

# Southern California Presbyterian Homes and Affiliates

(dba be.group)

Continuing Care Reserve Report Schedules  
for the Year Ended December 31, 2016, 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  
Southern California Presbyterian Homes (dba be.group):

We have audited the accompanying continuing care reserve report schedules of Southern California Presbyterian Homes and Affiliates (dba be.group) ("be.group"), as listed in the accompanying table of contents (the "Schedules"), as of and for the year ended December 31, 2016, and the related notes to the Schedules.

### **Management's Responsibility for the Schedules**

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

### **Auditors' Responsibility**

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

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

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 Schedules referred to above present fairly, in all material respects, the continuing care reserve requirements of be.group as of and for the year ended December 31, 2016, in accordance with the financial reporting provisions of California Health and Safety Code 1792, as described in Note 3 to the Schedules.

**Basis of Accounting**

We draw attention to Note 3 of the Schedules, which describes the basis of accounting. As described in Note 3 to the Schedules, the Schedules are prepared by be.group on the basis of the financial reporting provisions of California Health and Safety Code 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of the Board of Directors and management of be.group and for filing with the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

April 27, 2017

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

## **NOTES TO CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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### **1. MISSION STATEMENT**

Southern California Presbyterian Homes and Affiliates (dba be.group) ("be.group") is 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.

### **2. OPERATIONS**

**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 doing business as HumanGood and Southern California Presbyterian Homes and affiliates will be doing business as HumanGood.

**Operations**—be.group, a California nonprofit public-benefit corporation, including four continuing care retirement communities of Royal Oaks Manor, White Sands, Windsor Manor, and Regents Point (collectively, "Southern California Presbyterian Homes" or "SCPH"), 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 on average 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 that offers assistance with shopping, transportation, and various other customer needs. Home Care customers are charged an hourly rate. be.group provides management services to 1,380 units of subsidized housing under Housing and Urban Development (HUD) agreements.

Southern California Presbyterian Homes has entered into various agreements with established partners to acquire, develop, construct, and maintain low-income housing tax credit projects. Partners include 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. These communities include 560 units of subsidized housing under HUD agreements.

### **3. BASIS OF ACCOUNTING**

The continuing care reserve report schedules (the "Schedules") are presented in accordance with California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). California Health and Safety Code Section 1792 requires continuing care contract providers to establish and maintain statutory and refund reserves to ensure financial resources will be available to fulfill contractual obligations to residents. The Schedules, which calculate liquid reserve requirements, are prepared in accordance with the *Annual Report Instructions* provided by the State of California Department of Social Services. The Schedules are required to be submitted annually to the State of California Department of Social Services within four months of year-end. The facilities that are continuing care contract providers, and thus have schedules included herein, are Royal Oaks Manor, White Sands of La Jolla, Windsor Manor, Regents Point, Redwood Terrace, and Westminster Gardens.

#### 4. LONG-TERM DEBT OBLIGATIONS

The following is a schedule of the total combined long-term debt obligations of be.group:

Long-Term Debt Obligation	Date Incurred	Description	Facility	Balance as of December 31, 2016 (Thousands)
1	August 15, 2009	Fixed Rate Revenue Bonds—Series 2009	SCPH	\$ 67,630
2	December 1, 2014	Fixed Rate Revenue Bonds—Series 2014	Kirkwood Orange	3,166
3	December 1, 2015	Variable Rate Revenue Bonds—Series 2015	White Sands and Westminster Gardens	46,051
4	Various*	Mortgage and other notes payable related to tax credit projects and other Affordable Housing	Various	51,050

\* Debt is associated with mortgage and other notes payable related to Palmer House, Casa de la Paloma, L.P., Andres Duarte Terrace, L.P., Covenant Manor, L.P., Royal Vista Terrace, L.P., Sycamore Terrace Upland, L.P., and Westminster Court L.P., which are included in be.group's combined financial statements. Of the \$51,050 of associated long-term debt as of December 31, 2016, \$7,356 relates to Casa de la Paloma, L.P. mortgage payable, of which the maximum liability exposure to Southern California Presbyterian Homes as the guarantor is \$3,770 and \$5,717 relates to Royal Vista Terrace, L.P. mortgage payable, of which the maximum liability exposure to Southern California Presbyterian Homes as the guarantor is \$2,219. Remaining debt is not guaranteed by Southern California Presbyterian Homes.

\* \* \* \* \*

# **SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

(dba be.group)

## **FORM 5-1**

### **LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR**

### **(INCLUDING BALLOON DEBT)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (Columns (b) + (c) + (d))
1*	December 27, 2006	\$ -	\$ -	\$ -	\$ -
2	December 31, 2007				
3	August 15, 2009	1,215,000	5,070,425		6,285,425
4*	December 6, 2013				
5	March 27, 2013	98,190	375,620		473,810
6	December 17, 2014	245,252	98,071		343,323
7*	March 1, 2014				
8	September 1, 2014	2,199,842	255,751		2,455,593
9*	December 9, 2015				
10	December 17, 2015	<u>850,000</u>	<u>944,579</u>		<u>1,794,579</u>
TOTAL		<u>\$ 4,608,284</u>	<u>\$ 6,744,446</u>	<u>\$ -</u>	<u>\$ 11,352,730</u>

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

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

See notes to continuing care reserve report schedules.

