

STATE OF CALIFORNIA DEPARTMENT OF SOCIAL SERVICE

ANNUAL REPORT

CONTINUING CARE LICENSING DIVISION

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2015

HH

HANSEN HUNTER & CO. P.C.

Certified Public Accountants



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the accompanying continuing care reserve report (the "Reports") of Brethren Hillcrest Homes (the "Company") as of June 30, 2015. The Reports have been prepared by management using the report preparation provisions of California Health and Safety Code Section 1792.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the Reports in accordance with the requirements of California Health and Safety Code Section 1792; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of Reports that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Reports 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 an audit to obtain reasonable assurance about whether the reports are free from material misstatement.

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

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



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

Opinion

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of the Company as of June 30, 2015, in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

Basis of Accounting

The accompanying Reports were prepared in accordance with the report preparation provisions of 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. The Reports are not intended to be a complete presentation of the Company's assets, liabilities, revenues and expenses. 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 Company and for filing with the California Department of Social Services and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Hansen Hunter & Co. P.C.

October 27, 2015

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:
06/30/2015

PROVIDER(S): BRETHREN HILLCREST HOMES

CCRC(S): HILLCREST

CONTACT PERSON: BARBARA FELICIANO, CFO

TELEPHONE NO.: (909) 593-4917 EMAIL: BFELICIANO@HILLCRESTHOMES.ORG



A complete annual report must consist of 3 copies of the following:

- Annual Report Checklist.
Annual Provider Fee in the amount of: \$ 12,850
If applicable, late fee in the amount of: \$
Certification by the provider's Chief Executive Officer that:
The reports are correct to the best of his/her knowledge.
Each continuing care contract form in use or offered to new residents has been approved by the Department.
The provider is maintaining the required liquid reserves and, when applicable, the required refund reserve.
Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for each community.
Provider's Refund Reserve Calculation(s) - Form 9-1 and/or Form 9-2, if applicable.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

PART 1
ANNUAL PROVIDER FEES

**FORM 1-1
RESIDENT POPULATION**

| <u>Line</u> | Continuing Care Residents | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 302 |
| [2] | Number at end of fiscal year | 330 |
| [3] | Total Lines 1 and 2 | 632 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5 | x.50 |
| [5] | Mean number of continuing care residents | 316 |
| All Residents | | |
| [6] | Number at beginning fiscal year | 396 |
| [7] | Number at end of fiscal year | 393 |
| [8] | Total Lines 6 and 7 | 789 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10 | x.50 |
| [10] | Mean number of <i>all</i> residents | 395 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | 80.00% |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | | <u>TOTAL</u> |
|-------------|---|--------------------|
| [1] | Total Operating Expenses (including depreciation and debt service – interest only) | \$21,186,278 |
| [a] | Depreciation | \$3,191,670 |
| [b] | Debt Service (Interest Only) | \$1,931,886 |
| [2] | Subtotal (add Line 1a and 1b) | \$5,123,556 |
| [3] | Subtract Line 2 from Line 1 and enter result | \$16,062,722 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | 80.00% |
| [5] | Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4) | \$12,850,178 |
| [6] | Total Amount Due (multiply Line 5 by .001) | x .001 \$12,850 |

PROVIDER: BRETHREN HILLCREST HOMES
COMMUNITY: HILLCREST

PART 2
CERTIFICATION BY OFFICER

October 27, 2015

State of California
Continuing Care Contracts Branch
California Department of Social Services
744 P. Street, M.S. 10-90
Sacramento, California 95814

This Certification Notice is submitted by Brethren Hillcrest Homes; to The State of California, Community Care Licensing Division, Continuing Care Contracts Branch, pursuant to the requirements of the Continuing Care Contract Annual Reserve Report, for the year ended June 30, 2015. Our Certificate of Authority is #069.

To the best of my knowledge, after a review of the enclosed information I certify the following to be true, complete and correct:

1. The Annual Report is correct.
2. Each continuing care contract form in use or offered for new residents has been approved by the Department.
3. The required reserves are being maintained.

Authorized Representative

Matthew Neeley
President and Chief Executive Officer

PART 3
EVIDENCE OF FIDELITY BOND



CERTIFICATE OF PROPERTY INSURANCE

JPARSONS

DATE (MM/DD/YYYY)

6/24/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

If this certificate is being prepared for a party who has an insurable interest in the property, do not use this form. Use ACORD 27 or ACORD 28.

| | | | |
|--|---|--------------------------------------|--------------|
| PRODUCER Lewis & Assoc. Ins. Brokers, Inc. 700 W. Center Avenue Visalia, CA 93291 | CONTACT NAME: Julia Parsons, CIC, CPIW, CISR | | |
| | PHONE (A/C, No, Ext): (559) 733-7272 | FAX (A/C, No): (559) 733-5612 | |
| | E-MAIL ADDRESS: Juliap@since1927.com | | |
| | PRODUCER CUSTOMER ID: BRETHIL-01 | | |
| INSURED Brethren Hillcrest Homes 2705 Mountain View Drive La Verne, CA 91750 | INSURER(S) AFFORDING COVERAGE | | NAIC # |
| | INSURER A : GuideOne Insurance | | 15032 |
| | INSURER B : | | |
| | INSURER C : | | |
| | INSURER D : | | |
| | INSURER E : | | |
| INSURER F : | | | |

COVERAGES

CERTIFICATE NUMBER:

REVISION NUMBER:

LOCATION OF PREMISES / DESCRIPTION OF PROPERTY (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
Certificate of Insurance to verify fidelity coverage in compliance with Health Section 1789.9.

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.


| INSR LTR | TYPE OF INSURANCE | POLICY NUMBER | POLICY EFFECTIVE DATE (MM/DD/YYYY) | POLICY EXPIRATION DATE (MM/DD/YYYY) | COVERED PROPERTY | LIMITS |
|----------|---|----------------|------------------------------------|-------------------------------------|---|------------|
| | <input type="checkbox"/> PROPERTY | | | | BUILDING | \$ |
| | CAUSES OF LOSS | | | | PERSONAL PROPERTY | \$ |
| | <input type="checkbox"/> BASIC | | | | BUSINESS INCOME | \$ |
| | <input type="checkbox"/> BROAD | | | | EXTRA EXPENSE | \$ |
| | <input type="checkbox"/> SPECIAL | | | | RENTAL VALUE | \$ |
| | <input type="checkbox"/> EARTHQUAKE | | | | BLANKET BUILDING | \$ |
| | <input type="checkbox"/> WIND | | | | BLANKET PERS PROP | \$ |
| | <input type="checkbox"/> FLOOD | | | | BLANKET BLDG & PP | \$ |
| | | | | | | \$ |
| | | | | | | \$ |
| | <input type="checkbox"/> INLAND MARINE | TYPE OF POLICY | | | | \$ |
| | CAUSES OF LOSS | | | | | \$ |
| | <input type="checkbox"/> NAMED PERILS | POLICY NUMBER | | | | \$ |
| | | | | | | \$ |
| A | <input checked="" type="checkbox"/> CRIME | | | | <input checked="" type="checkbox"/> Fidelity Limit | \$ 250,000 |
| | TYPE OF POLICY | | | | <input checked="" type="checkbox"/> Fidelity Deductible | \$ 250 |
| | Fidelity | 1415498 | 07/01/2014 | 07/01/2015 | | \$ |
| | <input type="checkbox"/> BOILER & MACHINERY / EQUIPMENT BREAKDOWN | | | | | \$ |
| | | | | | | \$ |
| | | | | | | \$ |

SPECIAL CONDITIONS / OTHER COVERAGES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

NOTE: 10 days notice of cancellation applies in the event of cancellation for non-payment of premium. All other reasons is 30 days notice.

CERTIFICATE HOLDER

CANCELLATION

| | |
|---|--|
| Department of Social Services Attn: Allison Gerrior 744 P St., MS 10-90 Sacramento, CA 95814 | SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. |
| | AUTHORIZED REPRESENTATIVE  J. Parsons |

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PART 4
AUDITED FINANCIAL STATEMENTS



HILLCREST
A REMARKABLE RETIREMENT COMMUNITY®

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

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HANSEN HUNTER & CO. P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the accompanying financial statements of Brethren Hillcrest Homes (a California not-for-profit corporation), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



HANSEN HUNTER & CO. P.C.

Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brethren Hillcrest Homes, as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hansen Hunter & Co. P.C.

