs also shall be reported as interest expense. The provisions of ASU No. 2015-03 are applicable for be.group effective January 1, 2016. As a result, $4,256,000 of prepaid bond costs are reported with net long-term debt in the combined balance sheets and $595,000 of amortized and other debt issuance costs are reported with interest expense in the combined statement of operations as of and for the year ended December 31, 2016. Prior year amounts were reclassified from those issued on April 28, 2016, for consistent presentation. As a result, $4,385,000 of prepaid bond costs are shown with net long-term debt in the combined balance sheets and $477,000 of amortized and other debt issuance costs are reported with interest expense in the combined statements of operations as of and for the year ended December 31, 2015 (see Note 8).

In May 2015, FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value (NAV) per share practical expedient and removes the requirement to make certain disclosures for such investments. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient. ASU No. 2015-07 is effective for non-public business entities for fiscal years beginning after December 15, 2016 and early adoption is permitted. Management is currently evaluating the impact on be.group's combined financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*. The objective of this update is to improve the presentation of financial statements of not-for-profit entities in order to provide more useful information to donors, grantors, and other users. The standard requires not-for-profit entities to present two classes of net assets (net assets with and without donor restrictions) on the face of the financial statements and requires enhanced disclosures about board-designated amounts, composition of net assets with donor restrictions, the availability of financial assets to meet cash needs for general expenditures, amounts of expenses both by their natural classification and their functional expense, and underwater endowment funds. The provisions of ASU No. 2016-14 are effective for annual periods beginning after December 15, 2017. Management is currently evaluating the impact on be.group's combined financial statements.

4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2016 and 2015, are available for the following purposes (in thousands):

	2016	2015
Donor restrictions (primarily restricted for capital improvements and specific operational activities)	$ 8,058	$ 7,395
Resident care—restricted for benevolence activities	2,759	3,044
Charitable remainder trusts	1,158	1,115
Total temporarily restricted net assets	$11,975	$11,554

Benevolence Activities—Under the terms of a majority of the residents' agreements, be.group is not required to maintain those residents who are unable to pay their entire monthly resident service fees; however, such residents have generally remained in the facilities. Funds to support these residents are derived from benevolence contributions, public aid, and monies designated by the Board. When residents are in need of financial assistance, such funds are provided first through contributions restricted for benevolence and then through the Board-designated benevolence reserve, if available.

Fees paid from donor contributions restricted for benevolence are recorded as a release of temporarily restricted net assets and transferred to unrestricted revenue in the combined statements of operations as they are used. When a community depletes its funds restricted for benevolence, be.group generally provides additional benevolence.

A summary of benevolence activity for the years ended December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Beginning balance for funds restricted for resident care	$3,044	$2,837
Benevolence donations	162	605
Interest earned—including unrealized gain or (loss)	253	(49)
Funds expended for resident care	(700)	(349)
Ending balance for funds restricted for resident care	$2,759	$3,044

Endowment Funds—be.group's endowment consists of approximately 17 individual funds established for various purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

be.group has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, be.group 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 SPMIFA. In accordance with SPMIFA, be.group considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of be.group
- The investment policies of be.group

The changes in donor-restricted endowment net assets for the years ended December 31, 2016 and 2015, are as follows (in thousands):

	Unrestricted/ Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets—January 1, 2015	$1,969	$4,699	$6,668
Contributions	56	434	490
Net investment returns	(67)		(67)
Disbursements	(231)		(231)
Endowment net assets—December 31, 2015	1,727	5,133	6,860
Contributions	36		36
Net investment returns	336		336
Disbursements	(51)	(98)	(149)
Endowment net assets—December 31, 2016	$2,048	$5,035	$7,083

The description of the amounts classified as permanently restricted net assets as of December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Permanently restricted net assets—the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	$5,035	$5,133
Total endowment funds classified as permanently restricted net assets	$5,035	$5,133
Unrestricted and temporarily restricted net assets—the portion of unrestricted or temporarily restricted endowment investment earnings	$2,048	$1,727
Total endowment funds classified as unrestricted or temporarily restricted net assets	$2,048	$1,727

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 SPMIFA requires be.group to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2016 and 2015.

be.group has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. be.group expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, be.group relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). be.group targets a diversified asset allocation that places a greater emphasis on fixed-income-based investments to achieve its long-term return objectives within prudent risk constraints.

Over the long term, be.group expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with be.group's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

5. INVESTMENTS

The composition of investments stated at fair market value as of December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Investments:		
Cash and cash equivalents	$ 21,047	$ 24,197
Mutual funds	27,218	24,738
Government obligations	32,866	71,469
Corporate bonds	19,365	18,965
Equities	34,776	32,842
Other	496	457
Total investments	135,768	172,668
Less:		
Investment designated for Homeship Fund	1,308	1,308
Assets whose use is limited	19,382	66,181
Investments held for restricted purposes	17,111	15,664
Total unrestricted and undesignated investments	$ 97,967	$ 89,515

Included in government obligations and assets whose use is limited as of December 31, 2015 are $41,475,000 in investments held in escrow to retire principal and interest on $41,475,000 of Series 2006 revenue bonds.

