

**ANNUAL REPORT CHECKLIST**

**PROVIDER(S):** Freedom Properties-Hemet, LLC

**CCRC(S):** The Village

**CONTACT PERSON:** Barb Johnston

**TELEPHONE NO.:** ( 949 ) 340-8103      **EMAIL:** bjohnston@freedomvillage.org



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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 6,949.00
  - 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.



# The Village

Continuing Care Retirement Community

April 27, 2015

Department of Social Services  
Continuing Care Contracts Program  
744 P Street, M/S 17-90  
Sacramento, CA 95814

RE: Freedom Properties-Hemet, dba The Village

Enclosed is the 2017 annual report for The Village. As Chief Executive Officer, I certify to the following:

1. That the annual report and any amendments thereto are correct to the best of my knowledge,
2. That each continuing care contract in use for new residents has been approved by the Department,
3. The Village is maintaining the required liquid reserves,
4. A line of credit exists to cover the agreed amount of the refund reserve requirement under the Health and Safety Code Section 1793c.

Sincerely,

Tom Stringer  
Chief Executive Officer  
The Village

TS/js



## CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
04/27/2015

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.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Robert Bell Ins. Brokers Inc. 605 E. Alvarado St., Suite 200 Fallbrook, CA 92028 Michael Bell	CONTACT NAME: Michael Bell	PHONE (A/C, No, Ext): 800-426-2634	FAX (A/C, No): 760-451-8613
	E-MAIL ADDRESS: mbell@robertbellinsurance.com		
INSURED Casa Pacifica DBA The Village Healthcare Ctr. - Freedom Properties Hemet - Freedom Properties Hemet LLC DBA The Village Healthcare 27122B Paseo Espada, Ste 1024 San Juan Capistrano, CA 92675	INSURER(S) AFFORDING COVERAGE		NAIC #
	INSURER A: State Compensation Ins. Fund		35076
	INSURER B: Columbia Casualty Company		31127
	INSURER C: Continental Insurance Co.		35289
	INSURER D: Lloyd's of London		
	INSURER E: Markel Insurance Company		38970
	INSURER F:		

## COVERAGES

## CERTIFICATE NUMBER:

## REVISION NUMBER:

INSR LTR	TYPE OF INSURANCE	ADDITIONAL SUBROGATION	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
B	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR	X	4022531770	06/15/2014	06/15/2015	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000 MED EXP (Any one person) \$ 50,000
B	<input checked="" type="checkbox"/> Professional GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input type="checkbox"/> LOC OTHER:		4022531770	06/15/2014	06/15/2015	PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ 3,000,000 Prof Aggr \$ 3,000,000
C	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS <input checked="" type="checkbox"/> OTHER:		4022531767	06/15/2014	06/15/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ Excess Auto \$ 5,000,000
B	UMBRELLA LIAB <input checked="" type="checkbox"/> EXCESS LIAB MED <input checked="" type="checkbox"/> RETENTION \$ 10,000		4022531798	06/15/2014	06/15/2015	EACH OCCURRENCE \$ 4,000,000 AGGREGATE \$ 4,000,000
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N Y	163518015	04/01/2015	04/01/2016	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000
E	D&O		GPL1425276-15	04/25/2015	04/25/2016	D&O Limit 2,000,000
D	EPLI		GPL1425276-15	04/25/2015	04/25/2016	EPLI Limit 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

Certificate holder is listed as an Additional Insured under the general liability policy GSL6484XX Endorsement attached

## CERTIFICATE HOLDER

STATECA

State of CA, Health & Welfare  
Agency, Office of Statewide  
Health Planning & Development  
1800 9th Street  
Sacramento, CA 95814

## CANCELLATION

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

**NOTEPAD**

INSURED'S NAME Casa Pacifica DBA The Village

FREED-2  
OP ID: CAG

PAGE 2  
Date 04/27/2015

**NAMED INSURED SCHEDULE**

Casa Pacifica DBA The Village Healthcare Center  
Freedom Properties Hemet  
Freedom Properties Hemet LLC DBA The Village Healthcare  
Freedom Village  
Freedom Village Health Center  
Freedom Properties Hemet LLC DBA The Village Healthcare Center

**BLANKET ADDITIONAL INSURED ENDORSEMENT -  
GENERAL LIABILITY COVERAGE**

This endorsement modifies insurance provided under:

Commercial General Liability Coverage Form Occurrence  
Commercial General Liability Coverage Form Claims - Made  
Healthcare Liability Policy Common Conditions (G-144102)  
LTC Common Conditions (G-141432)  
Independent Living Facilities Common Conditions (GSL-6702)

**A. SECTION II-WHO IS AN INSURED** is amended to include as an insured any person or organization (called additional insured) described in paragraphs 2.a. through 2.g. below whom you are required to add as an additional insured on this policy under:

1. A written contract or agreement; or
2. An oral contract or agreement where a certificate of insurance showing that person or organization as an additional insured has been issued; but the written or oral contract or agreement must be:
  1. Currently in effect or becoming effective during the term of this policy; or
  2. Executed prior to the "bodily injury," "property damage" or "personal injury and advertising injury," but

Only the following persons or organizations are additional insureds under this endorsement and coverage provided to such additional insureds is limited as provided herein:

- a. A state or political subdivision subject to the following provisions:
  - (1) This insurance applies only with respect to the following hazards for which the state or political subdivision has issued a permit in connection with premises you own, rent, or control and to which this insurance applies:
    - (a) The existence, maintenance, repair, construction, erection, or removal of advertising signs, awnings, canopies, cellar entrances, coal holes, driveways, manholes, marquees, hoistway openings, sidewalk vaults, street banners, or decorations and similar exposures; or
    - (b) The construction, erection, or removal of elevators; or
    - (c) The ownership, maintenance, or use of any elevators covered by this insurance.
  - (2) This insurance applies only with respect to operations performed by you or on your

behalf for which the state or political subdivision has issued a permit.

