Report of Independent Auditors and
Financial Statements with Supplementary Information

American Baptist Estates, Inc.
(dba The Terraces of Phoenix)
(a Member of Cornerstone Affiliates)

As of December 31, 2016 and September 30, 2015, and for the 15-Months
Ended December 31, 2016 and the 12-Months Ended September 30, 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors
American Baptist Estates, Inc. (dba The Terraces of Phoenix)
(a Member of Cornerstone Affiliates)

Report on the Financial Statements

We have audited the accompanying financial statements of American Baptist Estates, Inc. (dba The Terraces of Phoenix) (a member of Cornerstone Affiliates) (the "Corporation"), which comprise the balance sheets as of December 31, 2016 and September 30, 2015, and the related statements of operations and changes in net deficit, and cash flows for the 15-months ended December 31, 2016 and the 12-months ended September 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and September 30, 2015, and the results of its operations, changes in net deficit, and its cash flows for the 15-months ended December 31, 2016 and the 12-months ended September 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information displayed on the face of the financial statements, which includes the balance sheet as of September 30, 2016, and the statements of operations and changes in net deficit and of cash flows, each for the 3-months ended December 31, 2016, and 12-months ended September 30, 2016, is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 24 and 25 which includes the statements of operations and changes in net deficit and of cash flows, each for the 12-months ended December 31, 2016, is presented for purpose of additional analysis is are not a required part of the financial statements. This supplementary information is the responsibility of the Corporation's management. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
April 28, 2017

FINANCIAL STATEMENTS

AMERICAN BAPTIST ESTATES, INC. (dba THE TERRACES OF PHOENIX)
(A MEMBER OF CORNERSTONE AFFILIATES)
BALANCE SHEETS AS OF DECEMBER 31, 2016 AND SEPTEMBER 30, 2015
(with comparative information as of September 30, 2016,
presented as supplementary information)
(in thousands)

	December 31, 2016	Supplementary Information September 30, 2016	September 30, 2015
ASSETS			
CASH AND CASH EQUIVALENTS	$ 5,507	$ 5,450	$ 3,132
RESTRICTED CASH	-	-	701
INVESTMENTS	9,939	10,127	6,907
RESTRICTED INVESTMENTS	-	-	2,140
RESIDENT ACCOUNTS AND OTHER RECEIVABLES, LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS OF $83, $68, AND $70, RESPECTIVELY	901	474	2,945
PREPAID EXPENSES, DEPOSITS, AND OTHER ASSETS	29	73	85
OTHER ASSETS	178	124	203
LAND, BUILDINGS, AND EQUIPMENT, NET	47,596	47,974	49,720
TOTAL ASSETS	$ 64,150	$ 64,222	$ 65,833
LIABILITIES AND NET DEFICIT			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 1,674	$ 1,449	$ 2,268
PAYABLE TO AFFILIATES	-	122	951
DEPOSITS	22	28	34
ACCRUED INTEREST	109	-	85
REBATABLE ENTRANCE FEES DUE	47,493	47,486	46,110
ENTRANCE FEES SUBJECT TO REFUND	509	644	974
ENTRANCE FEES NON-REFUNDABLE	5,609	5,352	4,746
NOTES AND BONDS PAYABLE	36,338	36,571	47,141
SUBORDINATED NOTES PAYABLE TO ABHOW	23,000	23,000	12,000
OTHER LIABILITIES	60	267	80
TOTAL LIABILITIES	114,814	114,919	114,389
COMMITMENTS AND CONTINGENCIES (SEE NOTE 10)			
NET DEFICIT - UNRESTRICTED	(50,664)	(50,697)	(48,556)
TOTAL LIABILITIES AND NET DEFICIT	$ 64,150	$ 64,222	$ 65,833

See accompanying notes.