October 22, 2015

BRETHREN HILLCREST HOMES
STATEMENTS OF FINANCIAL POSITION

ASSETS

| | June 30, | |
|------------------------------------|----------------------|----------------------|
| | 2015 | 2014 |
| Current assets | | |
| Cash and cash equivalents | \$ 8,124,358 | \$ 6,917,512 |
| Accounts receivable, net | 916,954 | 599,452 |
| Entrance fees receivable | 788,101 | 1,112,023 |
| Interest receivable | 17,388 | 4,454 |
| Grants receivable | - | 113,724 |
| Inventory | 42,863 | 41,460 |
| Prepaid expenses and deposits | 247,822 | 204,170 |
| Prepaid bond issue costs | - | 51,344 |
| | 10,137,486 | 9,044,139 |
| Non-current assets | | |
| Assets whose use is limited | 16,551,478 | 15,522,981 |
| Investments | 340,363 | 293,274 |
| Bond issue costs, net | 446,765 | 1,497,170 |
| Property, plant and equipment, net | 67,857,617 | 68,072,468 |
| | 67,857,617 | 68,072,468 |
| Total assets | \$ 95,333,709 | \$ 94,430,032 |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES**STATEMENTS OF FINANCIAL POSITION**

(Continued)

LIABILITIES AND NET ASSETS

| | June 30, | |
|---|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Current liabilities | | |
| Accounts payable | \$ 640,616 | \$ 513,228 |
| Accrued expenses | 1,123,180 | 1,107,003 |
| Refundable deposits | 27,420 | 25,470 |
| Prepaid resident service fees | 190,700 | 216,606 |
| Current portion of long-term debt | 1,115,000 | 1,045,000 |
| Entrance fee refund payable | - | 399,268 |
| Interest payable | 238,800 | 898,025 |
| | <u>3,335,716</u> | <u>4,204,600</u> |
| Total current liabilities | | |
| Non-current liabilities | | |
| Long-term debt | 37,723,791 | 39,240,000 |
| Other long-term liability | 226,042 | 242,188 |
| Annuities payable | 1,320,034 | 1,353,728 |
| Repayable entrance fees | 1,221,177 | 1,340,962 |
| Deferred revenue from advance fees | 27,439,475 | 24,792,848 |
| | <u>71,266,235</u> | <u>71,174,326</u> |
| Total liabilities | | |
| Net assets | | |
| Unrestricted | 14,870,511 | 13,926,268 |
| Temporarily restricted | 2,407,148 | 2,470,469 |
| Permanently restricted | 6,789,815 | 6,858,969 |
| | <u>24,067,474</u> | <u>23,255,706</u> |
| Total net assets | | |
| Total liabilities and net assets | <u>\$ 95,333,709</u> | <u>\$ 94,430,032</u> |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF ACTIVITIES

| | Years Ended June 30, | |
|---------------------------------------|----------------------|-------------------|
| | 2015 | 2014 |
| Revenues | | |
| Residential Living | \$ 10,708,678 | \$ 10,153,010 |
| Birch Court | 1,929,361 | 1,859,725 |
| Woods Assisted Living | 385,960 | 612,715 |
| Southwoods Lodge | 1,343,472 | 1,270,317 |
| Woods Health Services | 5,916,087 | 5,818,185 |
| Telephone system | 144,949 | 140,965 |
| Rentals | 80,068 | 91,370 |
| Other revenue | 1,381,188 | 1,284,340 |
| Donations | 51,284 | 215,171 |
| Investment income, net | 172,297 | 150,297 |
| Net realized gains on investments | 121,982 | 115,333 |
| Net assets released from restrictions | 483,790 | 469,826 |
| Total revenues | 22,719,116 | 22,181,254 |
| Expenses | | |
| Residential Living | 7,584,126 | 7,144,882 |
| Birch Court | 505,294 | 499,595 |
| Woods Assisted Living | 209,093 | 216,501 |
| Southwoods Lodge | 726,716 | 777,081 |
| Woods Health Services | 3,568,029 | 3,556,074 |
| Marketing and development | 1,099,044 | 1,084,073 |
| Management and general | 1,689,363 | 1,471,079 |
| Interest | 1,931,886 | 2,468,565 |
| Depreciation | 3,191,670 | 3,010,556 |
| Amortization | 19,579 | 80,928 |
| Insurance | 367,459 | 352,252 |
| Telephone system | 176,396 | 189,897 |
| Bad debt expense | - | 38,840 |
| Inter-fund interest | 117,623 | 117,623 |
| Total expenses | 21,186,278 | 21,007,946 |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES**STATEMENTS OF ACTIVITIES**

(Continued)

| | Years Ended June 30, | |
|--|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Change in unrestricted net assets from operations | \$ 1,532,838 | \$ 1,173,308 |
| Unrealized (loss) gain on investments | (233,450) | 463,210 |
| Unrealized gain (loss) on land investment | 1,323,000 | (650,000) |
| Loss on bond refinance | <u>(1,678,145)</u> | <u>-</u> |
| Change in unrestricted net assets | <u>944,243</u> | <u>986,518</u> |
| Changes in temporarily restricted net assets: | | |
| Contributions | 377,792 | 316,716 |
| Interest income | 117,623 | 117,623 |
| Present value adjustment of gift annuities payable | (74,946) | (65,556) |
| Net assets released from restriction | <u>(483,790)</u> | <u>(469,826)</u> |
| Change in temporarily restricted net assets | <u>(63,321)</u> | <u>(101,043)</u> |
| Changes in permanently restricted net assets: | | |
| Contributions | 5,597 | 36,082 |
| Investment income | 195 | 120 |
| Present value adjustment of gift annuities payable | <u>(74,946)</u> | <u>(65,556)</u> |
| Change in permanently restricted net assets | <u>(69,154)</u> | <u>(29,354)</u> |
| Change in total net assets | <u>811,768</u> | <u>856,121</u> |
| Net assets, beginning of year | <u>23,255,706</u> | <u>22,399,585</u> |
| Net assets, end of year | <u>\$ 24,067,474</u> | <u>\$ 23,255,706</u> |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES**STATEMENTS OF CASH FLOWS**

| | Years Ended June 30, | |
|---|----------------------|---------------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Cash received from residents | \$ 17,109,225 | \$ 16,940,170 |
| Non-refundable entrance fees received | 7,637,992 | 6,458,848 |
| Contributions | 46,736 | 159,746 |
| Investment income received | 281,540 | 268,645 |
| Interest expense paid | (2,651,371) | (2,490,206) |
| Cash paid to suppliers and employees | <u>(15,751,715)</u> | <u>(15,227,714)</u> |
| Net cash provided by operating activities | <u>6,672,407</u> | <u>6,109,489</u> |
| Cash flows from investing activities | | |
| Capital expenditures | (3,018,045) | (4,126,005) |
| Change in assets whose use is limited | 18,291 | (253,810) |
| Change in investments | <u>(4,327)</u> | <u>(3,875)</u> |
| Net cash used in investing activities | <u>(3,004,081)</u> | <u>(4,383,690)</u> |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for: | | |
| Investment in endowment | 5,597 | 36,082 |
| Investment in temporarily restricted assets | 491,516 | 202,992 |
| Investment subject to annuity agreements | 28,973 | 56,924 |
| Other financing activities: | | |
| Bond fees paid | (415,000) | (51,344) |
| Repayable entrance fees received | - | 165,374 |
| Entrance fees repaid | (765,512) | - |
| Bond principal payments | (930,000) | (980,000) |
| Proceeds from Series 2014 bonds | 39,817,382 | - |
| Payoff of Series 2003 bonds | (40,285,000) | - |
| Prepayment penalty | (201,425) | - |
| Payments on annuity obligations | <u>(208,011)</u> | <u>(206,422)</u> |
| Net cash used in financing activities | <u>(2,461,480)</u> | <u>(776,394)</u> |
| Net change in cash and cash equivalents | 1,206,846 | 949,405 |
| Cash and cash equivalents, beginning of year | <u>6,917,512</u> | <u>5,968,107</u> |
| Cash and cash equivalents, end of year | <u>\$ 8,124,358</u> | <u>\$ 6,917,512</u> |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

STATEMENTS OF CASH FLOWS

(Continued)

| | Years Ended June 30, | |
|---|----------------------|---------------------|
| | 2015 | 2014 |
| Change in net assets | \$ 811,768 | \$ 856,121 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Amortization of entrance fees | (4,420,984) | (4,256,774) |
| Amortization of gift annuities | 149,892 | 131,112 |
| Depreciation | 3,191,670 | 3,010,556 |
| Amortization of bond issue costs | 19,579 | 80,928 |
| Amortization of other long-term liability | (16,146) | (16,146) |
| Amortization of bond premium | (48,591) | - |
| Restricted contributions | (383,389) | (352,798) |
| Net unrealized (gain) loss on investments | (1,089,550) | 186,790 |
| Loss on asset disposal | 41,226 | - |
| Other change in annuities payable | (4,548) | (55,425) |
| Non-refundable entrance fees received | 7,637,992 | 6,458,848 |
| Prepayment penalty | 201,425 | - |
| Loss on write off of bond issue costs | 1,497,170 | - |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (383,108) | 105,815 |
| Interest receivable | (12,934) | 2,895 |
| Inventory | (1,403) | 4,463 |
| Prepaid expenses and deposits | (43,652) | (98,941) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 127,388 | 79,800 |
| Accrued expenses | 16,177 | 76,133 |
| Prepaid residential fees | 39,700 | (84,512) |
| Interest payable | (659,225) | (21,641) |
| Refundable deposits | 1,950 | 2,265 |
| Net cash provided by operating activities | \$ 6,672,407 | \$ 6,109,489 |

The accompanying notes are an integral part of these financial statements.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS:

Brethren Hillcrest Homes (Hillcrest) was incorporated in 1947 as a California tax-exempt not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code, to operate a continuing care retirement community. Accordingly, contributions to Hillcrest qualify as deductible charitable contributions for income tax purposes. Residents of the retirement community receive housing and related services, including health care, based on individual contracts which may include an entrance fee, monthly fee or a daily fee for services provided. The facility, which is located in La Verne, California, services approximately 400 residents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Hillcrest considers all highly liquid instruments, those with a maturity of three months or less at the time of purchase, to be cash equivalents, excluding assets whose use is limited. The carrying amount reported in the statements of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these financial instruments.

Accounts Receivable - Bad debts are accounted for by the allowance method. Hillcrest estimates the allowance based upon its experience. The allowance for doubtful accounts was \$62,739 and \$80,853 at June 30, 2015 and 2014, respectively. Accounts receivable over 90 days old were \$212,425 and \$224,850 at June 30, 2015 and 2014, respectively.

Inventory Valuation - Inventory, which primarily consists of dietary, housekeeping and office supplies, is recorded at cost based on the first-in/first-out method.

Bond Issue Costs – As of June 30, 2014, Hillcrest had prepaid bond issue costs in relation to the issuance of new bonds. The bonds were issued during the year ended June 30, 2015. As of June 30, 2015, the prepaid bond issue costs are included in bond issue costs, net on the statements of financial position. All costs related to the issuance of the bonds will be amortized over the term of the bonds using the straight-line method.