The composition of investment income for the years ended December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Interest and dividend income	$3,082	$3,243
Net realized gains	1,248	1,679
Investment expense	(506)	(538)
Investment income	$3,824	$4,384
Unrestricted investment income	$3,318	$3,397
Temporarily restricted investment income	506	987
Total investment income	$3,824	$4,384

The composition of net unrealized gain (loss) activity for the years ended December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Unrestricted unrealized gain (loss)	$2,396	$(4,235)
Temporarily restricted unrealized gain (loss)	509	(1,088)
Total unrealized gain (loss)—net	$2,905	$(5,323)

6. ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited as of December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Cash and cash equivalents	$14,311	$19,769
Investments—primarily US Treasury notes, government agency bonds, and corporate bonds	5,071	46,412
Total assets whose use is limited	$19,382	$66,181

The above funds as of December 31, 2016 and 2015, have been restricted by parties other than donors for the following purposes (in thousands):

	2016	2015
Escrow and project funds	$ 4,190	$51,475
Bond reserve funds	10,570	10,487
Revenue, principal, interest, and other reserve funds	1,322	1,519
Other cash reserves—tax credit projects (Notes 8 and 13)	3,300	2,700
Total assets whose use is limited	$19,382	$66,181

7. FACILITIES

Facilities as of December 31, 2016 and 2015, consist of the following (in thousands):

	2016	2015
Land and improvements	$ 31,757	$ 28,189
Buildings and improvements	287,823	281,645
Vehicles, furniture, and equipment	30,180	26,354
Construction in process	18,071	9,492
Total facilities	367,831	345,680
Accumulated depreciation	(152,094)	(141,622)
Total facilities—net	$ 215,737	$ 204,058

8. LONG-TERM DEBT

Long-term debt, including unamortized premiums and discounts and prepaid bond costs, as of December 31, 2016 and 2015, consists of the following (in thousands):

	2016	2015
Revenue bonds:		
Series 2006 (White Sands/Westminster Gardens)	$ -	$ 39,790
Series 2009 (Southern California Presbyterian Homes)	67,630	68,669
Series 2015 (White Sands/Westminster Gardens)	46,051	46,853
Series 2014 tax-exempt loan (Kirkwood Orange)	3,166	3,389
Construction and mortgages payable (Tax Credit Projects):		
Mortgage payable (Casa de la Paloma)	7,356	7,439
Mortgage payable (Andres Duarte Terrace II)		9,683
Mortgage payable (Covenant Manor)	12,267	12,344
Mortgage payable (Royal Vista Terrace Apartments)	5,717	7,888
Mortgage payable (Sycamore Terrace Upland)	10,778	6,948
Capital advance grant (Andres Duarte Terrace II)	6,975	
Construction loan (Westminster Court)	5,756	
Trust deed notes payable:		
City of Glendale—0% interest through December 2065	1,001	1,001
City of Duarte—0% interest through December 2070	1,200	1,200
Total long-term debt	$167,897	$205,204

As a result of adoption of ASU No. 2015-03, prior year amounts were updated from those issued on April 28, 2016, for consistent presentation with 2016. Updated figures reflect $4,385,000 of prepaid bond costs as a direct reduction of associated debt.

Revenue Bonds—Series 2006 (White Sands/Westminster Gardens) consists of $39,790,000 of outstanding bonds as of December 31, 2015. On December 17, 2015,

these bonds were refunded and the related proceeds were placed into an escrow account to pay the scheduled debt service requirements through November 15, 2016, at which time the outstanding bonds were retired. Funds were held in assets whose use is limited in the combined balance sheets as of December 31, 2015. During the year ended December 31, 2016, interest payments of $1,931,000 on the refunded bonds were recorded in interest expense in the combined statements of operations.

In August 2009, be.group issued $77,805,000 of fixed-rate revenue bonds. The fixed-rate revenue bonds—Series 2009 (Southern California Presbyterian Homes) consist of $5,310,000 of serial bonds bearing interest at a rate of 6.25%, payable in 2019, with mandatory sinking fund payments from $1,215,000 in 2016 to $1,445,000 in 2019; $8,780,000 bearing interest at a rate of 6.625%, payable in 2024, with mandatory sinking fund payments ranging from $1,545,000 in 2020 to $1,985,000 in 2024; $12,145,000 bearing interest at the rate of 7%, payable in 2029, with mandatory sinking fund payments ranging from $2,115,000 in 2025 to $2,765,000 in 2029; and $45,610,000 bearing interest at a rate of 7.25%, payable in 2041, with mandatory sinking fund payments ranging from $365,000 in 2030 to $9,370,000 in 2041, net of amortized discount of $1,128,000 and $1,194,000 as of December 31, 2016 and 2015, respectively. As a result of adoption of ASU No. 2015-03, prepaid bond costs of $1,873,000 and $1,982,000 are recorded with long-term debt—net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

On December 17, 2015, be.group issued $47,900,000 of variable rate revenue bonds—Series 2015—to refund the existing Series 2006 bonds as well as to support additional construction projects, with proceeds used for the acquisition, construction, equipping, and improvement of White Sands and Westminster Gardens communities. First principal payment of $850,000 was paid in 2016. Bonds are set to mature in November 2036 and incur interest at variable rate of the current index, 65.1% of the one-month London InterBank Offered Rate (LIBOR), plus 1.5%, which was 0.57% and 1.84% at December 31, 2016 and 2015, respectively. Effective December 18, 2015, be.group entered into an interest rate cap agreement with a counterparty to manage interest rate risk on $25,000,000 of its Series 2015 variable rate revenue bonds. The agreement establishes that when the current index exceeds 2.5%, be.group is reimbursed for the excess by the counterparty to the transaction. For the years ended December 31, 2016 and 2015, the aforementioned floating interest rate did not exceed the cap strike rate and thus there was no impact on interest expense. The interest rate cap agreement is valued at approximately $464,000 and $515,000 as of December 31, 2016 and 2015, respectively, and is reported with long-term debt—net in the combined balance sheets. Prepaid bond costs of $534,000 and $532,000 are recorded with long-term debt—net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

Series 2014 Tax-Exempt Loan—In December 2014, be.group entered into a loan agreement with First Republic Bank for $3,863,000 in tax-exempt loans issued by the California Municipal Finance Authority. The notes consist of a fixed interest rate period at an applicable loan rate of 2.75% through November 30, 2023, and a variable interest rate period at 67% of LIBOR Index, plus 1.5% beginning December 1, 2023, and continuing through the maturity date of May 15, 2028. Annual payments of $343,323, including principal and interest, are due for Series 2014 monthly during the fixed interest rate period. Prepaid loan costs of $193,000 and $213,000 are recorded with long-term debt—net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

