

Motion Picture and Television Fund and Affiliated Entities

**Consolidated Financial Statements
December 31, 2015 and 2014**

Motion Picture and Television Fund and Affiliated Entities

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December 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors
Motion Picture and Television Fund and Affiliated Entities

We have audited the accompanying consolidated financial statements of Motion Picture and Television Fund and Affiliated Entities (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Motion Picture and Television Fund and Affiliated Entities as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

May 12, 2016

Motion Picture and Television Fund and Affiliated Entities
Consolidated Balance Sheets
Year Ended December 31, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 2,034,000	\$ 2,886,000
Patients accounts receivable, net	1,143,000	968,000
Other receivables	3,027,000	3,092,000
Pledges receivable, net	9,828,000	10,176,000
Other current assets	916,000	1,135,000
Total current assets	<u>16,948,000</u>	<u>18,257,000</u>
Investments	62,336,000	69,685,000
Land, buildings and equipment, net	41,408,000	44,562,000
Insurance recoveries receivable, net of current portion	3,858,000	5,166,000
Pledges receivable, net of current portion	42,624,000	46,643,000
Assets held under split-interest agreements	784,000	901,000
Other assets	659,000	676,000
Total assets	<u>\$ 168,617,000</u>	<u>\$ 185,890,000</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 4,856,000	\$ 4,061,000
Accrued liabilities	6,966,000	11,886,000
Current portion of long-term debt	980,000	945,000
Total current liabilities	<u>12,802,000</u>	<u>16,892,000</u>
Long-term debt, net of current portion	20,450,000	21,430,000
Accrued pension benefits	18,766,000	21,890,000
Insurance claim liability	6,778,000	8,238,000
Other long-term liabilities	2,694,000	3,112,000
Actuarial liability under split-interest agreements	532,000	564,000
Total liabilities	<u>62,022,000</u>	<u>72,126,000</u>
Commitments and contingencies (Note 12)		
Net assets		
Unrestricted	29,380,000	31,510,000
Temporarily restricted	54,471,000	59,684,000
Permanently restricted	22,744,000	22,570,000
Total net assets	<u>106,595,000</u>	<u>113,764,000</u>
Total liabilities and net assets	<u>\$ 168,617,000</u>	<u>\$ 185,890,000</u>

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total
Revenues, gains and other support				
Net patient service and resident revenue	\$ 23,565,000	\$ -	\$ -	\$ 23,565,000
Other operating revenue	2,222,000	-	-	2,222,000
Contributions	21,270,000	7,915,000	149,000	29,334,000
Investment income	1,840,000	62,000	25,000	1,927,000
Gain (loss) on sale of investments	(1,118,000)	-	-	(1,118,000)
Net assets released from restrictions used for operations	10,367,000	-	-	10,367,000
Total revenues, gains, and other support	<u>58,146,000</u>	<u>7,977,000</u>	<u>174,000</u>	<u>66,297,000</u>
Expenses				
Salaries, wages and benefits	36,263,000	-	-	36,263,000
Purchased services	11,532,000	-	-	11,532,000
Professional fees	5,121,000	-	-	5,121,000
Supplies	3,378,000	-	-	3,378,000
Depreciation	4,896,000	-	-	4,896,000
Market adjustment on interest rate swap	427,000	-	-	427,000
Interest and financing costs	288,000	-	-	288,000
Other expenses	2,224,000	-	-	2,224,000
Total expenses	<u>64,129,000</u>	<u>-</u>	<u>-</u>	<u>64,129,000</u>
Excess of expenses, gains, and other support over revenues	(5,983,000)	7,977,000	174,000	2,168,000
Other changes in net assets				
Unrealized loss on investments	(1,500,000)	-	-	(1,500,000)
Minimum pension liability adjustment	2,605,000	-	-	2,605,000
Net assets released from restrictions	-	(13,115,000)	-	(13,115,000)
Net assets released from restrictions used for purchase of property and equipment	2,748,000	-	-	2,748,000
Change in split-interest agreements	-	(75,000)	-	(75,000)
Total other changes in net assets	<u>3,853,000</u>	<u>(13,190,000)</u>	<u>-</u>	<u>(9,337,000)</u>
Total changes in net assets	(2,130,000)	(5,213,000)	174,000	(7,169,000)
Net assets				
Beginning of year	<u>31,510,000</u>	<u>59,684,000</u>	<u>22,570,000</u>	<u>113,764,000</u>
End of year	<u>\$ 29,380,000</u>	<u>\$ 54,471,000</u>	<u>\$ 22,744,000</u>	<u>\$ 106,595,000</u>

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Revenues, gains and other support				
Net patient service and resident revenue	\$ 36,746,000	\$ -	\$ -	\$ 36,746,000
Other operating revenue	2,683,000	-	-	2,683,000
Contributions	14,997,000	19,456,000	5,108,000	39,561,000
Investment income	2,663,000	54,000	33,000	2,750,000
Gain on sale of investments	1,065,000	(12,000)	188,000	1,241,000
Net assets released from restrictions used for operations	10,191,000	-	-	10,191,000
Total revenues, gains, and other support	<u>68,345,000</u>	<u>19,498,000</u>	<u>5,329,000</u>	<u>93,172,000</u>
Expenses				
Salaries, wages and benefits	49,131,000	-	-	49,131,000
Purchased services	15,197,000	-	-	15,197,000
Professional fees	8,708,000	-	-	8,708,000
Supplies	5,310,000	-	-	5,310,000
Depreciation	4,978,000	-	-	4,978,000
Market adjustment on interest rate swap	914,000	-	-	914,000
Interest and financing costs	330,000	-	-	330,000
Other expenses	3,349,000	-	-	3,349,000
Total expenses	<u>87,917,000</u>	<u>-</u>	<u>-</u>	<u>87,917,000</u>
Excess of expenses, gains, and other support over revenues	(19,572,000)	19,498,000	5,329,000	5,255,000
Other changes in net assets				
Unrealized loss on investments	(2,258,000)	-	-	(2,258,000)
Minimum pension liability adjustment	(15,361,000)	-	-	(15,361,000)
Gain on sale of outpatient business	14,611,000	-	-	14,611,000
Net assets released from restrictions	-	(10,479,000)	-	(10,479,000)
Net assets released from restrictions used for purchase of property and equipment	288,000	-	-	288,000
Change in split-interest agreements	-	(12,000)	-	(12,000)
Total other changes in net assets	<u>(2,720,000)</u>	<u>(10,491,000)</u>	<u>-</u>	<u>(13,211,000)</u>
Total changes in net assets	(22,292,000)	9,007,000	5,329,000	(7,956,000)
Net assets				
Beginning of year	<u>53,802,000</u>	<u>50,677,000</u>	<u>17,241,000</u>	<u>121,720,000</u>
End of year	<u>\$ 31,510,000</u>	<u>\$ 59,684,000</u>	<u>\$ 22,570,000</u>	<u>\$ 113,764,000</u>

