Southern California Presbyterian Homes and Affiliates

Combined Financial Statements as of and
for the Years Ended December 31, 2017 and 2016,
Supplemental Combining Schedules as of and
for the Year Ended December 31, 2017, and
Independent Auditors’ Report

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Southern California Presbyterian Homes:

We have audited the accompanying combined financial statements of Southern California Presbyterian Homes and Affiliates (SCPH), all of which are under common ownership and common management, which comprise the combined balance sheets as of December 31, 2017 and 2016, 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 SCPH'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 SCPH'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 SCPH as of December 31, 2017 and 2016, 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 SCPH obligated group and its controlled affiliates, and excludes all non-controlled affiliates. Our opinion is not modified with respect to this matter.

Report on Supplemental Combining Schedules

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining schedules as of and for the year ended December 31, 2017, on pages 42–49 are presented for the purpose of additional analysis of the combined financial statements rather than to present the combined financial position, results of operations, changes in net assets, and cash flows of the individual locations, and are not a required part of the combined financial statements. These supplemental combining schedules are the responsibility of SCPH's management and were derived from and relate directly to the underlying accounting and other records used to prepare the combined financial statements as of and for the year ended December 31, 2017. Such supplemental combining schedules have been subjected to the auditing procedures applied in our audit of the 2017 combined financial statements and certain additional procedures, including comparing and reconciling such supplemental combining schedules directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental combining schedules are fairly stated, in all material respects, in relation to the 2017 combined financial statements taken as a whole.

Deloitte & Touche LLP

April 26, 2018

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
ASSETS		
CASH AND CASH EQUIVALENTS	$ 10,925	$ 10,099
INVESTMENTS (Notes 5 and 10)	104,445	97,967
INVESTMENTS DESIGNATED FOR STRATEGIC INITIATIVES (Note 5)	15,000	
INVESTMENTS DESIGNATED FOR THE HOMESHIP FUND (Note 5)		1,308
RESIDENT ACCOUNTS RECEIVABLE—Net of estimated allowances for doubtful accounts of $750 and $248 as of December 31, 2017 and 2016, respectively	4,307	4,672
OTHER ACCOUNTS AND NOTES RECEIVABLE (Notes 11 and 12)	7,360	5,348
PREPAID EXPENSES	1,520	2,589
ASSETS WHOSE USE IS LIMITED (Notes 5, 6, and 10)	15,004	19,382
INVESTMENTS HELD FOR RESTRICTED PURPOSES (Notes 5 and 10)	19,210	17,111
FACILITIES—Net (Note 7)	230,020	215,737
ASSETS HELD FOR SALE (Note 3)		5,096
ADVANCES TO AFFORDABLE HOUSING PROJECTS (Note 12)	774	1,864
OTHER ASSETS (Note 15)	1,924	1,967
TOTAL	$410,489	$383,140

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 2,797	$ 4,702
Accrued expenses	8,588	11,253
Deposits from applicants for residency	989	980
Accrued liabilities (Note 11)	13,035	11,428
Accrued pension liabilities (Note 9)	2,135	8,493
Deferred revenue from entrance fees subject to refund (Note 3)	90,578	78,081
Deferred revenue from entrance fees (Note 3)	50,016	48,328
Notes and bonds payable—net (Note 8)	177,857	167,897
Life income obligations to beneficiaries under charitable trust agreements	1,846	136
Total liabilities	347,841	331,298
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET ASSETS (Note 4):		
Unrestricted	19,050	13,059
Unrestricted—noncontrolling interest (Note 13)	25,389	21,773
Temporarily restricted	12,952	11,975
Permanently restricted	5,257	5,035
Total net assets	62,648	51,842
TOTAL	$410,489	$383,140

See notes to combined financial statements. (Concluded)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
OPERATING REVENUES:		
Resident service fees	$ 89,102	$ 86,582
Amortization of entrance fees (Note 3)	14,420	15,102
Management fees (Note 12)	1,376	1,426
Net assets released from restrictions	1,417	1,548
Unrestricted contributions		1,309
Total operating revenues	106,315	105,967
OPERATING EXPENSES (Note 14):		
Medical services	27,154	26,373
Dietary	15,529	15,442
Plant	12,184	11,137
Housekeeping	4,018	4,181
Resident activities	4,570	4,429
Marketing	5,729	4,629
General and administrative	19,528	19,210
Leases and rentals	296	263
Insurance	1,468	1,851
Total operating expenses	90,476	87,515
INCOME BEFORE OTHER OPERATING INCOME (EXPENSE)	15,839	18,452
OTHER OPERATING INCOME (EXPENSE):		
Gain on sale of operating community (Note 3)	6,185	
Investment income (Note 5)	3,646	3,318
Change in unrealized gain on trading securities—net	4,874	2,396
Other income	915	279
Interest (Note 8)	(8,561)	(10,147)
Depreciation	(14,679)	(13,587)
INCOME FROM OPERATIONS	$ 8,219	$ 711

See notes to combined financial statements.

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	**2016**
UNRESTRICTED NET ASSETS:		
Income from operations	$ 8,219	$ 711
Net assets released from restrictions—acquisition of facilities	233	282
Pension related changes other than net periodic pension cost (Note 9)	(396)	3,148
Loss from operations attributable to noncontrolling interest	2,927	2,562
Effect of combination with tax credit projects (Note 13)	(1,730)	(937)
Equity transfers to Cornerstone Affiliates (Note 3)	(3,262)	(783)
Increase in unrestricted net assets	5,991	4,983
UNRESTRICTED NET ASSETS—Noncontrolling interest:		
Loss from operations attributable to noncontrolling interest	(2,927)	(2,562)
Equity contribution (Note 13)	6,543	8,209
Increase in unrestricted net assets—noncontrolling interest	3,616	5,647
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts and bequests	1,965	1,196
Investment income (Note 5)	770	506
Unrealized gain—marketable securities—net	1,729	509
Change in value of split-interest agreements	241	122
Transfer to life income obligations to beneficiaries under charitable trust agreements	(1,993)	
Net assets distributed to donors under trust agreements	(85)	(82)
Net assets released for acquisition of facilities	(233)	(282)
Net assets released for other specific purposes	(952)	(848)
Net assets released for benevolence	(465)	(700)
Increase in temporarily restricted net assets	977	421
PERMANENTLY RESTRICTED NET ASSETS—Contributions	222	(98)
INCREASE IN NET ASSETS	10,806	10,953
NET ASSETS—Beginning of year	51,842	40,889
NET ASSETS—End of year	$62,648	$51,842

See notes to combined financial statements.

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third-party payors	$ 90,407	$ 83,266
Proceeds from entrance fees	35,151	30,021
Other receipts from operations	2,378	1,708
Unrestricted contributions		1,309
Investment income	3,646	3,318
Proceeds from temporarily restricted contributions:		
Investment income	770	506
Gifts and bequests	2,206	1,318
Cash paid to employees and suppliers	(100,750)	(81,546)
Interest paid—net of bond amortization	(8,511)	(10,133)
Transfer to life income obligations to beneficiaries under charitable trust agreements	(1,993)	
Net cash provided by operating activities	23,304	29,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of facilities	(24,469)	(25,576)
Proceeds from sale of operating community	11,281	
Purchase of assets whose use is limited	(8,385)	(9,771)
Sale of assets whose use is limited	12,795	56,663
Purchase of investments	(101,223)	(64,051)
Sale of investments	85,788	57,057
Cash received in combination with tax credit projects	9,559	1,309
Advances to Affordable Housing projects	1,090	(814)
Net cash (used in) provided by investing activities	(13,564)	14,817
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash refunds of entrance fees and deposits	(6,546)	(6,922)
Contributions (refund) restricted for long-term investment	222	(98)
Proceeds from issuance of notes and bonds payable	3,725	11,418
Payments of notes and bonds payable	(9,511)	(54,704)
Cash paid under charitable remainder trust agreements	(85)	(82)
Payment of deferred loan costs		(320)
Equity transfers to Cornerstone Affiliates	(3,262)	(783)
Equity contribution	6,543	8,209
Net cash used in financing activities	(8,914)	(43,282)
NET INCREASE IN CASH AND CASH EQUIVALENTS	826	1,302
CASH AND CASH EQUIVALENTS—Beginning of year	10,099	8,797
CASH AND CASH EQUIVALENTS—End of year	$ 10,925	$ 10,099