Assets Whose Use is Limited - Assets whose use is limited consist of cash, money market funds, land and other investments. The use of the Revenue Certificates of Participation Bonds (Series 2014) assets are legally restricted per the Revenue Certificates of Participation. These assets are reported at fair market value.

Investments - Hillcrest considers its investments in marketable securities as available for sale, as they are not intended to be held to maturity, nor are they considered operating assets, and as such are carried at fair value. Donated investments are reported at fair value at the date of gift.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Investments (continued) - Realized gains and losses on dispositions are based on the sale proceeds versus the carrying value of the securities sold. Unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets.

Investment income is recorded net of related fees of \$42,608 and \$46,886 for the years ended June 30, 2015 and 2014, respectively.

Amortization of Entrance Fees - Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by the Revenue Recognition Topic of the FASB Accounting Standards Codification. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.6 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown on the balance sheet as deferred revenue. Current year activity of the unamortized portion of entrance fees is summarized as follows:

| | Years Ended June 30, | |
|---|----------------------|----------------------|
| | 2015 | 2014 |
| Balance, beginning of year | \$ 24,792,848 | \$ 22,164,098 |
| Sale of contracts | 7,314,070 | 6,868,888 |
| Refunds | (246,459) | - |
| Amortization of continuing care contracts | <u>(4,420,984)</u> | <u>(4,240,138)</u> |
| Balance, end of year | <u>\$ 27,439,475</u> | <u>\$ 24,792,848</u> |

Non-Refundable Fees - Hillcrest is obligated to refund a portion of entrance fees to residents who withdraw before fifty months. If the resident withdraws within three months, the entire entrance fee is refunded. Contracts are refundable over fifty months, with the refundable amount reduced by 2.00% per month, less a 4% termination fee.

Repayable Contracts - Hillcrest has seven contracts under a repayable entrance fee program that are entitled to a refund of 50% or 90% of the total entrance fee, less a 4% termination fee, upon withdrawal or death after the unit is reoccupied.

The total liability for the repayable entrance fee contracts was \$1,221,177 and \$1,340,962 at June 30, 2015 and 2014, respectively.

Net Asset Classes - Hillcrest classifies its net assets into three categories: unrestricted, temporarily restricted and permanently restricted.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Net Asset Classes (continued) - Unrestricted net assets generally result from revenues from providing services, receiving unrestricted contributions and receiving dividend and interest income, less expenses incurred in providing services, raising contributions, and performing administrative functions. The only limits on the use of unrestricted net assets are the broad limits resulting from Hillcrest's mission as defined in its articles of incorporation and bylaws.

Temporarily restricted net assets are limited by donors for specific purposes or the lapse of specified time periods.

Permanently restricted net assets have been restricted by donors to be maintained by Hillcrest in perpetuity.

Board Designated Amounts - Directors have designated certain unrestricted amounts for specific purposes. Amounts designated for operations and capital purposes were \$1,680,388 and \$648,090 at June 30, 2015 and 2014, respectively. Amounts designated for benevolent purposes were \$4,056,229 and \$4,081,795 at June 30, 2015 and 2014, respectively. Amounts designated for repayment of restricted net asset loans were \$889,915 and \$574,484 at June 30, 2015 and 2014, respectively. Inasmuch as these amounts have no donor restrictions, the Board may rescind the designation of these amounts at any time.

Net Patient Service Revenue - Hillcrest has agreements with third-party payors that provide for payments to Hillcrest at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net resident revenues from Medicare were \$219,221 and \$274,852 for the years ended June 30, 2015 and 2014, respectively. Net resident revenues from Medi-Cal were \$1,867,648 and \$1,250,746 for the years ended June 30, 2015 and 2014, respectively. Upon audit by the State or Medicare, there is a possibility of adjustment to costs reimbursed.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The 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 statement of operations as net assets released from restrictions.

Donated Services - Significant amounts of time from a number of people have been donated to Hillcrest. The accompanying financial statements do not reflect the value of those donated services as no reliable basis exists for reasonably determining the amounts involved.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Obligation to Provide Future Services - Annually, Hillcrest calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to expense. For the years ended June 30, 2015 and 2014, the calculation resulted in no future service liability. The discount rate used was 6%.

Gift Annuities - Hillcrest sponsors a charitable gift annuity program as part of its fund raising activities. All amounts received in exchange for these annuity contracts are segregated for accounting and investment purposes. Management has interpreted the agreements to require investment of the entire contract amount until the annuitant dies. At the time of death of the annuitant, the residuum is distributed to the designated net asset class as specified by the annuitant at the time the agreement was issued. If no designation was made, the residuum is distributed to the unrestricted net asset class.

Gift annuity contracts are a general liability of Hillcrest and are not limited to the segregated assets. The actuarially determined liability is calculated annually and adjusted accordingly. The discount rate and actuarial assumptions used in calculating the annuity obligation are those provided in Internal Revenue Service guidelines and actuarial tables. As a qualifying not-for-profit corporation, Hillcrest is authorized by the State of California to issue gift annuity contracts and is accordingly subject to applicable State laws and regulations.

Financial Instruments - Hillcrest's financial instruments consist of accounts receivable, entrance fees receivable, interest receivable, deposits, assets whose use is limited, investments, accounts payable, accrued expenses, refundable deposits, interest payable, long-term debt and annuities payable. It is management's opinion that Hillcrest is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

Concentration of Credit Risk - Hillcrest is a continuing care retirement community whose only campus is located in La Verne, California. Hillcrest charges monthly fees, on an unsecured basis, to its residents.

Hillcrest has reserve funds, comprised of cash and equivalents and investments, located in various institutions. At times, the amount on deposit in some of the institutions exceeds the federally-insured limit.

Advertising - Advertising and marketing costs are charged to expense at the time they are incurred. Total advertising expense was \$226,997 and \$207,952 for the years ended June 30, 2015 and 2014, respectively.

Functional Expenses - The expenses of Hillcrest are presented according to their functional classification in the accompanying Statements of Activities. Fundraising expense was \$261,013 and \$287,647 for the years ended June 30, 2015 and 2014, respectively.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Income Taxes – Hillcrest is tax-exempt organizations pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and applicable state law; therefore, no provision for income taxes has been made in the accompanying financial statements.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order for them to conform to the current year's presentation.

NOTE 3 – ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited are recorded at fair market value and consist of the following:

| | June 30, | |
|--------------------------------------|---------------|---------------|
| | 2015 | 2014 |
| <i><u>Funds Held by Trustee</u></i> | | |
| Reserve fund | \$ 2,934,100 | \$ 3,670,592 |
| Revenue/Sinking funds | 288,138 | 1,155,624 |
| | 3,222,238 | 4,826,216 |
| <i><u>Board Designated Funds</u></i> | | |
| Benevolence | 4,056,229 | 4,081,795 |
| Operating reserve | 1,680,388 | 648,090 |
| Restoration fund | 889,915 | 574,484 |
| | 6,626,532 | 5,304,369 |
| <i><u>Endowment Funds</u></i> | | |
| Endowment funds | 2,726,637 | 1,882,686 |
| <i><u>Gift Annuities</u></i> | | |
| Gift annuities funds | 2,031,926 | 2,178,084 |
| <i><u>Specific Purpose</u></i> | | |
| Specific purposes funds | 1,913,336 | 1,300,817 |
| <i><u>Resident Association</u></i> | | |
| Resident association funds | 30,809 | 30,809 |
| | \$ 16,551,478 | \$ 15,522,981 |

The Board Designated Funds listed above are fully funded and will be used to help residents at Brethren Hillcrest Homes who need assistance to afford their monthly fees if approved by the Benevolence Committee.

There were no expenditures made from the Board Designated Benevolence funds during the year ended June 30, 2015.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 3 – ASSETS WHOSE USE IS LIMITED (continued):

The assets are invested as follows:

| | June 30, | |
|--------------------------------------|---------------|---------------|
| | 2015 | 2014 |
| <i><u>Funds Held by Trustee</u></i> | | |
| Cash and money markets | \$ 3,222,238 | \$ 4,826,216 |
| <i><u>Board Designated Funds</u></i> | | |
| Cash and money markets | 577,780 | 291,903 |
| Fixed income securities | 1,351,612 | 2,693,933 |
| Equity securities | 4,697,140 | 2,318,533 |
| | 6,626,532 | 5,304,369 |
| <i><u>Endowment Funds</u></i> | | |
| Cash and money markets | 68,575 | 67,330 |
| Land | 2,658,062 | 1,815,356 |
| | 2,726,637 | 1,882,686 |
| <i><u>Gift Annuities</u></i> | | |
| Cash and money markets | 14,910 | 82,153 |
| Fixed income securities | 1,044,011 | 1,154,064 |
| Equity securities | 973,005 | 941,867 |
| | 2,031,926 | 2,178,084 |
| <i><u>Specific Purpose</u></i> | | |
| Cash and money markets | 398,398 | 266,173 |
| Land | 1,514,938 | 1,034,644 |
| | 1,913,336 | 1,300,817 |
| <i><u>Resident Association</u></i> | | |
| Cash and money markets | 30,809 | 30,809 |
| | \$ 16,551,478 | \$ 15,522,981 |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – BOND ISSUE COSTS:

Bond issue costs consist of the following:

| | June 30, | |
|--------------------------|------------|--------------|
| | 2015 | 2014 |
| Bond issue costs | \$ 466,344 | \$ 2,427,844 |
| Accumulated amortization | (19,579) | (930,674) |
| | \$ 446,765 | \$ 1,497,170 |

During the year ended June 30, 2015, Hillcrest refinanced its bonds with a new bond issue. Unamortized costs associated with the issuance of the 2003 bonds, in the amount of \$1,497,170, were written off. This is included in loss on bond refinance on the statements of activities for the year ended June 30, 2015. Costs related to the refinance in the amount of \$415,000 and \$51,344 were incurred during the years ended June 30, 2015 and 2014, respectively. Future amortization of bond issue costs is as follows:

| Fiscal Year Ended June 30, | Amount |
|----------------------------|------------|
| 2016 | \$ 21,359 |
| 2017 | 21,359 |
| 2018 | 21,359 |
| 2019 | 21,359 |
| 2020 | 21,359 |
| Thereafter | 339,970 |
| Total | \$ 446,765 |

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT:

Acquisitions greater than \$500 and with an expected life of one year or more are capitalized at cost. When property is donated, it is valued at fair value at the date of the gift. Interest paid during the construction period of an asset is capitalized.