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

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Changes in net assets	\$ (7,169,000)	\$ (7,956,000)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Unrealized losses on investments	1,500,000	2,258,000
Loss (gain) on sale of investments	1,118,000	(1,241,000)
Gain on disposal of land, buildings and equipment	(3,000)	(14,611,000)
Minimum pension liability adjustment	(2,605,000)	15,361,000
Depreciation and amortization, including bond issuance costs	4,913,000	4,995,000
Receipt of contributed securities	(854,000)	(346,000)
Change in fair value of interest rate swap	(427,000)	(914,000)
Contributions restricted for buildings and equipment	(840,000)	(2,782,000)
Changes in annuity and trust liabilities	72,000	77,000
Contributions restricted for long-term investment	(148,000)	(5,108,000)
Changes in assets and liabilities		
Patient accounts receivable, net	(175,000)	7,353,000
Other receivables	239,000	544,000
Insurance recoveries receivable	1,134,000	2,257,000
Pledges receivable	3,786,000	(6,918,000)
Other current assets and other assets	218,000	584,000
Accounts payable and accrued liabilities	(4,015,000)	(2,366,000)
Accrued pension benefits	(519,000)	(1,384,000)
Insurance claim liability	(1,617,000)	(3,047,000)
Cash provided (used) in operating activities	<u>(5,392,000)</u>	<u>(13,244,000)</u>
Cash flows from investing activities		
Purchases of buildings and equipment	(1,703,000)	(6,186,000)
Sale of land, buildings and equipment	20,000	17,689,000
Purchases of investments	(18,923,000)	(115,882,000)
Sales of investments	24,626,000	110,345,000
Cash provided by investing activities	<u>4,020,000</u>	<u>5,966,000</u>
Cash flows from financing activities		
Payment on long-term debt	(945,000)	(910,000)
Cash payments made under split-interest agreements	(104,000)	(141,000)
Proceeds from contributions for		
Buildings and equipment	1,259,000	3,224,000
Long-term investment	310,000	3,768,000
Cash used in financing activities	<u>520,000</u>	<u>5,941,000</u>
Net increase in cash and cash equivalents	(852,000)	(1,337,000)
Cash and cash equivalents		
Beginning of year	<u>2,886,000</u>	<u>4,223,000</u>
End of year	<u>\$ 2,034,000</u>	<u>\$ 2,886,000</u>
Supplemental disclosures of cash flow information		
Contributed securities	854,000	\$ 346,000
Interest paid	258,000	293,000
Accrued purchases of buildings and equipment	306,000	250,000

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

Motion Picture and Television Fund and Affiliated Entities

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. Organization

The Motion Picture and Television Fund (the “Company”), a California nonprofit public benefit corporation founded in 1921, is an integrated health and human service organization providing inpatient medical care, retirement community accommodations, temporary financial assistance, social services, child care, various wellness and education programs to eligible members including retirees of the entertainment industry (the “Industry”) and their families within Southern California. The Company’s operations include a 250-bed multi-level care hospital, a 186 unit retirement community providing independent and assisted living, and a free-standing child care facility. Prior to June 1, 2014, the Company operated an outpatient health system. Effective as of June 1, 2014, the Company entered into an Asset Purchase Agreement (“APA”) and other related agreements with The Regents of the University of California, a California Constitutional Corporation on behalf of its UCLA Health System (“UCLA”). Pursuant to the APA, UCLA acquired the Company’s outpatient health system business, including, but not limited to, its outpatient health centers, outpatient surgery, other ancillary businesses and The Industry Health Network hospital and specialist provider network (collectively, the “UCLA Transaction”). The Company continues to own two health center locations which are occupied and leased by UCLA, while the leases for all other health center locations were transferred to UCLA under the APA. The purchase price of the transaction was \$18 million.

The Company is the sole member of Before and After Productions LLC (“BAP LLC”) and The Industry Advantage, LLC, f/k/a, The Industry Health Network LLC (“TIA LLC”). BAP LLC is a limited liability company established for the primary purpose of organizing, producing and promoting fundraising activities. TIA LLC provides health insurance services to the entertainment community.

The Motion Picture & Television Fund Medical Group, Inc. (the “Medical Group”), a California Professional Medical Corporation, was licensed and provided professional medical services in accordance with the statutory requirements governing professional medical corporations set forth in the California Business & Professions Code and the California Corporations Code. The Company controlled the Medical Group by virtue of restrictions on the sale and transfer of the stock as set forth in a shareholder agreement. In connection with the UCLA Transaction, the Medical Group’s physician employees became UCLA employees and the Medical Group ceased to conduct business as of June 1, 2014. The Medical Group was dissolved, effective January 9, 2015.

The Motion Picture and Television Fund and its affiliated entities are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958, *Not-for-Profit Entities*, which requires the Company to classify its net assets into the following three categories according to donor-imposed restrictions or provisions of law:

- *Unrestricted net assets* – Unrestricted net assets represent those resources of the Company that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Company and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

Motion Picture and Television Fund and Affiliated Entities

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

- *Temporarily restricted net assets* – Temporarily restricted net assets represent contributions, which are subject to donor-imposed restrictions that can be fulfilled by actions of the Company pursuant to those stipulations or by the passage of time. In addition, investment income on certain donor-restricted endowment funds are classified as temporarily restricted until authorized for spending.
- *Permanently restricted net assets* – Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that must be maintained permanently by the Company. Generally, the donors of these assets permit the Company to use all or part of the investment return on these assets for the specified purpose.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted revenues. Investment income on temporarily or permanently restricted assets that is expended for its intended purpose in the same period it is earned is recorded as unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, and cash in checking and savings accounts. Marketable securities purchased with original maturities of three months or less are considered to be cash equivalents.