Construction and Mortgages Payable (Tax Credit Projects)—Casa de la Paloma, L.P. has a mortgage loan with Citibank, N.A. in the original amount of $8,000,000, which

represents the permanent loan that was converted from the construction loan on May 15, 2014. The mortgage has a maturity date of May 15, 2030, and bears interest at a fixed rate of 4.76% in 2016 and 2015, with a 0.05% servicing fee. The loan is secured by the multifamily deed of trust, assignment of rents, security agreement, and fixture filing without recourse. The principal balance of the loan as of December 31, 2016 and 2015, is $7,756,000 and $7,854,000, respectively. Other assets representing prepaid bond costs of $400,000 and $415,000 are recorded with long-term debt—net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

Covenant Manor, L.P. has a mortgage with Citibank, N.A. in the original amount of $12,500,000. The mortgage bears interest at a rate of 5.15% and matures on April 1, 2030. Payments of interest only are due monthly through April 2016, with monthly payments of principal and interest of $64,287 commencing May 2016 until maturity. The mortgage is secured by a deed of trust on the property of Covenant Manor L.P. The principal balance of the loan as of December 31, 2016 and 2015, is $12,412,000 and $12,500,000, respectively. Other assets representing prepaid bond costs of $145,000 and $156,000 are recorded with long-term debt—net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

Andres Duarte Terrace II, L.P. has a construction loan with Citibank, N.A. in the original amount of $10,478,631. The loan bears interest at a variable rate and matures on October 1, 2046. During the construction period of the Andres Duarte Terrace II project, the construction loan incurred interest at variable rate of the current index, plus 2.1%, which was 2.11% at December 31, 2015. The mortgage was funded on December 1, 2013, with proceeds from the issuance of California Municipal Finance Authority Multifamily Housing Revenue Note. Proceeds were used to pay costs of acquisition and development of the project and loan is secured by the multifamily deed of trust, assignment of rents, security agreement, and fixture filing without recourse. During the year ended December 31, 2016, the principal balance of $10,104,707, including $169,000 of construction draws during 2016, was paid in full and as of December 31, 2016, the construction loan has a balance of $0.

In July 2016, Andres Duarte Terrace II, L.P. was granted a capital advance mortgage from HUD in an amount not to exceed $7,013,000 to construct 43 units for elderly housing. This advance matures on July 1, 2056, bears no interest, and repayment is not required so long as the housing remains available for very low income elderly persons for not less than 40 years. Failure to keep the housing available for elderly persons (or disabled persons) would result in HUD billing the owner for the entire capital advance outstanding plus interest since the date of the first advance. The mortgage is secured by a deed of trust on the property. As of December 31, 2016, the balance of the mortgage is $7,013,000. Other assets representing prepaid bond costs of $38,000 are recorded with long-term debt-net as of December 31, 2016. As no interest is due as long as the housing remains available for very low income elderly persons for not less than 40 years, no accrued interest is recorded for the accompanying debt in the combined financial statements.

Royal Vista Terrace Apartments, L.P. has a mortgage with Citibank, N.A. in the original amount of $6,045,000. This represents a permanent loan that was converted from the construction loan on May 24, 2016. The mortgage has a maturity date of May 24, 2032, and bears interest at 5.04%. The principal balance of the loan as of December 31, 2016, is $6,008,000. Mortgage is secured by the multifamily deed of trust, assignment of rents, security agreement, and fixture filing without recourse. As of December 31, 2015, the amount of the construction loan prior to conversion is $8,207,000, which bears interest at a variable rate of the current index, or the seven-day high-grade market index of tax-

exempt variable rate demand obligations, plus 2%. Payments of interest only are due monthly. Other assets representing prepaid bond costs of $291,000 and $319,000 are recorded with long-term debt-net as of December 31, 2016 and 2015, respectively, in the combined balance sheets.

Sycamore Terrace Upland, L.P. has a construction loan in the maximum amount of $13,000,000 for the project, which reached construction completion in 2016. The principal balance of the loan as of December 31, 2016 and 2015, is $11,098,000 and $6,948,000, respectively. During the construction period, loan bears interest at variable rate of the current index, plus 2%, which was 2.72% at December 31, 2016, and 2.01% at December 31, 2015. Payments of interest only are due monthly in accordance with the construction loan agreement and construction loan will be converted to a mortgage loan in 2017. At conversion, the permanent loan will be $8,300,000 and payments of principal and interest are payable based on a 35-year amortization schedule. At conversion through the maturity date of December 1, 2047, the mortgage will bear interest at 4.63%. Other assets representing prepaid bond costs of $320,000 are recorded with long-term debt—net in the combined balance sheets as of December 31, 2016.

Westminster Court, L.P. has a construction loan with Citibank, N.A. in the original amount of $10,000,000. Prior to the conversion date, the mortgage bears interest at a variable rate of the current index, plus 2%. As of December 31, 2016, the interest rate is 2.72%. Payments of interest only are due monthly beginning November 2016 (beginning of construction) until conversion. At conversion, the permanent loan will be $7,100,000 and payments of principal and interest are payable based on a 35 year amortization schedule. At conversion through the maturity date of November 1, 2051, the mortgage will bear interest at 4.19%. The mortgage is secured by the multifamily deed of trust, assignment of rents, security agreement, and fixture without recourse. As of December 31, 2016, the principal balance is $5,756,000.

be.group is required to maintain a ratio of income available for debt service, as defined, of at least 1.15 under the 2014 notes and 1.25 under the Series 2009, and 2015 bonds. be.group is also required to maintain a cash balance of 100 days of unrestricted cash on hand under the Series 2006 and 2015 bonds, 125 days of unrestricted cash on hand under the Series 2009 bonds, and 150 days of unrestricted cash on hand under the Series 2014 notes. Management believes be.group is in compliance with all debt covenant requirements as of December 31, 2016 and 2015.