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands)

	2017	2016
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	$ 10,806	$ 10,953
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Proceeds from entrance fees	35,151	30,021
Amortization of entrance fees	(14,420)	(15,102)
(Contributions) refund restricted for long-term investment	(222)	98
Amounts distributed to donors under trust agreements	85	82
Change in value of split-interest agreements	(241)	(122)
Change in value of obligation to beneficiaries	1,710	(284)
Unrealized gain on investments—net	(6,603)	(2,905)
Depreciation and amortization	15,130	14,005
Gain on sale of operating community	(6,185)	
Pension related changes other than net periodic pension cost	396	(3,148)
Equity transfers to Cornerstone Affiliates	3,262	783
Equity contribution	(6,543)	(8,209)
Effect of combination with tax credit projects	1,730	937
Change in:		
Accounts receivable	(1,522)	(2,686)
Prepaid expenses and other assets	1,303	(231)
Accounts payable	(1,411)	(1,528)
Accrued expenses	(9,122)	7,103
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 23,304	$ 29,767
SUPPLEMENTAL CASH FLOW INFORMATION—Facilities acquisitions in accounts payable	$ 2,307	$ 1,740
EQUITY TRANSFERS—Intercompany	$ 491	$ 1,712

See notes to combined financial statements.

(Concluded)

1. MISSION STATEMENT

Southern California Presbyterian Homes and Affiliates (SCPH) is a California nonprofit public-benefit corporation dedicated to redefining the meaning of aging well for adults 55 and older and delivering products and services that offer opportunities to pursue engaged, purposeful lives. SCPH is committed to the vision that all adults 55 and older have the opportunity to live their lives with enthusiasm, confidence and security, regardless of their physical, social, or economic circumstances.

2. ORGANIZATION

Parent Organization—HumanGood ("Parent Organization"), formerly California Life Plan Communities ("CLPC"), and before that, American Baptist Properties, Inc., is a California nonprofit public-benefit corporation. HumanGood is the sole member of Southern California Presbyterian Homes, Redwood Senior Homes and Services ("RSHS"), Westminster Gardens, American Baptist Homes of the West ("ABHOW"), Cornerstone Affiliates, and Terraces at San Joaquin Gardens ("TSJG").

Cornerstone Affiliates ("Cornerstone"), a California nonprofit public-benefit tax-exempt corporation, is the sole member and exercises its direction and control through the appointment of the Board of Directors of American Baptist Estates, Inc. (dba Terraces of Phoenix), American Baptist Homes of Washington (dba Judson Park), Las Ventanas Retirement Community, Boise Retirement Community (dba The Terraces of Boise), Cornerstone Affiliates International, Inc., and Seniority, Inc. HumanGood and Cornerstone's Boards are composed of the same seven directors.

On February 27, 2017, CLPC amended and restated its articles of incorporation to change the name of the corporation to HumanGood, which became effective on June 1, 2017. 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.

Operations—Southern California Presbyterian Homes, including four continuing care retirement communities of Royal Oaks Manor, White Sands, Windsor Manor, and Regents Point, together with RSHS and Westminster Gardens, and home health services, are part of the Southern California Presbyterian Homes obligated group. The Southern California Presbyterian Homes obligated group, together with its controlled affiliate Kirkwood Assisted Living Residence (Orange) ("Kirkwood Orange"), a freestanding assisted living community whose sale to Cadence Senior Living, an unrelated party, was finalized on July 10, 2017 (see Note 3), own and operate retirement communities 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 Southern California Presbyterian Homes obligated 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. SCPH's affiliate, Palmer House, owned and managed by SCPH, provides affordable housing and program support to qualified low-income seniors. These communities include an average of approximately 868 residential units, 214 personal care beds, and 232 skilled nursing beds.

Southern California Presbyterian Homes Foundation (the "Foundation") is a not-for-profit organization that is committed to building financial support from gifts for SCPH. The resources received and managed by the Foundation are directed to SCPH to provide housing and support service that will enhance the physical, social, and spiritual well-being of the residents who reside within the communities. SCPH also provides management services to 1,207 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., Sycamore Terrace, Inc., and Sycamore Terrace, L.L.C.; Westminster Court consisting of Westminster Court, L.P., Westminster Court, Inc., and Westminster Court, L.L.C.; and Park Paseo consisting of Park Paseo, L.P., Park Paseo, Inc., and Park Paseo, L.L.C., are included in SCPH's combined financial statements (see Notes 8 and 13). These communities include 658 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., Westminster Court, Inc., and Park Paseo, 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., Westminster Court L.L.C., and Park Paseo, 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., Westminster Court, L.P. and Park Paseo, 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 SCPH obligated group and its controlled affiliates, Kirkwood Orange, the Foundation, Palmer House, Casa de la Paloma, Andres Duarte Terrace II, Covenant Manor, Royal Vista Terrace Apartments, Sycamore Terrace Upland, Westminster Court, and Park Paseo. All significant intercompany balances and transactions have been eliminated in combination. Non-controlled affiliates of ABHOW, TSJG, and Cornerstone are excluded from the combined financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Performance Indicator—SCPH considers income from operations to be its performance indicator. Income from operations includes all changes in unrestricted net assets, excluding noncontrolling interest, 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.

Reclassification of Combined Statement of Operations Presentation—The 2016 combined statement of operations has been reclassified to present decision-useful line items consistent and comparable with other entities within the HumanGood organization. Reclassifications are shown in the following table (in thousands):

As previously reported		As reclassified	
Total revenues and other support	$104,658	Total operating revenues (1)	$105,967
Total expenses	111,249	Total operating expenses (2)	87,515
Other gains (losses)	7,302	Other operating income (expense) (1) (2)	(17,741)
Excess (deficiency) of revenues and other support over expenses and other gains	$ 711	Income from operations	$ 711

(1) Total operating revenues as reclassified include $1,309 of unrestricted contributions previously reported as a component of other gains (losses)

(2) Interest expense of $10,147 and depreciation expense of $13,587 previously reported as components of total expenses are reclassified as components of other operating income (expense)

These reclassifications represent a change from one acceptable presentation method to another acceptable presentation method and had no impact on the amount of SCPH's performance indicator. Presentation of 2016 functional expense by program (Note 14) was updated accordingly.

Gain on Sale of Operating Community—SCPH entered into negotiations to sell Kirkwood Orange in 2016; further, management evaluated the accounting treatment of the land and building based on Accounting Standards Codification (ASC) Topic 360, *Property Plant, and Equipment*, and classified the net facilities balance as held for sale effective December 31, 2016. The carrying amount of the asset classified as held for sale and 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.

Effective July 10, 2017, SCPH sold its Kirkwood Orange community, with a net book value of $5,096,000, to an unrelated party with no significant continuing involvement, for $11,985,000, less selling costs, for a gain of $6,185,000.

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, SCPH reimburses ABHOW for payroll and benefit costs incurred on its behalf. As of December 31, 2017 and 2016, receivables from ABHOW of $400,000 and payables to ABHOW of $3,182,000, respectively, are recorded in accrued expenses in the combined balance sheets. During the years ended December 31, 2017 and 2016, Cornerstone Affiliates incurred $3,262,000 and $783,000, respectively, of affiliation and strategic costs on SCPH's behalf, funded by SCPH, and recorded through equity transfers in the combined statements of changes in net assets.