AMERICAN BAPTIST ESTATES, INC. (dba THE TERRACES OF PHOENIX)
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT
FOR THE 15-MONTHS ENDED DECEMBER 31, 2016
AND 12-MONTHS ENDED SEPTEMBER 30, 2015
(with comparative information for the 3-months ended December 31, 2016
and 12-months ended September 30, 2016, presented as supplementary information)
(in thousands)

		Supplementary Information		
	15-Months Ended December 31, 2016	3-Months Ended December 31, 2016	12-Months Ended September 30, 2016	12-Months Ended September 30, 2015
OPERATING REVENUES				
Residential living	$ 11,097	$ 2,264	$ 8,833	$ 8,178
Assisted living	3,515	713	2,802	2,595
Health center	8,448	1,576	6,872	7,195
Memory support	1,981	411	1,570	1,479
Other residential services	141	29	112	142
Amortization of entrance fees	1,210	233	977	808
Other operating revenue	451	97	354	307
Total operating revenues	26,843	5,323	21,520	20,704
OPERATING EXPENSES				
Salaries and wages	9,957	2,066	7,891	7,742
Employee benefits	2,513	478	2,035	2,083
Loss on pension plan termination	989	989	-	-
Supplies	2,387	486	1,901	1,805
Chargeable ancillary services	1,310	219	1,091	1,124
Marketing and advertising	1,355	125	1,230	1,119
Repairs and maintenance	287	53	234	223
Purchased services	1,222	215	1,007	861
Leases and rents	245	38	207	200
Utilities	1,387	234	1,153	1,101
Travel and related	122	19	103	89
Management fees	1,536	303	1,233	1,188
Other operating expenses	353	87	266	262
Insurance	358	76	282	295
Total operating expenses	24,021	5,388	18,633	18,092
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER OPERATING INCOME (EXPENSE)	2,822	(65)	2,887	2,612
OTHER OPERATING INCOME (EXPENSE)				
Change in fair value of interest rate swap	66	250	(184)	-
Investment income, net	306	59	247	257
Mortgage interest	(1,619)	(327)	(1,292)	(1,391)
Depreciation and amortization	(3,241)	(627)	(2,614)	(2,927)
LOSS FROM OPERATIONS	(1,666)	(710)	(956)	(1,449)
Unrealized losses on investments	(270)	(246)	(24)	(93)
Loss from change in unrecognized pension obligation	(159)	(159)	-	-
Contribution of pension termination costs from affiliates	989	989	-	-
Capital contributions	159	159	-	-
Loss on early retirement of debt	(1,161)	-	(1,161)	-
CHANGE IN NET ASSETS (DEFICIT)	(2,108)	33	(2,141)	(1,542)
NET DEFICIT - Beginning of year	(48,556)	(50,697)	(48,556)	(47,014)
NET DEFICIT - End of year	(50,664)	(50,664)	(50,697)	(48,556)

AMERICAN BAPTIST ESTATES, INC. (dba THE TERRACES OF PHOENIX)
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF CASH FLOWS
FOR THE 15-MONTHS ENDED DECEMBER 31, 2016
AND 12-MONTHS ENDED SEPTEMBER 30, 2015
(with comparative information for the 3-months ended December 31, 2016,
and 12-months ended September 30, 2016, presented as supplementary information)
(in thousands)