The aggregate amounts maturing under long-term obligations, including mandatory bond redemptions and construction loan mandatory funding requirements, at December 31, 2016, are as follows (in thousands):

Years Ending December 31	
2017	$ 5,585
2018	8,752
2019	3,140
2020	3,290
2021	3,468
Thereafter	149,061
Total principal maturities	173,296
Less net unamortized discount	1,143
Less prepaid bond issuance costs	4,256
Total long-term debt	$167,897

2015 long-term obligations include $39,790,000 for which $41,475,000 in restricted investments are held in an escrow fund for the retirement of the Series 2006 revenue bonds and related interest through November 2016.

9. RETIREMENT PLANS

be.group has a defined benefit retirement plan (the "Plan") which, prior to the Plan being frozen, provided retirement benefits through a noncontributory defined benefit retirement plan for substantially all full-time employees. On October 22, 2009, the Board of be.group froze the Plan, whereby effective October 31, 2009, further accrual of benefits ceased for participants in the Plan. be.group has no immediate plans to terminate the Plan.

Prior to October 31, 2009, the benefits were based upon years of service and the employee's compensation during the years of employment. be.group's funding policy, at a minimum, was to contribute amounts to the Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus additional amounts deemed to be appropriate.

The Plan assets are invested in US government debt obligations, fixed-income investments, and equity securities whose values are subject to fluctuations of the securities markets. Fair value information regarding the Plan assets is included in Note 10. Changes in these values attributable to the differences between actual and assumed returns on Plan assets were deferred as unrecognized gains or losses and were included in the determination of the net pension expense over time.

A summary of the components of net periodic pension cost as of the date of the actuarial valuation for the years ended December 31, 2016 and 2015, is as follows (in thousands):

	2016	2015
Changes in projected benefit obligation:		
Projected benefit obligation—January 1	$ 39,923	$ 44,615
Service cost		
Interest cost	1,650	1,684
Benefits paid	(1,969)	(2,217)
Actuarial gain	(1,888)	(4,159)
Projected benefit obligation—December 31	37,716	39,923
Changes in Plan assets:		
Fair value of Plan assets—January 1	28,057	30,670
Actual return on Plan assets	1,861	(158)
Employer contributions	1,571	
Expenses	(297)	(238)
Benefits paid	(1,969)	(2,217)
Fair value of Plan assets—December 31	29,223	28,057
Funded status	(8,493)	(11,866)
Accrued benefit cost	$ (8,493)	$(11,866)
Accumulated benefit obligation	$(37,716)	$(39,923)
Amounts recognized in the combined statements of financial position—accrued pension liability	$ (8,493)	$(11,866)
Components of net periodic benefit cost:		
Service cost	$ -	$ -
Interest cost	1,650	1,684
Expected return on Plan assets	(1,843)	(2,020)
Net loss amortization	1,539	1,824
Net benefit cost	$ 1,346	$ 1,488
Net gain recognized in unrestricted net assets	$ 3,148	$ 3,439
Amounts not yet reflected in net periodic benefit costs and recognized in accumulated unrestricted net assets—net actuarial loss	$ 12,261	$ 15,409
Total accumulated charge to unrestricted net assets	$ 12,261	$ 15,409

Weighted-average assumptions used to determine benefit obligations as of December 31, 2016 and 2015, are as follows:

	2016	2015
Discount rate	4.39 %	4.31 %
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31, 2016 and 2015, are as follows:

	2016	**2015**
Discount rate	4.31 %	3.91 %
Expected long-term rate of return on Plan assets	6.75	6.75
Rate of compensation increase	N/A	N/A

be.group determines the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset class returns and advice from external actuarial firms, while incorporating specific asset class risk factors. For the years ended December 31, 2016 and 2015, the expected long-term rate of return used in determining net periodic pension cost was 6.75%.

The Plan invests primarily in asset categories to permit conservative investments with minimal risk of loss of principal. The Plan invests in asset categories that provide diversification benefits and are easily measured. Maximum and minimum holding ranges for each of these asset categories are set by the investment committee and defined in an investment policy. The current target allocations for equity and fixed income are 40% and 60% for the year ended December 31, 2016. Actual asset allocation within these approved ranges is based on a variety of economic and market conditions and consideration of specific asset category risk. To assess the Plan's investment performance, a long-term asset allocation policy benchmark has been established.

No contributions are required to be made to the Plan during the year ending December 31, 2017 but be.group estimates contributions of $1,600,000 will be made to the Plan. be.group estimates that benefit payments will be paid over the next 10 years as follows (in thousands):

Years Ending December 31	
2017	$ 1,513
2018	1,580
2019	1,701
2020	1,781
2021	1,899
2022–2026	10,377

Actuarial losses of $1,232,000 related to the Plan are expected to be recognized as a component of the net periodic pension cost during the year ending December 31, 2017. Management has included the net periodic pension cost in be.group's 2017 operating budget.

Certain former and active key employees are receiving, or will receive, deferred compensation payments under a salary continuation agreement. Payments begin at age 65 or are made at reduced amounts, if the employee leaves early, but after 10 years of service. The present value of the obligation under this agreement is accrued over the expected term of employment. The accrued deferred compensation balance was $494,000 and $678,000 at December 31, 2016 and 2015, respectively, and is included in accrued liabilities in the combined balance sheets.

In addition to the benefit plans above, effective May 16, 2010, be.group maintains a 403(b) plan for the benefit of its employees. Under the 403(b) plan, employees are eligible to defer a percentage of their salaries, up to the maximum amount allowed by the IRC. Additional deferrals are permitted for employees who reach age 50 or will attain age 50 before the end of the calendar year. be.group matches up to 3% of employee contributions for participating employees. be.group suspended the employer matching contribution effective September 1, 2011, reinstated a 1% employer matching contribution effective July 1, 2014, and increased the employer matching contribution to 2% effective January 1, 2016. As of January 1, 2017 employer match was increased to 100% up to 3% contributed, and 50% of the next 2% for a total potential match of 4%.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject be.group to concentrations of credit risk consist primarily of resident accounts receivable and related resident service fee revenues, where the services provided are subject to payment from third-party payors. The mix of these receivables and revenues (excluding the impact from discontinued operations) as of December 31, 2016 and 2015, was as follows:

	2016	2015
Accounts receivable:		
Medicare	16 %	17 %
Medi-Cal	24	30
Self-payors	42	37
Other third-party payors	18	16
Total	100 %	100 %
Resident service fees:		
Medicare	18 %	22 %
Medi-Cal	20	20
Self-payors	60	55
Other third-party payors	2	3
Total	100 %	100 %

The estimated fair value of financial instruments has been determined by be.group using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that be.group could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of certain financial instruments:

Cash and Cash Equivalents—Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost, plus accrued interest, which approximates fair value.