Cash and Cash Equivalents—SCPH 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 SCPH, various donated investments, and charitable remainder trusts for which SCPH 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 operating income (expense), 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 SCPH's beneficiary interest:

Charitable Remainder Trusts—SCPH has been designated as trustee for several charitable remainder trusts. The Foundation administers these trusts. The trust agreements generally require SCPH to make payments to beneficiaries based on stipulated interest rates, which ranged from 6.5% to 9% in both 2017 and 2016, 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 SCPH, 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 SCPH in exchange for a promise by SCPH 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, SCPH. Discount rates ranged from 1.2% to 6% in 2017 and 2016 and the liability is based upon the Internal Revenue Service group annuity tables.

Trusts Held by a Third Party—SCPH is named as beneficiary and, in certain instances, receives income from trusts administered by organizations other than SCPH. Under the terms of the trust agreements, SCPH 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. SCPH does not control the assets held by an outside trust. SCPH 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 SCPH'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	3–20 years

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, 2017 and 2016.

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, 2017 and 2016, is approximately $90,578,000 and $78,081,000, respectively. At December 31, 2017 and 2016, approximately $51,718,000 and $45,183,000, respectively, of entrance fees related to 75% refundable contracts are contractually rebatable and included in entrance fees subject to refund in the combined balance sheets.

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

Years Ended	Entrance Fees Subject to Refund as of December 31	Actual Refunds Disbursed for Years Ended December 31
2017	$90,578	$6,546
2016	78,081	6,922
2015	71,106	6,414
2014	66,300	4,982
2013	59,363	3,932

The change in entrance fees for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Entrance fees—January 1:		
Refundable fees	$ 78,081	$ 71,106
Deferred revenue	48,328	47,306
Subtotal	126,409	118,412
Add—new entrance fees	35,151	30,021
Less:		
Amortization	(11,364)	(11,135)
Termination	(3,056)	(3,967)
Refunds	(6,546)	(6,922)
Total	$140,594	$126,409
Entrance fees—December 31:		
Refundable fees	$ 90,578	$ 78,081
Deferred revenue	50,016	48,328
Total	$140,594	$126,409

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. Commencing in 2017 in preparation for a change in reserve methodology in 2018, accounts aged over 150 days are fully reserved.

Obligation to Provide Future Services—SCPH 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, 2017 and 2016, 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 a 3% long-term rate of inflation and a discount rate of 5% at December 31, 2017, and a 4% long-term rate of inflation and 6% discount rate at December 31, 2016.

Donor-Restricted Contributions—Unconditional promises to give cash and other assets to SCPH 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 SCPH'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 Financial Accounting Standards Board (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 are applicable for SCPH effective January 1, 2016 and were considered when reporting and disclosing the Kirkwood Orange sale in SCPH's combined financial statements (Note 3).

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 SCPH effective January 1, 2018. Management is currently evaluating the impact on SCPH'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 SCPH effective January 1, 2017 and did not have a material impact on SCPH's combined financial statements.

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. The provisions of ASU No. 2015-07 were incorporated within Note 10 and did not have a material impact on SCPH's combined financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted for specific provisions, one of which indicates that entities that are not public entities are no longer required to apply the fair value of financial instruments disclosure guidance. The provisions of ASU No. 2016-01 did not have a material impact on SCPH's combined financial statements, but as a result, fair value disclosures included in prior periods have been excluded from the accompanying 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 SCPH's combined financial statements.

4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2017 and 2016, are available for the following purposes (in thousands):

	2017	2016
Donor restrictions (primarily restricted for capital improvements and specific operational activities)	$ 7,501	$ 8,058
Resident care—restricted for benevolence activities	4,137	2,759
Charitable remainder trusts	1,314	1,158
Total temporarily restricted net assets	$12,952	$11,975

Benevolence Activities—Under the terms of a majority of the residents' agreements, SCPH 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, and public aid. When residents are in need of financial assistance, such funds are provided first through contributions restricted for benevolence and then through other unrestricted, Board-designated, benevolence reserves 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, SCPH generally provides additional benevolence.

A summary of benevolence activity for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	2017	**2016**
Beginning balance for funds restricted for resident care	$2,759	$3,044
Benevolence donations	1,091	162
Investment earnings	752	253
Funds expended for resident care	(465)	(700)
Ending balance for funds restricted for resident care	$4,137	$2,759

Endowment Funds—SCPH'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.

SCPH 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, SCPH 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, SCPH 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 SCPH
- The investment policies of SCPH

The changes in donor-restricted endowment net assets for the years ended December 31, 2017 and 2016, are as follows (in thousands):

	Unrestricted/ Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—January 1, 2016	$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
Contributions	2	222	224
Net investment returns	675		675
Disbursements	(271)		(271)
Endowment net assets—December 31, 2017	$2,454	$5,257	$7,711

The description of the amounts classified as permanently restricted net assets as of December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
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	$5,257	$5,035
Total endowment funds classified as permanently restricted net assets	$5,257	$5,035
Unrestricted and temporarily restricted net assets—the portion of unrestricted or temporarily restricted endowment investment earnings	$2,454	$2,048
Total endowment funds classified as unrestricted or temporarily restricted net assets	$2,454	$2,048

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 SCPH to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2017 and 2016.

SCPH 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. SCPH 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, SCPH 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). SCPH 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, SCPH expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with SCPH'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, 2017 and 2016, is as follows (in thousands):

	2017	**2016**
Investments:		
Cash and cash equivalents	$ 13,276	$ 21,047
Mutual funds	32,501	27,218
Government obligations	33,487	32,866
Corporate bonds	30,395	19,365
Equities	43,513	34,776
Other	487	496
Total investments	153,659	135,768
Less:		
Investment designated for Homeship Fund		1,308
Assets whose use is limited	15,004	19,382
Investments held for restricted purposes	19,210	17,111
Investments designated for strategic initiatives (1)	15,000	
Total unrestricted and undesignated investments	$104,445	$ 97,967

(1) Investments designated for strategic initiatives represent board-designated investments for future strategic initiatives of HumanGood.

The composition of investment income for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Interest and dividend income	$3,483	$3,082
Net realized gains	1,489	1,248
Investment expense	(556)	(506)
Investment income	$4,416	$3,824
Unrestricted investment income	$3,646	$3,318
Temporarily restricted investment income	770	506
Total investment income	$4,416	$3,824

The composition of net unrealized gain activity for the years ended December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Unrestricted unrealized gain—net	$4,874	$2,396
Temporarily restricted unrealized gain—net	1,729	509
Total unrealized gain—net	$6,603	$2,905

6. ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited as of December 31, 2017 and 2016, is as follows (in thousands):

	2017	2016
Cash and cash equivalents	$10,026	$14,311
Investments—primarily US Treasury notes, government agency bonds, and corporate bonds	4,978	5,071
Total assets whose use is limited	$15,004	$19,382

The above funds as of December 31, 2017 and 2016, have been restricted by parties other than donors for the following purposes (in thousands):

	2017	2016
Escrow and project funds	$ -	$ 4,190
Bond reserve funds	10,085	10,570
Revenue, principal, interest, and other reserve funds	1,302	1,322
Other cash reserves—tax credit projects (Notes 8 and 13)	3,617	3,300
Total assets whose use is limited	$15,004	$19,382

7. FACILITIES

Facilities as of December 31, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Land and improvements	$ 37,075	$ 31,757
Buildings and improvements	292,738	287,823
Vehicles, furniture, and equipment	29,119	30,180
Construction in process	31,758	18,071
Total facilities	390,690	367,831
Accumulated depreciation	(160,670)	(152,094)
Total facilities—net	$ 230,020	$ 215,737

8. NOTES AND BONDS PAYABLE—NET

Net notes and bonds payable, including unamortized premiums and discounts and prepaid bond costs, as of December 31, 2017 and 2016, consist of the following (in thousands):