Depreciation is computed on the straight-line basis over estimated useful lives as follows:

| | |
|----------------------------|----------------------------|
| Buildings and improvements | Principally 25 to 40 years |
| Equipment and vehicles | Principally 3 to 20 years |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (continued):

Property, plant and equipment are summarized as follows:

| | June 30, | |
|---|----------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Land | \$ 1,883,973 | \$ 1,630,129 |
| Land improvements | 717,758 | 648,600 |
| Master plan | 11,703 | 398,544 |
| Buildings and improvements | 97,024,423 | 98,001,160 |
| Furniture, fixtures, equipment and vehicles | 4,523,598 | 4,779,424 |
| | <u>104,161,455</u> | <u>105,457,857</u> |
| Less: accumulated depreciation | <u>(37,703,521)</u> | <u>(37,567,934)</u> |
| Subtotal | 66,457,934 | 67,889,923 |
| Construction-in-progress | 1,399,683 | 182,545 |
| Total | <u>\$ 67,857,617</u> | <u>\$ 68,072,468</u> |

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

Hillcrest has adopted the requirements of the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification. This Topic defines fair value and requires enhanced disclosure about assets and liabilities carried at fair value. These additional disclosures are required only for financial assets and liabilities measured at fair value and for nonfinancial assets and liabilities measured at fair value on a recurring basis.

This Topic requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. It also specifies that transaction costs should not be considered in the determination of fair value. According to this Topic, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

This Topic establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by this Topic are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs with models or other valuation methodologies.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers’ needs.

As required by this Topic, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value of financial assets and liabilities measured on a recurring basis as of June 30 are as follows:

| | Fair Value Measurements at Reporting Date Using: | | | |
|-----------------------------------|---|---|---|--|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2015</u> | | | | |
| <u>Assets:</u> | | | | |
| Investments | | | | |
| Insurance investments | \$ 340,363 | \$ - | \$ - | \$ 340,363 |
| Total investments | <u>340,363</u> | <u>-</u> | <u>-</u> | <u>340,363</u> |
| Assets whose use is limited | | | | |
| Cash and money markets | 4,312,710 | 4,312,710 | - | - |
| Large cap equities | 2,244,607 | 2,244,607 | - | - |
| Mid cap equities | 151,364 | 151,364 | - | - |
| Small cap equities | 115,962 | 115,962 | - | - |
| International equities | 2,065,551 | 2,065,551 | - | - |
| Other equities | 62,335 | 62,335 | - | - |
| Fixed income – | | | | |
| corporate/government | 2,395,623 | 2,395,623 | - | - |
| Real estate funds | 174,716 | 174,716 | - | - |
| Hedge funds | 708,000 | 708,000 | - | - |
| Commodities | 147,610 | 147,610 | - | - |
| Land investment | <u>4,173,000</u> | <u>-</u> | <u>4,173,000</u> | <u>-</u> |
| Total assets whose use is limited | <u>16,551,478</u> | <u>12,378,478</u> | <u>4,173,000</u> | <u>-</u> |
| Total assets | <u>\$ 16,891,841</u> | <u>\$ 12,378,478</u> | <u>\$ 4,173,000</u> | <u>\$ 340,363</u> |
| <u>Liabilities:</u> | | | | |
| Annuity payment liability | \$ 1,320,034 | \$ - | \$ - | \$ 1,320,034 |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

| | Fair Value Measurements at Reporting Date Using: | | | |
|-----------------------------------|---|---|--|--|
| | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| <u>June 30, 2014</u> | | | | |
| <u>Assets:</u> | | | | |
| Investments | | | | |
| Insurance investments | \$ 293,274 | \$ - | \$ - | \$ 293,274 |
| Total investments | <u>293,274</u> | <u>-</u> | <u>-</u> | <u>293,274</u> |
| Assets whose use is limited | | | | |
| Cash and money markets | 5,564,584 | 5,564,584 | - | - |
| Large cap equities | 1,559,294 | 1,559,294 | - | - |
| Mid cap equities | 231,442 | 231,442 | - | - |
| Small cap equities | 200,992 | 200,992 | - | - |
| International equities | 1,128,108 | 1,128,108 | - | - |
| Other equities | 2,245 | 2,245 | - | - |
| Fixed income – | | | | |
| corporate/government | 3,847,997 | 3,847,997 | - | - |
| Real estate funds | 85,987 | 85,987 | - | - |
| Commodities | 52,332 | 52,332 | - | - |
| Land investment | 2,850,000 | - | 2,850,000 | - |
| Total assets whose use is limited | <u>15,522,981</u> | <u>12,672,981</u> | <u>2,850,000</u> | <u>-</u> |
| Total assets | \$ <u>15,816,255</u> | \$ <u>12,672,981</u> | \$ <u>2,850,000</u> | \$ <u>293,274</u> |
| <u>Liabilities:</u> | | | | |
| Annuity payment liability | \$ <u>1,353,728</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>1,353,728</u> |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Assets measured at fair value on a recurring basis using significant unobservable inputs, Level 3 measurements, consist of the following:

| | <u>Investments</u> |
|---------------------------------|--------------------------|
| Balance at June 30, 2013 | \$ 252,160 |
| Unrealized gains on investments | <u>41,114</u> |
| Balance at June 30, 2014 | 293,274 |
| Unrealized gains on investments | <u>47,089</u> |
| Balance at June 30, 2015 | <u><u>\$ 340,363</u></u> |

Liabilities measured at fair value on a recurring basis using significant unobservable inputs, Level 3 measurements, consist of the following:

| | <u>Annuity payment liability</u> |
|--|----------------------------------|
| Balance at June 30, 2013 | \$ 1,427,539 |
| New annuities | 56,924 |
| Payments made to annuitants | (206,422) |
| Revenue on expired contracts | (55,425) |
| Net change in present value of annuities | <u>131,112</u> |
| Balance at June 30, 2014 | 1,353,728 |
| New annuities | 28,973 |
| Payments made to annuitants | (208,011) |
| Revenue on expired contracts | (4,548) |
| Net change in present value of annuities | <u>149,892</u> |
| Balance at June 30, 2015 | <u><u>\$ 1,320,034</u></u> |

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets valued using Level 2 inputs are based on appraisals. Fair value for Level 3 assets is determined by the estimated equity value at year end. The fair value for Level 3 liabilities is determined by calculating the present value of cash flows expected to be paid out, using various discount rates and life expectancy tables.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 7 – LONG TERM BOND DEBT:

On January 1, 2003, Hillcrest issued \$47,000,000 Revenue Certificates of Participation bonds. The Certificates were payable beginning February 15, 2007, with annual payments scheduled through February 15, 2033. Interest was payable semi-annually on August 15 and February 15, at interest rates ranging from 3.125% to 6.625%. The debt consisted of six Serial Certificates which matured annually from February 15, 2007 to February 15, 2012. The interest rate was different for each Serial Certificate and ranged from 3.125% to 4.350%. There were two Term Certificates, one at the interest rate of 6.625% and one at 5.600% maturing February 15, 2025 and February 15, 2033, respectively. Each of the Term Certificates required annual prepayments from sinking fund accounts starting February 15, 2013 through 2025 and from February 15, 2025 through 2033, respectively.

On July 10, 2014, Hillcrest refinanced the Certificates with new bonds (Series 2014) in the amount of \$38,660,000. The Series 2014 bonds are payable beginning May 15, 2015, with annual payments scheduled through May 15, 2036. Principal payments range from \$930,000 to \$2,790,000. Interest is payable beginning November 15, 2014, and semi-annually thereafter on May 15 and November 15, at interest rates ranging from 2% to 5%. The following table sets forth the principal amounts required to be made available at the principal payment date, or by mandatory prepayment, with respect to the Series 2014 bonds:

| Years ending | Interest Rates | Principal |
|-----------------|----------------|----------------------|
| <u>June 30:</u> | | |
| 2016 | 3% | \$ 1,115,000 |
| 2017 | 3% | 1,150,000 |
| 2018 | 4% | 1,185,000 |
| 2019 | 4% | 1,230,000 |
| 2020 | 5% | 1,280,000 |
| Thereafter | 5% | <u>32,878,791</u> |
| | | \$ <u>38,838,791</u> |

The 2014 Certificates are secured by a pledge of Hillcrest's gross revenues, and further secured by a first deed of trust on Hillcrest's real property, rents and leases, personal property and fixtures.

Hillcrest has secured an investment grade rating from Fitch Ratings, Inc. of "BBB-" for the 2014 Certificates. The sale agreement requires Hillcrest to comply with various covenants, conditions and restrictions.

Hillcrest has two covenants connected to its 2014 bond issue. A Debt Service Coverage Ratio of 1.20 is required at the end of each fiscal year. This covenant has been met.

The second covenant, a Days Cash On Hand covenant, requires 150 days of Cash on Hand each June 30 and December 31. This covenant has been met.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 8 – OTHER LONG-TERM LIABILITY:

On June 8, 1998, Hillcrest entered into an agreement with the City of La Verne involving the cost of certain roadway improvements made to “B” Street, which runs along the eastern side of Hillcrest. The City of La Verne contributed \$82,117 of improvement costs to Hillcrest. Rather than requiring Hillcrest to pay cash to the City, the parties agreed that Hillcrest would set aside six residential units for “very low-income housing” for a term of 15 years per unit or a combination of very low-income housing and three lower-income housing units for every two very low-income housing units not occupied. Hillcrest has recorded the cost in fixed assets, and established a corresponding liability which is amortized over the 15 year term.