Accounts and Notes Receivable—Accounts and notes receivable consist principally of short-term receivables from third-party payors, net of estimated allowances for uncollectible amounts, which approximate fair value.

Pledges Receivable—The fair value of pledges receivable, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by a risk-free rate of return for similar terms of pledges receivable. Pledges receivable are included in other accounts receivable in the combined balance sheets.

Advances to Affordable Housing Projects—As advances are specifically negotiated and are not readily marketable, it is not practicable to estimate the fair value of these assets.

Accounts Payable—Accounts payable consists principally of short-term payables to third parties, which approximate fair value.

Trusts Held by a Third Party—Trusts held by a third party consist of numerous arrangements in which a donor establishes and funds a trust administered by an organization other than be.group. These trusts are recorded at the estimated fair value of be.group's beneficial interest in the net assets contributed to the trust based on the present value of future distributions to be.group.

Long-Term Debt—The fair value of be.group's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to be.group for debt of the same remaining maturities (Level 2 inputs). The fair value of be.group's long-term debt as of December 31, 2016 and 2015, is as follows (in thousands):

	Carrying Value	**Fair Value**
2016	$167,897	$176,809
2015	205,204	222,248

Assets measured and reported at fair value in the combined balance sheets using level inputs, as defined by ASC Topic 820, *Fair Value Measurement*, are classified and disclosed in one of the following categories:

Level 1—Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2—Pricing inputs are based on significant observable market inputs, such as quoted prices for similar assets in active markets or quoted prices for similar or identical assets in nonactive markets, or other market observable inputs.

Level 3—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following is a description of valuation inputs and techniques that be.group utilizes to fair value each major category of investments in accordance with ASC Topic 820:

Money Market Funds and Commercial Paper—Money market funds and commercial paper are cash equivalents invested in short-term debt securities and are regulated under the Investment Company Act of 1940. Money market funds and commercial paper have observable inputs, but are not actively traded and are classified as Level 2.

Mutual Funds—Mutual funds registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted market prices, which represent the net asset value of shares, and are categorized as Level 1.

Fixed Income (US Treasury Securities)—US Treasury securities are valued based on prices provided by third-party vendors that obtain feeds from a number of live data sources, including active market makers and interdealer brokers. To the extent that these inputs are observable and timely, values are categorized as Level 2.

Fixed Income (Municipal and Federal Government Agency Bonds)—Municipal and federal government agency bonds are valued using inputs and techniques which include identification of similar issues and market activity. To the extent that these inputs are observable and timely, values are categorized as Level 2.

Fixed Income (US and Non-US Corporate Bonds)—Investment-grade bonds are valued using inputs and techniques which include third-party pricing vendors, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing vendors and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit-quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. To the extent that these inputs are observable and timely, the values are categorized as Level 2.

Equity (US and Non-US Equity)—Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange and are categorized as Level 1.

The information about assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy of the valuation techniques utilized by management to determine such fair value as of December 31, 2016 and 2015, is as follows (in thousands):

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:				
Cash equivalents:				
Money market funds	$ -	$ 7,781	$ -	$ 7,781
Other cash equivalents	13,266			13,266
Mutual funds:				
Equity	7,339			7,339
Fixed income	16,502			16,502
Real estate	3,377			3,377
Fixed income:				
Municipal bonds		389		389
US Treasury securities		13,079		13,079
Federal government agency bonds		19,398		19,398
US corporate bonds		18,230		18,230
Non-US corporate bonds		1,135		1,135
Equity:				
US equity securities	29,160			29,160
Non-US equity securities	5,616			5,616
Other	386		110	496
Total assets at fair value	$75,646	$60,012	$110	$135,768

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:				
Cash equivalents:				
Money market funds	$ -	$ 19,745	$ -	$ 19,745
Other cash equivalents	4,452			4,452
Mutual funds:				
Equity	6,641			6,641
Fixed income	14,963			14,963
Real estate	3,134			3,134
Fixed income:				
Municipal bonds		438		438
US Treasury securities		53,095		53,095
Federal government agency bonds		17,936		17,936
US corporate bonds		17,858		17,858
Non-US corporate bonds		1,107		1,107
Equity:				
US equity securities	27,583			27,583
Non-US equity securities	5,259			5,259
Other	347		110	457
Total assets at fair value	$62,379	$110,179	$110	$172,668

The information about assets of the Plan measured at fair value in accordance with ASC Topic 715, *Compensation—Retirement Benefits*, and the fair value hierarchy of the valuation techniques utilized by management to determine such fair value as of December 31, 2016 and 2015, is as follows (in thousands):

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Plan assets at fair value:				
Separate investment accounts with underlying mutual fund investments:				
Equity	$ -	$11,353	$ -	$11,353
Fixed income		17,870		17,870
Total Plan assets at fair value	$ -	$29,223	$ -	$29,223

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Plan assets at fair value:				
Separate investment accounts with underlying mutual fund investments:				
Equity	$ -	$11,114	$ -	$11,114
Fixed income		16,943		16,943
Total Plan assets at fair value	$ -	$28,057	$ -	$28,057

be.group had no transfers between levels of assets measured at fair value on a recurring basis in the combined balance sheets during the years ended December 31, 2016 and 2015. In determining when transfers between levels are recognized, be.group's policy is to recognize the transfers based on the actual date of the event or change in circumstances that caused the transfer.