Inventories

Inventories of drugs and supplies, totaling approximately \$306,000 and \$383,000 at December 31, 2015 and 2014, respectively, are included in other current assets in the consolidated balance sheets and are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Investments

Investments consist of money market funds, mutual funds (including fixed income and equity funds), U.S. government notes, municipal bonds, and other holdings, comprised of non-publicly traded investments (alternative investments). Marketable securities and alternative investments are valued in accordance with FASB ASC 820, *Fair Value Measurements*. The authoritative guidance defines a hierarchy which prioritizes the inputs in fair value measurements. Investment earnings (including realized gains and losses on investments, interest, dividends and other than temporary impairments) are included in operating revenue unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess or (deficit) of expenses, gains, and other support over revenues. The Company records its investment income, realized and unrealized gains and losses on investments of donor restricted funds as additions to or deductions from the appropriate net asset category based on the donor's restriction.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over the asset's estimated useful lives, which range from 3 to 40 years and are assigned based on the Estimated Useful Lives of Depreciable Hospital Assets guide published by the American Hospital Association. In addition, the Company records a liability for the fair value of any conditional asset retirement obligation, if determinable.

Motion Picture and Television Fund and Affiliated Entities

Notes to Consolidated Financial Statements

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Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of land, buildings and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the consolidated statements of operations.

Pledges Receivable

Unconditional promises to give ("pledges") are recorded as receivables and contribution revenue and require the Company to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Multi-year pledges are recorded at fair value on the date of donation. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the pledges are received, and recorded in their respective net asset category. Amortization of the discount is calculated using the effective interest method and included in contribution revenue in the consolidated statements of operations. Conditional promises to give are not included as support until the conditions have been substantially met.

Split-Interest Agreements

The Company uses the actuarial method of recording split-interest agreements, which include charitable gift annuities, charitable remainder unitrust and pooled income funds. Under this method, when a gift is received, the present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables and appropriate discount rates. The remainder is recorded as a contribution in the appropriate net asset category. Investment income and gains are credited, and annuity payments and investment losses are charged to the liability accounts, with periodic adjustments made between the liability and the net assets to record actuarial gains or losses.

The actuarial liability is based on the present value of future payments discounted at rates ranging from 2.5% to 10.7% over estimated time periods derived from the IRS actuarial tables on life expectancy. The valuation followed generally accepted actuarial methods and was based on the requirements of FASB ASC 958. The assets held under split-interest agreements are stated at fair market value and are invested in publicly traded securities.

Debt Issuance Costs

The costs incurred in the issuance of long-term debt, including legal fees, bank fees, and accounting and consulting costs, have been capitalized and are being amortized on the straight-line basis over the term of the related long-term debt. The straight-line method approximates the effective interest method. These costs, totaling \$262,000 and \$279,000 at December 31, 2015 and 2014, respectively, are included in other assets in the consolidated balance sheets.

Interest Rate Swap Agreement

In 2006, the Company entered into an interest rate swap agreement, also known as a risk management or derivative instrument, to reduce the effect of interest rate fluctuation on its variable rate 2006 Bonds. The swap was amended and restated in October 2012, with its scheduled notional amount to be reduced according to the original mandatory sinking account schedule for the 2006 Bonds, regardless of any subsequent redemption or reduction of the 2006 Bonds. The swap is recognized on the consolidated balance sheet at its fair value and changes in the fair value and net cash payments or receipts are recorded in the Consolidated Statements of Operations and Changes in Net Assets, respectively.

Excess of Expenses, Gains, and Other Support over Revenues

The consolidated statements of operations include the caption excess of expenses, gains, and other support over revenues ("operating indicator"). Consistent with industry practice, changes in

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unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, 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), changes in split-interest agreements, and minimum pension liability adjustments. As such, the Company's operating indicator was (\$5,983,000) and (\$19,572,000) for the years ended December 31, 2015 and 2014, respectively.

Net Patient Service and Resident Revenue

Net patient service and resident revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Other Operating Revenue

The Company held various agreements with Industry health plans to provide wellness and network management services consisting of referral management, physician contracting and utilization management. Under these agreements, monthly payments were received and are recorded as other operating revenue. In connection with the APA, these agreements were transferred to UCLA.

Bequests and Trusts

Amounts to be received from bequests and trusts are recorded at the time the Company becomes entitled to the assets and the amounts to be received are assured and reasonably determined. Amounts to be received are recorded as other receivables on the consolidated balance sheets.

At December 31, 2015, the Company has been named as a beneficiary in certain bequests and trusts, which have not been recorded as they do not meet all the criteria for income recognition.

Charity Care and Community Benefit

The Company provides charity care for certain non-elective healthcare services to qualifying individuals who complete an application which is based on Federal Poverty Guidelines. The Company also provides various community services including retirement housing and assisted living services, as well as various social service and community welfare programs and direct emergency financial assistance to eligible Industry employees, retirees and members of their immediate family.

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Notes to Consolidated Financial Statements

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Professional and General Liability

The Company has a claims-made policy for all professional and general liability coverage, with nominal deductibles, that was acquired on January 1, 2003. Liabilities for the Company's retained risk related to the professional and general liability coverage are determined by an actuary. The amounts in other current assets and accrued liabilities representing the current portion of the professional and general liability are \$144,000 and \$209,000 for December 31, 2015 and 2014, respectively. The amounts representing the long term components of the professional and general liability are \$1,049,000 and \$1,611,000 in insurance recoveries receivable and \$1,376,000 and \$2,001,000 in insurance claims liability approximating a net liability of \$327,000 and \$390,000 for December 31, 2015 and 2014, respectively. In connection with the APA and effective July 1, 2014, the Company purchased tail insurance covering both the acquired businesses and the Company's remaining businesses. The tail policy deductible is \$0; the limits are equal to limits previously carried by the Company and the claims reporting period covers July 1, 2014 to perpetuity. The Company renewed its claims-made policy for professional and general liability effective July 1, 2015 with nominal deductibles.

