

ANNUAL REPORT CHECKLIST

FISCAL YEAR ENDED:
06 / 30 / 15

PROVIDER(S): Mercy Retirement and Care Center

CCRC(S): Mercy Retirement and Care Center

RECEIVED
NOV 03 2015

CONTACT PERSON: Marjorie Bailey

CONTINUING CARE
CONTRACTS BRANCH

TELEPHONE NO.: (510) 769-2758 EMAIL: m Bailey@eldercarealliance.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: \$ 250
 - 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.

 **MERCY RETIREMENT
& CARE CENTER**

an ELDER CARE ALLIANCE community

October 23, 2015

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State of California, Health & Human Services Agency
Department of Social Services
Community Care Licensing Division
Statewide Adult & Senior Care Program Office
744 P Street, MS 8-3-90
Sacramento, CA 95814

To Whom It May Concern:

I, Adriene Iverson, Chief Executive Officer of Mercy Retirement and Care Center, certify that the enclosed continuing care reserve report is correct to the best of my knowledge;

- 1) that the annual reserve reports and amendments are fairly stated;
- 2) that each continuing care contract form in use for new residents has been approved by the Department of Social Services;
- 3) that Mercy Retirement and Care Center maintains the required reserves for prepaid continuing care contracts, statutory reserves, and refund reserves as of the date of this letter.

Sincerely,



Adriene Iverson
Chief Executive Officer

(510) 534-8540 • FAX (510) 261-7551 • 3431 Foothill Boulevard • Oakland, CA 94601

"Compassionate Care for the Elderly"

www.eldercarealliance.org

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	1
[2]	Number at end of fiscal year	1
[3]	Total Lines 1 and 2	2
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	1
All Residents		
[6]	Number at beginning of fiscal year	155
[7]	Number at end of fiscal year	144
[8]	Total Lines 6 and 7	299
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	149.50
[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).	0.67%

**FORM 1-2
ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service – interest only)	\$14,806,145
[a] Depreciation	\$952,890
[b] Debt Service (Interest Only)	\$0
[2] Subtotal (add Line 1a and 1b)	\$952,890
[3] Subtract Line 2 from Line 1 and enter result.	\$13,853,255
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	0.67%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$92,816.81
[6] Total Amount Due (multiply Line 5 by .001)	x .001 \$250 - Minimum fee per Statute

PROVIDER: Mercy Retirement and Care Center
 COMMUNITY: _____

Elder Care Alliance and Subordinate Corporations

**Independent Auditor's Report and Consolidated
Financial Statements**

June 30, 2015 and 2014

BKD_{LLP}
CPAs & Advisors

Elder Care Alliance and Subordinate Corporations
June 30, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying consolidated financial statements of Elder Care Alliance and Subordinate Corporations (ECA), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Directors
Elder Care Alliance and Subordinate Corporations
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ECA as of June 30, 2015 and 2014, and the results of its operations, 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.

BKD, LLP

Springfield, Missouri
October 23, 2015

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Financial Position
June 30, 2015 and 2014
(In Thousands)

Assets

	2015	2014
Current Assets		
Cash	\$ 14,761	\$ 6,442
Patient and resident accounts receivable, net of allowance; 2015 - \$175, 2014 - \$527	1,197	2,108
Prepaid expenses and other	493	719
Other receivables	388	11,062
Total current assets	16,839	20,331
Investments and Interest in Investment Pool	31,943	24,079
Assets Limited As To Use		
Internally designated	602	901
Held by mortgagee under loan agreement with HUD		
Reserve for replacements	817	678
Escrow deposits	754	785
Externally restricted by donor - cash	678	678
Total assets limited as to use	2,851	3,042
Property and Equipment, Net	63,445	62,659
Deferred Financing Costs and Other	2,156	2,247
Assets Held for Sale	-	8,682
Total assets	\$ 117,234	\$ 121,040

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	<u>2015</u>	<u>2014</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,786	\$ 2,628
Accounts payable	1,668	1,853
Accrued expenses and other	<u>3,327</u>	<u>3,890</u>
Total current liabilities	6,781	8,371
Long-Term Debt	83,357	100,070
Asset Retirement Obligations	636	604
Deferred Revenue - Unearned Entrance Fees	-	238
Liabilities Held for Sale	<u>-</u>	<u>434</u>
Total liabilities	<u>90,774</u>	<u>109,717</u>
Net Assets		
Unrestricted	19,303	3,959
Temporarily restricted	3,510	3,717
Permanently restricted	<u>3,647</u>	<u>3,647</u>
Total net assets	<u>26,460</u>	<u>11,323</u>
Total liabilities and net assets	<u>\$ 117,234</u>	<u>\$ 121,040</u>

Elder Care Alliance and Subordinate Corporations

Consolidated Statements of Activities

Years Ended June 30, 2015 and 2014

(In Thousands)

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains and Other Support				
Net patient and resident service revenue	\$ 40,329	\$ -	\$ -	\$ 40,329
Contributions	1,011	504	-	1,515
Other revenue, net	334	-	-	334
Net assets released from restrictions for				
Operations	819	(819)	-	-
Charity	36	(36)	-	-
Total revenues, gains and other support	<u>42,529</u>	<u>(351)</u>	<u>-</u>	<u>42,178</u>
Expenses and Losses				
Salaries and benefits	20,936	-	-	20,936
Purchased services and other	7,646	-	-	7,646
Supplies	2,664	-	-	2,664
Depreciation, amortization and other	3,225	-	-	3,225
Interest and fees	3,542	-	-	3,542
Gain on disposal of property and equipment	-	-	-	-
Provision for uncollectible accounts	29	-	-	29
Total expenses and losses	<u>38,042</u>	<u>-</u>	<u>-</u>	<u>38,042</u>
Operating Income (Loss)	<u>4,487</u>	<u>(351)</u>	<u>-</u>	<u>4,136</u>
Other Income				
Interest and dividend income	59	-	-	59
Gains from investment pool	710	150	-	860
Forgiveness of debt	568	-	-	568
Total other income	<u>1,337</u>	<u>150</u>	<u>-</u>	<u>1,487</u>
Excess (Deficiency) of Revenues Over Expenses				
From Continuing Operations	5,824	(201)	-	5,623
Discontinued Operations				
Gain from discontinued operations	9,564	-	-	9,564
Excess (Deficiency) of Revenues Over Expenses				
15,388	(201)	-	15,187	
Net assets released for purchase of property and equipment	6	(6)	-	-
Investment return - net change in unrealized losses on investments	(50)	-	-	(50)
Increase (Decrease) in Net Assets	15,344	(207)	-	15,137
Net Assets, Beginning of the Year	<u>3,959</u>	<u>3,717</u>	<u>3,647</u>	<u>11,323</u>
Net Assets, End of the Year	<u>\$ 19,303</u>	<u>\$ 3,510</u>	<u>\$ 3,647</u>	<u>\$ 26,460</u>

See Notes to Consolidated Financial Statements

2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 37,298	\$ -	\$ -	\$ 37,298
841	974	-	1,815
330	-	-	330
1,316	(1,316)	-	-
71	(71)	-	-
<u>39,856</u>	<u>(413)</u>	<u>-</u>	<u>39,443</u>
21,061	-	-	21,061
7,089	-	-	7,089
2,441	-	-	2,441
3,220	-	-	3,220
3,784	-	-	3,784
(1)	-	-	(1)
92	-	-	92
<u>37,686</u>	<u>-</u>	<u>-</u>	<u>37,686</u>
<u>2,170</u>	<u>(413)</u>	<u>-</u>	<u>1,757</u>
79	-	-	79
1,151	893	-	2,044
-	-	-	-
<u>1,230</u>	<u>893</u>	<u>-</u>	<u>2,123</u>
3,400	480	-	3,880
<u>3,386</u>	<u>-</u>	<u>-</u>	<u>3,386</u>
6,786	480	-	7,266
1,141	(1,141)	-	-
(23)	-	-	(23)
7,904	(661)	-	7,243
<u>(3,945)</u>	<u>4,378</u>	<u>3,647</u>	<u>4,080</u>
<u>\$ 3,959</u>	<u>\$ 3,717</u>	<u>\$ 3,647</u>	<u>\$ 11,323</u>

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Operating Activities		
Change in net assets	\$ 15,137	\$ 7,243
Items not requiring (providing) operating cash flows		
Debt forgiveness	(568)	(1,300)
Loss on extinguishments of debt	32	1,047
Gain on sale of operations	(9,673)	(2,732)
Gain on disposal of property and equipment	-	(1)
Depreciation and other	3,137	3,323
Amortization of deferred financing costs	56	117
Amortization of earned entrance fees	-	(103)
Accretion of asset retirement obligations	32	56
Provision for uncollectible accounts	29	92
Realized and unrealized gains on investments and investment pool, net	(561)	(1,905)
Restricted contributions and investment income	(654)	(1,867)
Changes in		
Patient and resident accounts receivable	882	(641)
Prepaid expenses and other assets	226	(85)
Other receivables	10,674	(1,440)
Accounts payable	(398)	907
Accrued liabilities and other long-term liabilities	(563)	(158)
	<u>17,788</u>	<u>2,553</u>
Investing Activities		
Payment of closing costs for sale of operations	(788)	(744)
Purchases of investments, investment pool and assets limited as to use	(7,536)	(2,952)
Sales of investments, investment pool and assets limited as to use	127	2,307
Proceeds from sale of operations	18,470	15,500
Purchases of property and equipment	(3,708)	(2,071)
	<u>6,565</u>	<u>12,040</u>
Financing Activities		
Proceeds from restricted contributions and investment income	654	1,867
Principal payments of long-term debt	(16,987)	(17,081)
Payment of deferred financing costs	-	(75)
	<u>(16,333)</u>	<u>(15,289)</u>

Elder Care Alliance and Subordinate Corporations
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Increase (Decrease) in Cash	\$ 8,020	\$ (696)
Cash, Beginning of Year	8,021	8,717
Cash, End of Year	\$ 16,041	\$ 8,021
Reconciliation of Cash		
to Statements of Financial Position		
Cash	\$ 14,761	\$ 6,442
Cash in assets limited as to use		
Internally designated	602	901
Restricted	678	678
Total cash	\$ 16,041	\$ 8,021
Supplemental Cash Flows Information		
Interest paid	\$ 3,306	\$ 3,740
Property and equipment acquisitions included in accounts payable	\$ 264	\$ 51

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Elder Care Alliance (ECA-Corporate) is a California nonprofit public benefit corporation, exempt from federal and state income taxes, established on December 6, 1996. ECA-Corporate is cosponsored by the Sierra Pacific Synod of the Evangelical Lutheran Church in America (the "Lutheran Synod") and the Sisters of Mercy of the Americas – West Midwest Communities (the "Sisters of Mercy").