	2017	2016
Revenue bonds:		
Series 2009 (Southern California Presbyterian Homes)	$ 66,517	$ 67,630
Series 2015 (White Sands/Westminster Gardens)	45,453	46,051
Series 2014 tax-exempt loan (Kirkwood Orange)		3,166
Construction and mortgages payable (Tax Credit Projects):		
Mortgage payable (Casa de la Paloma)	7,273	7,356
Mortgage payable (Covenant Manor)	12,151	12,267
Mortgage payable (Royal Vista Terrace Apartments)	5,661	5,717
Mortgage payable (Sycamore Terrace Upland)	7,952	10,778
Capital advance grant (Andres Duarte Terrace II)	6,975	6,975
Construction loan (Westminster Court)	8,608	5,756
Construction loan (Park Paseo)	15,066	
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 notes and bonds payable—net	$177,857	$167,897

Revenue Bonds—In August 2009, SCPH issued $77,805,000 of fixed-rate revenue bonds. The fixed-rate revenue bonds—Series 2009 (Southern California Presbyterian Homes) consist of $2,811,000 of serial bonds bearing interest at a rate of 6.25%, payable in 2019, with mandatory sinking fund payments from $1,285,000 in 2017 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 $1,063,000 and $1,128,000 as of December 31, 2017 and 2016, respectively. Prepaid bond costs of $1,766,000 and $1,873,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016, respectively, in the combined balance sheets.

On December 17, 2015, SCPH 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. Principal payments of $900,000 and $850,000 were paid in 2017 and 2016, respectively. 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 0.895% and 0.57% at December 31, 2017 and 2016, respectively. Effective December 18, 2015, SCPH 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%, SCPH is reimbursed for the excess by the counterparty to the transaction. For the years ended December 31, 2017 and 2016, 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 $180,000 and $464,000 as of December 31, 2017 and 2016, respectively, and is reported with notes and bonds payable—net in the combined balance sheets. Prepaid bond costs of $516,000 and $534,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016, respectively, in the combined balance sheets.

Series 2014 Tax-Exempt Loan—In December 2014, SCPH 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 are recorded with notes and bonds payable—net as of December 31, 2016, in the combined balance sheets. Outstanding loan balance as of December 31, 2016 was paid in full in June 2017 in advance of the sale of the community in July 2017 (Note 3).

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 4.81% in 2017 and 2016. 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, 2017 and 2016, is $7,653,000 and $7,756,000, respectively. Prepaid bond costs of $380,000 and $400,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016, 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, 2017 and 2016, is $12,285,000 and $12,412,000, respectively. Prepaid bond costs of $134,000 and $145,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016, 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.

Andres Duarte Terrace II, L.P. has a capital advance mortgage from HUD in an amount not to exceed $7,013,000, which 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, 2017 and 2016, the balance of the mortgage is $7,013,000. Prepaid bond costs of $38,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016 in the combined balance sheets.

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%. Mortgage 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, 2017 and 2016, is $5,941,000 and $6,008,000, respectively. Prepaid bond costs of $280,000 and $291,000 are recorded with notes and bonds payable—net as of December 31, 2017 and 2016, respectively, in the combined balance sheets.

Sycamore Terrace Upland, L.P. has a mortgage with Citibank, N.A. in the original amount of $13,000,000 (construction loan). The project reached construction completion in 2016. The principal balance of the construction loan as of December 31, 2016 is $11,098,000. During the construction period, loan bears interest at variable rate of the current index, plus 2%, which was 2.72% at December 31, 2016. The mortgage was converted to a $8,300,000 permanent loan in 2017 and payments of principal and interest are payable based on a 35-year amortization schedule. October 12, 2033, the mortgage will bear interest at 4.63%. As of December 31, 2017, the principal balance is $8,284,000. Prepaid bond costs of $332,000 and $322,000 are recorded with notes and bonds payable—net in the combined balance sheets as of December 31, 2017 and 2016, respectively.

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, 2017 and 2016, the interest rate is 3.71% and 2.72%, respectively. 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, 2017 and 2016, the principal balance is $8,608,000 and $5,756,000, respectively.

Park Paseo, L.P. has a construction loan with Citibank, N.A. in the original amount of $21,450,000. Prior to the conversion date, the mortgage bears interest at a variable rate of the current index, plus 2%, which is 3.56% as of December 31, 2017. Payments of interest-only are due monthly beginning August 2017 (beginning of construction) until conversion. At conversion, the permanent loan will be $15,324,000 and payments of principal and interest are payable based on a 35 year amortization schedule. At conversion through the maturity date of August 1, 2052, the mortgage will bear interest at 4.73%. The mortgage is secured by the multifamily deed of trust, assignments of rents, security agreement and fixture filing without recourse. As of December 31, 2017, the principal balance is $15,066,000.

SCPH is required to maintain a ratio of income available for debt service, as defined, of at least 1.25 under the Series 2009 and 2015 bonds. SCPH is also required to maintain a cash balance of 100 days of unrestricted cash on hand under the 2015 bonds and 125 days of unrestricted cash on hand under the Series 2009 bonds. Management believes SCPH is in compliance with all debt covenant requirements as of December 31, 2017 and 2016.

The aggregate amounts maturing under long-term obligations, including mandatory bond redemptions and mortgage payable requirements, at December 31, 2017, are as follows (in thousands):

Years Ending December 31	
2018	$ 2,709
2019	2,845
2020	2,986
2021	3,153
2022	3,324
Thereafter	143,855
Total principal maturities	158,872
Add construction loans	23,674
Less net unamortized discount	1,063
Less prepaid bond issuance costs	3,626
Total notes and bonds payable—net	$177,857

9. RETIREMENT PLANS

SCPH 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 SCPH froze the Plan, whereby effective October 31, 2009, further accrual of benefits ceased for participants in the Plan. SCPH 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. SCPH'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 include separate investment accounts with underlying mutual funds invested in fixed-income and equity securities whose values are subject to fluctuations of the securities markets. The Plan assets are recorded at fair value based on net asset value as a practical expedient. 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, 2017 and 2016, is as follows (in thousands):

	2017	**2016**
Changes in projected benefit obligation:		
Projected benefit obligation—January 1	$ 37,716	$ 39,923
Service cost		
Interest cost	1,625	1,650
Benefits paid	(1,907)	(1,969)
Actuarial loss (gain)	2,631	(1,888)
Projected benefit obligation—December 31	40,065	37,716
Changes in Plan assets:		
Fair value of Plan assets—January 1	29,223	28,057
Actual return on Plan assets	3,202	1,861
Employer contributions	7,730	1,571
Expenses	(318)	(297)
Benefits paid	(1,907)	(1,969)
Fair value of Plan assets—December 31	37,930	29,223
Funded status	(2,135)	(8,493)
Accrued benefit cost	$ (2,135)	$ (8,493)
Accumulated benefit obligation	$(40,065)	$(37,716)
Amounts recognized in the combined statements of financial position—accrued pension liability	$ (2,135)	$ (8,493)
Components of net periodic benefit cost:		
Service cost	$ -	$ -
Interest cost	1,625	1,650
Expected return on Plan assets	(1,923)	(1,843)
Net loss amortization	1,273	1,539
Net benefit cost	$ 975	$ 1,346
Net (loss) gain recognized in unrestricted net assets	$ (396)	$ 3,148
Amounts not yet reflected in net periodic benefit costs and recognized in accumulated unrestricted net assets—net actuarial loss	$ 12,657	$ 12,261
Total accumulated charge to unrestricted net assets	$ 12,657	$ 12,261

Weighted-average assumptions used to determine benefit obligations as of December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate	3.98 %	4.39 %
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate	4.39 %	4.31 %
Expected long-term rate of return on Plan assets	6.75	6.75
Rate of compensation increase	N/A	N/A

SCPH 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, 2017 and 2016, 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, 2017. 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 or estimated to be made to the Plan during the year ending December 31, 2018. SCPH estimates that benefit payments will be paid over the next 10 years as follows (in thousands):

Years Ending December 31	
2018	$ 1,531
2019	1,667
2020	1,747
2021	1,862
2022	1,913
2023–2027	10,528

Actuarial losses of $1,293,000 related to the Plan are expected to be recognized as a component of the net periodic pension cost during the year ending December 31, 2018. Management has included the net periodic pension cost in SCPH's 2018 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 $269,000 and $494,000 at December 31, 2017 and 2016, respectively, and is included in accrued liabilities in the combined balance sheets.

