

# Southern California Presbyterian Homes and Affiliates

Continuing Care Reserve Report Schedules  
for the Year Ended December 31, 2017, and  
Independent Auditors' Report

# SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
NOTES TO CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017	3-5
CONTINUING CARE RESERVE REPORT SCHEDULES:	
Form 5-1 Long-Term Debt Incurred in a Prior Fiscal Year	6
Form 5-2 Long-Term Debt Incurred During Fiscal Year	7
Form 5-3 Calculation of Long-Term Debt Reserve Amount	8
Form 5-4 Royal Oaks Manor Calculation of Net Operating Expenses	9
Form 5-4 White Sands of La Jolla Calculation of Net Operating Expenses	10
Form 5-4 Windsor Manor Calculation of Net Operating Expenses	11
Form 5-4 Regents Point Calculation of Net Operating Expenses	12
Form 5-4 Redwood Terrace Calculation of Net Operating Expenses	13
Form 5-4 Westminster Gardens Calculation of Net Operating Expenses	14
Form 5-5 Annual Reserve Certification	15

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Southern California Presbyterian Homes:

We have audited the accompanying continuing care reserve report schedules of Southern California Presbyterian Homes and Affiliates ("SCPH"), as listed in the accompanying table of contents (the "Schedules"), as of and for the year ended December 31, 2017, and the related notes to the Schedules.

### Management's Responsibility for the Schedules

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SCPH's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Schedules referred to above present fairly, in all material respects, the continuing care reserve requirements of SCPH as of and for the year ended December 31, 2017, in accordance with the financial reporting provisions of California Health and Safety Code 1792, as described in Note 3 to the Schedules.

### **Basis of Accounting**

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

### **Restriction on Use**

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

*Deloitte & Touche LLP*

April 26, 2018

# SOUTHERN CALIFORNIA PRESBYTERIAN HOMES AND AFFILIATES

## NOTES TO CONTINUING CARE RESERVE REPORT SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

---

### 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. OPERATIONS

**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 (“Las Ventanas”), 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, 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.

Southern California Presbyterian Homes has entered into various agreements with established partners to acquire, develop, construct, and maintain low-income housing tax credit projects. As a result, Casa de la Paloma consisting of Casa de la Paloma, L.P., Casa de la Paloma, Inc., and Casa de la Paloma, L.L.C.; Andres Duarte Terrace II consisting of Andres Duarte Terrace II, L.P. and Andres Duarte Terrace II, L.L.C.; Covenant Manor consisting of Covenant Manor, L.P., Sycamore Terrace, Inc., and Covenant Manor, L.L.C.; Royal Vista Terrace Apartments consisting of Royal Vista Terrace Apartments, L.P., Sycamore Terrace, Inc., and Royal Vista Terrace Apartments, L.L.C.; Sycamore Terrace consisting of Sycamore Terrace Upland, L.P. and Sycamore Terrace, L.L.C.; 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. These communities include 658 units of subsidized housing under HUD agreements.

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

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

#### 4. LONG-TERM DEBT OBLIGATIONS

The following is a schedule of the total combined long-term debt obligations of SCPH:

Long-Term Debt Obligation	Date Incurred	Description	Facility	Balance as of December 31, 2017 (Thousands)
1	August 15, 2009	Fixed Rate Revenue Bonds—Series 2009	SCPH	\$ 66,517
2	December 1, 2015	Variable Rate Revenue Bonds—Series 2015	White Sands and Westminster Gardens	45,453
3	Various*	Mortgage and other notes payable related to tax credit projects and other affordable housing	Various	<u>65,887</u>
Total long-term debt obligations				<u>\$177,857</u>

\* Debt is associated with mortgage and other notes payable related to Palmer House, Casa de la Paloma, L.P., Andres Duarte Terrace, L.P., Covenant Manor, L.P., Royal Vista Terrace, L.P., Sycamore Terrace Upland, L.P., Westminster Court L.P., and Park Paseo L.P., which are included in SCPH's combined financial statements. Of the \$65,887,000 of associated long-term debt as of December 31, 2017, \$8,608,000 relates to Westminster Court, L.P. construction loan, of which the maximum liability exposure to Southern California Presbyterian Homes as the guarantor during construction is \$2,500,000 and \$15,066,000 relates to Park Paseo, L.P. construction loan, of which the maximum liability exposure to Southern California Presbyterian Homes as the guarantor during construction is \$5,362,500. Remaining debt is not guaranteed by SCPH.

\* \* \* \* \*

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

**FORM 5-1**

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (Columns (b) + (c) + (d))
1	December 31, 2007	\$ -	\$ -	\$ -	\$ -
2	August 15, 2009	1,285,000	4,994,488		6,279,488
3	December 6, 2013				
4*	March 27, 2013				
5*	December 17, 2014	252,458	90,865		343,323
6*	March 1, 2014				
7*	September 1, 2014				
8*	December 9, 2015				
9	December 17, 2015	<u>900,000</u>	<u>1,056,749</u>	<u>                    </u>	<u>1,956,749</u>
<b>TOTAL</b>		<u>\$2,437,458</u>	<u>\$6,142,102</u>	<u>\$ -</u>	<u>\$8,579,560</u>

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

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

<sup>4</sup> Casa de la Paloma, L.P. debt, not guaranteed by SCPH. Note principal repayment of \$102,968 and interest payment of \$370,793 in 2017.