ECA-Corporate was established with the support and leadership of Dignity Health. The shared vision of Dignity Health, ECA-Corporate and its cosponsors, the Lutheran Synod and the Sisters of Mercy, was to create a network of faith-centered, nonprofit elder care facilities and services to meet the needs of the burgeoning population of elderly people who seek support and assistance with activities of daily living in a noninstitutional environment.

On May 15, 1997, two separate nonprofit corporations, Mercy Retirement and Care Center (MRCC) and Salem Lutheran Home Association of the Bay Cities, Inc. (SLH), entered into an affiliation agreement. Under the terms of this agreement, ECA-Corporate became the sole corporate member of both MRCC and SLH. ECA-Corporate provides supportive housing, skilled nursing, rehabilitation and social services principally to the aged through these subordinate corporations. MRCC and SLH retain their individual identities, assets and liabilities and relationships with their individual sponsors and operate under a common management team through ECA-Corporate.

MRCC is a California nonprofit public benefit corporation organized for the purposes of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 106 units licensed as residential care, including a 22-unit dementia care facility and 59 units licensed as skilled nursing. Beginning on December 28, 2011, MRCC began offering a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents to the use and privileges of MRCC for life. Residents are also entitled to certain healthcare services provided in the MRCC assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in MRCC. MRCC generates its revenues primarily from residential care and skilled nursing fees.

SLH is a California nonprofit public benefit corporation organized for the purpose of providing residences, assistance with daily living needs and skilled nursing care for elderly persons. The facilities include 134 units licensed as residential care, including a 30-unit dementia care facility and 48 units licensed as skilled nursing. SLH offers a "continuing care" concept in which residents enter into a residential contract that generally provides for a specific entrance fee and for monthly service fees throughout the residents' tenancy. Generally, payment of these fees entitles residents

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

to the use and privileges of SLH for life. Residents are also entitled to certain healthcare services provided in the SLH assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in SLH. SLH generates its revenues primarily from residential care and skilled nursing fees. ECA sold the senior living operations including certain assets and liabilities of SLH on July 1, 2014 (see *Note 15*).

The following entities are California nonprofit public benefit corporations organized for the purpose of developing residential care facilities for the elderly (RCFEs) to provide residences and assistance with daily living needs for elderly persons and generate its revenues primarily from residential care fees.

They are subordinate corporations to ECA-Corporate and operate under a common management team through ECA-Corporate:

Elder Care Alliance of Camarillo (AVC) doing business under the name of “AlmaVia of Camarillo” operates an 85-unit RCFE with 25 units designated for dementia care in Camarillo, California.

Elder Care Alliance of San Francisco (AVSF) doing business under the name of “AlmaVia of San Francisco” operates a 135-unit RCFE with 41 units designated for dementia care in San Francisco, California.

Elder Care Alliance of Union City (AVUC) doing business under the name “AlmaVia Assisted Living” operated a 95-unit RCFE with 24 units designated for dementia care in Union City, California. ECA sold the senior living operations including certain assets and liabilities of AVUC on May 16, 2014 (see *Note 15*).

Elder Care Alliance of San Rafael (AVSR) doing business under the name “AlmaVia of San Rafael” operates a 137-unit RCFE with 22 units designated for dementia care in San Rafael, California.

Hereinafter, ECA-Corporate and its subordinate corporations are referred to collectively as “ECA.”

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ECA-Corporate and its subordinate corporations, MRCC, SLH, AVC, AVSF, AVUC and AVSR. All significant transactions and accounts between the entities have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Cash

At June 30, 2015, ECA's cash accounts exceeded federally insured limits by approximately \$17,140.

Investments, Interest in Investment Pool and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value and are classified as "available for sale" securities. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in investment pools are carried at fair value pursuant to the fair value option provisions of ASC Topic 825. ECA's interest in investment pools represents funds it has invested in Dignity Health-managed investment pools. ECA may deposit or withdraw funds in the pools at its discretion; however, withdrawals require advance notice. Earnings (including distributions and increases or decreases in the value of ECA's share of the pool) are included in gains (losses) from investment pool.

Assets Limited As To Use

Assets limited as to use include (1) assets internally designated by the Board of Directors for payment of workers' compensation claims, over which the Board retains control and may at its discretion subsequently use for other purposes, (2) assets held in escrow for payment of property taxes, property insurance, mortgage insurance premium, occupancy stabilization, debt service and reserves for replacements pursuant to the loan agreements with HUD and (3) assets restricted by donors.

Patient and Resident Accounts Receivable

As part of its mission to serve the community, ECA provides care to residents even though they may participate in programs that do not pay full charges, or they may lack adequate insurance or private means. ECA manages their private resources and/or collection risk by regularly reviewing their accounts and contracts and by providing appropriate allowances based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Accounts receivable are stated at net realizable value from third-party payers, residents and others. Accounts receivable are due in full when billed and are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method based over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Buildings and improvements	15-40 years
Furniture and equipment	3-10 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

ECA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2015 and 2014.

Deferred Financing Costs

Deferred financing costs represent bond and long-term debt issuance costs which are amortized on the straight-line method over the term of the respective debt agreements.

Deferred Revenue - Unearned Entrance Fees

Entrance fees received for continuing care residency are deferred and recognized as revenue over the life expectancy of the resident. Refunds may be made up to two years for certain fees after the date of occupancy. A separate refund liability has not been established as the amount is deemed immaterial based upon experience.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Obligation to Provide Future Services

MRCC and SLH provide services primarily on a fee-for-service basis. MRCC and SLH fees are not limited to stated or cost-of-living increases. MRCC and SLH set resident rates to fully absorb their ongoing operating costs. Accordingly the accompanying financial statements do not reflect a liability to provide future services and the use of facilities at June 30, 2015 and 2014.

Net Assets

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ECA and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Certain net assets have been designated by the Board for specific use in future periods. In addition, MRCC has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of property, plant and equipment or for repayment of long-term debt. The funds may be redesignated for other uses as appropriate.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those whose use by ECA has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets – Permanently restricted net assets have been restricted by donors to be maintained by ECA in perpetuity. Generally, the donors of these assets permit ECA to use all or part of the income earned on related investments for general or specific purposes.

Net Patient and Resident Service Revenue and Monthly Fees

ECA has agreements with third-party payers that provide for payments to ECA at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges and per diem payments. Net revenues from Medicare and Medi-Cal programs were approximately \$3,474 and \$1,776, respectively, for the year ended June 30, 2015, and approximately \$4,560 and \$2,690, respectively, for the year ended June 30, 2014. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change in the near term.

Charitable Care

ECA provides charitable care to residents who are unable to pay for services or monthly service fees. The amount of charitable care is included in net revenue.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

MRCC was named the beneficiary of a \$9,500 estate comprised of cash, investments and property. During the year ended June 30, 2014, the value of the estate increased to \$10,015 and was converted to cash by the executor. As of June 30, 2014, the estate had not been received and a receivable of \$10,015 was included in other receivables in the statements of financial position. During the year ended June 30, 2015, cash proceeds were received totaling \$9,926, after executory costs were paid.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement Obligations*, defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. As of June 30, 2015 and 2014, there was \$636 and \$1,038, respectively, of conditional asset retirement obligations included in the statements of financial position. At June 30, 2014, SLH's conditional asset retirement obligation of \$434 was included in liabilities held for sale on the statements of financial position. Effective July 1, 2014, SLH no longer has a conditional asset retirement obligation, as it transferred to the acquirer with the building on the date of sale. Accretion expense totaled \$32 and \$56 for the years ended June 30, 2015 and 2014, respectively.

Excess (Deficiency) of Revenues Over Expenses

The statements of activities include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Elder Care Alliance and Subordinate Corporations

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Professional Liability Claims

ECA recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 9*.

Income Taxes

ECA-Corporate and its subordinate corporations are each exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the state in which they operate. However, ECA is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Concentration of Credit Risk

ECA grants credit without collateral to its patients and residents. The mix of receivables from patients, residents and third-party payers at June 30, 2015 and 2014, is:

	2015	2014
Medicare	37%	43%
Medi-Cal	42%	30%
Other third-party payers	17%	12%
Patients and residents	4%	15%
	<u>100%</u>	<u>100%</u>

Financial instruments which could potentially subject ECA to significant concentrations of credit risk consist primarily of investments in marketable securities. ECA, primarily through external money managers, has significant investments in marketable securities which are subject to price fluctuation. This risk is controlled through a diversified portfolio and regular monitoring procedures.