Workers' Compensation Insurance

The Company has a workers' compensation insurance policy for its employees with a \$250,000 per occurrence deductible and \$3,000,000 annual aggregate. This policy was purchased in November 2012. During the period of November 2006 through November 2012 the Company maintained a workers compensation policy with a zero deductible. Between November 1999 and November 2006, the Company had a workers' compensation insurance policy with a deductible of \$350,000 per claim, and an annual aggregate of \$6,200,000. Liabilities for the Company's retained risk related to the coverage are determined by an actuary. The amounts representing the current portion of the workers' compensation liability are \$592,000 and \$701,000 in insurance recoveries receivable and \$1,138,000 and \$1,230,000 in insurance claims liability for December 31, 2015 and 2014, respectively. The amounts representing the long term components of the workers' compensation liability are \$2,809,000 and \$3,555,000 in insurance recoveries receivable and \$5,402,000 and \$6,237,000 in insurance claims liability approximating a net liability of \$3,139,000 and \$3,321,000 for December 31, 2015 and 2014, respectively.

The Company had, on deposit, \$0 and \$60,000 in U.S. government treasury notes for the retained risk associated with workers' compensation insurance liability for each of the years ended December 31, 2015 and 2014 respectively. In addition, the Company has \$2,283,000 and \$2,041,000 in deposits for the benefit of the workers' compensation insurance carrier at December 31, 2015 and 2014, respectively. All deposited amounts are included in investments in the consolidated balance sheets.

Income Taxes

The Company is a nonprofit organization determined by the Internal Revenue Service and the California Franchise Tax Board to be exempt from federal and state income taxes, except to the extent of any unrelated business income. Certain of the affiliated entities included in the consolidated financial statements are subject to federal and state income taxes.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of temporary cash investments, receivables and investments in marketable equity and other securities.

The Company invests its excess cash in deposits with major financial institutions. The Company has not experienced any losses on its temporary cash investments.

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December 31, 2015 and 2014

The Company receives payment for services rendered to patients from the federal and state governments under the Medicare and Medi-Cal programs, privately sponsored industry health plans for which payment is made based on terms defined under formal contracts and other payors. The following table summarizes the percentages of gross patient accounts receivable from all payors:

	2015	2014
Government	59 %	39 %
Industry health plans	0 %	44 %
Others	41 %	17 %
	<u>100 %</u>	<u>100 %</u>

The Company believes there is no significant credit risk associated with patient receivables from government programs. Patient receivables from industry health plans and others are from various payors who are subject to differing economic conditions, and do not represent any concentrated risks to the Company. The Company continually monitors and adjusts the reserves associated with patient receivables. The Company estimates bad debt expense and the allowance for doubtful accounts based on historical collection experience.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) 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.

Fair Value Measurements

The Company applies the provision of FASB ASC 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The assets reported at fair value by the Company on a recurring basis include investments, assets held under split-interest agreements and interest rate swap obligation. At December 31, 2015 and 2014, the Company’s financial instruments include cash, cash equivalents, accounts receivable, accounts payable, and other liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term maturities.

The following describes the hierarchy inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three level inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than level 1 that are observable, either directly or indirectly, 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 same term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 investments are valued by the Company based upon valuation information, third-party appraisals of real estate, or valuations prepared by custodians for assets held in trusts by other trustees where the Company is

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named as a beneficiary. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present value amount based on market expectations (including present value techniques, option-pricing models and lattice models).

The valuation techniques above may be used for assets and liabilities measured using Level 3 inputs and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available, or not cost effective to obtain.

The Company applies the authoritative guidance contained in FASB 820-10, *Fair Value Measurements and Disclosures*, for estimating the fair value of investment funds that have calculated Net Asset Value ("NAV") per Share in accordance with FASB ASC 946-10, *Financial Services-Investment Companies* (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide, Investment Companies). According to the guidance, in circumstances in which NAV per share of an investment is not determinative of fair value, a reporting entity is permitted, to estimate the fair value of an investment in an investment fund using the NAV per share of the investment (or its equivalent) without further adjustment, if the NAV per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. Accordingly, the Company uses NAV as reported by money managers as a practical expedient, to determine fair value of investments in investment funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment fund or prepare their financial statements consistent with the measurement principles of an investment fund.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis:

- *Money Market Funds*: Valued at the closing price reported on the active market on which the individual securities are traded at the measurement date.
- *Mutual Funds*: Mutual Funds classified as level 1 under the fair value hierarchy are valued using the unadjusted quoted prices in active markets that are available at the measurement date. The composition of the Company's investments in mutual funds at December 31, 2015 was approximately 99.9% fixed income and 0.1% equity securities. Investments in mutual funds consist primarily of large capitalization securities, and are diversified among several industries, issuers and growth, value, indexed, bond and international funds.
- *Domestic equity securities and US government notes*: Valued at the closing price reported on the active market on which the individual securities are traded at the measurement date.
- *Fund of funds*: Both of the investments held in the fund of funds have been estimated using the NAV of the investments. The investments are open ended and there are no unfunded commitments. The fair value of the investment in level 1 and level 2 in 2015 and 2014,

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respectively, consists of a fund which is not directly traded on the market but has a published daily NAV. Substantially all of the underlying holdings are actively traded public entities with quoted prices. The Company may withdraw all or any part of its interests with written notice provided on a trading day. The NAV investment objective of the fund is capital appreciation with a target performance of the Citigroup Three-Month Treasury Bill plus 8% with a standard deviation of 5%. The Company may withdraw all or any part of its interests upon fourteen days advanced written notice to the administrator as of the first day of any fiscal period, or at such other time.

- *Interest rate swap obligation:* Valued at the net present value of future cash flows based on quotes from pricing sources and market data.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability now be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Under current U.S. GAAP, debt issuance costs are recognized as a deferred charge asset. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. This ASU clarifies the presentation and subsequent measurement of debt issuance costs associated with lines of credit. These costs may be presented as an asset and amortized ratably over the term of the line of credit arrangement. These updates are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. A reporting entity should apply these amendments retrospectively, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the ASU. The Company does not expect that this standard will have a material impact on its financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This guidance requires the Company to show investments that use NAV as a practical expedient for valuation purposes, separately from other investments categorized in the fair value hierarchy. ASU 2015-07 is effective for the Company's fiscal year ending December 31, 2016. On December 31, 2015, the Company early adopted ASU 2015-07, *Fair Value Measurement and Disclosures for Investments in Certain Entities that Calculate Net Asset per Share (or Its Equivalent)*. This disclosure change, which was applied retrospectively, can be seen in the investment leveling tables shown in Footnotes 3 for both fiscal years 2015 and 2014.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year, to fiscal years beginning after December 15, 2017. The

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Company continues to evaluate the impacts, if any, the adoption of ASU 2014-09 will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this new guidance, as of the lease commencement date, lessees will be required to recognize the following for all leases, with the exception of short-term leases: i) a lease liability for the obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) a right-of-use asset, representing the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a 'modified retrospective' transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The amendments in this Update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is assessing the impact of adopting ASU 2016-02.