During the year ended June 30, 2008, Hillcrest and the City of La Verne agreed to extend this agreement. The City contributed an additional \$296,000 for improvements to Benton Street, and Hillcrest has set aside the agreed-upon units for an additional 15 years beyond the original agreement.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

| | June 30, | |
|--|--------------|--------------|
| | 2015 | 2014 |
| Fine Arts, Video, Naming | \$ 50,041 | \$ 58,745 |
| Minnie A. Trout Health Services Education | 2,419 | 9,261 |
| C.O.B. Ministers and Missionaries | 117,854 | 117,754 |
| Christian Service | 110,209 | 110,209 |
| Woods discretionary | 5,730 | 5,730 |
| Nurses training – Bowser | 12,939 | 12,939 |
| Entrance fee – Fasnacht | 31,988 | 31,988 |
| Benevolence | 2,093,582 | 2,262,499 |
| Village Tower | 31,132 | 31,132 |
| Dean Kieffaber Chapel | 7,158 | 201 |
| Good Samaritan | 340,344 | 32,557 |
| Associates Emergency Fund | - | 33 |
| Book House | 50 | 3,761 |
| Chaplain’s foundation – Myrna Wheeler | 814 | 814 |
| Channel 3 | 15,564 | 15,564 |
| Cultural arts society | 12,988 | 11,429 |
| Business associates breakfast | 4,892 | 5,098 |
| Village center lift | 1,528 | 4,169 |
| CalTrans grants – vehicle purchases | - | 113,724 |
| Annuity contracts available for general purposes | (432,084) | (357,138) |
| | \$ 2,407,148 | \$ 2,470,469 |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS (continued):

During the year ended June 30, 2014, Hillcrest was awarded two grants by the California Department of Transportation (CalTrans) for the purchase of a bus and a mini-van. As of June 30, 2014, the vehicles had not been purchased and the grants were recorded as grants receivable in the amount of \$113,724 on the statement of financial position. During the year ended June 30, 2015, the vehicles were purchased on behalf of Hillcrest through the grant program. The vehicles are restricted in use per the terms of the grant agreements.

Temporarily restricted net assets were released for the following purposes:

| | June 30, | |
|-------------------------------------|------------|------------|
| | 2015 | 2014 |
| Benevolent purposes | \$ 288,765 | \$ 256,267 |
| Good Samaritan purposes | 28,903 | 171,382 |
| Library fund | 8,348 | - |
| Business associates breakfast | 2,402 | 1,402 |
| Fine arts | 17,484 | - |
| Minnie Trout | 6,842 | 11,457 |
| Village center lift | 2,641 | 11,500 |
| Cultural arts society | 14,681 | 14,668 |
| Nurses training – Bowser | - | 3,150 |
| CalTrans grants – vehicle purchases | 113,724 | - |
| Total | \$ 483,790 | \$ 469,826 |

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS:

Investment income from permanently restricted net assets is available for the following purposes:

| | June 30, | |
|--|--------------|--------------|
| | 2015 | 2014 |
| Benevolence endowment | \$ 5,797,475 | \$ 5,797,309 |
| Benevolence annuity | 312,365 | 387,301 |
| Woods discretionary | 38,630 | 38,629 |
| Minnie A. Trout Health Services Education Fund | 180,463 | 180,458 |
| C.O.B. Ministers and Missionaries | 143,257 | 143,253 |
| Good Samaritan endowment | 304,693 | 299,087 |
| LKB professional development | 12,932 | 12,932 |
| Total | \$ 6,789,815 | \$ 6,858,969 |

Hillcrest has borrowed from the temporarily and permanently restricted net assets to fund construction of new facilities since 2003. Hillcrest pays three percent simple interest on the borrowed funds.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 – DONOR-DESIGNATED ENDOWMENTS:

Hillcrest’s endowments consist of the Benevolence and Good Samaritan endowments established to provide assistance to residents. The endowments include donor restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of Trustees of Hillcrest has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, Hillcrest classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The policy of the board is that all investment income from the endowment funds are available for unrestricted assistance to residents. In accordance with UPMIFA, Hillcrest considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Hillcrest and (7) Hillcrest’s investment policy.

Hillcrest 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 Hillcrest must hold in perpetuity or for a donor-specified period.

Endowment net asset composition by type of fund as of June 30, 2015, is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|----------------------------------|-----------------------|------------------------|------------------------|----------------------------|
| Donor-restricted endowment funds | \$ <u> -</u> | \$ <u> -</u> | \$ <u> 6,102,168</u> | \$ <u> 6,102,168</u> |

Changes in endowment net assets as of June 30, 2015, are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|---|-----------------------|------------------------|------------------------|----------------------------|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ 6,096,396 | \$ 6,096,396 |
| Contributions | - | - | 5,597 | 5,597 |
| Investment income | <u> -</u> | <u> -</u> | <u> 175</u> | <u> 175</u> |
| Endowment net assets, end of year | \$ <u> -</u> | \$ <u> -</u> | \$ <u> 6,102,168</u> | \$ <u> 6,102,168</u> |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 11 – DONOR-DESIGNATED ENDOWMENTS (continued):

Endowment net asset composition by type of fund as of June 30, 2014, is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Endowment Assets</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---|
| Donor-restricted endowment funds | \$ <u>-</u> | \$ <u>-</u> | \$ <u>6,096,396</u> | \$ <u>6,096,396</u> |

Changes in endowment net assets as of June 30, 2014, are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Net Endowment Assets</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ 6,060,210 | \$ 6,060,210 |
| Contributions | - | - | 36,082 | 36,082 |
| Investment income | <u>-</u> | <u>-</u> | <u>104</u> | <u>104</u> |
| Endowment net assets, end of year | \$ <u>-</u> | \$ <u>-</u> | \$ <u>6,096,396</u> | \$ <u>6,096,396</u> |

NOTE 12 – LEASE INCOME:

Hillcrest purchased approximately nine acres of open land in December 2001 for \$2,069,350. The land was originally leased to a nursery, pursuant to a lease dated July 9, 1998. The lease expired on July 1, 2013, and now operates on a month-to-month basis, with monthly payments of \$2,179.

On April 1, 2014, a lease agreement was entered in to with Pacific Southwest District of the Church of the Brethren. The land will be leased under a three year term with monthly payments of \$1,800. The amounts of lease revenue received in connection with the leases for the years ended June 30, 2015 and 2014, were \$47,748 and \$31,548, respectively. Future minimum lease payments are as follows:

| <u>Years Ended June 30,</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2016 | \$ 21,600 |
| 2017 | <u>21,600</u> |
| Total | \$ <u>43,200</u> |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 13 – PENSION AND ANNUITY PLANS:

Hillcrest provides a pension plan for employees under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate however, an employee must be 21 years of age and have been employed for one year in order to receive employer contributions. Employees may voluntarily contribute a portion of their salary to the plan, subject to certain limitations. Hillcrest contributed 3.5% and 3.0% on behalf of each eligible employee for the years ended June 30, 2015 and 2014, respectively. Hillcrest's total cost for this pension plan was \$246,680 and \$200,479 for the years ended June 30, 2015 and 2014, respectively.

NOTE 14 – RELATED PARTIES:

Hillcrest purchased general and professional liability insurance for premiums of \$207,508 and \$188,008 for the years ended June 30, 2015 and 2014, respectively. The insurance was purchased from an insurance company of which Hillcrest is a shareholder. At June 30, 2015 and 2014, Hillcrest's investment was \$291,659 and \$248,897, respectively. This amount is included in investments at the estimated equity value at year end.

Hillcrest purchased workers' compensation insurance for premiums of \$659,302 and \$566,904 for the years ended June 30, 2015 and 2014, respectively. The insurance was purchased through a group self-insurance program of which Hillcrest is a member. The group insurance program is governed by the California Department of Industrial Relations. A Hillcrest officer is a member of its Audit Committee.

NOTE 15 – CHARITY CARE:

Hillcrest maintains records to identify and monitor the level of charity care it provides. These records indicate the difference between Hillcrest's customary charge and the rate paid by Medi-Cal or Supplemental Security Income (SSI), as well as charity care for residents. Residents' charity care is supported through Benevolence donations and earnings on endowment resources.

The following information measures the level of voluntary charity care provided for the years ended June 30, 2015 and 2014:

| | Years ended June 30, | |
|--------------------------------|----------------------|------------|
| | 2015 | 2014 |
| Nursing facility | \$ 125,402 | \$ 105,115 |
| Assisted living | 98,942 | 112,401 |
| Residential living | 64,316 | 26,684 |
| Related to contract residents | 288,660 | 244,200 |
| Related to community residents | 520,278 | 481,185 |
| Total | \$ 808,938 | \$ 725,385 |

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 16 – COMMITMENTS:

Since July 30, 2008, Hillcrest has been party to an operating lease for a telephone system, which includes insurance and maintenance. During the year ended June 30, 2015, the lease expired and was renewed through December 15, 2015. Amounts paid for the years ended June 30, 2015 and 2014 were \$78,395 and \$79,132, respectively. Minimum lease payments are as follows:

| <u>Year Ended June 30,</u> | <u>Amount</u> |
|----------------------------|-------------------------|
| 2016 | \$ <u>31,733</u> |
| Total | \$ <u><u>31,733</u></u> |

NOTE 17 – CONTINGENCY:

Hillcrest is subject to various claims for damages that arise in the normal course of business. All claims have been referred to Hillcrest's insurance carrier and are in various stages of investigation, discovery or pretrial. In management's opinion, although the outcomes of these claims are unknown at this time, any losses that may occur would be covered by Hillcrest's insurance company, and therefore, should not have a material impact on Hillcrest's financial position or activities.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations relate to, among other things, matters such as licensure, accreditation, and government health care program participation requirements, regulations regarding reimbursement for patient services and regulations regarding Medicare and Medi-Cal billing, fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of statutes and regulations by health care providers, which could result in expulsion from government health care programs, together with the imposition of fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Hillcrest is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 18 – MARKET VALUE ADJUSTMENT OF LAND:

Hillcrest holds land for investment in the endowment and specific purpose funds. The land was appraised in 2015 and 2014, at \$4,173,000 and \$2,850,000, respectively. The change in the appraised value of the land resulted in a \$1,323,000 unrealized gain and a \$650,000 unrealized loss on the statement of activities for the years ended June 30, 2015 and 2014, respectively. The land is carried at the appraised value in assets whose use is limited.