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Note 3: Investments and Investment Return

Composition of investments, interest in investment pool and assets limited as to use at June 30, 2015 and 2014, are summarized in the following table:

	Amortized Cost	2015 Unrealized Gain (Loss)	Fair Value	Amortized Cost	2014 Unrealized Gain (Loss)	Fair Value
Interest in investment pool	\$ 23,890	\$ 1,661	\$ 25,551	\$ 15,796	\$ 1,930	\$ 17,726
Fixed income securities						
U.S. Treasury securities	541	(3)	538	393	(3)	390
U.S. agencies	1,171	-	1,171	1,213	(4)	1,209
U.S. government						
Remics/CMOs	97	(1)	96	-	-	-
Corporate debt securities	1,322	(16)	1,306	1,646	3	1,649
Foreign bonds	359	(1)	358	400	1	401
Municipal bonds	392	(4)	388	298	-	298
Cash and cash equivalents						
Money market mutual funds	65	-	65	137	-	137
Cash	1,283	-	1,283	1,581	-	1,581
Other investments	452	-	452	246	6	252
Certificates of deposit	2,015	-	2,015	2,015	-	2,015
Deposits held by mortgagee under loan agreement with HUD	1,571	-	1,571	1,463	-	1,463
	<u>\$ 33,158</u>	<u>\$ 1,636</u>	<u>\$ 34,794</u>	<u>\$ 25,188</u>	<u>\$ 1,933</u>	<u>\$ 27,121</u>

These investments are included on the statements of financial position as follows:

	2015	2014
Investments and interest in investment pool	\$ 31,943	\$ 24,079
Assets limited as to use, internally designated	602	901
Assets limited as to use, held by mortgagee under loan agreement with HUD		
Reserve for replacements	817	678
Escrow deposits	754	785
Assets limited as to use, externally restricted by donor - cash	678	678
	<u>\$ 34,794</u>	<u>\$ 27,121</u>

Interest in investment pools is reported at fair value with changes in fair value reflected in excess (deficiency) of revenues over expenses in the consolidated statements of activities, see *Note 14*.

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Total investment return is comprised of the following:

	2015	2014
Interest and dividend income	\$ 59	\$ 79
Gains from investment pool		
Realized gains	880	946
Unrealized gains (losses)	(269)	982
Interest and dividend income	249	116
Change in unrealized losses	(50)	(23)
	\$ 869	\$ 2,100

Total investment return is reflected in the consolidated statements of activities as follows:

	2015	2014
Unrestricted net assets		
Interest and dividend income	\$ 59	\$ 79
Gains from investment pool	710	1,151
Investment return - net change in unrealized losses on investments	(50)	(23)
Temporarily restricted net assets		
Gains from investment pool	150	893
	\$ 869	\$ 2,100

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Alternative Investments

Except as described below, the fair value of the interest in investment pools considered alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	\$ 13,808	\$ -	Semimonthly	Prenotification of 7 days
Dignity Health philanthropic asset management fund of funds (B)	\$ 11,743	\$ -	Semimonthly	Prenotification of 7 days

	June 30, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dignity Health funded depreciation fund of funds (A)	\$ 12,794	\$ -	Semimonthly	Prenotification of 7 days
Dignity Health philanthropic asset management fund of funds (B)	\$ 4,932	\$ -	Semimonthly	Prenotification of 7 days

- (A) This fund seeks to generate a real rate of return of 4.0% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 40% to 60%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small-cap securities and international equity securities. The fixed income securities are allocated between various domestic fixed income securities. The fund also includes a small amount of private equity, real estate and hedge fund of funds investments.
- (B) This fund seeks to generate a real rate of return of 5.5% as its long-term investment objective. The fund tries to achieve this objective by diversification and allocation of the fund's capital between various equity and fixed income securities at a ratio of 60% to 40%, respectively. The equity securities are allocated between various domestic mid- and large-cap securities, domestic small-cap securities and international equity securities. The fixed income securities are allocated between various domestic fixed income securities.

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Note 4: Property and Equipment and Assets Held for Sale

Property and equipment consist of the following at June 30:

	2015	2014
Land	\$ 4,580	\$ 4,580
Land lease	9,748	9,748
Land improvements	1,107	1,082
Buildings and leasehold improvements, building improvements and building service equipment	71,046	69,071
Equipment	10,256	9,559
Construction in progress	2,893	1,667
	99,630	95,707
Less accumulated depreciation	36,185	33,048
Property and equipment, net	63,445	62,659
Assets held for sale	-	8,682
	63,445	71,341
Total property and equipment	\$ 63,445	\$ 71,341

Land lease includes a capitalized land lease of approximately \$4.1 million for AVSF for the first 30 years' base rent prepaid as required by the ground lease agreement with the Roman Catholic Archbishop of San Francisco as more fully described in *Note 10*. The land lease was amended on October 1, 2011, due to HUD refinancing. The lease now expires March 2075 and has no options to extend the term of the lease. The amendment required AVSF to prepay approximately \$4,005 for an additional 43 years' base rent. The land lease will be amortized over the remaining lease term using the straight-line method. The land lease has accumulated amortization of \$1,637 and \$1,529 at June 30, 2015 and 2014, respectively, and a net land lease balance of \$6,460 and \$6,568 at June 30, 2015 and 2014, respectively.

The property of AVUC was sold on May 16, 2014 (see *Note 15*), which included a land lease in the amount of \$1,150. The property was purchased by AVUC from the Community Redevelopment Agency of the City of Union City (the "Agency") in the amount of one dollar for the purpose of constructing the AVUC facility. This transaction was accounted for as a contribution. Based on the Agency Agreement, the Agency had the option to repurchase the property from AVUC for one dollar during the option period which began approximately 55 years after completion of the AVUC facility and expired after one year. The land lease was being amortized ratably over 55 years until the sale occurred.

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Land lease also includes property that was purchased by AVSR from the Lutheran Synod in the form of a promissory note for \$1,650 for the purpose of constructing the AVSR facility. The promissory note with the Lutheran Synod was paid in full through HUD-insured financing obtained in March 2010 (see *Note 5*). The existing ground lease with the Lutheran Synod was amended due to the refinancing. The original land lease gave the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the AVSR bonds, not to exceed 60 years. Therefore, the land lease was being amortized ratably over 40 years. The amended ground lease gives the Lutheran Synod the right to repurchase the property for one dollar, ten years after full payment of the HUD insured loan, not to exceed 60 years. The land lease is now being amortized ratably over 45 years resulting in accumulated amortization of \$351 and \$315 at June 30, 2015 and 2014, respectively, and a net land lease balance at June 30, 2015 and 2014, of \$1,299 and \$1,335, respectively.

At June 30, 2015, ECA's construction in progress balance of \$2,893 is primarily due to refurbishing certain areas of its facilities including a large renovation project at MRCC. The projects currently in progress are expected to be completed between 2015 and 2018 with \$32,327 additional costs to complete.

As described in *Note 5*, portions of the above property and equipment are pledged as collateral on ECA's long-term debt.

As of May 16, 2014, the property and equipment of AVUC was sold (see *Note 15*). At June 30, 2014, certain assets and liabilities of SLH were held for sale as the senior living operations of SLH were sold on July 1, 2014 (see *Note 15*). The SLH assets and liabilities held for sale were comprised of the following at June 30:

	2015	2014
Assets held for sale		
Property and equipment, net	\$ -	\$ 8,682
Liabilities held for sale		
Asset retirement obligations	\$ -	\$ 434

The SLH property and equipment held for sale included the net book value of land, land improvements, buildings, building improvements, furniture, equipment and vehicles. SLH's asset retirement obligations held for sale exists due to the identification of asbestos in some of the older structures on the campus.

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Note 5: Long-Term Debt

	2015	2014
ECA-Corporate line-of-credit payable (A)	\$ -	\$ 11,869
ECA-Corporate note payable (B)	3,630	3,852
ECA-Corporate note payable (C)	1,852	1,972
SLH note payable (D)	-	3,941
AVC promissory note payable (E)	11,786	12,002
AVSF promissory note (F)	36,404	37,013
AVSR promissory note payable (G)	31,471	32,049
	85,143	102,698
Less current maturities	1,786	2,628
	\$ 83,357	\$ 100,070

- (A) ECA-Corporate -- Line of credit payable to Dignity Health under which ECA can borrow up to \$13,500, interest payments due monthly at one-half of the Dignity Health blended internal rate for funds, principal due monthly, collateralized by real property and gross revenues. ECA paid in full and terminated the line of credit during the year ended June 30, 2015. Dignity Health granted ECA a 5% discount on the outstanding balance of the line of credit due to the early repayment, which totaled \$568. The gain on forgiveness of debt has been included as a separate line in the statements of activities.
- (B) ECA-Corporate entered into a \$4,000 note payable with a financial institution in October 2011 to prepay rent for the AVSF ground lease (see *Note 10*) which was amended due to AVSF's refinancing discussed below. The note bears variable interest based on LIBOR plus 2.50%, the interest rate at June 30, 2015, was 2.75%. The note has monthly interest-only payments that commenced November 1, 2011, and principal payments that commenced on November 1, 2013, in monthly installments of approximately \$18.5 with interest. The entire balance of the note payable is due in October 2016. The note payable is guaranteed by Dignity Health. ECA must comply with the covenants of the existing credit enhancement agreement with Dignity Health as described below.
- (C) ECA-Corporate entered into a \$2,000 note payable with a financial institution in March 2012 to purchase the land for AVC. The note allows ECA-Corporate to select the interest rate from three separate options. Based upon ECA-Corporate's interest election, the note bears interest at the greater of 2.5% or the LIBOR interest rate plus 2.0%. At June 30, 2015, the interest rate was 2.50%. The note has monthly interest payments through March 2013, monthly principal payments of approximately \$9 plus interest due starting in April 2014, with the entire balance of principal and interest due on March 1, 2019. The note is secured by \$1,240 of investments held by ECA-Corporate and \$1,000 of investments held by MRCC.