1. Assets from Variable Rate Revenue Bonds—Series 2015 placed in escrow were used to pay off the obligation of the Fixed Rate Revenue Bonds—Series 2006 in November 2016, including \$39,790,000 of Principal d \$1,930,713 of Interest.
4. Andres Duarte II L.P. debt, not guaranteed by be.group. Note repayment of \$10,104,707 construction loan with Citibank, N.A. in 2016.
7. Covenant Manor L.P. debt, not guaranteed by be.group. Note principal repayment of \$88,381 and interest payment of \$625,200 in 2016.
9. Sycamore Terrace Upland L.P. debt, not guaranteed by be.group. Note interest payment of \$216,943 in 2016.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

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

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<b>Long-Term Debt Obligation</b>	<b>(a) Date Incurred</b>	<b>(b) Total Interest Paid During Fiscal Year</b>	<b>(c) Amount of Most Recent Payment on the Debt</b>	<b>(d) Number of Payments over Next 12 months</b>	<b>(e) Reserve Requirement (see Instruction 5) (Columns (c) x (d))</b>
1*	November 1, 2016	\$ -	\$ -	\$ -	\$ -
2					
3					
4					
5					
6					
TOTAL		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

See notes to continuing care reserve report schedules.

1\* Westminster Court, L.P. construction loan, not guaranteed by be.group.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

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

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<b>Line</b>		<b>Total</b>
1	Total from Form 5-1 bottom of Column (e)	\$ 11,352,730
2	Total from Form 5-2 bottom of Column (e)	
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<hr/>
4	Total amount required for long-term debt reserve	<u>\$ 11,352,730</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**ROYAL OAKS MANOR**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 16,710,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	1,639,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	1,859,000
	d. Amortization	35,000
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	1,847,004
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>5,380,004</u>
4	Net operating expenses	<u>11,329,996</u>
5	Divide Line 4 by 365 and enter the result.	<u>31,041</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u><u>\$ 2,328,081</u></u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**WHITE SANDS OF LA JOLLA**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	\$ 23,362,000
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	4,656,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	3,982,000
	d. Amortization	106,000
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	4,124,899
	f. Extraordinary expenses approved by the Department	
3	Total deductions	<u>12,868,899</u>
4	Net operating expenses	<u>10,493,101</u>
5	Divide Line 4 by 365 and enter the result.	<u>28,748</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 2,156,117</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**WINDSOR MANOR**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 8,751,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	121,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	510,000
	d. Amortization	3,000
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	3,621,300
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>4,255,300</u>
4	Net operating expenses	<u>4,495,700</u>
5	Divide Line 4 by 365 and enter the result.	<u>12,317</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 923,774</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**REGENTS POINT**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 21,792,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	1,186,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	2,520,000
	d. Amortization	25,000
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	4,134,593
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>7,865,593</u>
4	Net operating expenses	<u>13,926,407</u>
5	Divide Line 4 by 365 and enter the result.	<u>38,155</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 2,861,590</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**REDWOOD TERRACE**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 14,487,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	1,370,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	6,319,269
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>7,689,269</u>
4	Net operating expenses	<u>6,797,731</u>
5	Divide Line 4 by 365 and enter the result.	<u>18,624</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 1,396,794</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**WESTMINSTER GARDENS**  
**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

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<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 6,816,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	461,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	1,008,000
	d. Amortization	9,000
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	1,492,688
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>2,970,688</u>
4	Net operating expenses	<u>3,845,312</u>
5	Divide Line 4 by 365 and enter the result.	<u>10,535</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 790,133</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**  
**(dba be.group)**

**FORM 5-5**  
**ANNUAL RESERVE CERTIFICATION**

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We have reviewed our debt service reserve and operating expense reserve requirements as of and for the period ended December 31, 2016, and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 2016 are as follows:

	<b>Amount</b>
[1] Debt service reserve amount	\$ 11,352,730
[2] Operating expense reserve amount	<u>10,456,489</u>
[3] Total liquid reserve amount	<u>\$ 21,809,219</u>

Qualifying assets to fulfill the above requirements are held as follows:

Qualifying Asset Description	<b>Amount</b>	
	<b>(Market Value at End of Quarter)</b>	
	<b>Debt Service Reserve</b>	<b>Operating Reserve</b>
[4] Cash and cash equivalent	** \$ 2,222,500	\$ 2,222,500
[5] Investment securities	49,637,500	49,637,500
[6] Equity securities		
[7] Unused/available lines of credit		
[8] Unused/available letters of credit		
[9] Debt service reserve	10,570,000	
[10] Other:	<u>                    </u>	<u>                    </u>
(describe qualifying asset)		
Total amount of qualifying assets		
Listed for reserve obligation: [11]	62,430,000	[12] 51,860,000
Reserve obligation amount: [13]	<u>11,352,730</u>	[14] <u>10,456,489</u>
Surplus/(deficiency): [15]	<u>\$ 51,077,270</u>	[16] <u>\$ 41,403,511</u>

\*\* Cash and cash equivalent from be.group combined, excluding tax credit projects.

Signature: \_\_\_\_\_

\_\_\_\_\_  
 (Authorized Representative)

Date: \_\_\_\_\_

\_\_\_\_\_  
 Vice President of Finance  
 (Title)

See notes to continuing care reserve report schedules.