		Supplementary Information		
	15-Months Ended December 31, 2016	3-Months Ended December 31, 2016	12-Months Ended September 30, 2016	12-Months Ended September 30, 2015
OPERATING ACTIVITIES				
Cash received from resident services	$ 24,900	$ 4,713	$ 20,187	$ 19,454
Cash received from entrance fees from reoccupancy	10,986	1,805	9,181	7,710
Cash provided by other operating activities	429	80	349	1,464
Cash earnings realized from investments	309	62	247	264
Cash paid for employee salaries	(9,093)	(1,848)	(7,245)	(7,105)
Cash paid for employee benefits	(2,501)	(498)	(2,003)	(2,051)
Cash paid for temporary labor	(822)	(199)	(623)	(597)
Cash paid to vendors	(10,858)	(1,716)	(9,142)	(9,519)
Cash paid for interest	(1,476)	(200)	(1,276)	(1,194)
Net cash provided by operating activities	11,874	2,199	9,675	8,426
INVESTING ACTIVITIES				
Acquisition of land, buildings, and equipment	(1,027)	(237)	(790)	(575)
Change in restricted cash	701	-	701	1
Purchase of unrestricted investments	(6,278)	(59)	(6,219)	(6,624)
Proceeds from sale of unrestricted investments	1,974	-	1,974	6,370
Proceeds from sale of restricted investments	2,140	-	2,140	(56)
Net cash used in investing activities	(2,490)	(296)	(2,194)	(884)
FINANCING ACTIVITIES				
Refunds of deposits and refundable fees	(5,930)	(1,595)	(4,335)	(6,392)
Cash paid for deferred debt issuance costs	(927)	-	(927)	-
Principal payments on notes and bonds payable	(11,152)	(251)	(10,901)	(1,065)
Proceeds from issuance of notes and bonds payable	11,000	-	11,000	-
Net cash used in financing activities	(7,009)	(1,846)	(5,163)	(7,457)
INCREASE IN CASH AND CASH EQUIVALENTS	2,375	57	2,318	85
CASH AND CASH EQUIVALENTS - Beginning of year	3,132	5,450	3,132	3,047
CASH AND CASH EQUIVALENTS - End of year	$ 5,507	$ 5,507	$ 5,450	$ 3,132
OPERATING ACTIVITIES				
Change in net deficit	(2,108)	33	(2,141)	(1,542)
Adjustments to reconcile change in net deficit to net cash provided by operating activities				
Amortization of entrance fees	(1,210)	(233)	(977)	(808)
Entrance fees from reoccupancy	10,986	1,805	9,181	7,710
Depreciation and amortization	3,241	627	2,614	2,927
Capital contribution	1,148	1,148	-	-
Unrealized losses on investments	270	246	24	93
Change in fair value of interest rate swap	(66)	(250)	184	-
Change in accounts payable and accrued expenses	(2,725)	(1,258)	(1,467)	(1,098)
Other changes in operating assets and liabilities, net	2,338	81	2,257	1,144
Net cash provided by operating activities	$ 11,874	$ 2,199	$ 9,675	$ 8,426

See accompanying notes.

Note 1 – Business Organization

Parent Organization – California Life Plan Communities ("Parent Organization" or "CLPC"), formerly American Baptist Properties, Inc., is a California nonprofit public benefit corporation. CLPC is the sole member of The Terraces at San Joaquin Gardens ("TSJG"), Cornerstone Affiliates, Southern California Presbyterian Homes ("SCPH" or dba be.group), Redwood Senior Homes and Services ("RSHS"), Westminster Gardens, and American Baptist Homes of the West ("ABHOW").

Cornerstone Affiliates ("Cornerstone"), a California nonprofit public benefit corporation, is the sole member and exercises its direction and control through the appointment of the Board of Directors of American Baptist Estates, Inc. (dba The Terraces of Phoenix or the "Corporation," "ABE"), American Baptist Homes of Washington (dba Judson Park), Las Ventanas Retirement Community ("Las Ventanas"), Boise Retirement Community ("Boise" dba The Terraces of Boise), Cornerstone Affiliates International, Inc. ("CAI"), and Seniority, Inc. CLPC and Cornerstone's Boards are composed of the same seven directors.

Cornerstone Related Enterprises

American Baptist Estates, Inc. – American Baptist Estates, Inc., is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Phoenix, Arizona, through its continuing care retirement community ("CCRC"), The Terraces of Phoenix.

The Terraces of Phoenix is located on a 21-acre campus in Phoenix, Arizona, and currently consists of 209 residential living apartments, 49 assisted living apartments, 25 memory support apartments, and a 64-bed skilled nursing facility with 36 private and 28 semi-private rooms. The Corporation was founded in 1963 with the mission of providing a full continuum of retirement living services to the elderly in the greater Phoenix area.

American Baptist Homes of the West and Affiliates – American Baptist Homes of the West is a California nonprofit public benefit tax-exempt corporation that owns, operates, and manages both CCRCs and rental housing communities in which housing, health care, and supportive services are provided for the elderly in California and Washington. ABHOW has managed the Corporation since 1971 and was the Corporation's sole corporate member from 1998 through September 2003. ABHOW provides financial support and management services, including financial budgeting, accounting, and tax services; negotiation of capital and financing services; regulatory and compliance oversight and legal support; a pooled program for employee benefits including pensions; and a pooled program for property and liability insurance as well as other services through ABHOW affiliates. The Corporation reimburses ABHOW for its pro-rata share of employee benefit costs.