This insurance does not apply to "bodily injury," "property damage" or "personal and advertising injury" arising out of operations performed for the state or municipality.

- b. Any persons or organizations with a controlling interest in you but only with respect to their liability arising out of:
  - (1) Their financial control of you; or
  - (2) Premises they own, maintain or control while you lease or occupy these premises.

This insurance does not apply to structural alterations, new construction and demolition operations performed by or for such additional insured.

- c. A manager or lessor of premises but only with respect to liability arising out of the ownership, maintenance or use of that specific part of the premises leased to you and subject to the following additional exclusions:

This insurance does not apply to:

- (1) Any "occurrence" which takes place after you cease to be a tenant in that premises; or
- (2) Structural alterations, new construction or demolition operations performed by or on behalf of such additional insured.
- d. A mortgagee, assignee or receiver but only with respect to their liability as mortgagee, assignee, or receiver and arising out of the ownership, maintenance, or use of a premises by you.

This insurance does not apply to structural alterations, new construction or demolition operations performed by or for such additional insured.

- e. An owner or other interest from whom land has been leased by you but only with respect to liability arising out of the ownership, maintenance or use of that specific part of the

12 40111 2020 000000000000



land leased to you and subject to the following additional exclusions:

This insurance does not apply to:

- (1) Any "occurrence" which takes place after you cease to lease that land; or
  - (2) Structural alterations, new construction or demolition operations performed by or on behalf of such additional insured.
- f. A co-owner of a premises co-owned by you and covered under this insurance but only with respect to the co-owners liability as co-owner of such premises.
- g. Any person or organization from whom you lease equipment. Such person or organization are insureds only with respect to their liability arising out of the maintenance, operation or use by you of equipment leased to you by such person or organization. A person's or organization's status as an insured under this endorsement ends when their contract or agreement with you for such leased equipment ends.

With respect to the insurance afforded these additional insureds, the following additional exclusions apply:

This insurance does not apply:

- (1) To any "occurrence" which takes place after the equipment lease expires; or

- (2) To "bodily injury" or "property damage" arising out of the sole negligence of such additional insured.

Any insurance provided to an additional insured designated under paragraphs a. through g. above does not apply to "bodily injury" or "property damage" included within the "products-completed operations hazard."

- h. As respects the coverage provided under this endorsement, **COMMON CONDITIONS** Condition X., **Other Insurance or Risk Transfer Arrangements** is deleted and replaced with the following:

#### **Other Insurance - Excess Insurance**

This insurance is excess over:

Any other valid and collectible insurance available to the additional insured whether primary, excess, contingent or on any other basis unless a contract or agreement specifically requires that this insurance be either primary or primary and noncontributing. Where required by contract or agreement, we will consider any other insurance maintained by the additional insured for injury or damage covered by this endorsement to be excess and noncontributing with this insurance.

All other terms and conditions of the Policy remain unchanged.

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	<b>Continuing Care Residents</b>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	208
[2]	Number at end of fiscal year	237
[3]	Total Lines 1 and 2	445
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	222.5
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	288
[7]	Number at end of fiscal year	306
[8]	Total Lines 6 and 7	594
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	297
[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).	0.75

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including debt service)	\$10,345,953
[a]	Depreciation	\$1,070,446
[b]	Debt Service (Interest Only)	
[2]	Subtotal (add Line 1a and 1b)	\$1,070,446
[3]	Subtract Line 2 from Line 1 and enter result.	\$9,275,507
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	75%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$6,948,823
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$6,949

**PROVIDER:** Freedom Properties-Hemet, LLC  
**COMMUNITY:** The Village

***FREEDOM PROPERTIES - HEMET, LLC***

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2014**

**WITH INDEPENDENT AUDITORS' REPORT**

**FREEDOM PROPERTIES - HEMET, LLC**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2014**

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Balance Sheet .....	3
Statement of Operations .....	5
Statement of Changes in Members' Equity .....	6
Statement of Cash Flows .....	7
Notes to Financial Statements .....	9
<b>Independent Auditors' Report On Supplementary Information</b> .....	18
(Form 5-1) Long-Term Debt Incurred in a Prior Fiscal Year .....	19
(Form 5-2) Long-Term Debt Incurred During Fiscal Year.....	20
(Form 5-3) Calculation of Long-Term Debt Reserve Amount.....	21
(Form 5-4) Calculation of Net Operating Expenses .....	22
(Form 5-5) Annual Reserve Certification.....	23
(Form 7-1) Report on CCRC Monthly Service Fees .....	25

**INDEPENDENT AUDITORS' REPORT**

To the Members of  
Freedom Properties - Hemet, LLC  
Hemet, California

We have audited the accompanying financial statements of Freedom Properties - Hemet, LLC (a California limited liability company) (the "Company"), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in members' equity, and cash flows for the year 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 auditors consider internal control relevant to the Company'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 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 financial statements.

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

### **Basis for Qualified Opinion**

As more fully described in Note 7 to the financial statements, the Company recognizes income from deferred entrance fees when the funds are constructively received. For the year ended December 31, 2014, this revenue recognition method results in a conservative presentation of income and equity. In our opinion, accounting principles generally accepted in the United States of America require that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident. If the financial statements were corrected for that departure from accounting principles, assets would increase by approximately \$8,401,000, liabilities would increase by approximately \$4,211,000, beginning members' equity would increase by approximately \$4,400,000, and revenue from resident services, including deferred entrance fees and nonrefundable advance fees, would decrease by approximately \$211,000.