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- (D) In June 2012, SLH entered into a \$4,360 note payable with a financial institution and the note was paid on July 1, 2014, with the proceeds from the sale of SLH's senior living operations (see *Note 15*). The note allowed SLH to select the interest rate from three separate options. Based upon SLH's interest election, the note bore interest at the greater of 3% or the LIBOR interest rate plus 2.75%. The note had monthly principal payments of approximately \$18 plus interest. The note was secured by a first deed of trust on certain properties of ECA.
- (E) AVC – Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of \$12,416. The mortgage matures in June 2047, payable in monthly installments of approximately \$48 including interest at 3.0%, secured by a first lien on the AVC property. Under the terms of the note, AVC is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.
- (F) AVSF – Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of \$38,485. The mortgage matures in November 2046, payable in monthly installments of approximately \$162 including interest at 3.65%, secured by a first lien on the AVSF property. Under the terms of the note, AVSF is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. The lender required a five-year debt service escrow which is covered by an irrevocable standby letter of credit with a financial institutional in the amount of \$975 which is subject to automatic annual extensions with a final expiration of October 31, 2016. The lender requires the debt service escrows to continue to be maintained until minimum debt service coverage ratios are met. It is also subject to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.
- (G) AVSR - Held by a commercial entity, insured by the U.S. Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, in the original amount of \$32,878. The mortgage was payable in monthly installments of approximately \$166, including interest at 5% through April 1, 2045, and was secured by a first lien on the AVSR property.

The mortgage was refinanced in November 2012 to obtain a lower interest rate with a mortgage payable with a commercial entity insured by HUD under Section 232 of the National Housing Act. The new mortgage is payable in monthly installments of approximately \$144, including interest at 3.6% through April 1, 2045, and is secured by a first lien on the AVSR property. Under the terms of the mortgage, AVSR is required to maintain certain escrow deposits and reserve accounts for replacements that are included in assets limited as to use. It is also subject under the terms of the mortgage to restrictions on acquisition, use and disposition of the mortgaged property and revenues derived there from.

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ECA-Corporate has an irrevocable standby letter of credit for the amount of \$925 for their workers' compensation insurance plan through July 2016 which has been collateralized with investments. Subsequent to year end, the letter of credit was reduced to \$500. Interest on the letter of credit is charged at 1.5%. At June 30, 2015 and 2014, there were no amounts drawn on the letter of credit.

In May 1997, ECA entered into a credit enhancement agreement with Dignity Health, which expired on June 30, 2005. Under the agreement, Dignity Health provided ECA with a guaranty for certain loan agreements entered into by ECA, made loans to ECA and assisted ECA in obtaining financing through third parties. This agreement requires ECA to maintain a defined debt coverage ratio of at least 1.1 and meet other restrictive covenants, the most restrictive of which include limitations on the acquisition and disposition of property and limitations on additional indebtedness. While the agreement has expired, its provisions remain applicable to those loans subject to the credit enhancement agreement, as described above.

The bond indenture agreement of AVUC required that certain funds be established with the Trustee, and these funds were included as assets limited as to use under the bond indenture agreement in the financial statements until the Series 2004 bonds were paid in full from the sale of the AVUC operations on May 16, 2014. The Series 2004 bond funds of \$897 were not released to AVUC until the year ended June 30, 2015, and are included in other receivables on the statement of financial position at June 30, 2014.

Aggregate annual maturities of long-term debt at June 30, 2015, are:

2016	\$	1,786
2017		5,023
2018		1,670
2019		3,133
2020		1,673
Thereafter		<u>71,858</u>
	\$	<u>85,143</u>

ECA has fixed rate debt on the HUD insured mortgages for AVSR, AVSF and AVC. Based on the borrowing rates currently available to ECA on this type of debt, management estimates the fair value of the debt to be \$79,882 and \$78,725 at June 30, 2015 and 2014, respectively. Based on the borrowing rates currently available to ECA and the variable nature of the remaining debt, the carrying amount of the remaining long-term debt approximates its current fair value.

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Note 6: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of donor restricted contributions and grants at June 30, 2015 and 2014, for the following purposes:

	2015	2014
Equipment and expansion	\$ 498	\$ 507
Charity and other	3,012	3,210
	\$ 3,510	\$ 3,717

During the years ended June 30, 2015 and 2014, \$861 and \$2,528, respectively, of net assets were released from donor restrictions by incurring eligible operating and capital expenditures and satisfying the restricted purposes of charitable care.

Permanently restricted net assets consist of endowments that must be maintained in perpetuity, with the earnings on such funds to be used primarily for the care of indigent people.

Note 7: Endowments

ECA's endowment consists of approximately eight individual funds established to support ECA's nonprofit mission. The endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ECA's governing body has interpreted the State of California Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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, ECA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ECA in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ECA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of ECA and the fund
3. General economic conditions

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4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of ECA
7. Investment policies of ECA

The composition of net assets for the endowment fund at June 30, 2015 and 2014, was:

	Temporarily Restricted	2015 Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,373	\$ 3,647	\$ 6,020

	Temporarily Restricted	2014 Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,244	\$ 3,647	\$ 5,891

Changes in endowment net assets for the years ended June 30, 2015 and 2014, were:

	Temporarily Restricted	2015 Permanently Restricted	Total
Endowment net assets, beginning of year	<u>\$ 2,244</u>	<u>\$ 3,647</u>	<u>\$ 5,891</u>
Investment return			
Investment gain	316	-	316
Net depreciation	<u>(187)</u>	<u>-</u>	<u>(187)</u>
Total investment return	<u>129</u>	<u>-</u>	<u>129</u>
Endowment net assets, end of year	<u><u>\$ 2,373</u></u>	<u><u>\$ 3,647</u></u>	<u><u>\$ 6,020</u></u>

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(In Thousands)

	Temporarily Restricted	2014 Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,740	\$ 3,647	\$ 5,387
Investment return			
Investment gain	366	-	366
Net appreciation	403	-	403
Total investment gain	769	-	769
Appropriation of endowment assets for expenditure	(265)	-	(265)
Endowment net assets, end of year	\$ 2,244	\$ 3,647	\$ 5,891

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level ECA is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. There were no such deficiencies of this nature at June 30, 2015 and 2014, respectively.

ECA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include the assets of donor-restricted endowment funds ECA must hold in perpetuity or for donor-specified periods. Under ECA's policies, endowment assets are invested in a manner that is intended to produce results that exceed the average return of the Barclays Capital Aggregate Index for fixed income investments and the average return of the Russell 3000 Index for equities while assuming an investment grade level of investment risk. ECA expects its endowment funds to provide an average rate of return of approximately 5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, ECA relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). ECA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

ECA has a policy of appropriating each year for expenditures an amount expected to be required to offset the amount of resident assistance estimated to be provided as approved in the annual budget. In establishing this policy, ECA considered the long-term expected return on its endowment. This is consistent with ECA's objective to maintain the purchasing power of endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

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Note 8: Functional Expenses

ECA provides residential and healthcare services to residents. Expenses related to providing these services are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 29,711	\$ 42,920
General and administrative	8,501	10,436
	<u>\$ 38,212</u>	<u>\$ 53,356</u>

These expenses are included on the statements of activities as follows:

	<u>2015</u>	<u>2014</u>
Total expenses and losses	\$ 38,042	\$ 37,686
Expenses included in discontinued operations	170	15,670
	<u>\$ 38,212</u>	<u>\$ 53,356</u>

Note 9: Professional Liability Claims

ECA purchases professional liability insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue reported and unreported incidents, if any, occurring during the year by estimating the probable ultimate costs of the incidents. Based upon ECA's claim experience, no such accrual is required. It is reasonably possible that this estimate could change materially in the near term.

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Note 10: Ground Lease

AVSF holds a ground lease with the Roman Catholic Archbishop of San Francisco, which was amended in October 2011 in connection with the long-term debt refinancing (see *Note 5 (F)*). The ground lease expiration date was extended to March 31, 2075, and AVSF has no options to extend the term of this lease. In the original lease, AVSF was required to prepay the first 30 years base rent in the amount of \$4,092 in July 2002. The amendment required AVSF to prepay an additional 43 years of base rent of \$4,005, which was paid with a term loan by ECA-Corporate (see *Note 5 (B)*). The rent prepayments were capitalized as a land lease (see *Note 4*). Six months prior to the end of the AVSF ground lease term, the lessor will determine whether it will accept the premises in their existing condition or require that ECA demolish the improvements and return the land to its original condition.

Note 11: Retirement Plans

ECA has a defined contribution plan and incentive plan which cover all employees. Employees are eligible for participation in the defined contribution plan at the date of hire and ECA matches the employee contribution, after the completion of one year of service, up to a maximum of 6% of the employee's salary. In addition, employees are eligible for the incentive plan after the completion of one year of service where ECA contributes a discretionary amount of the employee's salary (for fiscal year 2015 and 2014, ECA contributed between 1.5% – 2% and 0% – 2% of an employee's salary, respectively). During the years ended June 30, 2015 and 2014, ECA contributed \$368 and \$493, respectively, to the plans.