Note 1 – Business Organization (continued)

ABHOW continues to manage The Terraces of Phoenix under a multi-year management agreement. The current amended agreement expires in October 2022. Under the management agreement, a base management fee equal to 6% of the Corporation's revenues is payable to ABHOW (5%) and Cornerstone (1%) monthly. In addition, under the management agreement, $1,136,000 of management fees earned during fiscal years 2006 through 2009 were subordinated, with $600,000 subsequently paid to ABHOW in fiscal year 2012 and the remaining $536,000 paid in fiscal year 2015. In conjunction with the Corporation's December 2015 replacement financing (see Note 6), a new subordination agreement was put into place that limits the payment of management fees to 8.0% of revenue and subordinates such payments to satisfaction of the terms of the financing obligation. At December 31, 2016 and September 30, 2015, the Corporation had met the performance measures for repayment. Management fees of approximately $1,536,000 and $1,188,000 were accrued for the 15-months ended December 31, 2016 and 12-months ended September 30, 2015, respectively.

American Baptist Homes of Washington – American Baptist Homes of Washington is a Washington nonprofit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Washington through its CCRC, Judson Park. On September 22, 2015, the Cornerstone Board of Directors voted to accept receipt of the sole membership of Judson Park from ABHOW, causing a transfer of ownership of Judson Park from ABHOW to Cornerstone.

Las Ventanas Retirement Community – Las Ventanas Retirement Community is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Las Vegas, Nevada through its CCRC.

Boise Retirement Community – Boise Retirement Community is a California nonprofit public benefit tax-exempt corporation that leased, and subsequently purchased, from American Baptist Properties, Inc., a site in Boise, Idaho, upon which The Terraces of Boise was constructed and began operations in July 2015, with the community fully operational in all levels of care on June 1, 2016.

The Terraces at San Joaquin Gardens – The Terraces at San Joaquin Gardens is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Fresno, California, through its CCRC.

Southern California Presbyterian Homes and Affiliates – Southern California Presbyterian Homes and Affiliates (dba be.group, "SCPH") is a California nonprofit public benefit tax-exempt corporation that owns, operates, and manages CCRCs, one freestanding assisted living community, and rental housing communities, primarily in Southern California, in which housing, health care, and supportive services are provided for the elderly. SCPH includes four CCRCs (Royal Oaks, White Sands, Windsor, and Regents Point) together with its controlled affiliates, Redwood Senior Homes and Services ("RSHS"), Kirkwood Assisted Living Residence (Orange) ("Kirkwood Orange"), Westminster Gardens, and Palmer House LP ("Palmer House"). Additionally, the operating results of be.group include the operating activities of six low-income housing tax credit communities. The be.group also provides management services to 20 affordable housing communities, whose operating results are not consolidated into the operating results of be.group.

Note 1 – Business Organization (continued)

Southern California Presbyterian Homes Foundation ("be.group Foundation") is a California nonprofit public benefit tax-exempt corporation whose primary purpose is to develop, invest, and administer funds to provide residential and nursing home care on behalf of the be.group residents. The be.group Foundation's principal activity is to administer such funds under trust agreements. The be.group is the sole member of the be.group Foundation, and therefore, elects the directors of the be.group Foundation. As a result, the be.group has control over the be.group Foundation, and therefore the be.group Foundation is included in the be.group's consolidated financial statements.

On May 1, 2016, in conjunction with the approval by state regulators of the be.group and ABHOW affiliation, CLPC became the sole member of be.group, and the entire organization moved to a December 31 year end, consistent with the be.group.

Cornerstone Affiliates International, Inc. – Cornerstone Affiliates International, Inc., is a California for-profit corporation wholly owned by Cornerstone. CAI is the holding company for the activities surrounding the development of international senior housing consulting and management business opportunities. During the 15-months ended December 31, 2016, management determined to cease pursuing the business endeavors previously undertaken by CAI, and the business activities of CAI were subsequently concluded, with all remaining working capital returned to ABHOW in exchange for the pay down of outstanding amounts due.