### **Qualified Opinion**

In our opinion, except for the effects of recognition of deferred entrance fees as income upon constructive receipt of payment as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Freedom Properties - Hemet, LLC as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*White Nelson Dick Evans LLP*

Irvine, California  
April 29, 2015

**FREEDOM PROPERTIES - HEMET, LLC**  
**BALANCE SHEET**  
**DECEMBER 31, 2014**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 3,084,598
Accounts receivable, net	1,308,376
Inventories	162,350
Prepaid expenses	<u>161,802</u>
Total Current Assets	4,717,126
Property and Equipment:	
Land	2,153,427
Building and improvements	24,665,166
Machinery and equipment	3,501,952
Furniture and fixtures	5,492,219
Vehicles	<u>132,891</u>
Total property and equipment, at cost	35,945,655
Less: Accumulated depreciation	<u>(21,874,601)</u>
Property and Equipment, at Net Book Value	14,071,054
Receivables from Residents	<u>369,165</u>
Total Assets	<u>\$ 19,157,345</u>

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**BALANCE SHEET (CONTINUED)**  
**DECEMBER 31, 2014**

**LIABILITIES AND MEMBERS' EQUITY**

Current Liabilities:	
Accounts payable	\$ 775,792
Accrued expenses	541,596
Deposits from residents	7,585
Current portion of note payable to master trust	500,000
Current portion of notes payable to related parties	<u>277,645</u>
Total Current Liabilities	2,102,618
Long-Term Liabilities:	
Note payable to master trust, net of current portion	10,770,000
Notes payable to related parties, net of current portion	<u>1,107,220</u>
Total Long-Term Liabilities	<u>11,877,220</u>
Total Liabilities	13,979,838
Members' Equity	<u>5,177,507</u>
Total Liabilities and Members' Equity	<u><u>\$ 19,157,345</u></u>

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2014**

Revenues:

Resident services, including deferred entrance fees and non-refundable advance fees of \$1,632,827	\$ 6,313,058
Patient services, net	6,274,057
Miscellaneous revenue	<u>155,902</u>

Total Revenues	12,743,017
----------------	------------

Caregiver and Ancillary Service Costs	<u>1,127,676</u>
---------------------------------------	------------------

Net Revenues	11,615,341
--------------	------------

Operating Expenses:

Resident care	1,927,931
Dietary	1,864,241
Housekeeping	421,743
Plant facility operating costs	1,327,522
General and administrative expenses	3,734,070
Depreciation and amortization	<u>1,070,446</u>

Total Operating Expenses	<u>10,345,953</u>
--------------------------	-------------------

Income from Operations	1,269,388
------------------------	-----------

Other Income (Expense):

Interest expense	(71,898)
Interest income	<u>5,516</u>

Total Other Income (Expense)	<u>(66,382)</u>
------------------------------	-----------------

Income before Provision for Income Taxes	1,203,006
--	-----------

Provision for Income Taxes	<u>12,610</u>
----------------------------	---------------

Net Income	<u>\$ 1,190,396</u>
------------	---------------------

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2014**

Balance at December 31, 2013	\$ 4,937,111
Net Income	1,190,396
Distributions to Members	<u>(950,000)</u>
Balance at December 31, 2014	<u>\$ 5,177,507</u>

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2014**

Cash Flows from Operating Activities:	
Cash received from residents	\$ 6,945,993
Interest income	5,516
Reimbursements for services to non-residents	5,460,397
Cash paid to suppliers and employees	(10,100,652)
Interest paid	(71,898)
Income taxes paid	<u>(12,610)</u>
Net Cash Provided by Operating Activities	2,226,746
Cash Flows from Investing Activities:	
Purchase of property and equipment	<u>(1,174,596)</u>
Net Cash Used in Investing Activities	(1,174,596)
Cash Flows from Financing Activities:	
Payments on note payable to master trust	(500,000)
Payments on notes payable to related parties	(827,394)
Distributions to members	<u>(950,000)</u>
Net Cash Used in Financing Activities	<u>(2,277,394)</u>
Net Decrease in Cash and Cash Equivalents	(1,225,244)
Cash and Cash Equivalents, Beginning of Year	<u>4,309,842</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,084,598</u>

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2014**

Reconciliation of Net Income to Cash Provided by Operating Activities:	
Net Income	\$ 1,190,396
Non-Cash Items Included in Net Income:	
Depreciation and amortization	1,070,446
Changes In:	
Accounts receivable	(480,214)
Inventories	3,898
Prepaid expenses	7,597
Receivables from residents	142,627
Accounts payable	313,478
Accrued expenses	(22,442)
Deposits from residents	<u>960</u>
Net Cash Provided by Operating Activities	<u>\$ 2,226,746</u>

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

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 1: Nature of Business and Summary of Significant Accounting Policies**

**Nature of Business**

Freedom Properties - Hemet, LLC (the "Company") is a California limited liability company which owns and operates a continuing care retirement community known as The Village.

The Village provides permanent living, assisted living, skilled nursing, and other ancillary services through the operation of a retirement facility (the "Retirement Center") which includes 244 residential units and a health care facility (the "Health Care Center") which includes 104 beds.

**Limited Liability Company Agreement**

The following represents a summary of significant financial terms of the Company's Operating Agreement. The agreement should be referred to for more specific terms.