In addition to the benefit plans above, effective May 16, 2010, SCPH 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. SCPH matches up to 3% of employee contributions for participating employees. SCPH 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%. Effective December 31, 2017, the 403(b) plan was terminated and employees were encouraged to roll over their 403(b) accumulated balances into the HumanGood 401(k) plan.

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

Financial instruments that potentially subject SCPH 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 as of December 31, 2017 and 2016 in the health centers, was as follows:

	2017	2016
Accounts receivable:		
Medicare	33 %	16 %
Medi-Cal	24	24
Self-payors	32	42
Other third-party payors	11	18
Total	100 %	100 %
Health center resident service fees:		
Medicare	19 %	18 %
Medi-Cal	19	20
Self-payors	61	60
Other third-party payors	1	2
Total	100 %	100 %

The estimated fair value of financial instruments has been determined by SCPH 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 SCPH could realize in a current market exchange.

Assets Measured at Fair Value—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 SCPH utilizes to fair value each major category of investments in accordance with ASC Topic 820:

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, 2017 and 2016, is as follows (in thousands):

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:				
Cash equivalents:	$ 4,844	$ -	$ -	$ 4,844
Mutual funds:				
Equity	8,544			8,544
Fixed income	19,866			19,866
Real estate	4,091			4,091
Fixed income:				
Municipal bonds		472		472
US Treasury securities		17,263		17,263
Federal government agency bonds		15,752		15,752
US corporate bonds		28,811		28,811
Non-US corporate bonds		1,584		1,584
Equity:				
US equity securities	36,777			36,777
Non-US equity securities	6,736			6,736
Other	377		110	487
Total assets at fair value	$81,235	$63,882	$ 110	$145,227
Money market funds (1)				8,432
Total				$153,659

(1) In accordance with ASU No. 2015-07, certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the above tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined balance sheets.

2016	Level 1	Level 2	Level 3	Total
Assets at fair value:				
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	$52,231	$ 110	$127,987
Money market funds (1)				7,781
Total				$135,768

(1) In accordance with ASU No. 2015-07, certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the above tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined balance sheets.

SCPH 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, 2017 and 2016. In determining when transfers between levels are recognized, SCPH'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

SCPH self-insures for workers' compensation up to a maximum of $500,000 per occurrence for the annual policy period effective September 1, 2016, and $850,000 for policy periods effective in 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 unpaid claims are $10,238,000 and $8,887,000 as of December 31, 2017 and 2016, respectively, and are included in accrued liabilities in the accompanying combined balance sheets. Associated reinsurance receivables of $4,180,000 and $2,851,000 as of December 31, 2017 and 2016, respectively, are included in other accounts receivable in the accompanying combined balance sheets.

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

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

SCPH 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 SCPH's combined financial statements.

Financial instruments that potentially subject SCPH to concentrations of credit risk consist principally of cash and cash equivalents and receivables. SCPH places its cash and cash equivalents into several financial institutions. SCPH's customer base consists of a large number of customers in California. SCPH 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, 2017 and 2016, SCPH 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 SCPH to operate housing facilities ("Affordable Housing") managed by SCPH 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, SCPH 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 SCPH. SCPH provides non-interest-bearing advances to partially finance the construction of the facilities. SCPH had advanced approximately $774,000 and $1,864,000 as of December 31, 2017 and 2016, 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 $1,213,000 and $1,217,000 in 2017 and 2016, respectively. As of December 31, 2017 and 2016, SCPH also has current receivables due from the Affordable Housing projects of $1,405,000 and $1,103,000, 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, 2017 and 2016, of the Affordable Housing projects is as follows (in thousands):

	Unaudited	
	2017	**2016**
Assets:		
Cash and receivables—other	$ 10,487	$ 12,109
Facilities—net	105,586	114,694
Total assets	$116,073	$126,803
Liabilities and net deficit:		
Liabilities—primarily long-term debt	$140,826	$149,768
Net deficit	(24,753)	(22,965)
Total liabilities and net deficit	$116,073	$126,803
Selected financial data—revenues	$ 9,918	$ 11,332
Change in net deficit before depreciation and transfers	$ (57)	$ 519
Change in communities reported with Affordable Housing portfolio	1,861	(756)
Depreciation	(3,592)	(3,811)
Total change in net unrestricted deficit	$ (1,788)	$ (4,048)
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 SCPH 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 SCPH'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 SCPH 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 $12,076,000 are due from the limited partner of Casa de la Paloma, L.P. when certain milestones are achieved. No capital contributions were required or funded in 2017 or 2016. As of December 31, 2017, 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 SCPH'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 SCPH'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 SCPH 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 $4,858,000 are due from the limited partner of Andres Duarte Terrace II, L.P. when certain milestones are achieved. The limited partner funded capital contributions totaling $251,000 and $4,106,000 during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, the limited partner has made all required contributions.

Covenant Manor—Effective March 1, 2014, Sycamore Terrace, Inc. (dba Covenant Manor), a HUD community managed by SCPH 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

SCPH’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 SCPH 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 $6,967,000 are due from the limited partner of Covenant Manor, L.P. when certain milestones are achieved. No capital contributions were required or funded in 2017. The limited partner funded capital contributions of $374,000 in 2016 and as of December 31, 2017 has made all required contributions.

Royal Vista Terrace Apartments—Effective September 1, 2014, Sycamore Terrace, Inc.(dba Royal Vista Terrace), a HUD community managed by SCPH 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 SCPH’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 SCPH 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 $3,869,000 are due from the limited partner of Royal Vista Terrace Apartments, L.P. when certain milestones are achieved. The limited partner funded capital contributions of $262,000 and $3,209,000 in 2017 and 2016, respectively. As of December 31, 2017, the limited partner has made all required contributions.

Sycamore Terrace—Effective December 9, 2015, Sycamore Terrace, Inc., a HUD community managed by SCPH 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 SCPH'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.

Sycamore Terrace Upland, L.P. entered into a $2,047,000 development agreement with SCPH 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. As of December 31, 2017, total developer fees have been earned as construction is complete. During the year ended December 31, 2016 $1,535,000 in developer funds were earned.

Capital contributions totaling $6,033,000 are due from the limited partner of Sycamore Terrace Upland, L.P. when certain milestones are achieved. The limited partner funded capital contributions of $5,107,000 in 2017. No capital contributions were required or funded in 2016. As of December 31, 2017, the limited partner has funded cumulative capital contributions of $5,711,000, 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 SCPH 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 SCPH'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 SCPH 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. As of December 31, 2017, the total developer fee of $1,731,000 has been earned as construction is substantially complete. As of December 31, 2016 $953,000 in developer funds have been earned.

Capital contributions totaling $5,198,000 are due from the limited partner of Westminster Court, L.P. when certain milestones are achieved. As of December 31, 2017, the limited partner has funded cumulative capital contributions of $520,000, funded in 2016. The remaining balance will be paid in accordance with the terms of the partnership agreement.