Revision

The Company corrected an error relating to the presentation of the estimated workers' compensation insurance liability and corresponding asset by revising the 2014 consolidated financial statements. This correction was not considered to be material to the previously issued financial statements. However, because of significance of the adjustment, the Company revised its 2014 consolidated financial statements. This correction had the following impact on the consolidated financial statements and no impact on the financial debt covenants (Note 7):

	12/31/2014		12/31/2014
	As Reported	Revision	As Revised
Balance Sheet			
Other receivables (ST)	\$ 2,391,000	\$ 701,000	\$ 3,092,000
Insurance recoveries receivable, net of current portion (LT)	1,611,000	3,555,000	5,166,000
Accrued liabilities (ST)	(11,185,000)	(701,000)	(11,886,000)
Insurance claim liability (LT)	(2,001,000)	(3,555,000)	(5,556,000)

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

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3. Investments

The following is a summary of investments at fair value at December 31:

	2015	2014
Money market funds	\$ 6,537,000	\$ 3,637,000
Mutual funds	45,658,000	55,479,000
Equities	-	50,000
U.S. government notes/municipal bonds	-	60,000
Fund of funds	10,141,000	10,459,000
Total investments	<u>\$ 62,336,000</u>	<u>\$ 69,685,000</u>

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired. It categorizes the individual securities by the length of time that it has been in a continuous unrealized loss position, at December 31, 2015 and 2014, respectively:

	2015					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mutual funds	\$ 35,197,000	\$ (796,000)	\$ 18,600,000	\$ (2,186,000)	\$ 53,797,000	\$ (2,982,000)
Total investments	<u>\$ 35,197,000</u>	<u>\$ (796,000)</u>	<u>\$ 18,600,000</u>	<u>\$ (2,186,000)</u>	<u>\$ 53,797,000</u>	<u>\$ (2,982,000)</u>

	2014					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mutual funds	\$ 35,773,000	\$ (831,000)	\$ 7,461,000	\$ (799,000)	\$ 43,234,000	\$ (1,630,000)
Total investments	<u>\$ 35,773,000</u>	<u>\$ (831,000)</u>	<u>\$ 7,461,000</u>	<u>\$ (799,000)</u>	<u>\$ 43,234,000</u>	<u>\$ (1,630,000)</u>

The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, credit quality and the Company's ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. General market conditions have caused the declines in fair value over the past two years.

Investment income and net realized gains on investments consist of the following for the years ended December 31:

	2015	2014
Investment income	\$ 1,927,000	\$ 2,750,000
(Loss) gain on sale of investments	<u>(1,118,000)</u>	<u>1,241,000</u>
	<u>\$ 809,000</u>	<u>\$ 3,991,000</u>

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Management fees paid were \$184,000 and \$168,000 for the years ended December 31, 2015 and 2014, respectively.

The tables below presents the investments measured at fair value on a recurring basis at December 31, categorized by the level of inputs used in the valuation:

	Total	2015			NAV
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	
Investments at Fair Value					
Investments					
Money market funds	\$ 6,537,000	\$ 6,537,000	\$ -	\$ -	\$ -
Mutual funds					
Domestic fixed income	40,649,000	40,649,000	-	-	-
International fixed income	4,978,000	4,978,000	-	-	-
Domestic equity	31,000	31,000	-	-	-
Fund of funds	10,141,000	8,170,000	-	-	1,971,000
Total investments at fair value	<u>\$ 62,336,000</u>	<u>\$ 60,365,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,971,000</u>

	Total	2014			NAV
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	
Investments at Fair Value					
Investments					
Money market funds	\$ 3,637,000	\$ 3,637,000	\$ -	\$ -	\$ -
Mutual funds					
Domestic fixed income	48,765,000	48,765,000	-	-	-
International fixed income	6,681,000	6,681,000	-	-	-
Domestic equity	33,000	33,000	-	-	-
Domestic equity securities	50,000	50,000	-	-	-
U.S. government notes	60,000	60,000	-	-	-
Fund of funds	10,459,000	-	8,316,000	-	2,143,000
Total investments at fair value	<u>\$ 69,685,000</u>	<u>\$ 55,589,000</u>	<u>\$ 8,316,000</u>	<u>\$ -</u>	<u>\$ 2,143,000</u>

The Company's policy is to recognize the transfer into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During 2015, the Company transferred an investment in a fund of funds from Level 2 to Level 1 due to an active market for this investment becoming available.

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4. Government Reimbursement Programs

The Company has contractual agreements with government sponsored programs (Medicare and Medi-Cal). Some revenues received under these reimbursement agreements are subject to retroactive adjustment based upon cost reports prepared by the Company and subsequent audits by fiscal intermediaries for these programs.

Acute in-patient services are reimbursed by Medicare under the prospective payment system, which provides for payment at predetermined amounts based on the discharge diagnosis. Medicare reimburses for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The difference between customary charges and actual third party payments is accounted for as a contractual allowance, which is a deduction from patient service and resident revenue.

Long-term care services are reimbursed by Medi-Cal on a per-diem basis. Commencing in July 2014, a small number of the Company's long term care residents were transitioned into managed medical plans pursuant to California's Coordinated Care Initiative, enacted in July 2012 through SB 1008 (Chapter 33, Statutes of 2012) and SB 1036 (Chapter 45, Statutes of 2012). The impact to the audited financial statements was immaterial. The Company is licensed as a Distinct-Part Long-Term Care Facility for provision of these services.

Medicare cost reports have been finalized through December 31, 2012. Medi-Cal cost reports have been finalized through December 31, 2013. Reserves, where applicable, have been accrued for all years subject to adjustment. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is a risk that recorded estimates will change in the near term. In the opinion of management, subsequent settlement adjustments, if any, would not have a materially adverse effect on the Company's financial position.

Total revenue from Medicare programs approximated 3% and 11% of net patient service revenue in 2015 and 2014. In addition, the Company received approximately 48% and 21% of net patient service and resident revenue from the Medi-Cal skilled nursing facility program in 2015 and 2014.

5. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and contribution revenue in the appropriate net asset category. Pledges are recorded at the discounted net present value of the future cash flows, using discount rates ranging from 1.7% to 9.9% at December 31, 2015 and December 31, 2014, respectively.

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Unconditional promises to give are expected to be realized in the following periods:

	2015	2014
In one year or less	\$ 9,872,000	\$ 10,375,000
Between one year and five years	31,895,000	31,969,000
More than five years	<u>34,937,000</u>	<u>42,180,000</u>
Total pledges receivable, gross	76,704,000	84,524,000
Less: Discount for pledges receivable	(24,208,000)	(27,506,000)
Less: Allowance for doubtful accounts	<u>(44,000)</u>	<u>(199,000)</u>
Total pledges receivable, net	52,452,000	56,819,000
Less: Current portion	<u>(9,828,000)</u>	<u>(10,176,000)</u>
Pledges receivable, net of current portion	<u><u>\$ 42,624,000</u></u>	<u><u>\$ 46,643,000</u></u>

Pledges receivable at December 31 have the following restrictions:

	2015	2014
Program expenses	\$ 58,897,000	\$ 65,827,000
Building construction	2,700,000	3,194,000
Permanent endowment - other program support	1,600,000	1,800,000
Permanent endowment - patient and resident support	180,000	240,000
Time restricted/general benefit	<u>13,327,000</u>	<u>13,463,000</u>
Total pledges receivable, gross	<u><u>\$ 76,704,000</u></u>	<u><u>\$ 84,524,000</u></u>

In July 2015, the Company received a life contingent estate pledge of \$15 million restricted to the construction of the Kirk Douglas pavilion. In June 2014 the Company received a conditional pledge of \$5 million. Based on the uncertainty regarding the timing and ultimate payment amounts that the Company might receive in connection with these pledges, the estimated present value did not meet the recognition requirements as set forth in the authoritative guidance.

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6. Land, Buildings and Equipment

A summary of land, buildings and equipment at December 31 follows:

	2015	2014
Buildings and improvements	85,112,000	81,306,000
Furniture and equipment	45,127,000	41,522,000
Land and improvements	15,016,000	14,888,000
Construction-in-progress	764,000	6,980,000
	<u>146,019,000</u>	<u>144,696,000</u>
Less: Accumulated depreciation	<u>(104,611,000)</u>	<u>(100,134,000)</u>
Land, buildings and equipment	<u><u>\$ 41,408,000</u></u>	<u><u>\$ 44,562,000</u></u>

Total depreciation expense was \$4,896,000 and \$4,978,000 and depreciation expense for equipment under capital leases was \$0 and \$129,000 for the years ended December 31, 2015 and 2014, respectively. Fixed assets with a cost basis of \$436,000 and a net book value of \$17,000 were written off during 2015.

7. Long-Term Debt

A summary of long-term debt at December 31 follows:

	2015	2014
Series 2001A Revenue Bonds	\$ 21,430,000	\$ 22,375,000
Less: Current portion of long-term debt	<u>(980,000)</u>	<u>(945,000)</u>
Long-term debt, net of current portion	<u><u>\$ 20,450,000</u></u>	<u><u>\$ 21,430,000</u></u>

In March 2001, CSCDA issued, on behalf of the Company, its Series 2001A Variable Rate Revenue Bonds in the aggregate principal amount of \$25,000,000 (the "2001 Bonds") for the purpose of financing the cost of acquiring, constructing, improving and equipping certain of the Company's healthcare, assisted living and retirement facilities, and paying certain costs of issuance of the 2001 Bonds.

The 2001 Bonds bear interest at a variable rate (0.04% as of December 31, 2015), that is reset weekly and payable monthly in arrears. A required annual principal payment in the amount of \$945,000 was made on March 1, 2015, and annual principal payments are required each subsequent March 1, in amounts increasing from \$980,000 to \$1,770,000, with the final payment due on March 1, 2031. The 2001 Bonds may be redeemed early at the option of the Company upon payment of the principal amount of the 2001 Bonds called for redemption plus accrued interest.

Payment of the 2001 Bonds is collateralized primarily by an irrevocable direct pay letter of credit in the amount of \$21,677,000 (the "Current LOC"), and secondarily by a pledge of the Company's gross revenues. There are monthly draws against the Current LOC when principal and interest payments are made. The draws from the Current LOC are repaid from the Company's funds on deposit at U.S. Bank. The Current LOC expires on May 11, 2017.

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The Company uses an interest rate swap, with a notional value of \$24,825,000 at December 31, 2015, to manage the interest rate exposure of the bond. The swap agreement was amended and restated in October 2012.

Under the terms of the amended and restated swap agreement, which expires January 1, 2024, the Company pays the counter-party at a fixed interest rate of 3.533% and receives a variable rate, indexed at 67% of the one-month LIBOR (0.16331% at December 31, 2015), on the principal amount of the bonds.

The interest rate swap agreement is recognized on the consolidated balance sheets at its estimated fair market value. The estimated fair value of the interest rate swap is recorded as a liability of \$2,694,000 and \$3,112,000 for the years ended December 31, 2015 and 2014, respectively, and is included in other long-term liabilities.

The interest rate swap has not been designated as a hedge under ASC 825, *Derivatives and Hedging*, and as such the change in fair value is recorded as decreases of \$418,000 and \$7,000 in the consolidated statement of operations and changes in net assets for the years ended December 31, 2015 and 2014, respectively. In addition, cash payments and receipts resulted in net cash disbursements of \$845,000 and \$921,000 for the years ended December 31, 2015 and 2014, respectively.

The Company's outstanding long-term debt is subject to certain restrictive covenants requiring certain quarterly and annual financial information, both unaudited and audited, and compliance with liquidity and debt service coverage requirements. The carrying value of the Company's bonds approximates fair value due to the variable nature of the interest rates.