The Company was organized as a Limited Liability Company in the State of California on July 31, 1999, and will continue until December 31, 2050, unless dissolved prior to that date in accordance with its Operating Agreement. The members' liability to general creditors is limited to their investments in the Company. Profits and losses for financial statement purposes are allocated to the members in proportion to their percentage interests.

**Basis of Presentation**

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), with the exception of the effects of recognition of deferred entrance fees as discussed in Note 7. References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative U.S. GAAP.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly-liquid debt instruments with original maturities of three months or less.

**Accounts Receivable**

Accounts receivable consist of amounts due from residents, occupants, or third-party payers for monthly service fees, skilled nursing services, assisted living services and other ancillary services. These services and fees are primarily due on a net 30 day term. Accounts for which no payments have been received are contacted after 60 days and customary collection efforts are taken.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Accounts Receivable (Continued)**

Accounts receivable are periodically evaluated for collectability based on past credit history with residents, occupants, or third-party payers and their current financial condition. After six months of unsatisfactory contact, the Company writes off what they believe will be uncollectible after obtaining approval from management.

The Company provides an allowance for doubtful accounts, as needed, for accounts deemed uncollectible. At December 31, 2014, the allowance for doubtful accounts totaled \$7,875.

**Inventories**

Inventories consist of food, service ware, linen and other necessary supplies. These inventories are valued at the lower of cost or market on a first-in, first-out basis.

**Property and Equipment**

Property and equipment are stated at cost. Major improvements and betterments are capitalized. Maintenance and repairs are expensed as incurred. Property and equipment are depreciated over estimated useful lives of 5 to 40 years. Depreciation is computed using the straight-line method for financial purposes and accelerated methods for income tax purposes.

The estimated useful lives of the related assets are as follows:

Building and improvements	7-40 years
Machinery and equipment	5-12 years
Furniture and fixtures	7-12 years
Vehicles	5 years

Depreciation and amortization expense for the year ended December 31, 2014, totaled \$1,070,446. At December 31, 2014, fully depreciated property improvements and equipment totaled \$5,474,998 and are still in use.

**Long-Lived Assets**

The Company accounts for impairment and disposition of long-lived assets in accordance with ASC 360-10, "*Property, Plant, and Equipment*". ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. There was no impairment of value of such assets for the year ended December 31, 2014.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Receivables from Residents**

Residents, who entered the Retirement Center prior to June 1993, are provided up to 360 days of health care at no additional charge ("free days"). A resident may use 22 free days of health care during a 90-day period. The cost of days in excess of the 22 free days of health care used is charged to the resident. The residents are allowed to accrue the additional cost over their monthly service fee against their refundable deferred entrance fee. Accrued receivables are due and paid upon termination of the resident's occupancy.

**Revenue and Expenses**

In accordance with the Residence Agreement, future monthly fees due from residents for maintenance and operating expenses may be adjusted with appropriate notice as specified in the individual agreements.

**Revenue Recognition**

Revenue from resident and patient services is accounted for on the accrual basis of accounting as earned. See Note 7 for a description of the revenue recognition policy on deferred entrance fees.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered. Revenue from third-party payers is calculated based on specified rates per agreement. The difference between charges generated by third party program patients and the estimated amounts to be received is reflected as provision for contractual discounts as shown below:

Gross patient charges	\$ 7,484,090
Provision for contractual discounts	<u>(1,210,033)</u>
Patient Services, Net	<u>\$ 6,274,057</u>

**Advertising and Promotional Costs**

Advertising and promotional costs are charged to operations when incurred. For the year ended December 31, 2014, advertising and promotional costs and related expenses totaled \$150,724 and are included in general and administrative expenses in the accompanying statement of operations.

**Income Taxes**

The Company is organized as a limited liability company. Taxation of a limited liability company passes the burden of income taxes from the Company to its members. The State of California imposes a minimum franchise tax plus an annual fee on limited liability companies with annual revenues in excess of \$5,000,000.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 1: Nature of Business and Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Recently Adopted Accounting Guidance**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers (Topic 606)*”. As compared to existing guidance on revenue recognition, ASU 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The ASU core principal is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASU 2014-09 is effective for annual periods beginning after December 15, 2017. Early adoption is permitted but no earlier than periods beginning after December 15, 2016. The Company is currently evaluating the impact of the provisions of ASU 2014-09 on the presentation of its financial statements.

**Note 2: Concentrations, Risks and Uncertainties**

The Company maintains cash balances at several banks. At December 31, 2014, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014, the Company’s uninsured cash balances at these institutions totaled \$2,907,275.

Prior to actual occupancy by the resident, a contribution referred to as a Loan Deposit is required to be deposited with the Master Trust pursuant to a residency agreement (the “Residence Agreement”). Under the Residence Agreement, the contribution received will be refundable under the following terms and conditions:

- A. Cancellation During the Trial Residence Period - Under California law, there is a probationary period of 90 days after the date of the signed agreement during which either the Company or the resident may cancel the agreement with or without cause. Death of the resident during the period will cancel the agreement. In the event of cancellation, the resident shall be entitled to a refund in accordance with California law which states that the Company may deduct from the contribution amount a reasonable fee to cover costs and any charges incurred but not paid.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 2: Concentrations, Risks and Uncertainties (Continued)**

B. Cancellation After 90 Days and Before 2 Years - A resident may cancel his or her agreement at any time after the trial residence period for any reason by giving the Company 90 days written notice. Death of the resident will cancel the agreement. However, if an agreement applies to more than one resident, it will remain in effect after the death of one of the residents and be adjusted as described in the agreement. The Company may cancel the agreement at any time after the trial residence period for good cause, upon 90 days written notice to the resident. Examples of good cause are defined in the agreement.