Seniority, Inc. – Seniority, Inc. ("Seniority") is a California for-profit corporation that was wholly owned by ABHOW from inception in October 1997 through September 2015. Seniority provides sales and operational management and consulting services to Parent Organization's CCRCs (excluding Las Ventanas) and unrelated third parties. On September 22, 2015, the Cornerstone Board of Directors voted to accept receipt of the stock of Seniority from ABHOW causing a transfer of the ownership of Seniority from ABHOW to Cornerstone. On October 1, 2016, Seniority's sales and operational management and consulting services agreements with the Parent Organization's CCRCs were terminated and these sales and marketing functions, along with the Seniority employees supporting them, were transferred to the individual CCRCs. On October 7, 2016, Cornerstone signed a letter of intent to sell all of its outstanding capital stock in Seniority to Senior Quality Lifestyles Corporation, Inc. ("SQLC").

Seniority Properties – Seniority Properties is a California for-profit corporation that was wholly owned by Cornerstone through September 22, 2015, at which time the Cornerstone Board of Directors voted to transfer its stock ownership of Seniority Properties to Seniority, Inc. Seniority Properties was formed in February 2014 for the purpose of holding equity interests in developed and acquired free-standing assisted living and memory support communities and other similar investments. On February 25, 2017, Seniority transferred its stock ownership of Seniority Properties back to Cornerstone.

Note 2 – Accounting Policies

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 reported amounts of revenues and expenses during the reported periods. Significant items subject to such estimates and assumptions include the fair value of interest rate swap; allowances for contractual and uncollectible accounts receivable; fair value of investments; future service benefit obligation; rebatable entrance fees due; entrance fees subject to refund; and entrance fees non-refundable. Actual results could differ from those estimates.

New Accounting Pronouncements – In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*.The amendment in this update provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. In connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU No. 2014-15 is effective for the Corporation in the 15-months ending December 31, 2016. The adoption did not have a material impact on the Corporation's financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, a consensus of the Emerging Issue Task Force. Pursuant to ASU No. 2015-07, investments for which fair value is measured at net asset value, or its equivalent, using the practical expedient will no longer be categorized in the fair value hierarchy. Removing such investments from the fair value hierarchy thereby ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. ASU No. 2015-07 also removes the requirement that make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Instead, such disclosures are limited to investments for which the entity has elected to estimate the fair value using the practical expedient. ASU No. 2015-07 is effective in the annual periods beginning after December 15, 2015. The adoption did not have a material impact on the Corporation's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU No. 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. It is not anticipated that ASU No. 2016-01 will have an impact on the Corporation's financial statements.

Note 2 – Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02*, Leases (Topic 842),* which requires lessees to recognize a liability associated with obligations to make payments under the terms of the arrangement in addition to a right-of-use asset representing the lessee's right to use, or control the use of, the given asset assumed under the lease. The standard will be effective for nonpublic business entities beginning after December 15, 2019. Early adoption is permitted. The Corporation is currently evaluating this new standard and the impact it will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes the presentation of financial statements and related disclosures unique to not-for-profits. This includes changes such as combining temporarily and permanently restricted net assets, disclosing amounts and purposes of board-designated funds, requiring the placed-in-service approach for long-lived assets to be used, and the presentation of the statement of cash flows. This standard will be effective for annual financial statements beginning after December 15, 2017, and for interim periods beginning after December 15, 2018. The Corporation is currently evaluating this new standard and the impact it will have on its financial statements.

Cash and Cash Equivalents – Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and overnight investments considered to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation. The Corporation has cash balances in financial institutions that are in excess of FDIC limits. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Restricted Cash – Restricted cash is defined as cash that is restricted in its use by regulatory or other agreements. This includes assets held by trustees in accordance with the indentures related to debt agreements.

Investments – Investments include certain cash equivalents held by investment managers, domestic corporate debt securities, and U.S. government securities.