Park Paseo—Effective July 1, 2017, Park Paseo, Inc., a HUD community managed by SCPH during the year ended December 31, 2016 and prior, sold its property, including land and building, to a newly created limited partnership, Park Paseo, L.P. Park Paseo, L.P. was formed as a limited partnership under the laws of the State of California on October 16, 2012, to develop, construct, own, maintain, and operate an apartment project ("PP Project") consisting of 98 rental units located in Glendale, California. The partners of Park Paseo, L.P. include Park Paseo, 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 Park Paseo, L.L.C. Park Paseo, L.P. is combined into Park Paseo, L.L.C.'s financial statements and those combined statements are consolidated into SCPH's combined financial statements. Noncontrolling interest is reported in unrestricted net assets for the 99.99% ownership by the investor limited partner. Park Paseo, 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 2017 is included in the following table (in thousands):

Cash	$ 10,482
Other assets	3,996
Long-term debt	15,039
Other liabilities	246
Total unrestricted net assets—noncontrolling interest	(807)

Park Paseo, L.P. entered into a $3,494,000 development agreement with SCPH for services performed in connection with the development of the PP Project. To the extent that costs relate directly to development and construction of the PP Project, fees are capitalized into the cost of the building and included in facilities in the combined balance sheets. $1,747,000 in developer funds have been earned in 2017 and the remainder will be earned upon completion of construction in 2018.

Capital contributions totaling $9,232,235 are due from the limited partner of Park Paseo, L.P. when certain milestones are achieved. As of December 31, 2017, the limited partner has funded cumulative capital contributions of $923,000, funded in 2017. The remaining balance will be paid in accordance with the terms of the partnership agreement.

SCPH has established various other entities with similar structures with plans to complete tax credit projects in 2018 and future years.

14. FUNCTIONAL EXPENSES BY PROGRAM

Functional expenses by program for the years ended December 31, 2017 and 2016, are as follows (in thousands):

	2017					
	Residential	Assisted Living	Skilled Nursing	Home Office and Foundation	Home Care Services	Combined Total
Expenses:						
Medical services	$ 3,628	$ 5,191	$ 15,564	$ -	$ 2,771	$ 27,154
Dietary	11,191	2,596	1,742			15,529
Plant	10,310	1,045	657	172		12,184
Housekeeping	2,397	474	1,147			4,018
Resident activities	3,223	482	769	96		4,570
Marketing	4,594	453	245	437		5,729
General and administrative	12,710	1,826	1,663	2,985	344	19,528
Leases and rentals	191	25	10	69	1	296
Insurance	1,247	99	90	26	6	1,468
Total operating expenses	$ 49,491	$ 12,191	$ 21,887	$ 3,785	$ 3,122	$ 90,476
Interest	$ 7,866	$ 333	$ 362	$ -	$ -	$ 8,561
Depreciation	$ 12,116	$ 781	$ 830	$ 950	$ 2	$ 14,679

	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
Leases and rentals	130	18	6	108	1	263
Insurance	1,569	116	125	33	8	1,851
Total operating expenses	$ 46,229	$ 12,562	$ 20,097	$ 4,756	$ 3,871	$ 87,515
Interest	$ 9,220	$ 449	$ 478	$ -	$ -	$ 10,147
Depreciation	$ 10,940	$ 1,024	$ 765	$ 856	$ 2	$ 13,587

15. OTHER ASSETS

SCPH 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 $942,000 and $895,000 in 2017 and 2016, respectively. SCPH's investment in CCrRRG was $535,000 as of December 31, 2017 and 2016, which is included in other assets in the accompanying combined balance sheets. Mrs. Pam Claassen, Chief Financial Officer of SCPH and HumanGood, is on the board of directors of CCrRRG.

16. SUBSEQUENT EVENTS

SCPH has evaluated subsequent events through April 26, 2018, the date the combined financial statements were available to be issued and has identified the following subsequent events.

On March 29, 2018, amendments to the articles of incorporation of SCPH took effect and the corporation's name was changed to HumanGood SoCal.

On March 29, 2018, amendments to the articles of incorporation of the Foundation took effect and the corporation's name was changed to HumanGood Foundation South.

* * * * * *

SUPPLEMENTAL COMBINING SCHEDULES

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING BALANCE SHEET FOR ADDITIONAL INFORMATION
AS OF DECEMBER 31, 2017
(In thousands)

	Obligated Group	Kirkwood Orange	Palmer House	SCPH Foundation	Eliminations	Total	Tax Credit Projects	Eliminations	Combined Total
ASSETS									
CASH AND CASH EQUIVALENTS	$ 4,107	$ -	$223	$ 2	$ (24)	$ 4,308	$ 6,617	$ -	$ 10,925
INVESTMENTS	91,932			12,513		104,445			104,445
INVESTMENTS DESIGNATED FOR STRATEGIC INITIATIVES	15,000					15,000			15,000
RESIDENT ACCOUNTS RECEIVABLE—Net of estimated allowance for doubtful accounts	4,307					4,307			4,307
OTHER ACCOUNTS AND NOTES RECEIVABLE	9,382			44		9,426	35,081	(37,147)	7,360
PREPAID EXPENSES	1,455		3	11		1,469	51		1,520
ASSETS WHOSE USE IS LIMITED	11,141		247			11,388	3,616		15,004
INVESTMENTS HELD FOR RESTRICTED PURPOSES				19,210		19,210			19,210
FACILITIES—Net	172,961		468			173,429	58,534	(1,943)	230,020
ADVANCES TO AFFORDABLE HOUSING PROJECTS	1,175					1,175		(401)	774
OTHER ASSETS	4,859			15		4,874	145	(3,095)	1,924
INTERCOMPANY	1,804			(204)	(1,600)				-
TOTAL	$318,123	$ -	$941	$31,591	$(1,624)	$349,031	$104,044	$(42,586)	$410,489

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING BALANCE SHEET FOR ADDITIONAL INFORMATION
AS OF DECEMBER 31, 2017
(In thousands)

LIABILITIES AND NET ASSETS	**Obligated Group**	**Kirkwood Orange**	**Palmer House**	**SCPH Foundation**	**Eliminations**	**Total**	**Tax Credit Projects**	**Eliminations**	**Combined Total**
LIABILITIES:									
Accounts payable	$ 2,642	$ -	$ 8	$ 26	$ (24)	$ 2,652	$ 761	$ (616)	$ 2,797
Accrued expenses	7,859		155	15	(150)	7,879	2,969	(2,260)	8,588
Deposits from applicants for residency	777		14			791	198		989
Accrued liabilities	47,331					47,331		(34,296)	13,035
Accrued pension liabilities	2,135					2,135			2,135
Deferred revenue from entrance fees subject to refund	90,578					90,578			90,578
Deferred revenue from entrance fees	50,016					50,016			50,016
Notes and bonds payable—net	111,970		1,000			112,970	68,358	(3,471)	177,857
Life income obligations to beneficiaries under charitable trust agreements				1,846		1,846			1,846
Total liabilities	313,308	-	1,177	1,887	(174)	316,198	72,286	(40,643)	347,841
COMMITMENTS AND CONTINGENCIES									
NET ASSETS (DEFICIT):									
Unrestricted	5,073		(236)	11,237	(1,450)	14,624	6,369	(1,943)	19,050
Unrestricted—noncontrolling interest						-	25,389		25,389
Temporarily restricted	(258)			13,210		12,952			12,952
Permanently restricted				5,257		5,257			5,257
Total net assets (deficit)	4,815	-	(236)	29,704	(1,450)	32,833	31,758	(1,943)	62,648
TOTAL	$318,123	$ -	$ 941	$31,591	$(1,624)	$349,031	$104,044	$(42,586)	$410,489