Upon termination of the agreement, during the period from 90 days to 2 years of occupancy, the resident or his or her estate will be entitled to a repayment of a portion of his or her Loan Deposit, less a pre-determined percentage per month of occupancy and any charges incurred but not paid, as determined by the terms and conditions of the individual agreements.

C. Cancellation After 2 Years - The criteria for cancellation after 2 years is the same as the criteria described above for cancellation after 90 days and before 2 years. If termination occurs after 2 years, the resident or his or her estate may be entitled to a portion of his or her Loan Deposit, less any charges incurred but not paid, as determined per the terms and conditions of the individual agreements.

**Note 3: Prepaid Expenses**

Prepaid expenses at December 31, 2014, consist of the following:

Prepaid insurance	\$ 146,917
Other	<u>14,885</u>
Total Prepaid Expenses	<u>\$ 161,802</u>

**Note 4: Receivables from Residents**

Pursuant to the terms discussed in Note 1, the Company has receivables due from residents associated with past healthcare services provided. At December 31, 2014, resident receivables related to past healthcare services totaled \$369,165.

**Note 5: Accrued Expenses**

Accrued expenses at December 31, 2014, consist of the following:

Accrued salaries and wages	\$ 213,542
Accrued payroll taxes	83,614
Accrued vacation	121,848
Workers' compensation reserve	<u>122,592</u>
Total Accrued Expenses	<u>\$ 541,596</u>

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 6: Line of Credit**

The Company has an unsecured revolving line of credit with a bank whereby the Company may borrow a maximum of \$1,500,000 with an interest rate at the bank's reference rate but no less than 4.00 percent per annum. At December 31, 2014, there was no balance outstanding under this line of credit. The line expires in November 2015 and is guaranteed by all members of the Company. The Company has agreed to certain covenants with the bank. As of December 31, 2014, the Company was in compliance with respect to the agreement covenants.

**Note 7: Note Payable to Master Trust and Trust Arrangement**

The residents of The Village established a trust fund for the purpose of providing permanent financing, operating capital and statutory reserves for the benefit of the Retirement Center. The residents sign a Joinder in Master Trust Agreement, joining in and becoming grantors under a Master Trust Agreement between the trustee and the grantors. At December 31, 2014, the Master Trust note payable balance outstanding was \$11,270,000.

In addition, each grantor upon execution of a Joinder in Master Trust Agreement must deposit with the trustee the contribution amount required of such grantor as set forth in the Residence Agreement and the Deposit Subscription Agreement.

The grantors deposit the required contribution amount into the trust and acknowledge in a Commitment Letter that the trustee of the Master Trust is directed to transfer all requested funds in the form of an interest-free loan to the Company for the purpose of providing permanent financing and operating capital for the Retirement Center, subject to availability and specific loan limits described below. This loan is secured by the following:

- A. A first priority deed of trust on The Village Retirement Center's real property and improvements.
- B. A security agreement creating a fast security interest in all of the improvements, fixtures and personal property associated and used in connection with The Village Retirement Center.
- C. An assignment of rents, leases, profits and contracts including, but not limited to, any residence agreement and any management agreements entered into in conjunction with the operation of The Village Retirement Center.

The security shall also include any after-acquired collateral, as well as any insurance proceeds recovered for the loss of any property serving as collateral for this loan.

Upon the resale of a resident's unit, any proceeds over and above the departing resident's loan balance remaining in the trust after admission of a new resident may be loaned to the Company. The total loans to the Company shall not exceed the lesser of \$25,000,000 or 80 percent of the appraised value of the property.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 7: Note Payable to Master Trust and Trust Arrangement (Continued)**

Payments of principal are made on an annual basis and are calculated based on a forty-year loan amortization with the final payment due March 31, 2038. The Company is required to make minimum annual principal payments of approximately \$500,000 for each of the next five years.

A resident's balance is repaid upon termination of the Residence Agreement. In accordance with the Joinder in Master Trust Agreement, the residents request and direct that all principal payments received be paid directly to the Company for the benefit of the resident. The purpose of this provision is to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Company under the Residence Agreement. The deferred entrance fee is included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

The Master Trust also distributes to the Company any excess funds that are not invested in the form of an interest-free loan to the Company or held as reserves. Distributions of this kind also serve to effectuate partial payment of the deferred entrance fee amount owed by the resident to the Company under the Residence Agreement. These fees are included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

Since the Company received an unsecured promise from the residents to pay the deferred entrance fee at the termination of the agreement, the fee does not become due until all the other services required to be rendered under the contract have, in fact, been fulfilled.

Upon termination of the Residence Agreement, the grantor or his/her estate instructs the Master Trust to distribute the balance of the grantor's Loan Deposit, partially to the grantor and partially to the Company, as a deferred entrance fee.

The amount of the fee constructively received by the Company is, at that time, recognized as income and is considered a net payment upon termination. These fees are included in the accompanying statement of operations as deferred entrance fees and non-refundable advance fees.

Deferred entrance fees and non-refundable advance fees for the year ended December 31, 2014, consist of the following:

Annual principal payment	\$ 500,000
Deferred entrance fees	<u>1,132,827</u>
Total Deferred Entrance Fees and Non-Refundable Advance Fees	<u>\$ 1,632,827</u>

Accounting principles generally accepted in the United States of America require that a deferred entrance fee be amortized to income over future periods based on the estimated life expectancy of the resident. As described in the preceding paragraphs, the Company recognizes income from deferred entrance fees upon constructive receipt of payment or on the cash basis method which is not in accordance with accounting principles generally accepted in the United States of America.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 8: Commitments and Contingencies**

**Obligation to Provide Future Services**

The Company annually 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 monthly service fees and revenue from deferred entrance fees based upon the cash basis method. If the present value of the net cost of future services and use of facilities exceeds the present value of the future cash inflows from the monthly service fees and revenue from deferred entrance fees, a liability is recorded. Using a discount rate of 8 percent, the anticipated revenues are estimated to exceed the anticipated cost of future services by \$6,009,272 for the year ended December 31, 2014. Therefore, no liability was accrued.