Restricted Investments – Certain investments are restricted as assets held in trust. These include assets held by the trustee in accordance with the indentures relating to debt agreements. Assets held in trust are classified as restricted investments.

Investment income (including realized gains and losses on marketable securities, interest, and dividends) is included in the accompanying statements of operations and changes in net deficit. Realized gains and losses for mutual funds are computed using the average cost method. Historical cost, or the specific identification method, is utilized to compute the realized gains and losses for all other securities. Upon determination that the cost of securities is other-than-temporarily impaired, adjustments are made to revalue the securities to current market value. Any adjustments required by this policy for unrestricted assets are charged to investment gains and losses.

Note 2 – Accounting Policies (continued)

Resident Accounts Receivable – The Corporation provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. The Corporation receives payment for health services from residents, insurance companies, Medicare, HMOs, and other third-party payors. As a result, the Corporation is exposed to certain credit risks. The Corporation manages its risk by regularly reviewing its accounts, by providing appropriate allowances for uncollectible accounts, and by having secured the accounts through the Care and Residence Agreements with the residents of the Community.

Resident accounts receivable are stated at the amount management expects to collect. If necessary, management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to resident accounts receivable.

Land, Buildings, and Equipment – Land, buildings, and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Maintenance and repair costs are charged to operations when incurred.

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

In 2016, management conducted an analysis of fully depreciated assets within the accounting ledger and determined that $7,498,000 of various fully depreciated fixed assets of the Corporation were no longer in service and should be removed from the financial ledger. This adjustment had no impact on the statements of operations and changes in net deficit and no impact on the land, buildings, and equipment, net line item on the balance sheets (see Note 5).

Asset Impairment – The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No asset impairment was recognized at December 31, 2016 and September 30, 2015.

Fair Value of Financial Instruments – Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. The Corporation's policy is to recognize transfers in and transfers out of Level 1 and Level 2 at the end of the reporting period. See Note 3 for fair value hierarchy disclosures.

Note 2 – Accounting Policies (continued)

Deferred Debt Issuance Costs – Expenses incurred in connection with the issuance of debt are deferred and are amortized over the term of the related financing agreements using the interest method. In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU No. 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU No. 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The standard requires retrospective application and represents a change in accounting principle. The Corporation adopted the provisions of ASU No. 2015-03 as of October 1, 2015, and applied its provisions retrospectively. As a result of the retrospective adoption, the Corporation reclassified unamortized deferred debt issuance costs of $860,000 and $1,209,000 at December 31, 2016 and September 30, 2015, respectively, from other assets to a direct reduction from the carrying amount of the notes and bonds payable in the accompanying balance sheets. Adoption of this standard did not impact results of operations, changes in net assets, or cash flows in the current or previous reporting periods. Accumulated amortization of deferred debt issuance costs were $30,000 and $1,983,000 at December 31, 2016 and September 30, 2015, respectively.

Deferred Marketing Costs – Expenses incurred in connection with marketing of newly constructed apartments are deferred and amortized over the estimated average life of the first generation of residents. Unamortized deferred marketing costs amounted to $113,000 and $203,000 at December 31, 2016 and September 30, 2015, respectively, and are included in other assets in the accompanying balance sheets. Accumulated amortization of deferred marketing costs was $741,000 and $3,933,000 at December 31, 2016 and September 30, 2015, respectively.

Obligation to Provide Future Services – If the present value of future outflows to provide future services, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. An evaluation of the future service benefit obligation for residents indicated that a liability was not considered necessary at December 31, 2016 and September 30, 2015. The discount rate used to calculate the obligation to provide future services is 7% for 2016 and 2015.

Types of Entrance Fees – The Care and Residence Agreements between the Corporation and the residents provide for the payment of an entrance fee. Entrance fees received by the Corporation are categorized into two types: initial entrance fees and entrance fees from reoccupancy, which are recorded as either rebatable entrance fees due, entrance fees subject to refund, or entrance fees non-refundable in the accompanying balance sheets. Initial entrance fees, which are the initial fees on new or expanded facilities, are used to provide funds for acquisition and construction of physical facilities, debt retirement, and to defray anticipated deficits in the operations of new homes for a period of time. Entrance fees from reoccupancy in existing homes are used for general purposes, including capital expenditures, support of operations (including benevolence), and funding of reserves.