<sup>5</sup> Debt related to Kirkwood Orange, a freestanding assisted living community whose voluntary sale to Cadence Senior Living, an unrelated party, was finalized on July 10, 2017, was paid in 2017 with \$0 outstanding as of December 31, 2017. Figures above included those due in 2017 based on established debt agreement at the time of issuance. Total principal paid in 2017 was \$3,374,250 in preparation for the sale.

<sup>6</sup> Covenant Manor L.P. debt, not guaranteed by SCPH. Note principal repayment of \$126,452 and interest payment of \$644,429 in 2017.

<sup>7</sup> Royal Vista Terrace L.P. debt, not guaranteed by SCPH. Note principal repayment of \$66,696 and interest payment of \$301,257 in 2017.

<sup>8</sup> Sycamore Terrace Upland L.P. debt, not guaranteed by SCPH. Note principal repayment of \$2,814,339, construction loan draw and repayment of \$842,000, and interest payment of \$364,157 in 2017.

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

FORM 5-2

LONG-TERM DEBT INCURRED DURING FISCAL YEAR

(Including Balloon Debt)

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

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

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

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

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

---

<b>Line</b>		<b>Total</b>
1	Total from Form 5-1 bottom of Column (e)	\$ 8,579,560
2	Total from Form 5-2 bottom of Column (e)	
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<hr/>
4	Total amount required for long-term debt reserve	<u>\$ 8,579,560</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

**ROYAL OAKS MANOR**

**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

---

<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 17,836,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	1,648,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	2,001,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	1,688,221
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>5,337,221</u>
4	Net operating expenses	<u>12,498,779</u>
5	Divide Line 4 by 365 and enter the result.	<u>34,243</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 2,568,242</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

**WHITE SANDS OF LA JOLLA**

**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

---

<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 22,716,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	3,134,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	4,221,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	4,218,306
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>11,573,306</u>
4	Net operating expenses	<u>11,142,694</u>
5	Divide Line 4 by 365 and enter the result.	<u>30,528</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 2,289,595</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

**WINDSOR MANOR**

**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

---

<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 9,168,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	122,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	578,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	4,094,982
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>4,794,982</u>
4	Net operating expenses	<u>4,373,018</u>
5	Divide Line 4 by 365 and enter the result.	<u>11,981</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 898,565</u>

See notes to continuing care reserve report schedules.

# SOUTHERN CALIFORNIA PRESBYTERIAN HOMES

## REGENTS POINT

### FORM 5-4

#### CALCULATION OF NET OPERATING EXPENSES

---

Line		Amounts
1	Total operating expenses from financial statements	<u>\$ 22,173,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	1,193,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	2,763,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	4,329,161
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>8,285,161</u>
4	Net operating expenses	<u>13,887,839</u>
5	Divide Line 4 by 365 and enter the result.	<u>38,049</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 2,853,666</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

**REDWOOD TERRACE**

**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

---

<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 15,436,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	1,555,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	6,304,569
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>7,859,569</u>
4	Net operating expenses	<u>7,576,431</u>
5	Divide Line 4 by 365 and enter the result.	<u>20,757</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 1,556,801</u>

See notes to continuing care reserve report schedules.

**SOUTHERN CALIFORNIA PRESBYTERIAN HOMES**

**WESTMINSTER GARDENS**

**FORM 5-4**

**CALCULATION OF NET OPERATING EXPENSES**

---

<b>Line</b>		<b>Amounts</b>
1	Total operating expenses from financial statements	<u>\$ 6,933,000</u>
2	Deductions:	
	a. Interest paid on long-term debt (see instructions)	264,000
	b. Credit enhancement premiums paid for long-term debt (see instructions)	
	c. Depreciation	1,160,000
	d. Amortization	
	e. Revenues received during the fiscal year for services to persons who did not have continuing care contract	1,344,123
	f. Extraordinary expenses approved by the Department	<u>                    </u>
3	Total deductions	<u>2,768,123</u>
4	Net operating expenses	<u>4,164,877</u>
5	Divide Line 4 by 365 and enter the result.	<u>11,411</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	<u>\$ 855,797</u>

See notes to continuing care reserve report schedules.

# SOUTHERN CALIFORNIA PRESBYTERIAN HOMES

## FORM 5-5 ANNUAL RESERVE CERTIFICATION

---

We have reviewed our debt service reserve and operating expense reserve requirements as of and for the period ended December 31, 2017, and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 2017 are as follows:

	Amount
[1] Debt service reserve amount	\$ 8,579,560
[2] Operating expense reserve amount	<u>11,022,666</u>
[3] Total liquid reserve amount	<u>\$ 19,602,226</u>

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

Qualifying Asset Description	Amount (Market Value at End of Quarter)	
	Debt Service Reserve	Operating Reserve
[4] Cash and cash equivalent	** \$ 2,154,000	\$ 2,154,000
[5] Investment securities	59,722,500	59,722,500
[6] Equity securities		
[7] Unused/available lines of credit		
[8] Unused/available letters of credit		
[9] Debt service reserve	10,085,000	
[10] Other:	_____	_____
(describe qualifying asset)		
Total amount of qualifying assets Listed for reserve obligation: [11]	71,961,500	[12] 61,876,500
Reserve obligation amount: [13]	<u>8,579,560</u>	[14] <u>11,022,666</u>
Surplus/(deficiency): [15]	<u>\$ 63,381,940</u>	[16] <u>\$ 50,853,834</u>

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

Signature:

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

Date:

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

See notes to continuing care reserve report schedules.