The obligation of the Company to provide future health services will probably increase as some residents experience financial difficulties and are unable to pay 100 percent for their health care charges. Management has identified one resident experiencing financial difficulty. Management has reasonably estimated that the Company's total future revenues might be reduced by \$56,859 over 2.3 years, the residents' average life expectancy.

**Maintenance Contracts**

The Company has a software maintenance contract requiring monthly payments of \$1,505 through July 2015. The Company has an elevator maintenance contract requiring monthly payments of \$866 through November 2015.

**Reservations and Designations**

At December 31, 2014, there are no cash reserves maintained for contingencies or accumulated for specific projects or purposes.

**Litigation**

The Company experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

**Note 9: Related Party Transactions**

The Company has a long-term note payable to a commonly-owned company for certain remodeling expenses, totaling \$1,162,865, with interest accruing at a fixed rate of 4.232%, payable monthly. The note is being paid in 59 monthly payments of principal and interest totaling \$8,163, and annual option payments totaling 20% of the outstanding balance, with one balloon payment required on or before the maturity date of October 2, 2018. The note is included in notes payable to related parties in the accompanying balance sheet.

**FREEDOM PROPERTIES - HEMET, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**Note 9: Related Party Transactions (Continued)**

Additionally, the Company shares certain expenses with the same commonly-owned entity. At December 31, 2014, the Company had a net payable to this entity for certain shared expenses totaling \$491,680, which is included in accounts payable in the accompanying balance sheet.

Freedom Management Company, an affiliate, functions as the management company of the Company under a formal management agreement. Under the agreement, the Company pays Freedom Management Company compensation equal to five percent of the gross monthly receipts of the Company's operation and deferred entrance fees. Included in accounts payable in the accompanying balance sheet is \$93,071, representing management fees due to Freedom Management Company at December 31, 2014. Management fees expensed during 2014 in the amount of \$556,399 are included in general and administrative expenses in the accompanying statement of operations.

At December 31, 2014, the Company has notes outstanding with two members. The notes currently bear interest at 4.232 percent due in monthly payments of interest only through January 31, 2020, at which time any unpaid principal and interest is due. Prior to maturity, principal payments may be made at the Company's discretion, but no more than once per month. Any payments made during a month will be deemed to have been made on the last day of that month, for purposes of calculating interest due. As of December 31, 2014, the outstanding balances on these notes payable totaled \$222,000 and are included in notes payable to related parties in the accompanying balance sheet. The interest expense paid to the members during the year ended December 31, 2014, was \$7,215 and is included in interest expense in the accompanying statement of operations.

**Note 10: Employee Benefit Plan**

The Company sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a percentage of their compensation up to the maximum amounts prescribed by law, with the employer matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by the employer. Also, the Company may make a discretionary profit sharing contribution as determined each year by the employer. There were no employer matching or profit sharing contributions for the year ended December 31, 2014. Plan administrative expenses totaled \$1,150 for the year ended December 31, 2014, and are included in general and administrative expenses in the accompanying statement of operations.

**Note 11: Subsequent Events**

Events occurring after December 31, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of April 29, 2015, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION**

To the Members of  
Freedom Properties - Hemet, LLC  
Hemet, California

We have audited the financial statements of Freedom Properties - Hemet, LLC (the "Company") as of and for the year ended December 31, 2014, and our report thereon dated April 29, 2015, which appears on pages 1 and 2, was qualified, as the Company recognizes income from deferred entrance fees when the funds are constructively received, yet accounting principles generally accepted in the United States of America require that deferred entrance fees be amortized into income over future periods based on the estimated life expectancy of the resident. The information included in the accompanying schedules of Form 5-1 through Form 5-5 and Form 7-1 has been prepared for filing with the State of California, Department of Social Services, in accordance with Section 1792 of the California Health and Safety Code, and is presented for purposes of additional analysis and is not a required part of 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 and presents fairly in all material respects the continuing care reserve requirements of the Company at December 31, 2014, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the members and management of the Company and for filing with the California Department of Social Services and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.

*White Nelson Diehl Evans LLP*

Irvine, California  
April 29, 2015

**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	12/01/89	\$500,000	\$0		\$500,000
2	09/13/04	\$0	\$7,215		\$7,215
3	11/01/13	\$34,895	\$63,058		\$97,953
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
		<b>TOTAL:</b>	\$70,273	\$0	\$605,168

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

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

**PROVIDER:** Freedom Properties-Hemet, LLC

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

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

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

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

**PROVIDER:** Freedom Properties-Hemet, LLC

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

<b>Line</b>	<b>TOTAL</b>
1	\$605,168
2	\$0
3	[REDACTED]
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b> \$605,168

**PROVIDER:** Freedom Properties-Hemet, LLC

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$10,345,953
2	Deductions:	
a.	Interest paid on long-term debt (see instructions)	\$70,273
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0
c.	Depreciation	\$1,070,446
d.	Amortization	\$0
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$5,460,397
f.	Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$6,601,116
4	Net Operating Expenses	\$3,744,837
5	Divide Line 4 by 365 and enter the result.	\$10,260
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve amount.	\$769,487