BRETHREN HILLCREST HOMES

NOTES TO FINANCIAL STATEMENTS

(Continued)

NOTE 19 – SUBSEQUENT EVENTS:

Hillcrest did not have any subsequent events through October 22, 2015, which is the date the financial statements were issued, requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

Supplementary Information



HANSEN HUNTER & CO. P.C.
Certified Public Accountants

Independent Auditors' Report on Supplementary Information

To the Board of Directors
Brethren Hillcrest Homes
La Verne, California

We have audited the financial statements of Brethren Hillcrest Homes (a California not-for-profit corporation) as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated October 22, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Brethren Hillcrest Homes' management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hansen Hunter & Co. P.C.

October 22, 2015

BRETHREN HILLCREST HOMES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Eliminations | Total |
|---|----------------------|---------------------------|---------------------------|-----------------------|----------------------|
| Current assets | | | | | |
| Cash and cash equivalents | \$ 8,124,358 | \$ - | \$ - | \$ - | \$ 8,124,358 |
| Accounts receivable, net | 916,954 | - | - | - | 916,954 |
| Entrance fees receivable | 788,101 | - | - | - | 788,101 |
| Interest receivable | 17,388 | - | - | - | 17,388 |
| Grants receivable | - | - | - | - | - |
| Inventory | 42,863 | - | - | - | 42,863 |
| Prepaid expenses and deposits | 247,822 | - | - | - | 247,822 |
| Prepaid interest on restricted fund loans | 105,503 | - | - | (105,503) | - |
| | <u>10,242,989</u> | <u>-</u> | <u>-</u> | <u>(105,503)</u> | <u>10,137,486</u> |
| Total current assets | | | | | |
| Non-current assets | | | | | |
| Other inter-fund borrowings | 966 | 6,032 | (6,998) | - | - |
| Restricted funds loan | - | 206,528 | 3,714,230 | (3,920,758) | - |
| Assets whose use is limited | 9,848,770 | 2,960,108 | 3,742,600 | - | 16,551,478 |
| Investments | 340,363 | - | - | - | 340,363 |
| Bond issue costs, net | 446,765 | - | - | - | 446,765 |
| Property, plant and equipment, net | 67,857,617 | - | - | - | 67,857,617 |
| | <u>88,737,470</u> | <u>3,172,668</u> | <u>7,449,832</u> | <u>(4,026,261)</u> | <u>95,333,709</u> |
| Total assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 640,616 | \$ - | \$ - | \$ - | \$ 640,616 |
| Accrued expenses | 1,123,180 | - | - | - | 1,123,180 |
| Refundable deposits | 27,420 | - | - | - | 27,420 |
| Prepaid resident service fees | 190,700 | - | - | - | 190,700 |
| Current portion of long-term debt | 1,115,000 | - | - | - | 1,115,000 |
| Entrance fee refund payable | - | - | - | - | - |
| Interest payable | 238,800 | - | - | - | 238,800 |
| Deferred revenue on restricted funds loan | - | 105,503 | - | (105,503) | - |
| | <u>3,335,716</u> | <u>105,503</u> | <u>-</u> | <u>(105,503)</u> | <u>3,335,716</u> |
| Total current liabilities | | | | | |
| Non-current liabilities | | | | | |
| Restricted funds loan | 3,920,758 | - | - | (3,920,758) | - |
| Long-term debt | 37,723,791 | - | - | - | 37,723,791 |
| Other long-term liability | 226,042 | - | - | - | 226,042 |
| Annuities payable | - | 660,017 | 660,017 | - | 1,320,034 |
| Repayable entrance fees | 1,221,177 | - | - | - | 1,221,177 |
| Deferred revenue from advance fees | 27,439,475 | - | - | - | 27,439,475 |
| | <u>73,866,959</u> | <u>765,520</u> | <u>660,017</u> | <u>(4,026,261)</u> | <u>71,266,235</u> |
| Total liabilities | | | | | |
| Net assets | | | | | |
| Unrestricted | 14,870,511 | - | - | - | 14,870,511 |
| Temporarily restricted | - | 2,407,148 | - | - | 2,407,148 |
| Permanently restricted | - | - | 6,789,815 | - | 6,789,815 |
| | <u>14,870,511</u> | <u>2,407,148</u> | <u>6,789,815</u> | <u>-</u> | <u>24,067,474</u> |
| Total net assets | | | | | |
| Total liabilities and net assets | | | | | |
| | <u>\$ 88,737,470</u> | <u>\$ 3,172,668</u> | <u>\$ 7,449,832</u> | <u>\$ (4,026,261)</u> | <u>\$ 95,333,709</u> |

See independent auditors' report on supplementary information.

BRETHREN HILLCREST HOMES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Eliminations | Total |
|---|----------------------|---------------------------|---------------------------|-----------------------|----------------------|
| Current assets | | | | | |
| Cash and cash equivalents | \$ 6,917,512 | \$ - | \$ - | \$ - | \$ 6,917,512 |
| Accounts receivable, net | 599,452 | - | - | - | 599,452 |
| Entrance fees receivable | 1,112,023 | - | - | - | 1,112,023 |
| Interest receivable | 4,454 | - | - | - | 4,454 |
| Grants receivable | 113,724 | - | - | - | 113,724 |
| Inventory | 41,460 | - | - | - | 41,460 |
| Prepaid expenses and deposits | 204,170 | - | - | - | 204,170 |
| Prepaid bond issue costs | 51,344 | - | - | - | 51,344 |
| Prepaid interest on restricted fund loans | 109,361 | - | - | (109,361) | - |
| | <u>9,153,500</u> | <u>-</u> | <u>-</u> | <u>(109,361)</u> | <u>9,044,139</u> |
| Total current assets | | | | | |
| Non-current assets | | | | | |
| Other inter-fund borrowings | (1,479,373) | 629,498 | 849,875 | - | - |
| Restricted funds loan | - | 206,528 | 3,714,230 | (3,920,758) | - |
| Assets whose use is limited | 10,130,585 | 2,420,668 | 2,971,728 | - | 15,522,981 |
| Investments | 293,274 | - | - | - | 293,274 |
| Bond issue costs, net | 1,497,170 | - | - | - | 1,497,170 |
| Property, plant and equipment, net | 68,072,468 | - | - | - | 68,072,468 |
| | <u>87,667,624</u> | <u>3,256,694</u> | <u>7,535,833</u> | <u>(4,030,119)</u> | <u>94,430,032</u> |
| Total assets | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 513,228 | \$ - | \$ - | \$ - | \$ 513,228 |
| Accrued expenses | 1,107,003 | - | - | - | 1,107,003 |
| Refundable deposits | 25,470 | - | - | - | 25,470 |
| Prepaid resident service fees | 216,606 | - | - | - | 216,606 |
| Current portion of long-term debt | 1,045,000 | - | - | - | 1,045,000 |
| Entrance fee refund payable | 399,268 | - | - | - | 399,268 |
| Interest payable | 898,025 | - | - | - | 898,025 |
| Deferred revenue on restricted funds loan | - | 109,361 | - | (109,361) | - |
| | <u>4,204,600</u> | <u>109,361</u> | <u>-</u> | <u>(109,361)</u> | <u>4,204,600</u> |
| Total current liabilities | | | | | |
| Non-current liabilities | | | | | |
| Restricted funds loan | 3,920,758 | - | - | (3,920,758) | - |
| Long-term debt | 39,240,000 | - | - | - | 39,240,000 |
| Other long-term liability | 242,188 | - | - | - | 242,188 |
| Annuities payable | - | 676,864 | 676,864 | - | 1,353,728 |
| Repayable entrance fees | 1,340,962 | - | - | - | 1,340,962 |
| Deferred revenue from advance fees | 24,792,848 | - | - | - | 24,792,848 |
| | <u>73,741,356</u> | <u>786,225</u> | <u>676,864</u> | <u>(4,030,119)</u> | <u>71,174,326</u> |
| Total liabilities | | | | | |
| Net assets | | | | | |
| Unrestricted | 13,926,268 | - | - | - | 13,926,268 |
| Temporarily restricted | - | 2,470,469 | - | - | 2,470,469 |
| Permanently restricted | - | - | 6,858,969 | - | 6,858,969 |
| | <u>13,926,268</u> | <u>2,470,469</u> | <u>6,858,969</u> | <u>-</u> | <u>23,255,706</u> |
| Total net assets | | | | | |
| Total liabilities and net assets | | | | | |
| | <u>\$ 87,667,624</u> | <u>\$ 3,256,694</u> | <u>\$ 7,535,833</u> | <u>\$ (4,030,119)</u> | <u>\$ 94,430,032</u> |

See independent auditors' report on supplementary information.