Refund Policy on Entrance Fees – The Care and Residence Agreement provides the resident with the right to a refund of the entrance fee, less 2.0% for each month of residency for 44 months after the initial reduction of 12% of the original fee, under certain circumstances. In certain cases, upon the move out of a resident, the unamortized balance of the entrance fee on a contractual basis is payable to the resident.

Note 2 – Accounting Policies (continued)

The Corporation also offers contract options whereby 50% to 100% of the entrance fee is rebatable at death or termination of the contract and subsequent re-occupancy of the apartment, although the majority of outstanding contracts are between 80% to 90% rebatable. At December 31, 2016 and September 30, 2015, $47,493,000 and $46,110,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable, and are presented as rebatable entrance fees due in the accompanying balance sheets. Included in these amounts are $877,000 and $724,000 in entrance fee rebates due pending apartment re-occupancy, $1,033,000 and $1,528,000 in entrance fee rebates due pending the move-out of residents in higher levels of care and re-occupancy of their apartment, and $6,479,000 and $6,410,000 in entrance fee rebates due pending only the move-out of residents currently residing in higher levels of care at December 31, 2016 and September 30, 2015, respectively. Non-rebatable amounts amortized to income relating to these types of contracts were $1,210,000 and $808,000 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively.

At December 31, 2016 and September 30, 2015, the Corporation had non-refundable entrance fees of $5,609,000 and $4,746,000, respectively, related to entrance fees received that will be recognized as revenue in future years. Additionally, at December 31, 2016 and September 30, 2015, the Corporation had entrance fees subject to refund of $509,000 and $974,000, respectively, which will be recognized as revenue in future years, unless refunded.

Actual refunds and rebates of entrance fees were $5,930,000 and $6,392,000 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively. Based on historical experience, management expects to pay refunds in future years of approximately $6,000,000 per year.

Interest Rate Cap – The Corporation has utilized interest rate swaps and caps as part of its overall debt management policy. The Corporation accounts for the interest rate swap in accordance with FASB Accounting Standards Codification ("ASC") Topic 815, *Derivatives and Hedging*. The topic requires that all derivatives be carried at fair value on the balance sheet. Changes in the fair value of derivatives were recorded each period as a change in net deficit. The Corporation entered into an interest rate cap agreement on February 1, 2016 (see Note 8).

Net Assets – The Corporation reports three classifications of net assets. A description of each classification of net assets is as follows:

Unrestricted Net Assets – Unrestricted net assets include unrestricted contributions and income earned on unrestricted funds, and amounts for which restrictions have expired.

Temporarily Restricted Net Assets – Temporarily restricted net assets include net assets subject to donor imposed stipulations that may, or will be met, either by actions of the Corporation and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net deficit as net assets released from restrictions. At December 31, 2016 and September 30, 2015, the Corporation had no temporarily restricted net assets.

Permanently Restricted Net Assets – Permanently restricted net assets include net assets subject to donor imposed stipulations that they be maintained permanently by the Corporation. At December 31, 2016 and September 30, 2015, the Corporation had no permanently restricted net assets.

Note 2 – Accounting Policies (continued)

Revenue Recognition – Non-rebatable entrance fees are initially recorded as either entrance fees non-refundable or entrance fees subject to refund and, to the extent they are not otherwise refunded, are amortized to income using the straight-line method over the remaining life expectancy of the resident. The life expectancy of each resident is updated annually based upon the 2000 Group Annuity Mortality Table.

Monthly service fees, ancillary and other services fees are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Accounts receivable over 150 days past their contractual due date are fully reserved.