11. COMMITMENTS AND CONTINGENCIES

be.group self-insures for workers' compensation up to a maximum of $500,000 per occurrence for the annual policy period effective September 1, 2016, and of $850,000 for policy periods effective in 2015 and 2016 prior to September 1, 2016. Claims above this amount are insured by a third party up to an additional $1,000,000. Estimates are made of potential claims, and amounts are accrued accordingly. Estimated claims are $8,887,000 and $4,966,000 as of December 31, 2016 and 2015, respectively, and are included in accrued liabilities in the accompanying combined balance sheets. Associated reinsurance receivables of $2,851,000 and $248,000 as of December 31, 2016 and 2015, respectively, are included in other accounts receivable in the accompanying combined balance sheets.

be.group also self-insures for automobile physical damage losses and unemployment claims.

be.group purchases professional liability insurance under a claims-made-basis policy (see Note 15).

be.group is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on be.group's combined financial statements.

Financial instruments that potentially subject be.group to concentrations of credit risk consist principally of cash and cash equivalents and receivables. be.group places its cash and cash equivalents into several financial institutions. be.group's customer base consists of a large number of customers in California. be.group performs credit evaluations, estimates a provision for uncollectible receivables and writes off uncollectible amounts as they become known.

Palmer House and the City of Glendale entered into a ground lease for real property at 549-605 Palmer Avenue, Glendale, California, commencing on December 31, 2007, for a term of 39 years. A net minimum rent payment of $42,000 is payable to the City of Glendale annually on March 30. On November 15, 2010, Palmer House and the City of Glendale entered into an agreement to modify the ground lease. The annual minimum rent shall be one dollar, as long as Palmer House is in full compliance with the ground lease and various covenants.

Income Taxes—During the years ended December 31, 2016 and 2015, be.group did not recognize any liability for unrecognized tax contingencies.

12. TRANSACTIONS WITH AFFORDABLE HOUSING PROJECTS

Several California nonprofit public benefit corporations have been formed by be.group to operate housing facilities ("Affordable Housing") managed by be.group and controlled by HUD for low and moderate income elderly or disabled persons. Excluding Palmer House and the tax credit communities, which are included within these combined financial statements, be.group provides management services to 21 Affordable Housing communities, primarily located within Los Angeles, Riverside, San Diego, Fresno, and Shasta Counties. The Affordable Housing projects are stand-alone entities and are not included within the combined financial statements of be.group. be.group provides non-interest-bearing advances to partially finance the construction of the facilities. be.group had advanced approximately $1,864,000 and $1,050,000 as of December 31, 2016 and 2015, respectively, to projects that are in various stages of construction, which are included in advances to Affordable Housing projects in the accompanying combined balance sheets. It is expected that the advances will be repaid upon the termination of the Housing Assistance Payment Contracts with HUD. Management fees earned from these projects were $1,217,000 and $1,222,000 in 2016 and 2015, respectively. As of December 31, 2016 and 2015, be.group also has current receivables due from the Affordable Housing projects of $1,103,000 and $1,447,000, respectively, which are included in other accounts receivable in the accompanying combined balance sheets.

The combined unaudited financial information as of and for the years ended September 30, 2016 and 2015, of the Affordable Housing projects is as follows (in thousands):

	Unaudited	
	2016	**2015**
Assets:		
Cash and receivables—other	$ 12,109	$ 8,354
Facilities—net	114,694	119,973
Total assets	$126,803	$128,327
Liabilities and net deficit:		
Liabilities—primarily long-term debt	$149,768	$149,244
Net deficit	(22,965)	(20,917)
Total liabilities and net deficit	$126,803	$128,327
Selected financial data—revenues	$ 11,332	$ 11,480
Change in net deficit before depreciation and transfers	$ 519	$ 627
Change in communities reported with Affordable Housing portfolio	(756)	500
Depreciation	(3,811)	(4,020)
Total change in net unrestricted deficit	$ (4,048)	$ (2,893)
Total change in temporarily restricted net assets—contribution revenues	$ 2,000	$ -

Changes in communities reported with Affordable Housing portfolio are a result of tax credit refinancing projects.

13. TAX CREDIT PROJECTS

Casa de la Paloma—Effective March 27, 2013, Casa de la Paloma, Inc., a HUD community managed by be.group during the year ended December 31, 2012 and prior, sold its property, including land and building, to a newly created limited partnership, Casa de la Paloma, L.P. Casa de la Paloma, L.P. was formed as a limited partnership under the laws of the State of California on July 16, 2012, to develop, construct, own, maintain, and operate an apartment project ("CDLP Project") consisting of 167 rental units located in Glendale, California. The partners of Casa de la Paloma, L.P. include Casa de la Paloma, L.L.C. as the general partner with 0.01% ownership interest and an unrelated investor limited partner with 99.99% ownership interest. Casa de la Paloma L.L.C. is 75% owned by Southern California Presbyterian Homes and 25% owned by an unrelated not-for-profit entity. Casa de la Paloma, L.P. is combined into Casa de la Paloma, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Casa de la Paloma, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Casa de la Paloma, L.P. entered into a $2,500,000 development agreement with be.group for services performed in connection with the development of the CDLP Project. To the extent that costs relate directly to development of the CDLP Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. Of the total $2,500,000 developer funds earned, $1,250,000 is eliminated in combination.

Capital contributions totaling $12,168,000 are due from the limited partner of Casa de la Paloma, L.P. when certain milestones are achieved. During the year ended December 31, 2016, Casa de la Paloma, L.P. applied a downward 8609, *Low-Income Housing Credit Allocation and Certification*, equity adjuster of $92,000 for the limited partner, which resulted in an adjusted capital contribution amount totaling $12,076,000. The limited partner funded capital contributions of $443,000 in 2015 and as of December 31, 2016, the limited partner has made all required contributions.