See notes to supplemental combining schedules and accompanying independent auditors' report. (Concluded)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING STATEMENT OF OPERATIONS (BY LOCATION) FOR ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Home Office	Royal Oaks Manor	White Sands	Windsor Manor	Regents Point	Home Care	Redwood Terrace	Redwood Elderlink	Westminster Gardens	Eliminations	Total Obligated Group
OPERATING REVENUES											
Resident service fees	$ 314	$13,606	$15,710	$7,578	$18,521	$2,830	$12,691	$521	$ 6,625	$ -	$ 78,396
Amortization of entrance fees		2,258	5,172	506	4,108		1,517		859		14,420
Management fees	8,130									(6,048)	2,082
Net assets released from restrictions	1	330	311	136	273	18	247		97		1,413
Total operating revenues	8,445	16,194	21,193	8,220	22,902	2,848	14,455	521	7,581	(6,048)	96,311
OPERATING EXPENSES											
Medical services		4,079	3,137	2,592	5,974	2,770	5,827	439	1,352		26,170
Dietary		2,970	3,848	1,781	3,931		1,853		865		15,248
Plant	172	1,921	2,284	989	2,110		1,471		1,063		10,010
Housekeeping		738	775	391	1,057		785		203		3,949
Resident activities	96	700	865	495	852		666		227		3,901
Marketing	437	1,018	1,035	657	1,008		832		583		5,570
General and administrative	11,853	2,526	3,097	1,430	2,989	339	2,188		1,095	(6,048)	19,469
Leases and rentals	69	28	80	16	24	1	53		3		274
Insurance	26	207	240	117	272	6	206		118		1,192
Total operating expenses	12,653	14,187	15,361	8,468	18,217	3,116	13,881	439	5,509	(6,048)	85,783
(LOSS) INCOME BEFORE OTHER OPERATING INCOME (EXPENSE)	(4,208)	2,007	5,832	(248)	4,685	(268)	574	82	2,072	-	10,528
OTHER OPERATING INCOME (EXPENSE)											
Gain on sale of operating community	6,185										6,185
Investment income	2,060	205	377	81	530				40		3,293
Change in unrealized gain on trading securities—net	2,922	256	308	113	736				36		4,371
Other income (expense)	3,052	36	61	(8)	(24)		(70)		(9)	376	3,414
Interest		(1,648)	(3,134)	(122)	(1,193)				(264)		(6,361)
Depreciation	(950)	(2,001)	(4,221)	(578)	(2,763)	(2)	(1,555)		(1,160)		(13,230)
INCOME (LOSS) FROM OPERATIONS	$ 9,061	$ (1,145)	$ (777)	$ (762)	$ 1,971	$ (270)	$ (1,051)	$ 82	$ 715	$ 376	$ 8,200

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING STATEMENT OF OPERATIONS (BY LOCATION) FOR ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Kirkwood Orange	Palmer House	SCPH Foundation	Eliminations	Total	Casa de la Paloma	Andres Duarte Terrace II	Covenant Manor	Royal Vista Terrace Apartments	Sycamore Terrace	Westminster Court	Park Paseo	Eliminations	Combined Total
OPERATING REVENUES														
Resident service fees	$1,927	$204	$ -	$ -	$ 80,527	$2,049	$ 265	$1,844	$1,180	$1,445	$1,043	$ 749	$ -	$ 89,102
Amortization of entrance fees					14,420									14,420
Management fees				(87)	1,995								(619)	1,376
Net assets released from restrictions	4				1,417									1,417
Total operating revenues	1,931	204	-	(87)	98,359	2,049	265	1,844	1,180	1,445	1,043	749	(619)	106,315
OPERATING EXPENSES														
Medical services	984				27,154									27,154
Dietary	281				15,529									15,529
Plant	131	67			10,208	651	131	347	279	234	207	127		12,184
Housekeeping	69				4,018									4,018
Resident activities	85				3,986	127	2	121	85	132	115	2		4,570
Marketing	159				5,729									5,729
General and administrative	300	83	417	(87)	20,182	644	171	413	353	425	324	161	(3,145)	19,528
Leases and rentals	17				291	3					2			296
Insurance	24	10			1,226	55	20	31	38	47	32	19		1,468
Total operating expenses	2,050	160	417	(87)	88,323	1,480	324	912	755	838	680	309	(3,145)	90,476
(LOSS) INCOME BEFORE OTHER OPERATING INCOME (EXPENSE)	(119)	44	(417)	-	10,036	569	(59)	932	425	607	363	440	2,526	15,839
OTHER OPERATING INCOME (EXPENSE)														
Gain on sale of operating community					6,185									6,185
Investment income			353		3,646									3,646
Change in unrealized gain on trading securities—net			503		4,874									4,874
Other income (expense)	(4)	1	376	(376)	3,411	5	5	4	93	3	3	1	(2,610)	915
Interest	(88)				(6,449)	(468)		(656)	(311)	(383)	(168)	(210)	84	(8,561)
Depreciation		(67)			(13,297)	(331)	(354)	(269)	(179)	(242)	(39)	(15)	47	(14,679)
(LOSS) INCOME FROM OPERATIONS	$ (211)	$ (22)	$ 815	$(376)	$ 8,406	$ (225)	$(408)	$ 11	$ 28	$ (15)	$ 159	$ 216	$ 47	$ 8,219

See notes to supplemental combining schedules and accompanying independent auditors' report.

(Concluded)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING STATEMENT OF CHANGES IN NET ASSETS FOR ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Obligated Group	Kirkwood Orange	Palmer House	SCPH Foundation	Eliminations	Total	Tax Credit Projects	Eliminations	Combined Total
UNRESTRICTED NET ASSETS:									
Income (loss) from operations	$ 8,200	$(211)	$ (22)	$ 815	$ (376)	$ 8,406	$ (234)	$ 47	$ 8,219
Net assets released from restrictions—acquisition of facilities	220	12	1			233			233
Pension related changes other than net periodic pension cost	(396)					(396)			(396)
Loss from operations attributable to noncontrolling interest						-	2,927		2,927
Effect of combination with tax credit projects						-	(1,730)		(1,730)
Equity transfers—Kirkwood Orange	491	(491)				-			-
Equity transfers to Cornerstone Affiliates	(3,262)					(3,262)			(3,262)
Increase (decrease) in unrestricted net assets	5,253	(690)	(21)	815	(376)	4,981	963	47	5,991
UNRESTRICTED NET ASSETS—Noncontrolling interest:									
Loss from operations attributable to noncontrolling interest						-	(2,927)		(2,927)
Equity contribution						-	6,543		6,543
Increase in unrestricted net assets—noncontrolling interest	-	-	-	-	-	-	3,616	-	3,616
TEMPORARILY RESTRICTED NET ASSETS:									
Gifts and bequests				1,965		1,965			1,965
Investment income				770		770			770
Unrealized gain—marketable securities—net				1,729		1,729			1,729
Change in value of split-interest agreements				241		241			241
Transfer to obligation to beneficiaries				(1,993)		(1,993)			(1,993)
Net assets distributed to donors under trust agreements				(85)		(85)			(85)
Net assets released for acquisition of facilities				(233)		(233)			(233)
Net assets released for other specific purposes				(952)		(952)			(952)
Net assets released for benevolence				(465)		(465)			(465)
Increase in temporarily restricted net assets	-	-	-	977	-	977	-	-	977
PERMANENTLY RESTRICTED NET ASSETS—Contributions				222		222			222
INCREASE (DECREASE) IN NET ASSETS	5,253	(690)	(21)	2,014	(376)	6,180	4,579	47	10,806
NET (DEFICIT) ASSETS—Beginning of year	(438)	690	(215)	27,690	(1,074)	26,653	27,179	(1,990)	51,842
NET ASSETS (DEFICIT)—End of year	$ 4,815	$ -	$(236)	$29,704	$(1,450)	$32,833	$31,758	$(1,943)	$62,648

See notes to supplemental combining schedules and accompanying independent auditors' report.