The amounts due on long-term debt at December 31, 2015 are as follows:

Year Ending December 31,	
2016	\$ 980,000
2017	1,020,000
2018	1,060,000
2019	1,105,000
2020	1,150,000
Thereafter	<u>16,115,000</u>
Total long-term debt	<u><u>\$ 21,430,000</u></u>

8. Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2015	2014
Buildings and equipment	\$ 3,008,000	\$ 4,877,000
Patient and resident support	292,000	629,000
Emergency financial assistance	131,000	166,000
Other program support	<u>51,040,000</u>	<u>54,012,000</u>
Total temporarily restricted net assets	<u><u>\$ 54,471,000</u></u>	<u><u>\$ 59,684,000</u></u>

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Permanently restricted net assets must be invested to generate income to support the following purposes at December 31:

	2015	2014
Patient and resident support	\$ 9,373,000	\$ 9,425,000
Grounds maintenance	4,568,000	4,543,000
Other program support	<u>8,803,000</u>	<u>8,602,000</u>
Total permanently restricted net assets	<u>\$ 22,744,000</u>	<u>\$ 22,570,000</u>

Net assets released from purpose or time restrictions by incurring expenses satisfying the restricted purpose comprise the following at December 31:

	2015	2014
Buildings and equipment	\$ 2,748,000	\$ 288,000
Emergency financial assistance	137,000	67,000
Other program support	<u>10,230,000</u>	<u>10,124,000</u>
Total releases from restriction	<u>\$ 13,115,000</u>	<u>\$ 10,479,000</u>

9. Program Expenses

Expenses incurred comprise the following program services for the years ended December 31:

	2015	2014
Patient and resident services	\$ 46,344,000	\$ 68,697,000
Managed care programs	236,000	490,000
Administrative services	6,521,000	6,292,000
Fiscal services	2,744,000	3,752,000
Fundraising	6,300,000	5,790,000
Other	<u>1,984,000</u>	<u>2,896,000</u>
Total program expenses	<u>\$ 64,129,000</u>	<u>\$ 87,917,000</u>

The consolidated statements of operations for the years ended December 31, 2015 and 2014 include expenses described as purchased services and professional fees totaling \$16,653,000 and \$23,905,000, respectively. These expenses consist primarily of medical fees (physician, physical therapy and transcription fees and nursing registry) contracted services (information systems support, food, housekeeping, laundry and security services), fundraising and insurance costs. Medical fees represent 22% and 37% of the total and contracted services represent 16% and 16% of the total for the years ended December 31, 2015 and 2014, respectively.

10. Pension Plan

The Company sponsors a defined benefit pension plan (the "Plan"). As of February 28, 2014, the Plan was frozen for all represented and new employees. With this action, the entire plan is frozen for all employees as the non-represented employee's portion has been frozen since July 1, 2011. Benefits are based on service with the Company and the highest five years of earnings. The

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Company's policy is to fund pension costs at a level at least as great as the required minimum contribution under Employee Retirement Income Security Act ("ERISA").

The following table sets forth the Plan's funded status and amounts recognized, using a measurement date of December 31, in the Company's consolidated financial statements at December 31:

	2015	2014
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 77,933,000	\$ 62,608,000
Service cost	363,000	518,000
Interest cost	2,919,000	2,896,000
Participant contributions	-	45,000
Benefits paid	(2,603,000)	(2,195,000)
Actuarial (gain) loss	(6,540,000)	14,061,000
Projected benefit obligation at end of year	<u>\$ 72,072,000</u>	<u>\$ 77,933,000</u>
Change in plan assets		
Fair value of plan assets at beginning of year	56,868,000	55,369,000
Actual return on plan assets	(1,441,000)	2,579,000
Employer contributions	1,200,000	1,070,000
Participant contributions	-	45,000
Benefits paid	(2,349,000)	(2,003,000)
Administrative expenses	(254,000)	(192,000)
Fair value of plan assets at end of year	<u>\$ 54,024,000</u>	<u>\$ 56,868,000</u>
Net amount recognized (unfunded status) at year-end	<u>\$ (18,048,000)</u>	<u>\$ (21,065,000)</u>

Amounts recognized in the balance sheet are included in noncurrent liabilities.

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Net benefit expense for the years ended December 31 includes the following components:

	2015	2014
Components of net periodic benefit cost		
Service cost	\$ 363,000	\$ 518,000
Interest cost	2,919,000	2,896,000
Expected return on plan assets	(3,945,000)	(3,841,000)
Recognized net actuarial loss	<u>1,397,000</u>	<u>-</u>
Total net periodic benefit cost	<u>\$ 734,000</u>	<u>\$ (427,000)</u>
Changes in plan asset and benefit obligations recognized in unrestricted net assets		
Net actuarial (gain) loss arising during the year	(1,154,000)	15,322,000
Amounts recognized as a component of net periodic benefit cost		
Amortization of loss	<u>(1,397,000)</u>	<u>-</u>
Total recognized in unrestricted net assets	<u>\$ (2,551,000)</u>	<u>\$ 15,322,000</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (1,817,000)</u>	<u>\$ 14,895,000</u>
Estimated amounts that will be amortized from unrestricted net assets over the next fiscal year		
Unrecognized loss	<u>\$ (1,386,000)</u>	<u>\$ (1,397,000)</u>
Total	<u>\$ (1,386,000)</u>	<u>\$ (1,397,000)</u>

Additional information and assumptions are as follows:

	2015	2014
Assumptions		
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.1%	3.8%
Rate of compensation increase	N/A	3.0%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	3.8%	4.7%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	3.0%	3.0%

The expected long-term rate of return on Plan assets was selected by the Company based on investment return modeling which incorporates historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. The compensation increase assumption for the Plan is no longer applicable in 2015, as compensation increases and service accruals were frozen as of July 1, 2011 for non-union employees and as of February 28, 2014 for union plans.

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The Company's pension plan asset allocations at December 31, by asset category, are as follows:

	2015	2014
Plan assets		
Asset category		
Equity securities	32.0 %	37.0 %
Debt securities (fixed income)	47.0 %	29.0 %
Fund of funds	21.0 %	34.0 %
	<u>100.0 %</u>	<u>100.0 %</u>

The primary investment objective is to provide capital appreciation of the investment portfolio over long periods of time. The portfolio is perpetual in nature and is invested to withstand the loss of purchasing power from inflation.

The current investment policy established targets and ranges for equity allocation (with a target of 30% and a range of 20% to 40%), fixed income allocation (with a target of 40% and a range of 30% to 50%) and other investment allocation (with a target of 30% and a range of 20% to 40%). Inappropriate investments include options, futures and unregistered securities, and short sales or the use of margin. All investments are valued at the closing price reported on the active market on which the mutual funds are traded. All the Plan assets are considered Level 1 in the fair value hierarchy.