Andres Duarte Terrace II—Effective December 6, 2013, Andres Duarte Terrace II, L.P., a partnership formed to acquire, develop, construct, own, maintain, and operate a 43-unit low-income housing tax credit project ("ADT II Project") in Duarte, California, was combined into be.group's combined financial statements as Andres Duarte Terrace II. The partners of Andres Duarte Terrace II, L.P. include Andres Duarte Terrace II, L.L.C. as the general partner with 0.01% ownership interest and an unrelated investor limited partner with 99.99% ownership interest. Southern California Presbyterian Homes is the sole managing member of Andres Duarte Terrace II, L.L.C. Andres Duarte Terrace II, L.P. is combined into Andres Duarte Terrace II, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Andres Duarte Terrace II, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Andres Duarte Terrace II, L.P. entered into a $1,491,000 development agreement with be.group for services performed in connection with the development of the ADT II Project. To the extent that costs relate directly to development of the ADT II Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. Of the total $1,491,000 developer funds earned, $122,000 is eliminated in combination.

Capital contributions totaling $5,018,000 are due from the limited partner of Andres Duarte Terrace II, L.P. when certain milestones are achieved. During the year ended December 31, 2016, Andres Duarte Terrace II, L.P. applied a downward 8609 equity adjuster of $160,000 for the limited partner, which resulted in an adjusted capital contributions amount totaling $4,858,000. The limited partner funded capital contributions totaling $4,106,000 and $502,000 during the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the limited partner has funded cumulative capital contributions of $4,608,000, the remaining balance will be paid in accordance with the terms of the partnership agreement.

Covenant Manor—Effective March 1, 2014, Sycamore Terrace, Inc.(dba Covenant Manor), a HUD community managed by be.group during the year ended December 31, 2013 and prior, sold its property, including land and building, to a newly created limited partnership, Covenant Manor, L.P. Covenant Manor, L.P. was formed as a limited partnership under the laws of the State of California on July 10, 2013, to develop, construct, own, maintain, and operate an apartment project ("CM Project") consisting of 100 rental units located in Long Beach, California. The partners of Covenant Manor, L.P. include Covenant Manor, L.L.C. as the general partner with 0.01% ownership interest and

an unrelated investor limited partner with 99.99% ownership interest. Covenant Manor L.L.C. is 75% owned by Southern California Presbyterian Homes and 25% owned by an unrelated not-for-profit entity. Covenant Manor, L.P. is combined into Covenant Manor, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Covenant Manor, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Covenant Manor, L.P. entered into a $2,500,000 development agreement with be.group for services performed in connection with the development of the CM Project. To the extent that costs relate directly to development of the CM Project, fees are capitalized as part of the cost of the building and included in facilities in the combined balance sheets. Of the total $2,500,000 developer funds earned, $642,000 is eliminated in combination.

Capital contributions totaling $6,994,000 are due from the limited partner of Covenant Manor, L.P. when certain milestones are achieved. During the year ended December 31, 2016, Covenant Manor, L.P. applied a downward 8609 equity adjuster of $26,000 for the limited partner, which resulted in an adjusted capital contributions amount totaling $6,968,000. The limited partner funded capital contributions of $374,000 and $1,132,000 in 2016 and 2015, respectively. As of December 31, 2016, the limited partner has funded cumulative capital contributions of $6,968,000.

Royal Vista Terrace Apartments—Effective September 1, 2014, Sycamore Terrace, Inc.(dba Royal Vista Terrace), a HUD community managed by be.group during the year ended December 31, 2013 and prior, sold its property, including land and building, to a newly created limited partnership, Royal Vista Terrace Apartments, L.P. Royal Vista Terrace Apartments, L.P. was formed as a limited partnership under the laws of the State of California on November 25, 2013, to develop, construct, own, maintain, and operate an apartment project ("RVT Project") consisting of 75 rental units located in Duarte, California. The partners of Royal Vista Terrace Apartments, L.P. include Royal Vista Terrace Apartments, L.L.C. as the general partner with 0.01% ownership interest and an unrelated investor limited partner with 99.99% ownership interest. Royal Vista Terrace Apartments, L.L.C. is 75% owned by Southern California Presbyterian Homes and 25% owned by an unrelated not-for-profit entity. Royal Vista Terrace Apartments, L.P. is combined into Royal Vista Terrace Apartments, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Royal Vista Terrace Apartments, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Royal Vista Terrace Apartments, L.P. entered into a $1,396,300 development agreement with be.group for services performed in connection with the development of the RVT Project. According to regulatory requirements, developer fee was reduced to $1,342,000 at cost certification. To the extent that costs relate directly to development and construction of the RVT Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. Of the total $1,342,000 developer funds earned, $100,000 is eliminated in combination.

Capital contributions totaling $3,971,000 are due from the limited partner of Royal Vista Terrace Apartments, L.P. when certain milestones are achieved. During the year ended December 31, 2016, Royal Vista Terrace Apartments, L.P. applied a downward 8609 equity

adjuster of $99,000 for the limited partner, which resulted in an adjusted capital contributions amount totaling $3,872,000. The limited partner funded capital contributions of $3,209,000 and $397,000 in 2016 and 2015, respectively. As of December 31, 2016, the limited partner has funded cumulative capital contributions of $3,606,000, the remaining balance will be paid in accordance with the terms of the partnership agreement.