Note 12: Continuing Care Reserve Requirement

The State of California Health and Safety Code requires continuing care retirement communities to report on the adequacy of certain reserve requirements. MRCC met both the statutory and liquid reserve requirements at June 30, 2015 and 2014, and was exempt from the refund reserve requirement at June 30, 2015 and 2014.

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Note 13: Disclosures About Fair Value of Financial Instruments

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2015.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. ECA does not hold securities classified as Level 3.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which ECA expects to have the ability to redeem its investment with investee within 12 months after the reporting date are categorized as Level 2.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
Interest in investment pool	\$ 25,551	\$ -	\$ 25,551	\$ -
Fixed income securities				
U.S. Treasury securities	539	539	-	-
U.S. agencies	1,171	1,171	-	-
U.S. Government Remics/CMOs	96	-	96	-
Corporate debt securities	1,306	-	1,306	-
Foreign bonds	358	-	358	-
Municipal bonds	388	-	388	-
Money market mutual funds	65	65	-	-
Other investments	452	-	452	-
June 30, 2014				
Interest in investment pool	\$ 17,726	\$ -	\$ 17,726	\$ -
Fixed income securities				
U.S. Treasury securities	391	391	-	-
U.S. agencies	1,209	1,209	-	-
Corporate debt securities	1,649	-	1,649	-
Foreign bonds	401	-	401	-
Municipal bonds	298	-	298	-
Money market mutual funds	137	137	-	-

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Note 14: The Fair Value Option

As permitted by Topic 825, ECA has elected to measure its interest in investment pool at fair value. Management has elected the fair value option for this item because it more accurately reflects the portfolio returns and financial position of ECA. Total interest in investment pools at June 30, 2015 and 2014, is \$25,551 and \$17,726, respectively.

ECA's interest in investment pool represents funds invested in two Dignity Health-managed investment pools. The underlying assets of the pools include a variety of different investments such as equity securities, mutual funds, fixed income securities, real estate investment trusts, hedge funds and various other investments. At June 30, 2015 and 2014, total unrealized gains on the interest in investment pool are 12.0% and 7.5% of the total cost of the fund, respectively. The unrealized gains correlate with the changing stock market during 2014 and 2015.

See *Note 13* for additional disclosures regarding fair value of the interest in investment pool listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for the interest in investment pool for which the fair value option has been elected and the line item in which these changes are reported are as follows:

	Unrestricted Gains from Investment Pool	2015 Temporarily Restricted Gains from Investment Pool	Total Change in Fair Value
Interest in investment pool	\$ 710	\$ 150	\$ 860
		2014	
	Unrestricted Gains from Investment Pool	Temporarily Restricted Gains from Investment Pool	Total Change in Fair Value
Interest in investment pool	\$ 1,151	\$ 893	\$ 2,044

Interest income on the investment pool is measured monthly and included in gains from investment pool in the accompanying statements of activities.

Elder Care Alliance and Subordinate Corporations
Notes to Consolidated Financial Statements
June 30, 2015 and 2014
(In Thousands)

Note 15: Discontinued Operations

On May 16, 2014, ECA sold the senior living operations including certain assets and liabilities of AVUC for consideration totaling \$15,500, pursuant to an asset purchase agreement containing a planned foreclosure sale agreement. The sale satisfied all outstanding long-term debt of AVUC. Assets sold included property and equipment of AVUC of \$11,750. Total revenues for AVUC were \$3,514 in 2014 and excess of revenues over expenses was \$1,952 (including gain on disposal of \$2,732) in 2014. Revenues and expenses that remain in continuing operations for 2015 and 2014 include contribution revenue, assets released from restriction, management fees, intercompany expense allocations and all investment returns and gains.

In August 2013, after an extensive strategic planning process for both the SLH and Mercy campuses, ECA decided to discontinue the operations of SLH after finding it infeasible to renovate the aging campus of SLH. ECA sold the senior living operations including certain assets and liabilities of SLH on July 1, 2014, for consideration totaling \$18,470. Assets sold included property and equipment of SLH of \$8,682. Total revenues for SLH were \$48 and \$13,165 in 2015 and 2014, respectively. Excess of revenues over expenses for SLH were \$9,714 and \$376 (including gain on disposal of \$9,673 and \$0) in 2015 and 2014, respectively. A portion of the proceeds from the sale of \$3,942 were utilized to pay off the outstanding principal and interest of the SLH note payable (see *Note 5 (D)*). Revenues and expenses that remain in continuing operations for 2015 and 2014 include contribution revenue, assets released from restriction, management fees, intercompany expense allocations, and all investment returns and gains.

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient and Resident Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient and resident service revenue are described in *Note 1*.

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described in *Notes 1* and *9*.

Contributions

Approximately 20% and 28% of all contributions were received from one donor in 2015 and 2014, respectively.

Elder Care Alliance and Subordinate Corporations

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(In Thousands)

Compliance

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health-care providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. ECA is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on ECA's consolidated financial position.

Litigation

In the normal course of business, ECA is, from time to time, subject to allegations that may or do result in litigation. ECA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

ECA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Asset Retirement Obligation

As discussed in *Note 1*, ECA has recorded a liability for its conditional asset retirement obligations related to asbestos removal at MRCC and SLH. SLH's asset retirement transferred with the building to the acquirer effective July 1, 2014, upon the sale of the community.

Current Economic Conditions

Due to the current regulatory environment, economic uncertainties and the growing pressures on the budgets of both the state and federal governments, it is possible that Medicare and Medi-Cal reimbursement could change in the near term which could impact the financial results and cash flows of ECA. The values of assets and liabilities recorded in the financial statements could change rapidly, resulting in future adjustments.

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

BKD, LLP

Springfield, Missouri
October 23, 2015

Elder Care Alliance and Subordinate Corporations

Consolidating Schedule -- Statement of Financial Position Information

June 30, 2015
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash	\$ 1,074	\$ 9,522	\$ 10	\$ 546	\$ 1,967	\$ 23	\$ 1,619	\$ -	\$ 14,761
Patient and resident accounts receivable, net	-	993	-	24	112	-	68	-	1,197
Due from related parties	(11,417)	-	-	-	-	-	-	11,417	-
Prepaid expenses and other	115	146	-	25	105	-	102	-	493
Other receivables	116	75	10	47	72	1	67	-	388
Total current assets	(10,112)	10,736	20	642	2,256	24	1,856	11,417	16,839
Investments and Interest in Investment Pool	15,121	14,095	1,687	-	-	-	1,040	-	31,943
Assets Limited As To Use	602	-	-	-	-	-	-	-	602
Internally designated	-	-	-	-	-	-	-	-	-
Held by mortgagee under loan agreement with HUD	-	-	-	-	-	-	-	-	-
Reserve for replacements	-	-	-	279	260	-	278	-	817
Escrow deposits	-	-	-	89	155	-	510	-	754
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	602	678	-	368	415	-	788	-	2,851
Property and Equipment, Net	476	7,336	-	10,224	24,673	-	20,736	-	63,445
Deferred Financing Costs and Other	315	75	-	443	1,177	-	146	-	2,156
Total assets	\$ 6,402	\$ 32,920	\$ 1,707	\$ 11,677	\$ 28,521	\$ 24	\$ 24,566	\$ 11,417	\$ 117,234

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	\$ 333	\$ -	\$ -	\$ 223	\$ 631	\$ -	\$ 599	\$ -	\$ 1,786
Accounts payable	138	903	19	171	148	68	221	-	1,668
Accrued expenses and other	1,315	781	-	283	517	-	431	-	3,327
Due to related parties	-	(63)	(17,800)	2,096	4,281	(69)	138	11,417	-
Total current liabilities	1,786	1,621	(17,781)	2,773	5,577	(1)	1,389	11,417	6,781
Long-Term Debt	5,148	-	-	11,563	35,774	-	30,872	-	83,357
Asset Retirement Obligations	-	636	-	-	-	-	-	-	636
Total liabilities	6,934	2,257	(17,781)	14,336	41,351	(1)	32,261	11,417	90,774
Net Assets									
Unrestricted	(533)	26,429	17,619	(2,668)	(12,844)	25	(8,725)	-	19,303
Temporarily restricted	1	1,891	565	9	14	-	1,030	-	3,510
Permanently restricted	-	2,343	1,304	-	-	-	-	-	3,647
Total net assets	(532)	30,663	19,488	(2,659)	(12,830)	25	(7,695)	-	26,460
Total liabilities and net assets	\$ 6,402	\$ 32,920	\$ 1,707	\$ 11,677	\$ 28,521	\$ 24	\$ 24,566	\$ 11,417	\$ 117,234

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Financial Position Information
June 30, 2014
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Assets									
Cash	\$ 545	\$ 893	\$ 599	\$ 708	\$ 2,013	\$ 155	\$ 1,529	\$ -	\$ 6,442
Patient and resident accounts receivable, net	-	1,163	827	60	-	-	58	-	2,108
Due from related parties	6,943	-	-	-	-	-	-	(6,943)	-
Prepaid expenses and other	78	83	52	125	173	-	208	-	719
Other receivables	47	10,050	31	2	35	897	-	-	11,062
Total current assets	7,613	12,189	1,509	895	2,221	1,052	1,795	(6,943)	20,331
Investments and Interest in Investment Pool	6,172	11,733	5,155	-	-	-	1,019	-	24,079
Assets Limited As To Use									
Internally designated	901	-	-	-	-	-	-	-	901
Held by mortgagee under loan agreement with HUD	-	-	-	-	-	-	-	-	-
Reserve for replacements	-	-	-	227	212	-	239	-	678
Escrow deposits	-	-	-	92	159	-	534	-	785
Externally restricted by donor - cash	-	678	-	-	-	-	-	-	678
Total assets limited as to use	901	678	-	319	371	-	773	-	3,042
Property and Equipment, Net	419	6,175	-	9,974	25,401	-	20,690	-	62,659
Deferred Financing Costs and Other	315	75	32	460	1,214	-	151	-	2,247
Assets Held for Sale	-	-	8,682	-	-	-	-	-	8,682
Total assets	\$ 15,420	\$ 30,850	\$ 15,378	\$ 11,648	\$ 29,207	\$ 1,052	\$ 24,428	\$ (6,943)	\$ 121,040