The table below presents the pension plan assets at the fair value on a recurring basis at December 31, categorized by inputs used in the valuation of each investment:

	2015	2014
Assets at Fair Value		
Mutual funds		
Domestic fixed income	\$ 25,203,000	\$ 16,677,000
Domestic equity securities	5,517,000	14,980,000
International equity securities	2,200,000	5,784,000
Global equity securities	9,589,000	-
Fund of funds	11,515,000	19,427,000
Total fair value of plan assets	<u>\$ 54,024,000</u>	<u>\$ 56,868,000</u>

The Company expects to contribute at least the ERISA minimum contribution of \$800,000 to its pension plan in 2016.

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Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

Fiscal Year Ending	Expected Benefits
2016	\$ 2,940,000
2017	3,149,000
2018	3,288,000
2019	3,639,000
2020	3,765,000
2021 - 2025	20,800,000

11. Supplemental Executive Retirement Plan

The Company provides supplemental executive retirement plan ("SERP") benefits to certain executives. The SERP provides benefits which are not subject to regulatory controls requiring funding of the obligation, and consequently, the benefits are payable out of general corporate assets. The projected SERP benefit obligation assuming a 3.80% and 3.40% discount rate and a 0% and 3% annual compensation increase, is \$636,000 and \$745,000 at December 31, 2015 and 2014, respectively. Effective January 1, 2002, the Company's defined benefit pension plan, as described in Note 10, was amended to provide supplemental retirement benefits to certain plan participants, which participants are also participants in the SERP. SERP benefits were replaced by the supplemental retirement benefits provided under the Plan until the Plan was frozen.

The following amounts are recognized, using a measurement date of December 31, in the Company's consolidated financial statements at December 31:

	2015	2014
Benefit cost charged for the year	\$ (1,000)	\$ -
Accrued benefit cost recognized in the consolidated balance sheets	\$ 636,000	\$ 745,000

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Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

Fiscal Year Ending	Expected Benefits
2016	\$ 48,000
2017	48,000
2018	47,000
2019	47,000
2020	46,000
2021-Thereafter	213,000

12. Commitments and Contingencies

Future minimum rental payments required under operating leases for real property as of December 31, 2015 are as follows:

Year Ending December 31,	Operating
2016	\$ 207,000
2017	49,000
Total	<u>\$ 256,000</u>

Building rental expense totaled \$269,000 and \$761,000 for the years ended December 31, 2015 and 2014, respectively.

In 2013, the Company entered into a sales-leaseback arrangement for one of its health centers. The agreement is a 3 year non-renewable lease with escalating rent from \$1.25 to \$3.00 per square foot. The Company has the right to terminate the lease, without penalty, upon ninety days written notice. The selling price was \$6,000,000 million and a gain of \$5,300,000 million was recognized in Gain on land, buildings and other assets on the consolidated statements of operations and changes in net assets. Pursuant to the APA, the Company transferred one of two buildings under the lease to UCLA effective June 1, 2014. The Company continues to occupy a second building under the original terms of the lease, including, the early termination right.

The Company has been named in several claims which arise out of matters incidental to the conduct of its operations. The Company's management is of the opinion that adequate insurance coverage exists for any likely settlements and that the claims will not result in any loss, which would materially affect the financial position or results of operations of the Company.

13. Endowments

The Company's fifteen endowments are donor-restricted and established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Company classifies as permanently restricted net assets (a) the portion of the gift explicitly stipulated to be retained permanently in the subject gift instrument, or (b) in the absence of such stipulation, the fair value of the endowment gift as of the gift date. Unless otherwise explicitly stipulated in the gift instrument, no portion of any investment income or realized net gains/losses generated on the original gift amount shall be classified as permanently restricted. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are authorized for expenditure. These amounts would include interest, dividends and net realized gains. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value of the fund equals or exceeds historic value.

Changes in endowment net assets for the years ended December 31 had the following activity:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 60,000	\$ 22,570,000	\$ 22,630,000
Investment return				
Investment income	532,000	62,000	-	594,000
Net realized appreciation (depreciation)	77,000	-	25,000	102,000
Total Investment return	<u>609,000</u>	<u>62,000</u>	<u>25,000</u>	<u>696,000</u>
Expenses	-	-	-	-
Contributions to endowments	-	-	149,000	149,000
Losses ^(a)	-	(9,000)	-	(9,000)
Release of restriction	(609,000)	(49,000)	-	(658,000)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 64,000</u>	<u>\$ 22,744,000</u>	<u>\$ 22,808,000</u>

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 78,000	\$ 17,241,000	\$ 17,319,000
Investment return				
Investment income	409,000	54,000	33,000	496,000
Net realized appreciation (depreciation)	419,000	(12,000)	188,000	595,000
Total Investment return	<u>828,000</u>	<u>42,000</u>	<u>221,000</u>	<u>1,091,000</u>
Expenses	(841,000)	-	-	(841,000)
Contributions to endowments	-	-	5,108,000	5,108,000
Losses ^(a)	-	(47,000)	-	(47,000)
Release of restriction	13,000	(13,000)	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 22,570,000</u>	<u>\$ 22,630,000</u>

(a) According to the provisions of ASC 958-205-45-22, the decline in fair value of the assets of an endowment fund reduces temporarily restricted net assets by \$9,000 and \$47,000 in 2015 and 2014 respectively. The remaining loss reduces unrestricted net assets.

The Company has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for donor-specified period (s). Under the investment policy, as approved by the Board, the endowment assets are invested in fixed income securities that are intended to produce results that exceed the results of the Merrill Lynch Domestic Master Bond Index. The endowment funds, over

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time, provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized) and current yield (the interest, realized capital appreciation related to the gains and dividends).

The Company's Board has established a spending policy whereby expenditures shall not exceed seven percent of the endowment fund's fair market value in any year.

14. Subsequent Events

In March 2016, the Governor of California signed legislation which eliminated the retroactive rate reduction for distinct-part skilled nursing services provided in the period from June 1, 2011 to September 30, 2013. Accordingly, the Company has eliminated a reserve of \$4,215,000 as of December 31, 2015.

The Company has evaluated events through May 12, 2016, which represents the date these consolidated financial statements were issued. As of May 12, 2016, there were no subsequent events which require recognition or disclosure in the consolidated financial statements.