PART 5
LIQUID RESERVES

**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 | 01/01/2003 | \$0 | \$1,096,168 | | \$1,096,168 |
| 2 | | | | | \$0 |
| 3 | | | | | \$0 |
| 4 | | | | | \$0 |
| 5 | | | | | \$0 |
| 6 | | | | | \$0 |
| 7 | | | | | \$0 |
| 8 | | | | | \$0 |
| TOTAL: | | | \$1,096,168 | | \$1,096,168 |

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

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

PROVIDER: BRETHREN HILLCREST HOMES

**FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(Including Balloon Debt)**

| | (a) | (b) | (c) | (d) | (e) |
|---------------------------|---------------|--|---|--|---|
| Long-Term Debt Obligation | Date Incurred | Total Interest Paid During Fiscal Year | Amount of Most Recent Payment on the Debt | Number of Payments over Next 12 months | Reserve Requirement (see instruction 5) (columns (c) x (d)) |
| 1 | 07/10/2014 | \$1,555,203 | \$930,000 | 1 | \$930,000 |
| 2 | | | | | \$0 |
| 3 | | | | | \$0 |
| 4 | | | | | \$0 |
| 5 | | | | | \$0 |
| 6 | | | | | \$0 |
| 7 | | | | | \$0 |
| 8 | | | | | \$0 |
| TOTAL: | | \$1,555,203 | \$930,000 | 1 | \$930,000 |

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

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

PROVIDER: BRETHREN HILLCREST HOMES

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

| Line | | TOTAL |
|-------------|--|----------------------------------|
| 1 | Total from Form 5-1 bottom of Column (e) | <u>\$1,096,168</u> |
| 2 | Total from Form 5-2 bottom of Column (e) | <u>\$930,000</u> |
| 3 | Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance) | <u>\$0</u> |
| 4 | TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE: | <u><u>\$2,026,168</u></u> |

PROVIDER: BRETHREN HILLCREST HOMES

**FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

| Line | | Amounts | TOTAL |
|------|--|--------------------|---------------------------|
| 1 | Total operating expenses from financial statements | | <u>\$21,186,278</u> |
| 2 | Deductions: | | |
| a. | Interest paid on long-term debt (see instructions) | <u>\$2,651,371</u> | |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | <u>\$0</u> | |
| c. | Depreciation | <u>\$3,191,670</u> | |
| d. | Amortization | <u>\$19,579</u> | |
| e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | <u>\$6,076,936</u> | |
| f. | Extraordinary expenses approved by the Department | <u>\$0</u> | |
| 3 | Total Deductions | | <u>\$11,939,556</u> |
| 4 | Net Operating Expenses | | <u>\$9,246,722</u> |
| 5 | Divide Line 4 by 365 and enter the result. | | <u>\$25,333</u> |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | | <u><u>\$1,899,975</u></u> |

PROVIDER: BRETHREN HILLCREST HOMES
COMMUNITY: HILLCREST

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES RECONCILIATION OF LINE 2E

| | |
|--|----------------------|
| Revenues received during the fiscal year for services to persons who did not have a continuing care contract (Line 2E) | \$ 6,076,936 |
| Revenues received from residents | <u>11,032,289</u> |
| Cash received from residents per direct method cash flow | <u>\$ 17,109,225</u> |

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: **BRETHREN HILLCREST HOMES**

Fiscal Year Ended: **JUNE 30, 2015**

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the Period ended **JUNE 30, 2015** and are in compliance with those requirements.

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

| | | <u>Amount</u> |
|-----|-------------------------------------|---------------|
| [1] | Debt Service Reserve Amount | \$2,026,168 |
| [2] | Operating Expense Reserve Amount | \$1,899,975 |
| [3] | Total Liquid Reserve Amount: | \$3,926,143 |

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

| | <u>Amount</u> (market value at end of quarter) | |
|---|---|--------------------------|
| | <u>Debt Service Reserve</u> | <u>Operating Reserve</u> |
| [4] Cash and Cash Equivalents | \$0 | \$8,702,138 |
| [5] Investment Securities | \$0 | \$1,351,612 |
| [6] Equity Securities | \$0 | \$4,697,140 |
| [7] Unused/Available Lines of Credit | \$0 | \$0 |
| [8] Unused/Available Letters of Credit | \$0 | \$0 |
| [9] Debt Service Reserve | \$3,222,238 | (not applicable) |
| [10] Other: | \$0 | \$0 |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: | [11] \$3,222,238 | [12] \$14,750,890 |
| Reserve Obligation Amount: | [13] \$2,026,168 | [14] \$1,899,975 |
| Surplus/(Deficiency): | [15] \$1,196,070 | [16] \$12,850,915 |

Signature:

(Authorized Representative)

Matthew Neeley, CEO
(Title)

Date: **10/27/2015**

Note 1 to the Continuing Care Reserve Report (Part 5)

The continuing care reserve report included in Part 5 has been prepared in accordance with the report preparation provisions of the California Health and Welfare Code (the Code), Section 1792.

Section 1792 of the Code indicates that the Organization should maintain at all times qualifying assets as a liquid reserve in an amount that equals or exceeds the sum of the following:'

- The amount the provider is required to hold as a debt service reserve under Section 1792.3.
- The amount the provider must hold as an operating expense reserve under Section 1792.4.

In accordance with the Code, the Organization has computed its liquid reserve requirement as of June 30, 2015, the Organizations' most recent fiscal year end, and the reserve is based on audited financial statements for that period.

PART 6
CONTINUING CARE RETIREMENT COMMUNITY
DISCLOSURE STATEMENT

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 10/27/2015

FACILITY NAME: BRETHREN HILLCREST HOMES
 ADDRESS: 2705 MOUNTAIN VIEW DRIVE, LA VERNE, CA ZIP CODE: 91750 PHONE: (909) 593-4917
 PROVIDER NAME: BRETHREN HILLCREST HOMES FACILITY OPERATOR: BRETHREN HILLCREST HOMES
 RELATED FACILITIES: NONE RELIGIOUS AFFILIATION: CHURCH OF THE BRETHREN
 YEAR OPENED: 1949 # OF ACRES: 51 SINGLE STORY MULTI-STORY OTHER: Both MILES TO SHOPPING CTR: 1
 MILES TO HOSPITAL: 2

NUMBER OF UNITS:

| | |
|---|---|
| RESIDENTIAL LIVING | HEALTH CARE |
| APARTMENTS - STUDIO: <u>3</u> | ASSISTED LIVING: <u>48</u> |
| APARTMENTS – 1 BDRM: <u>81</u> | SKILLED NURSING: <u>74</u> |
| APARTMENTS – 2 BDRM: <u>138</u> | SPECIAL CARE: <u>24</u> |
| COTTAGES/HOUSES: <u>7</u> | DESCRIBE SPECIAL CARE: <u>ALZEHEIMER'S AND DEMENTIA</u> |
| RLU OCCUPANCY (%) AT YEAR END: <u>93.4%</u> | |

TYPE OF OWNERSHIP: NOT-FOR- PROFIT FOR PROFIT ACCREDITED?: YES NO BY: CCAC

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
 (check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: _____

RANGE OF ENTRANCE FEES: \$95,656 TO \$567,178 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: NO

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER: _____

RESIDENT REPRESENTATIVE @ THE BOARD (briefly describe their involvement): Board elects three residents to serve as board members for one three year term.

| COMMON AREA AMENITIES | FACILITY SERVICES AND AMENITIES | | | | |
|-------------------------|-------------------------------------|-------------------------------------|------------------------------|-------------------------------------|-------------------------------------|
| | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
| BEAUTY/BARBER SHOP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING (2 TIMES/MONTH) | IL-NO; HC-YES | IL-YES |
| BILLIARD ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | MEALS (3/DAY) | IL-NO; HC-YES | IL-YES |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SHUFFLEBOARD | <input checked="" type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input checked="" type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL – INDOOR | <input checked="" type="checkbox"/> | <input type="checkbox"/> | PERSONAL NURSING/HOME CARE | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL – OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION –PERSONAL | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| WORKSHOP | <input checked="" type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| OTHER _____ | <input type="checkbox"/> | <input type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: BRETHREN HILLCREST HOMES

| CCRCs | LOCATION (City, State) | PHONE (with area code) |
|-------|------------------------|------------------------|
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MULTI-LEVEL RETIREMENT COMMUNITIES

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FREE-STANDING SKILLED NURSING

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SUBSIDIZED SENIOR HOUSING

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***NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.**

PROVIDER NAME: BRETHREN HILLCREST HOMES

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|------------------|------------------|------------------|------------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | \$ 17,159,489 | \$ 17,423,774 | \$ 18,172,519 | \$ 18,013,398 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest) | 13,932,759 | 14,827,135 | 15,447,897 | 16,043,143 |
| NET INCOME (LOSS) FROM OPERATIONS | <u>3,226,730</u> | <u>2,596,639</u> | <u>2,724,622</u> | <u>1,970,255</u> |
| LESS INTEREST EXPENSE | 2,576,341 | 2,512,023 | 2,468,565 | 1,931,886 |
| PLUS CONTRIBUTIONS | <u>258,765</u> | <u>179,455</u> | <u>215,171</u> | <u>51,284</u> |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | | | | |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | \$ 909,154 | \$ 264,071 | \$ 471,228 | \$ 89,653 |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | \$ 3,549,937 | \$ 5,161,900 | \$ 6,624,222 | \$ 6,872,480 |

DESCRIPTION OF SECURED DEBT (AS OF MOST RECENT FISCAL YEAR END)

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|------------|------------------------|------------------|------------------------|---------------------|------------------------|
| BOND ISSUE | \$38,838,791 | VAR | 7/10/2014 | 5/2036 | 22 YEARS |
| | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS (see next page for ratio formulas)

| | 2013 CCAC Medians 50 th Percentile (optional) | 2013 | 2014 | 2015 |
|-----------------------------|--|-------|-------|-------|
| DEBT TO ASSET RATIO | | 43.91 | 41.55 | 39.57 |
| OPERATING RATIO | | 1.01 | 1.02 | 1.00 |
| DEBT SERVICE COVERAGE RATIO | | 2.23 | 2.62 | 2.55 |
| DAYS CASH-ON-HAND RATIO | | 223 | 249 | 300 |