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Current Liabilities									
Current maturities of long-term debt	\$ 1,008	\$ -	\$ 218	\$ 216	\$ 608	\$ -	\$ 578	\$ -	\$ 2,628
Accounts payable	113	656	636	99	97	117	135	-	1,853
Accrued expenses and other	1,649	814	289	266	471	-	401	-	3,890
Due to related parties	-	89	146	2,174	4,357	-	177	(6,943)	-
Total current liabilities	2,770	1,559	1,289	2,755	5,533	117	1,291	(6,943)	8,371
Long-Term Debt	16,684	-	3,724	11,786	36,405	-	31,471	-	100,070
Asset Retirement Obligations	-	604	-	-	-	-	-	-	604
Deferred Revenue - Unearned Entrance Fees	-	-	238	-	-	-	-	-	238
Liabilities Held for Sale	-	-	434	-	-	-	-	-	434
Total liabilities	19,454	2,163	5,685	14,541	41,938	117	32,762	(6,943)	109,717
Net Assets									
Unrestricted	(4,063)	24,179	7,914	(2,907)	(12,757)	935	(9,342)	-	3,959
Temporarily restricted	29	2,165	475	14	26	-	1,008	-	3,717
Permanently restricted	-	2,343	1,304	-	-	-	-	-	3,647
Total net assets	(4,034)	28,687	9,693	(2,893)	(12,731)	935	(8,334)	-	11,323
Total liabilities and net assets	\$ 15,420	\$ 30,850	\$ 15,378	\$ 11,648	\$ 29,207	\$ 1,052	\$ 24,428	\$ (6,943)	\$ 121,040

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2015
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	\$ 291	\$ 14,919	\$ -	\$ 5,476	\$ 10,088	\$ -	\$ 9,555	\$ -	\$ 40,329
Contributions	272	664	19	-	56	-	-	-	1,011
Other revenue, net	-	310	-	3	9	-	12	-	334
Net assets released from restrictions for operations	-	799	-	7	13	-	-	-	819
Net assets released from restrictions for charity	-	36	-	-	-	-	-	-	36
Total revenues, gains and other support	563	16,728	19	5,486	10,166	-	9,567	-	42,529
Expenses and Losses									
Salaries and benefits	1,906	8,270	-	2,613	4,408	-	3,739	-	20,936
Purchased services and other	891	3,189	-	982	1,248	-	1,336	-	7,646
Supplies	22	1,227	-	359	552	-	504	-	2,664
Depreciation, amortization and other	186	985	-	414	846	-	794	-	3,225
Interest and fees	688	-	-	357	1,354	-	1,143	-	3,542
Provision for uncollectible accounts	-	15	-	14	-	-	-	-	29
Management fee	(2,870)	1,121	72	356	656	44	621	-	-
Intercompany expense	(152)	-	-	48	104	-	-	-	-
Total expenses and losses	671	14,807	72	5,143	9,168	44	8,137	-	38,042
Operating Income (Loss)	(108)	1,921	(53)	343	998	(44)	1,430	-	4,487
Other Income									
Interest and dividend income	9	32	18	-	-	-	-	-	59
Gains from investment pool	191	303	216	-	-	-	-	-	710
Forgiveness of debt	568	-	-	-	-	-	-	-	568
Excess (Deficiency) of Revenues Over Expenses From Continuing Operations	660	2,256	181	343	998	(44)	1,430	-	5,824
Discontinued Operations									
Gain from discontinued operations	-	-	9,533	-	-	31	-	-	9,564
Excess (Deficiency) of Revenues Over Expenses	\$ 660	\$ 2,256	\$ 9,714	\$ 343	\$ 998	\$ (13)	\$ 1,430	\$ -	\$ 15,388

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2014
(In Thousands)

	ECA - Corporate	Mercy Retirement and Care Center	Salem Lutheran Home Association of the Bay Cities, Inc.	AlmaVia of Camarillo	AlmaVia of San Francisco	AlmaVia of Union City	AlmaVia of San Rafael	Eliminations	Total Consolidated
Revenues, Gains and Other Support									
Net patient and resident service revenue	\$ 300	\$ 13,518	\$ -	\$ 4,996	\$ 9,738	\$ -	\$ 8,746	\$ -	\$ 37,298
Contributions	361	416	-	-	-	36	28	-	841
Other revenue, net	-	279	-	23	19	-	9	-	330
Net assets released from restrictions for operations	-	844	464	-	-	4	4	-	1,316
Net assets released from restrictions for charity	-	44	27	-	-	-	-	-	71
Total revenues, gains and other support	661	15,101	491	5,019	9,757	40	8,787	-	39,856
Expenses and Losses									
Salaries and benefits	2,298	7,869	290	2,445	4,312	111	3,736	-	21,061
Purchased services and other	817	2,835	148	850	1,183	56	1,200	-	7,089
Supplies	24	1,015	-	337	547	-	518	-	2,441
Depreciation, amortization and other	157	1,027	-	399	847	-	790	-	3,220
Interest and fees	882	-	-	363	1,376	-	1,163	-	3,784
Provision for uncollectible accounts	-	86	-	4	-	-	2	-	92
Management fee	(3,631)	1,028	926	325	633	150	569	-	-
Gain on disposal of property and equipment	-	(1)	-	-	-	-	-	-	(1)
Intercompany expense	(302)	-	-	51	110	141	-	-	-
Total expenses and losses	245	13,859	1,364	4,774	9,008	458	7,978	-	37,686
Operating Income (Loss)	416	1,242	(873)	245	749	(418)	809	-	2,170
Other Income (Expense)									
Interest and dividend income	9	44	18	-	-	8	-	-	79
Gains from investment pool	132	812	207	-	-	-	-	-	1,151
Excess (Deficiency) of Revenues Over Expenses From Continuing Operations	557	2,098	(648)	245	749	(410)	809	-	3,400
Discontinued Operations									
Gain from discontinued operations	-	-	1,024	-	-	2,362	-	-	3,386
Excess of Revenues Over Expenses	\$ 557	\$ 2,098	\$ 376	\$ 245	\$ 749	\$ 1,952	\$ 809	\$ -	\$ 6,786

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2015
(In Thousands)

	ECA - Corporate		Mercy Retirement and Care Center		Salem Lutheran Home Association of the Bay Cities, Inc.		AlmaVia of Camarillo		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Balance, July 1, 2014	\$ (4,063)	\$ 29	\$ 24,179	\$ 2,165	\$ 2,343	\$ 7,914	\$ 475	\$ 1,304	\$ (2,907)
Excess (deficiency) of revenues over expenses	660	-	2,256	-	-	9,714	-	-	343
Transfers from affiliate	2,899	-	-	-	-	-	-	-	(104)
Donor-restricted contributions	-	-	-	496	-	-	4	-	-
Net change in unrealized losses on investments	(29)	-	(12)	-	-	(9)	-	-	-
Gains (losses) from investment pool	-	(28)	-	71	-	-	86	-	-
Net assets released from restrictions	-	-	6	(841)	-	-	-	-	(7)
Balance, June 30, 2015	\$ (533)	\$ 1	\$ 26,429	\$ 1,891	\$ 2,343	\$ 17,619	\$ 565	\$ 1,304	\$ (2,668)

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2015
(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Balance, July 1, 2014	\$ (12,757)	\$ 26	\$ 935	\$ -	\$ (9,342)	\$ 1,008	\$ 3,959	\$ 3,717	\$ 3,647
Excess (deficiency) of revenues over expenses	998	-	(13)	-	1,430	-	15,388	-	-
Transfers from affiliate	(1,085)	-	(897)	-	(813)	-	-	-	-
Donor-restricted contributions	-	1	-	-	-	1	-	504	-
Net change in unrealized losses on investments	-	-	-	-	-	-	(50)	-	-
Gains (losses) from investment pool	-	-	-	-	-	21	-	150	-
Net assets released from restrictions	-	(13)	-	-	-	-	6	(861)	-
Balance, June 30, 2015	\$ (12,844)	\$ 14	\$ 25	\$ -	\$ (8,725)	\$ 1,030	\$ 19,303	\$ 3,510	\$ 3,647

Elder Care Alliance and Subordinate Corporations
Consolidating Schedule – Statement of Activities Information
Year Ended June 30, 2014
(In Thousands)

	AlmaVia of San Francisco		AlmaVia of Union City		AlmaVia of San Rafael		Total ECA Consolidated		
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Balance, July 1, 2013	\$ (12,307)	\$ 20	\$ (6,516)	\$ 994	\$ (8,930)	\$ 886	\$ (3,945)	\$ 4,378	\$ 3,647
Excess of revenues over expenses									
Transfer from affiliate	749	-	1,952	-	809	-	6,786	-	-
Donor-restricted contributions	(1,199)	-	4,516	-	(1,221)	-	-	-	-
Net change in unrealized losses on investments	-	6	-	-	-	1	-	974	-
Gains from investment pool	-	-	(6)	-	-	-	(23)	-	-
Net assets released from restrictions	-	-	-	-	-	125	-	893	-
	-	-	989	(994)	-	(4)	1,141	(2,528)	-
Balance June 30, 2014	\$ (12,757)	\$ 26	\$ 935	\$ -	\$ (9,342)	\$ 1,008	\$ 3,959	\$ 3,717	\$ 3,647