Sycamore Terrace—Effective December 9, 2015, Sycamore Terrace, Inc., a HUD community managed by be.group during the year ended December 31, 2014 and prior, sold its property, including land and building, to a newly created limited partnership, Sycamore Terrace Upland, L.P. Sycamore Terrace Upland, L.P. was formed as a limited partnership under the laws of the State of California on December 1, 2015, to develop, construct, own, maintain, and operate an apartment project ("ST Project") consisting of 100 rental units located in Upland, California. The partners of Sycamore Terrace Upland, L.P. include Sycamore Terrace, L.L.C. as the general partner with 0.01% ownership interest and an unrelated investor limited partner with 99.99% ownership interest. Southern California Presbyterian Homes is the sole managing member of Sycamore Terrace, L.L.C. Sycamore Terrace Upland, L.P. is combined into Sycamore Terrace, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Sycamore Terrace Upland, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Combined balance sheet summary information at the close of the transaction in 2015 is included in the following table (in thousands):

Cash	$4,947
Other assets	3,739
Long-term debt	7,093
Other liabilities	193
Total unrestricted net assets—noncontrolling interest	1,403

Sycamore Terrace Upland, L.P. entered into a $2,047,000 development agreement with be.group for services performed in connection with the development of the ST Project. To the extent that costs relate directly to development and construction of the ST Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. $1,535,000 and $512,000 in developer funds have been earned in 2016 and 2015, respectively.

Sycamore Terrace Upland, L.P. funded cumulative capital contributions of $604,000 through December 31, 2015, which are included as an equity contribution in the accompanying combined statements of changes in net assets. The remaining balance will be paid in accordance with the terms of the partnership agreement.

Westminster Court—Effective November 1, 2016, Westminster Court, Inc., a HUD community managed by be.group during the year ended December 31, 2015 and prior, sold its property, including land and building, to a newly created limited partnership, Westminster Court, L.P. Westminster Court, L.P. was formed as a limited partnership under the laws of the State of California on May 26, 2015, to develop, construct, own, maintain, and operate an apartment project ("WC Project") consisting of 75 rental units located in Bell Gardens, California. The partners of Westminster Court, L.P. include Westminster Court, L.L.C. as the general partner with 0.01% ownership interest and an unrelated

investor limited partner with 99.99% ownership interest. Southern California Presbyterian Homes is the sole managing member of Westminster Court, L.L.C. Westminster Court, L.P. is combined into Westminster Court, L.L.C.'s financial statements and those combined statements are consolidated into be.group's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Westminster Court, L.P. consists of one building, which qualifies for and has been allocated low-income housing tax credits pursuant to IRC Section 42.

Combined balance sheet summary information at the close of the transaction in 2016 is included in the following table (in thousands):

Cash	$1,829
Other assets	3,854
Long-term debt	5,879
Other liabilities	221
Total unrestricted net assets—noncontrolling interest	(417)

Westminster Court, L.P. entered into a $1,731,000 development agreement with be.group for services performed in connection with the development of the WC Project. To the extent that costs relate directly to development and construction of the WC Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. $952,545 in developer funds have been earned in 2016 and the remainder upon completion of construction in 2017.

Westminster Court, L.P. funded capital contributions of $520,000 through December 31, 2016, which are included as an equity contribution in the accompanying combined statements of changes in net assets. The remaining balance will be paid in accordance with the terms of the partnership agreement.

be.group has established various other entities with similar structures with plans to complete tax credit projects in 2017 and future years.

14. FUNCTIONAL EXPENSES BY PROGRAM

Functional expenses by program for the years ended December 31, 2016 and 2015, are as follows (in thousands):

	2016					
	Residential	Assisted Living	Skilled Nursing	Home Office and Foundation	Home Care Services	Combined Total
Expenses:						
Medical services	$ 3,392	$ 5,498	$ 13,887	$ -	$ 3,596	$ 26,373
Dietary	10,949	2,776	1,717			15,442
Plant	9,266	1,089	610	172		11,137
Housekeeping	2,517	541	1,123			4,181
Resident activities	2,652	564	808	405		4,429
Marketing	3,840	377	223	189		4,629
General and administrative	11,914	1,583	1,598	3,849	266	19,210
Depreciation and amortization	10,940	1,024	765	856	2	13,587
Leases and rentals	130	18	6	108	1	263
Interest—operations	9,220	449	478			10,147
Insurance	1,569	116	125	33	8	1,851
Total expenses	$ 66,389	$ 14,035	$ 21,340	$ 5,612	$ 3,873	$ 111,249

	2015					
	Residential	Assisted Living	Skilled Nursing	Home Office and Foundation	Home Care Services	Combined Total
Expenses:						
Medical services	$ 3,293	$ 5,215	$ 13,765	$ -	$ 2,307	$ 24,580
Dietary	10,416	2,669	1,626			14,711
Plant	8,853	1,034	616	204		10,707
Housekeeping	2,422	508	1,062			3,992
Resident activities	2,433	529	794	374		4,130
Marketing	4,038	438	221	450		5,147
General and administrative	9,935	1,598	1,341	4,329	317	17,520
Depreciation and amortization	10,414	931	738	633	2	12,718
Leases and rentals	116	16	6	131	1	270
Interest—operations	7,998	394	418			8,810
Insurance	1,603	161	136	20	7	1,927
Total expenses	$ 61,521	$ 13,493	$ 20,723	$ 6,141	$ 2,634	$ 104,512

As a result of adoption of ASU No. 2015-03, $477,000 of amortized and other debt issuance costs reported with general and administrative and depreciation and amortization expenses, within residential, assisted living, and skilled nursing classifications, in the combined financial statements issued on April 28, 2016 have been updated for consistent presentation with 2016, are reported with interest-operations for the year ended December 31, 2015.

15. OTHER ASSETS

be.group is a founding member of Caring Communities, a Reciprocal Risk Retention Group (CCrRRG). Insurance policies for professional and general liability exposures have been solely written by CCrRRG with varying levels of reinsurance. Insurance expense under the CCrRRG programs amounted to $895,000 and $844,000 in 2016 and 2015, respectively. be.group's investment in CCrRRG was $535,000 as of December 31, 2016 and 2015, which is included in other assets in the accompanying combined balance sheets. Mr. John Cochrane, President and Chief Executive Officer of be.group and CLPC, and Mrs. Pam Claassen, Chief Financial Officer of be.group and CLPC, are on the board of directors of CCrRRG.

16. SUBSEQUENT EVENTS

be.group has evaluated subsequent events through April 27, 2017, the date the combined financial statements were available to be issued.

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