HISTORICAL MONTHLY SERVICE FEES

(AVERAGE FEE AND PERCENT CHANGE)

| | 2012 | % | 2013 | % | 2014 | % | 2015 |
|-----------------|---------|------|---------|------|---------|----|---------|
| STUDIO | \$1,325 | 3% | \$1,365 | 14% | \$1,550 | 3% | \$1,597 |
| ONE BEDROOM | \$1,892 | 3% | \$1,946 | 16% | \$2,248 | 3% | \$2,315 |
| TWO BEDROOM | \$2,658 | 3% | \$2,735 | 5% | \$2,870 | 3% | \$2,956 |
| COTTAGE/HOUSE | \$3,303 | 3% | \$3,399 | 7% | \$3,637 | 3% | \$3,746 |
| ASSISTED LIVING | \$4,087 | 0% | \$4,087 | (8%) | \$3,774 | 3% | \$3,887 |
| SKILLED NURSING | \$4,752 | (3%) | \$4,627 | 14% | \$5,275 | 3% | \$5,433 |
| SPECIAL CARE | \$7,406 | 3% | \$7,626 | (9%) | \$6,921 | 3% | \$7,129 |

COMMENTS FROM PROVIDER: Fees vary according to size of unity and amenities provided. Entrance fees may apply on studio, one and two bedrooms and cottage/houses. Dollar values are from Continuing Care Contracts. "Average fees" are for the units available at the time of pricing.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{— Depreciation Expense} \\ \text{— Amortization Expense} \end{array}}{\begin{array}{l} \text{Total operating Revenues} \\ \text{— Amortization of Deferred Revenue} \end{array}}$$

Debt Service Coverage Ratio

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation} \\ \text{and Amortization Expenses} \\ \text{— Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{and Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{\begin{array}{l} \text{(Operating Expenses — Depreciation} \\ \text{— Amortization)/365} \end{array}}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

PART 7
REPORT ON CCRC MONTHLY SERVICE FEES

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

| | <u>RESIDENTIAL LIVING</u> | <u>ASSISTED LIVING</u> | <u>SKILLED NURSING</u> |
|---|-------------------------------|------------------------------|------------------------------|
| [1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable) | <u>\$1,644 - \$4,508</u> | <u>\$3,337 - \$6,627</u> | <u>\$7,192 - \$8,680</u> |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | <u>3%</u> | <u>3%</u> | <u>3%</u> |

Check here if monthly service fees at this community were not increased during the Reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: July 1, 2014
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase

PROVIDER: BRETHREN HILLCREST HOMES
COMMUNITY: HILLCREST

BRETHREN HILLCREST HOMES

FORM 7-1 *Explanations for Adjustments in Monthly Fees*

- Summary of Documents Used in Determining Rate Adjustment

Resident fee increases are only arrived at after reviewing projected costs, prior year per capita costs, and economic conditions. Each of our 24 departments begins by analyzing their current status. Reviewing what their expenditures for the current year have been versus their budget and what their scheduled costs will be for the remainder of the current year. These costs and projections are reviewed with management before any work is done on next year's budget. Known trends, such as the effect of raw material costs, consumer price indexes, future market prices, etc. are used in analyzing and forecasting the remaining months of the current year.

A zero based budget is then used to identify all of the components of the coming year. The first cost each department has to grapple with is labor which comprises over 60% of the total budget. Compiling labor with the remaining department projected costs becomes the forecasted budget.

Revenue is also reviewed for the current year to date, and projected for the remaining months of the current year. Revenue includes turnover, expansion and fee increases. Again, economic indicators including the consumer price index, cost of living adjustments proposed for social security and other indicators of revenue affecting current and future residents are all reviewed and analyzed. Revenue is projected for the balance of the current year before next year's budget is formulated.

Combining projected costs with anticipated revenue while meeting economic indicators for performance are all factors which we employ when proposing a fee change. Fee increases and budget projections of costs after being analyzed by management are reviewed by the Finance Committee, the Board, Resident Association, and an open forum with residents, with each resident individually by letter of notification, in a second public meeting with interested residents and in private meetings as requested.

BRETHREN HILLCREST HOMES

H&SC SECTION 1790(a)(2) and (3) DISCLOSURE

▪ Description of all Reserves Maintained

| | JUNE 30, | |
|-------------------------------|---------------|---------------|
| | 2015 | 2014 |
| <u>Funds Held by Trustee</u> | | |
| <i>2003 Bond funds:</i> | | |
| Reserve funds | \$ 2,934,100 | \$ 3,670,592 |
| Revenue/Sinking funds | 288,138 | 1,155,624 |
| | 3,222,238 | 4,826,216 |
| <u>Board Designated Funds</u> | | |
| Benevolence | 4,056,229 | 4,081,795 |
| Operating reserve | 1,680,388 | 648,090 |
| Restoration fund | 889,915 | 574,484 |
| | 6,626,532 | 5,304,369 |
| <u>Other Limited Uses</u> | | |
| Endowment funds | 2,726,637 | 1,882,686 |
| Gift annuities funds | 2,031,926 | 2,178,084 |
| Specific purposes funds | 1,913,336 | 1,300,817 |
| Resident Association funds | 30,809 | 30,809 |
| | 6,702,708 | 5,392,396 |
| | \$ 16,551,478 | \$ 15,522,981 |

Status: These funds are fully funded.

▪ Funds Accumulated for Specific Projects or Purposes

- The benevolence funds will be used to provide residence assistance
- The operating reserve is used for operations
- The restoration fund will be used to repay borrowings from restricted funds
- Investments returns on the endowment funds are set aside for operations
- The gift annuities funds are set aside for payment of gift annuities
- The specific purpose funds are set aside for specific projects

▪ Per Capita Cost of Operations

| | |
|---|---------------|
| Total operating Expenses (Form 5-4, Line 1) | \$ 21,186,278 |
| Mean number of all residents (Form 1-1 Line 10) | / 395 |
| | \$ 53,636 |

PART 8
KEY INDICATORS REPORT

**KEY INDICATORS REPORT
BRETHREN HILLCREST HOMES
FISCAL YEAR ENDED JUNE 30, 2015**

Date Prepared: 10/27/2015

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Projected 2016 | Chief Executive Officer Signature | | | Preferred Trend Indicator |
|--|--------|--------|--------|--------|--------|--------|-------------------|-----------------------------------|--------|--------|---------------------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| OPERATIONAL STATISTICS | | | | | | | | | | | |
| 1. Average Annual Occupancy by Site (%) | 90.5% | 92.3% | 88.3% | 89.6% | 89.6% | 93.0% | 93.0% | 93.0% | 93.0% | 93.0% | N/A |
| MARGIN (PROFITABILITY) INDICATORS | | | | | | | | | | | |
| 2. Net Operating Margin (%) | 16% | 18% | 19% | 13% | 12% | 11% | 9% | 9% | 8% | 7% | ↑ |
| 3. Net Operating Margin – Adjusted (%) | 34% | 33% | 33% | 33% | 36% | 35% | 31% | 29% | 29% | 28% | ↓ |
| LIQUIDITY INDICATORS | | | | | | | | | | | |
| 4. Unrestricted Cash and Investments (\$000) | 5,164 | 8,181 | 9,526 | 10,575 | 12,222 | 14,751 | 17,249 | 20,561 | 23,874 | 27,383 | ↑ |
| 5. Days Cash on Hand (Unrestricted) | 119 | 182 | 211 | 223 | 249 | 300 | 341 | 394 | 445 | 495 | ↑ |
| CAPITAL STRUCTURE INDICATORS | | | | | | | | | | | |
| 6. Deferred Revenue from Entrance Fees (\$000) | 20,191 | 19,747 | 20,501 | 22,164 | 24,793 | 27,439 | 30,086 | 32,733 | 35,379 | 38,026 | N/A |
| 7. Net Annual E/F proceeds (\$000) | 4,334 | 3,722 | 3,550 | 5,162 | 6,624 | 6,872 | 5,600 | 5,350 | 5,650 | 5,650 | N/A |
| 8. Unrestricted Net Assets (\$000) | 9,996 | 9,377 | 11,342 | 12,940 | 13,926 | 14,871 | 17,007 | 18,969 | 20,747 | 22,331 | N/A |
| 9. Annual Capital Asset Expenditure (\$000) | 2,504 | 2,372 | 1,168 | 2,029 | 4,126 | 3,018 | 5,000 | 4,500 | 4,500 | 4,500 | N/A |
| 10. Annual Debt Service Coverage Revenue Basis (x) | 0.85 | 1.03 | 1.06 | 0.77 | 0.71 | 0.63 | 0.73 | 0.66 | 0.61 | 0.55 | ↑ |
| 11. Annual Debt Service Coverage (x) | 2.09 | 2.09 | 2.07 | 2.23 | 2.62 | 2.55 | 2.64 | 2.41 | 2.42 | 2.33 | ↑ |
| 12. Annual Debt Service/Revenue (%) | 0.18 | 0.17 | 0.16 | 0.17 | 0.15 | 0.16 | 0.12 | 0.13 | 0.13 | 0.13 | ↓ |
| 13. Average Annual Effective Interest Rate (%) | 6.05% | 6.09% | 6.14% | 6.18% | 6.19% | 6.86% | 4.81% | 5.10% | 5.43% | 5.78% | ↓ |
| 14. Unrestricted Cash & Investments/ Long-Term Debt (%) | 12% | 19% | 23% | 26% | 31% | 39% | 47% | 58% | 70% | 83% | ↑ |
| 15. Average Age of Facility (years) | 10.56 | 11.01 | 11.63 | 12.34 | 12.48 | 11.77 | 13.09 | 13.66 | 14.23 | 14.77 | ↓ |