Elder Care Alliance and Subordinate Corporations
Supplemental Schedule of Cash Flows –
Mercy Retirement and Care Center
Years Ended June 30, 2015 and 2014
(In Thousands)

	2015	2014
Cash Flows From Operating Activities		
Cash received from noncontract residents	\$ 14,947	\$ 12,724
Cash received from residents	66	10
Contributions	1,160	730
Proceeds from donor	9,926	-
Reimbursement for services to nonresidents	110	125
Cash received from other operating activities	310	279
Cash received from interest	143	109
Cash paid to related parties	(1,273)	(950)
Cash paid to suppliers and employees	(12,659)	(11,247)
Net cash provided by operating activities	12,730	1,780
Cash Flows From Investing Activities		
Purchases of investments and interest in investment pool	(2,170)	(119)
Sales of investments and interest in investment pool	57	48
Purchases of property and equipment	(1,988)	(1,498)
Net cash used in investing activities	(4,101)	(1,569)
Cash Flows From Financing Activities		
Transfer to affiliate	-	(424)
Net payment of deferred financing costs	-	(75)
Net cash used in financing activities	-	(499)
Increase (Decrease) in Cash	8,629	(288)
Cash, Beginning of Year	1,571	1,859
Cash, End of Year	\$ 10,200	\$ 1,571
Reconciliation of Cash		
to Statements of Financial Position		
Cash	\$ 9,522	\$ 893
Cash in assets limited as to use	678	678
Total cash	\$ 10,200	\$ 1,571
Reconciliation of Changes in Net Assets to Net Cash		
Provided by Operating Activities		
Change in net assets	\$ 1,976	\$ 2,028
Adjustments to reconcile change in net assets to net cash		
provided by operating activities		
Depreciation and accretion	985	1,028
Gain on disposal of fixed assets	-	(1)
Unrealized and realized gains on investments, net	(249)	(1,161)
Transfer to affiliate	-	424
Changes in certain current assets and liabilities		
Patient accounts receivable	170	(582)
Prepaid expenses and other receivables	9,912	(503)
Accounts payable	121	360
Accrued expenses and other	(33)	109
Net change in due to related parties	(152)	78
Net cash provided by operating activities	\$ 12,730	\$ 1,780
Supplemental Cash Flows Information		
Property and equipment acquisitions included in accounts payable	\$ 143	\$ 17

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CONTINUING CARE
CONTRACTS BRANCH

Mercy Retirement and Care Center

Independent Auditor's Report and Continuing Care Contract Annual Report

Year Ended June 30, 2015

BKD_{LLP}
CPAs & Advisors

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CONTINUING CARE
CONTRACTS BRANCH

Independent Auditor's Report

Board of Directors
Elder Care Alliance and Subordinate Corporations
Alameda, California

We have audited the accompanying continuing care reserve report (the "Reports") of Mercy Retirement and Care Center (the "Association") as of June 30, 2015, and for the year then ended.

Management's Responsibility for the Continuing Care Reserve Report

Management is responsible for the preparation and fair presentation of the Reports in accordance with accounting principles generally accepted in the United States of America and the report preparation provisions of the 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 the 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 the 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 entity'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 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 Reports.

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

Opinion

In our opinion, the Reports referred to above, present fairly, in all material respects, the liquid reserve requirement of the Association at June 30, 2015, in accordance with accounting principles generally accepted in the United States of America and the report preparation provisions of the California Health and Safety Code Section 1792.

Other Matters

The accompanying Reports were prepared for filing with the State of California, Department of Social Services, for the purpose of complying with the provisions of the California Health and Safety Code Section 1792, as described in *Note 1*, and are not intended to be a complete presentation of the assets, liabilities, revenues and expenses of the Association.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the liquid reserve requirement of the Association. The additional schedules included in the Reports are presented for purposes of additional analysis and are not a required part of the Reports. Such information has not been subjected to the auditing procedures applied in the audit of the liquid reserve requirement, and accordingly, we do not express an opinion or provide any assurance on it.

This report is intended solely for the information and use of the Board of Directors and management of the Association and for filing with the Department of Social Services and should not be used for any other purpose.

BKD, LLP

Springfield, Missouri
October 23, 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					
2					
3					
4					
5					
6					
7					
8					
TOTAL:					\$0

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

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

PROVIDER: Mercy Retirement and Care Center

**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					
2					
3					
4					
5					
6					
7					
8					
TOTAL:					\$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: Mercy Retirement and Care Center

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$0
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	\$0
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$0

PROVIDER: Mercy Retirement and Care Center

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

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$14,806,145
2	Deductions	
a	Interest paid on long-term debt (see instructions)	\$0
b	Credit enhancement premiums paid for long-term debt (see instructions)	\$0
c	Depreciation	\$952,890
d	Amortization	\$0
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$14,853,474
f	Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$15,806,364
4	Net Operating Expenses	\$0
5	Divide Line 4 by 365 and enter the result.	\$0
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$0

PROVIDER: Mercy Retirement and Care Center

COMMUNITY: _____

**Mercy FY 15
CCRC Revenue Allocation
Attachment to Form 5-5
Line 2e**

FY 15 Revenue Audited F/ S	CCRC Amount	Non-CCRC Amount	Total Amount
Residential & Assisted Living	4,823,740	65,485	4,758,255
Memory Care (Dem)	1,811,259	-	1,811,259
Skilled Nursing	6,448,573	-	6,448,573
Entrance Fees	117,000	-	117,000
Charitable Adjustments	(450)	-	(450)
Contractual Allowances	(531,970)	-	(531,970)
Subtotal Room & Board	12,668,152	65,485	12,602,667
Gross Ancillary Revenue	2,141,592	326	2,141,266
Other Operating Revenue**	109,541	-	109,541
Total Room & Board Revenue	14,919,285	65,811	14,853,474
		0.44%	99.56%

**Note: Included in other operating revenue are reimbursements received for services provided to non-residents, such as guest accommodations and meals, and miscellaneous vendor refunds.

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: Mercy Retirement and Care Center
 Fiscal Year Ended: 06/30/2015

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 06/30/2015 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	\$0
[2] Operating Expense Reserve Amount	\$0
[3] Total Liquid Reserve Amount:	\$0

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		\$9,521,524
[5] Investment Securities		\$10,569,197
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve		(not applicable)
[10] Other: _____ (describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] \$0	[12] \$20,090,721
Total Amount Required:	[13] \$0	[14] \$0
Surplus/(Deficiency):	[15] \$0	[16] \$20,090,721

Signature:

Adriane Swanson
 (Authorized Representative)

Date: 10/23/15

Chief Executive Officer

(Title)

Note 1

The continuing care reserve report 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 Association 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 Association has computed its liquid reserve requirement as of June 30, 2015, the Association's most recent fiscal year end, and the reserve is based on audited financial statements for that period.

**MERCY RETIREMENT AND CARE CENTER
 YEAR ENDING JUNE 30, 2015
 H&SC SECTION 1790(a)(2) and DISCLOSURE**

Description of all Reserves Maintained

	June 30,	
	<u>2015</u>	<u>2014</u>
Restricted Funds		
Charitable Care & Other	<u>\$4,233,318</u>	<u>\$4,508,067</u>
	<u>\$4,233,318</u>	<u>\$4,508,067</u>

Status: These Funds are fully funded

Funds Accumulated for Specific Projects or Purposes

Per Capita Cost of Operations

Total operating Expenses(Form 5-4, Line 1)	\$14,806,145	To be filled in from Form 5-4
Mean number of all residents(Form 1-1, Line 10)	149.5	To be filled in from Form 1-1
	<u>\$ 99,038</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)	\$0	\$3,425 - \$6,195	\$9,581 - \$11,899
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	0%	2.5% - 3.0%	2.5% - 5.0%

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: Mercy Retirement and Care Center
COMMUNITY: _____

Mercy Retirement and Care Center
Year Ending June 30, 2015
Form 7-1, Item 5 Explanation for Increase in Monthly Services

Increase in	Percent	Explanation
Residential Living	0.0%	No change.
Assisted Living	2.5% - 3.0%	Due to labor cost increase of 3%, insurance increase of 5%, and support cost increases of 5%.
Skilled Nursing	2.5% - 5.0%	Due to labor cost increase of 3%, insurance increase of 5%, and support cost increases of 5%.