**PROVIDER:** Freedom Properties-Hemet, LLC  
**COMMUNITY:** The Village

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

Provider Name: Freedom Properties-Hemet, LLC  
Fiscal Year Ended: 12/31/2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2014 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 2014 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	\$105,168
[2] Operating Expense Reserve Amount	\$769,487
[3] <b>Total Liquid Reserve Amount:</b>	<b>\$874,655</b>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents		\$3,084,598
[5] Investment Securities		\$0
[6] Equity Securities		
[7] Unused/Available Lines of Credit		\$1,500,000
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other:	\$369,165	
<u>Receivables from Residents (see Auditor's Note 4) These receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of The Village.</u>		
<b>Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]</b>	\$369,165 [12]	\$4,584,598
<b>Reserve Obligation Amount: [13]</b>	\$105,168 [14]	\$769,487
<b>Surplus/(Deficiency): [15]</b>	\$263,997 [16]	\$3,815,111

Signature:

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

Date: 4/29/2015

\_\_\_\_\_  
Partner/Chief Financial Officer  
(Title)

Provider Name: Freedom Properties-Hemet, LLC  
 Fiscal Year Ended: 12/31/2014

**DSS - Reserve Report - Part of Form 5-5  
 Description of Reserves under SB 1212**

**Total Qualifying Assets as Filed:**

Cash and Cash Equivalents	3,084,598	Only drawn when necessary. Receivables from Residents (see Auditor's Note 4). These receivables are amounts due for Healthcare services, secured by the residents' refund from the Master Trust, in turn secured by first trust deed against the Retirement Center of The Village.
Line of Credit	1,500,000	
Other	369,165	
<b>Total Qualifying Assets as Filed</b>	<u><u>4,953,763</u></u>	

**Reservations and Designations:** None

---

Per Capita Cost of Operations Operating Expenses (Form 5-4 line #1)	10,345,953
Mean # of CCRC Residents (Form 1-1 line #10)	297
<b>Per Capita Cost of Operations</b>	<u><u>34,835</u></u>

**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>\$1,607-\$3,455</u>	<u>\$3,700</u>	<u>\$6,750</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>2.5%</u>	<u>2.16%</u>	<u>2.22%</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: RC in May, 2014 & HC in February, 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: Freedom Properties-Hemet, LLC  
COMMUNITY: The Village, Hemet, California

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**  
**Supporting Explanation for Line 5**

Reasons for increase in monthly service fees:

1. Decrease in CPI All Consumers from Oct, 2012 thru Oct, 2013 =  $-.07\%$
2. Increase in CPI Health Care from Oct, 2012 thru Oct, 2013 =  $1.4\%$
3. Increase in California minimum wage July 2014 =  $12.5\%$  (\$1.00 hr.)

**PROVIDER:** Freedom Properties-Hemet, LLC  
**COMMUNITY:** The Village, Hemet, California

# KEY INDICATORS REPORT

Freedom Properties - Hemet, LLC

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

Chief Financial Officer Signature

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>OPERATIONAL STATISTICS</b>														
1. Average Annual Occupancy by Site (%)	84.2%	81.2%	74.4%	68.2%	65.8%	63.4%	63.5%	68.2%	70.0%	72.0%	74.0%	76.0%	78.0%	80.0%
<b>MARGIN (PROFITABILITY) INDICATORS</b>														
2. Net Operating Margin (%)	7.01%	9.76%	12.81%	13.49%	11.21%	7.91%	2.26%	12.51%	16.48%	16.22%	16.07%	15.94%	15.82%	15.71%
3. Net Operating Margin - Adjusted (%)	27.05%	23.51%	25.80%	27.10%	20.81%	18.07%	22.13%	32.13%	34.05%	32.51%	31.65%	30.84%	30.08%	29.37%
<b>LIQUIDITY INDICATORS</b>														
4. Unrestricted Cash and Investments (\$000)	\$1,872	\$1,387	\$1,823	\$2,609	\$2,789	\$2,651	\$4,822	\$3,454	\$3,300	\$3,325	\$3,350	\$3,375	\$3,400	\$3,425
5. Days Cash on Hand (Unrestricted)	73.93	54.25	75.12	109.24	119.60	113.86	201.69	135.91	122.12	116.62	113.76	110.97	108.25	105.60
<b>CAPITAL STRUCTURE INDICATORS</b>														
6. Deferred Revenue from Entrance Fees (\$000)	\$2,092	\$1,353	\$1,208	\$1,203	\$707	\$688	\$1,358	\$1,633	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
7. Net Annual E/F proceeds (\$000)	\$1,452	\$1,033	\$164	\$190	\$300	\$127	\$1,256	\$2,271	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
8. Unrestricted Net Assets (\$000)	\$19,804	\$19,124	\$18,666	\$18,883	\$18,343	\$18,258	\$19,952	\$19,157	\$18,401	\$17,730	\$16,985	\$16,214	\$15,419	\$14,598
9. Annual Capital Asset Expenditure (\$000)	\$361	\$232	\$190	\$284	\$230	\$356	\$1,362	\$1,175	\$600	\$400	\$350	\$350	\$350	\$350
10. Annual Debt Service Coverage Revenue Basis (x)	106.86%	146.87%	176.92%	173.68%	130.69%	87.74%	21.97%	129.22%	203.53%	221.02%	232.04%	243.39%	255.07%	267.11%
11. Annual Debt Service Coverage (x)	397.20%	353.55%	209.75%	211.65%	190.66%	113.04%	251.57%	544.22%	660.45%	677.94%	688.96%	700.30%	711.99%	724.03%
12. Annual Debt Service/Revenue (%)	4.05%	4.16%	4.32%	4.37%	4.83%	4.98%	5.14%	4.88%	4.31%	4.03%	3.85%	3.68%	3.52%	3.39%
13. Average Annual Effective Interest Rate (%)	0.16%	0.17%	0.18%	0.20%	0.22%	0.24%	0.23%	0.61%	0.49%	0.42%	0.35%	0.29%	0.21%	0.15%
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	12.78%	10.17%	13.87%	20.64%	22.98%	22.34%	37.41%	30.48%	31.21%	33.68%	36.32%	39.37%	42.91%	46.77%
15. Average Age of Facility (years)	15.81	17.17	16.36	19.31	19.99	21.02	21.63	20.44	20.95	21.46	21.97	22.48	22.98	23.49