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING STATEMENT OF CASH FLOWS FOR ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Obligated Group	Kirkwood Orange	Palmer House	SCPH Foundation	Eliminations	Total	Tax Credit Projects	Eliminations	Combined
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from residents and third-party payors	$ 76,715	$ 2,003	$ 203	$ 1,698	$ -	$ 80,619	$ (1,993)	$11,781	$ 90,407
Proceeds from entrance fees	35,151					35,151			35,151
Other receipts (distributions) from operations	5,496	(4)	1	376	(376)	5,493	114	(3,229)	2,378
Investment income	3,293			353		3,646			3,646
Proceeds from temporarily restricted contributions:									
Investment income				770		770			770
Gifts and bequests				2,206		2,206			2,206
Cash paid to employees and suppliers	(82,727)	(2,412)	(159)	(757)	(4)	(86,059)	(6,610)	(8,081)	(100,750)
Interest paid—net of bond amortization	(6,361)	(88)				(6,449)	(2,062)		(8,511)
Intercompany transfers	491	(491)							-
Transfer to obligation to beneficiaries				(1,993)		(1,993)			(1,993)
Net Foundation transfers	1,413	4		(1,417)					-
Net cash provided by (used in) operating activities	33,471	(988)	45	1,236	(380)	33,384	(10,551)	471	23,304
CASH FLOWS FROM INVESTING ACTIVITIES:									
Acquisition of facilities	(19,972)		(5)			(19,977)	(4,539)	47	(24,469)
Proceeds from sale of operating community	11,281					11,281			11,281
Purchase of assets whose use is limited	(8,089)		(11)			(8,100)	(285)		(8,385)
Sale of assets whose use is limited	12,275	520				12,795			12,795
Purchase of investments	(92,282)			(8,941)		(101,223)			(101,223)
Sale of investments	78,122			7,666		85,788			85,788
Intercompany	(746)	467	1	(98)	376				-
Cash received in combination of tax credit projects							9,559		9,559
Advances to Affordable Housing projects	1,145					1,145		(55)	1,090
Net cash (used in) provided by investing activities	(18,266)	987	(15)	(1,373)	376	(18,291)	4,735	(8)	(13,564)
CASH FLOWS FROM FINANCING ACTIVITIES:									
Cash refunds of entrance fees and deposits	(6,546)					(6,546)			(6,546)
Contributions restricted for long-term investment				222		222			222
Proceeds from issuance of notes and bonds payable							4,188	(463)	3,725
Payments of notes and bonds payable	(5,559)					(5,559)	(3,952)		(9,511)
Cash paid under charitable remainder trust agreements				(85)		(85)			(85)
Payment of deferred loan costs									-
Equity transfers to Cornerstone Affiliates	(3,262)					(3,262)			(3,262)
Equity contribution							6,543		6,543
Net cash (used in) provided by financing activities	(15,367)	-	-	137	-	(15,230)	6,779	(463)	(8,914)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(162)	(1)	30		(4)	(137)	963	0	826
CASH AND CASH EQUIVALENTS—Beginning of year	4,269	1	193	2	(20)	4,445	5,654		10,099
CASH AND CASH EQUIVALENTS—End of year	$ 4,107	$ -	$ 223	$ 2	$ (24)	$ 4,308	$ 6,617	$ -	$ 10,925

(Continued)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

COMBINING STATEMENT OF CASH FLOWS FOR ADDITIONAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Obligated Group	Kirkwood Orange	Palmer House	SCPH Foundation	Eliminations	Total	Tax Credit Projects	Eliminations	Combined Total
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:									
Increase (decrease) in net assets	$ 5,253	$(690)	$(21)	$ 2,014	$(376)	$ 6,180	$ 4,579	$ 47	$ 10,806
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:									
Proceeds from entrance fees	35,151					35,151			35,151
Amortization of entrance fees	(14,420)					(14,420)			(14,420)
Contributions restricted for long-term investment				(222)		(222)			(222)
Amounts distributed to donors under trust agreements				85		85			85
Change in value of split-interest agreements				(241)		(241)			(241)
Change in value of obligation to beneficiaries				1,710		1,710			1,710
Unrealized gains on investments—net	(4,371)			(2,232)		(6,603)			(6,603)
Foundation transfers	(220)	(12)	(1)	233		-			-
Depreciation and amortization	13,472	209	67			13,748	1,429	(47)	15,130
Gain on sale of operating community	(6,185)					(6,185)			(6,185)
Pension related changes other than net period pension cost	396					396			396
Equity transfers to Cornerstone Affiliates	3,262					3,262			3,262
Equity contribution						-	(6,543)		(6,543)
Effect of combination with tax credit projects						-	1,730		1,730
Change in:						-			-
Accounts receivable	(2,294)	62		5		(2,227)	(10,621)	11,326	(1,522)
Prepaid expenses and other assets	613	14	(1)	224		850	53	400	1,303
Accounts payable	(168)	(149)	(3)	(14)	(4)	(338)	(1,035)	(38)	(1,411)
Accrued expenses	2,982	(422)	4	(326)		2,238	(143)	(11,217)	(9,122)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 33,471	$(988)	$ 45	$ 1,236	$(380)	$ 33,384	$(10,551)	$ 471	$ 23,304
SUPPLEMENTAL CASH FLOW INFORMATION—Facilities acquisitions in accounts payable	$ 107	$ -	$ -	$ -	$ -	$ 107	$ 2,200	$ -	$ 2,307
EQUITY TRANSFERS—Intercompany	$ 491	$(491)	$ -	$ -	$ -	$ -	$ -	$ -	$ 491

See notes to supplemental combining schedules and accompanying independent auditors' report.

(Concluded)

SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

NOTES TO SUPPLEMENTAL COMBINING SCHEDULES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. BASIS OF PRESENTATION

The accompanying combining balance sheets, statements of operations, statements of changes in net assets, and statements of cash flows (collectively the "supplemental combining schedules") are prepared on the accrual basis of accounting. The preparation of the supplemental combining schedules in conformity with 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 combining schedules, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SCPH eliminates intercompany transactions, such as management fees and payables or receivables between combined entities. Intercompany, which is included in the combining balances sheets, consists of net payables and net receivables between combined entities. Net assets released from restrictions are transferred immediately to recipient affiliates.

2. ALLOCATIONS

All other assets, liabilities, expenses, and revenues have been allocated to the affiliates based on the number of employees or other relevant benchmarks except as outlined below:

Items Maintained at Corporate or "Home Office"—Pension related changes other than net periodic pension cost and pension contributions are maintained at Home Office regardless of the operations of the affiliates. Periodic pension costs are allocated to the respective affiliates.

Self-insured health claims expenses are allocated to the respective affiliates throughout the year based on budgeted labor. All claims are paid out of Home Office. Estimates for liabilities incurred but not reported are maintained at Home Office.

3. TAX CREDIT PROJECT CONSOLIDATION

Tax credit projects included in the supplemental combining schedules include consolidated activities of various affiliated entities. Casa de la Paloma, includes consolidated activities of Casa de la Paloma, L.P., Casa de la Paloma, Inc., and Casa de la Paloma, L.L.C.; Andres Duarte Terrace II includes consolidated activities of Andres Duarte Terrace II, L.P. and Andres Duarte Terrace II, L.L.C.; Covenant Manor includes consolidated activities of Covenant Manor, L.P., Sycamore Terrace, Inc., and Covenant Manor, L.L.C.; Royal Vista Terrace Apartments includes consolidated activities of Royal Vista Terrace Apartments, L.P., Sycamore Terrace, Inc., Royal Vista Terrace Apartments, L.L.C.; Sycamore Terrace consisting of Sycamore Terrace Upland, L.P., Sycamore Terrace, Inc., and Sycamore Terrace, L.L.C.; Westminster Court consisting of Westminster Court, L.P., Westminster Court, Inc., and Westminster Court, L.L.C.; and Park Paseo consisting of Park Paseo, L.P., Park Paseo, Inc., and Park Paseo, L.L.C. Intercompany balances between the various affiliated entities are eliminated in combination.

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