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

10/31/2015

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FACILITY NAME: Mercy Retirement and Care Center
ADDRESS: 3431 Foothill Boulevard Oakland, CA **ZIP CODE:** 94601 **PHONE:** (510) 534-8540
PROVIDER NAME: Mercy Retirement & Care Ctr. **FACILITY OPERATOR:** Mercy Retirement and Care Center
RELATED FACILITIES: _____ **RELIGIOUS AFFILIATION:** Sisters of Mercy of the Americas
YEAR OPENED: 1872 **NO. OF ACRES:** 4.5 **MULTI-STORY:** **SINGLE STORY:** **BOTH:**
MILES TO SHOPPING CTR: 5 miles **MILES TO HOSPITAL:** 2 to 3 miles

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>0</u>	ASSISTED LIVING <u>81</u>
APARTMENTS - 1 BDRM	<u>0</u>	SKILLED NURSING <u>42</u>
APARTMENTS - 2 BDRM	<u>0</u>	SPECIAL CARE <u>21</u>
COTTAGES/HOUSES	<u>0</u>	DESCRIBE SPECIAL CARE: <u>Dementia</u>
% OCCUPANCY AT YEAR END	<u>87%</u>	

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY: _____

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

0-3 months - 100%
3-24 months - Pro Rata Portion
After 24 months - None

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

RANGE OF ENTRANCE FEES: \$ 0 TO \$ 0 **LONG-TERM CARE INSURANCE REQUIRED?** Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 **PRIOR PROFESSION:** None **OTHER:** None

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE	SERVICES AVAILABLE	INCLUDED IN FEE	FOR EXTRA CHARGE
				Weekly	Daily
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>3</u>	
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>3</u>	
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<u>Yes</u>	
CARD ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	OTHER Rehabilitation Therapies	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<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: _____

	2012	2013	2014	2015
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$12,942	\$13,530	\$13,797	\$15,229
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	\$(12,889)	\$(12,560)	\$(12,865)	\$(13,853)
NET INCOME FROM OPERATIONS	\$53	\$970	\$932	\$1,376
LESS INTEREST EXPENSE	\$0	\$0	\$0	\$0
PLUS CONTRIBUTIONS	\$1,357	\$10,241	\$1,245	\$1,160
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	\$(15)	\$1,053	\$1,270	\$393
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	\$1,395	\$12,264	\$3,447	\$2,929
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	\$0	\$0	\$0	\$0

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
N/A					

FINANCIAL RATIOS (see next page for ratio formulas)

	2005 CCAC Medians 50 th Percentile (optional)	2013	2014	2015
DEBT TO ASSET RATIO		0%	0%	0%
OPERATING RATIO		53.70%	90.52%	87.17%
DEBT SERVICE COVERAGE RATIO		0%	0%	0%
DAYS CASH-ON-HAND RATIO		250.25	260.19	529.34

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

	2012	%	2013	%	2014	%	2015
STUDIO	\$0	0%	\$0	0%	\$0	0%	\$0
ONE BEDROOM	\$0	0%	\$0	0%	\$0	0%	\$0
TWO BEDROOM	\$0	0%	\$0	0%	\$0	0%	\$0
COTTAGE/HOUSE	\$0	0%	\$0	0%	\$0	0%	\$0
ASSISTED LIVING	\$3,031	1.2%	\$3,068	6.5%	\$3,266	3.7%	\$3,387
SKILLED NURSING	\$8,719	5.5%	\$9,196	5.1%	\$9,668	2.6%	\$9,914
SPECIAL CARE	\$5,101	(2.2)%	\$4,989	12.3%	\$5,601	3.0%	\$5,770

COMMENTS FROM PROVIDER: Increases in average fees due to labor cost increase of 3%, insurance increase of 4%, and support cost increases of 5%.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash} \\ \text{And Investments} \\ + \text{Unrestricted Non-Current Cash} \\ \text{and Investments}}{(\text{Operating Expenses} - \text{Depreciation} \\ - \text{Amortization})/365}$$

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.

KEY INDICATORS REPORT

Mercy Retirement and Care Center

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

OPERATIONAL STATISTICS

1. Average Annual Occupancy by Site (%)

MARGIN (PROFITABILITY) INDICATORS

2. Net Operating Margin (%)

3. Net Operating Margin - Adjusted (%)

LIQUIDITY INDICATORS

4. Unrestricted Cash and Investments (\$000)

5. Days Cash on Hand (Unrestricted)

CAPITAL STRUCTURE INDICATORS

6. Deferred Revenue from Entrance Fees (\$000)

7. Net Annual E/F proceeds (\$000)

8. Unrestricted Net Assets (\$000)

9. Annual Capital Asset Expenditure (\$000)

10. Annual Debt Service Coverage
Revenue Basis (x)

11. Annual Debt Service Coverage (x)

12. Annual Debt Service/Revenue (%)

13. Average Annual Effective Interest Rate (%)

14. Unrestricted Cash & Investments/
Long-Term Debt (%)

Age of Facility (years)

	2012	2013	2014	2015	Projected	2016	2017	2018	2019	2020	Preferred Trend Indicator
1. Average Annual Occupancy by Site (%)	89.00%	93.00%	90.00%	93.00%	93.00%	93.00%	93.00%	93.00%	93.00%	93.00%	N/A
2. Net Operating Margin (%)	N/A	N/A	4.84%	7.14%	6.77%	6.42%	6.09%	5.78%	5.48%	5.48%	↑
3. Net Operating Margin - Adjusted (%)	N/A	N/A	4.84%	7.14%	28.34%	6.42%	26.72%	5.78%	5.48%	5.48%	↓
4. Unrestricted Cash and Investments (\$000)	\$7,033	\$8,611	\$9,171	\$20,091	\$20,694	\$21,315	\$21,954	\$22,613	\$23,291	\$23,291	↑
5. Days Cash on Hand (Unrestricted)	199	250	260	529	527	525	523	522	520	520	↑
6. Deferred Revenue from Entrance Fees (\$000)	\$0	\$0	\$0	\$0	\$3	\$6	\$12	\$18	\$18	\$18	N/A
7. Net Annual E/F proceeds (\$000)	\$0	\$0	\$0	\$0	\$60	\$0	\$120	\$0	\$0	\$0	N/A
8. Unrestricted Net Assets (\$000)	\$12,622	\$22,361	\$24,179	\$26,429	\$27,544	\$28,663	\$29,786	\$30,912	\$32,041	\$32,041	N/A
9. Annual Capital Asset Expenditure (\$000)	\$1,580	\$798	\$1,498	\$1,988	\$2,048	\$2,109	\$2,172	\$2,238	\$2,305	\$2,305	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
11. Annual Debt Service Coverage (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
12. Annual Debt Service/Revenue (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↓
13. Average Annual Effective Interest Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
Age of Facility (years)	14	14	15	16	18	19	21	23	24	24	↓

Forecast

DEC 04 2015

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Chief Executive Officer Signature



Mercy Retirement and Care Center
Key Indicators Report
For FY 2015

Explanations of significant trends:

- 1) Average Occupancy—The increase to 93.3% level of occupancy was achieved in FY 2015 and is expected to continue to grow in future years.
- 2) Net Operating Margin—Mercy's application to become a CCRC was approved in mid FY 2012. Due to continued start up challenges, Mercy expects to increase its CCRC residents in FY 2016 and expects to add more CCRC residents in FY 2018. Net operating margins are expected to be around 6% in FY 2016 and slowly drop over the later years to slightly below 5% due to some costs such as employee benefits increasing more than unit rate increases as a result of competitive factors.
- 3) Net Operating Margin—Adjusted--Either monthly rental entrance fees or CCRC type entrance fees are available to entering residents. As noted in item 2 above, Mercy is beginning to have CCRC residents as of FY 2014. As a result, the Adjusted Net Operating Margin for each year can swing widely, depending how much of each type of entrance fee is collected.
- 4) Unrestricted Cash and Investments – Cash and Investments are forecasted to be basically the same level as FY 2015, growing slightly each year due to forecasted levels of operating cash flow and capital expenditures. Due to the age of the campus, there will always be some capital expenditures.
- 5) Days Cash on Hand – Days cash on hand will be very steady from FY 2015 and beyond.
- 6) Deferred Revenue from Entrance Fees—Since Mercy will have CCRC residents only starting in FY 2014 with a slow ramp up thereafter, the amount of forecasted deferred revenue is small in FY 2016 but will be growing as the number of CCRC residents increase.
- 7) Net Annual Entrance Fee proceeds— it is anticipated that CCRC entrance fees will average \$30,000, and entrance fees are forecasted to impact only FY 2016 and FY 2018 in the forecasted years as CCRC residents are expected in each of those years.
- 8) Unrestricted Net Assets—For FY 2015 and beyond unit rental rate increases of approximately 3% are expected to more than offset wage increases of 3% and increases in benefits of 7%, generating an increases each year in unrestricted net assets.
- 9) Annual Capital Asset Expenditures-Due to the age of the building and the need to make enhancements to the campus, Mercy spent significantly more on capital expenditures in FY 2015 than in an average year. It is anticipated that required capital asset expenditures will increase again to the pre-FY 2015 historical average of approximately \$2 million per year thereafter.
- 10) Annual Debt Service Coverage (Revenue Basis)—Mercy has no debt in FY 2015 and does not expect to incur any in the foreseeable future so this ratio is not applicable.
- 11) Annual Debt Service Coverage—Mercy has no debt in FY 2015 and does not expect to incur any in the foreseeable future so this ratio is not applicable.
- 12) Annual Debt Service/Revenue (%)—Mercy has no debt in FY 2015 and does not expect to incur any in the foreseeable future so this is not applicable.
- 13) Average Annual Effective Interest Rate (%)—Mercy has no debt in FY 2015 and does not expect to incur any in the foreseeable future so this is not applicable.
- 14) Unrestricted Cash & Investments/Long-Term Debt (%) –Mercy has no debt in FY 2015 and does not expect to incur any in the foreseeable future so this is not applicable.

15) Average Age of Facility (Years)—Due to high capital spending in FY 2015 and, thus, an increase in depreciation, the average age of the facility is slowly climbing—a trend that will continue due to the anticipated level of capital spending in the out years versus the amount of the facility becoming fully depreciated. At some point beyond FY 2020 there will need to be some major capital spending for renovation or rebuild, but the buildings are currently in good shape due to on-going annual maintenance spending and the extra capital spending in FY 2015.