Notes of unusual activity

Line 7, 2009 and 2009: With the downturn in the real estate market, we've experienced a reduction in sales. We anticipate an increase in sales in 2011 and beyond.  
Line 9, 2005: Includes \$75k for HVAC and Fire Alarm equipment upgrades and greater than normal apartment redecorating due to sales activity.

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

Date Prepared: 04/29/15

FACILITY NAME: The Village  
 ADDRESS: 2200 W. Acacia Avenue, Hemet, CA ZIP CODE: 92545 PHONE: 951-658-3369  
 PROVIDER NAME: Freedom Properties-Hemet, LLC FACILITY OPERATOR: Freedom Management Company  
 RELATED FACILITIES: Freedom Village RELIGIOUS AFFILIATION: None  
 YEAR OPENED: 1989 # OF ACRES: 12  SINGLE STORY  MULTI-STORY  OTHER: HC is Single Story MILES TO SHOPPING CTR: 1/8  
 MILES TO HOSPITAL: 3

**NUMBER OF UNITS:**

<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
APARTMENTS — STUDIO: <u>6</u>	ASSISTED LIVING: <u>52</u>
APARTMENTS — 1 BDRM: <u>120</u>	SKILLED NURSING: <u>54</u>
APARTMENTS — 2 BDRM: <u>118</u>	SPECIAL CARE: _____
COTTAGES/HOUSES: _____	DESCRIPTION: > _____
RLU OCCUPANCY (%) AT YEAR END: <u>68.4%</u>	> _____

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

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%  FULLY AMORTIZED  OTHER: \_\_\_\_\_

RANGE OF ENTRANCE FEES: \$ 60,000 - \$ 195,000 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 25% discount

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: None OTHER: \_\_\_\_\_

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > One resident, nominated by the residents' council, joins the table at each partnership meeting to offer feedback, advice and resident perspective on all agenda items.

FACILITY SERVICES AND AMENITIES					
COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
BEAUTY/BARBER SHOP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (4 TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEALS (1/DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input 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 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 type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Transportation - Special</u>	<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:** Freedom Properties-Hemet, LLC

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b>				
(Excluding amortization of entrance fee income)	9,166,071	8,937,471	8,845,766	9,982,514
<b>LESS OPERATING EXPENSES</b>				
(Excluding depreciation, amortization, and interest)	-8,512,624	-8,498,767	-8,725,577	-9,275,507
<b>NET INCOME FROM OPERATIONS</b>	653,447	438,704	120,189	707,007
<b>LESS INTEREST EXPENSE</b>	-28,083	-29,360	-31,335	-71,898
<b>PLUS CONTRIBUTIONS</b>				
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b>				
(excluding extraordinary items)	-2,120	-9,071	-6,102	-7,094
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	623,244	400,273	82,752	628,015
<b>NET CASH FLOW FROM ENTRANCE FEES</b>				
(Total Deposits Less Refunds)	299,845	126,500	1,256,262	2,270,686

**DESCRIPTION OF SECURED DEBT** (as of most recent fiscal year end)

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
TV of CA Trust	10,770,000	0%	01/01/1989	03/31/2038	40 years

**FINANCIAL RATIOS** (see next page for ratio formulas)

	<b>2013 CCAC Medians 50<sup>th</sup> Percentile (optional)</b>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>DEBT TO ASSET RATIO</b>		65%	65%	59%
<b>OPERATING RATIO</b>		95%	99%	94%
<b>DEBT SERVICE COVERAGE RATIO</b>		105%	237%	480%
<b>DAYS CASH ON HAND RATIO</b>		113	201	135

**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

	<u>2011</u>	<u>%</u>	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>
STUDIO	1,547	2.9	1,568	2.5	1,608	2.5	1,636
ONE BEDROOM	2,008	2.9	2,066	2.5	2,100	2.5	2,156
TWO BEDROOM	2,437	2.9	2,530	2.5	2,618	2.5	2,684
COTTAGE/HOUSE							
ASSISTED LIVING	3,700	0	3,700	0	3,700	2.2	3,780
SKILLED NURSING	206	4.4	215	4.7	225	2.2	230
SPECIAL CARE							

**COMMENTS FROM PROVIDER:** > The Village's Resident Master Trust has a permanent first trust deed against the Retirement Center. Of the > \$10.77 million recorded on the books as Note Payable to Master Trust, only \$2.34 million is refundable to residents. Therefore, the true liabilities > against Freedom Properties-Hemet total approximately \$3.45 million and represent a debt to asset ratio = 23%.

**FINANCIAL RATIO FORMULAS**

**LONG-TERM DEBT TO TOTAL ASSETS RATIO**

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

**OPERATING RATIO**

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

**DEBT SERVICE COVERAGE RATIO**

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

**DAYS CASH ON HAND RATIO**

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

**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.