The Corporation provides health care services primarily to its residents. Revenues from the Medicare program accounted for approximately 15% and 17% of the Corporation's total operating revenue less amortization of entrance fees for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

Contributions – The Corporation participates in the American Baptist Homes Foundation of the West ("ABHFOW") fundraising activity. Gifts and bequests to the Corporation are credited to the Corporation's fund with ABHFOW. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to the Corporation's fund. Funds held by ABHFOW that the ABHFOW board has designated for the Corporation amounted to approximately $1,124,000 and $1,037,000 at December 31, 2016, and September 30, 2015, respectively. ABHFOW retains a legal right to redirect the use of unrestricted endowment funds. Board practice since inception has been to designate earnings distributions on funds for community benevolence needs. The Corporation receives distributions from ABHFOW based upon the market value of the twelve-quarter rolling average of the Corporation's endowment fund at a current rate of 3.5%. This rate is subject to change based upon the ABHFOW board's action. Distribution income for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015 were approximately $44,000 and $28,000, respectively, and are reflected in other operating revenues in the accompanying statements of operations and changes in net deficit. Also included in the accompanying statements of operations and changes in net deficit are $1,148,000 and $0 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively, of contributions of pension termination costs from affiliates.

The Corporation and ABHFOW account for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with the guidance, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net deficit as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Corporation and ABHFOW report the support as unrestricted.

Note 2 – Accounting Policies (continued)

The Corporation reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Benevolence – The Corporation provides services to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Partial payments to which the Corporation is entitled from public assistance programs on behalf of residents that meet the Corporation's benevolence criteria are reported as revenues. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are reported as revenue. Benevolence provided as follows (in thousands):

	15-Months Ended December 31, 2016	12-Months Ended September 30, 2015
Benevolence, at cost	$ 351	$ 172

Contractual Allowances – A portion of the Corporation's revenues is subject to discounts under contracts with third-party payors. These discounts are reported as contractual allowances as follows (in thousands):

	15-Months Ended December 31, 2016	12-Months Ended September 30, 2015
Contractual allowances	$ 803	$ 786

Performance Indicator – "Loss from operations" as reflected in the accompanying statements of operations and changes in net deficit is the performance indicator. Loss from operations includes all changes in unrestricted net assets (deficit) other than noncash changes in unrealized losses on investments, capital contributions, loss from change in unrecognized pension obligation, and losses on the early retirement of debt.

Workers' Compensation Plan – The Corporation participates in the State of Arizona's fully insured workers' compensation program as well as receiving safety program support from ABHOW. The Corporation's expense for this coverage is reflected as a component of the benefit burden applied to payroll. Amounts charged to the Corporation for the workers' compensation program were $164,000 and $205,000 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively.

Note 2 – Accounting Policies (continued)

Professional Liability Insurance – The Corporation has professional liability insurance through a pooled program provided by ABHOW. ABHOW has secured claims-made policies for malpractice and general liability insurance with a self-insured retention of $150,000 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015. At December 31, 2016 and September 30, 2015, the Corporation had a remaining liability of approximately $120,000 and $366,000, respectively, as its best estimate of the cost of known claims and claims incurred but not reported. The liability is included in accounts payable and accrued expenses on the accompanying balance sheets. Related insurance recovery receivables of $0 and $164,000 are recorded under resident accounts and other receivables in the accompanying balance sheets at December 31, 2016 and September 30, 2015, respectively.

Tax-Exempt Status – The Corporation is an Arizona nonprofit public benefit tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the Arizona Department of Revenue.

The Corporation assesses uncertain tax positions in accordance with the provisions of the FASB ASC Topic 740-10, *Income Taxes.* The Corporation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2016 and September 30, 2015, there were no such uncertain tax positions.

Note 3 – Fair Value

FASB ASC Topic 820 defines fair value as 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. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

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.

Note 3 – Fair Value (continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment, domestic corporate debt securities, and U.S. government securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics or discounted cash flows.

Cash and Cash Equivalents – The carrying amount approximates fair value.

Notes and Bonds Payable – The fair value of notes and bonds payable is estimated based on discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2016, and September 30, 2015 (in thousands):

	Level 1	Level 2	Level 3	Fair Value at December 31, 2016
Investments				
Cash and cash equivalents	$ 161	$ -	$ -	$ 161
U.S. government securities	9,778	-	-	9,778
Total	$ 9,939	$ -	$ -	$ 9,939

	Level 1	Level 2	Level 3	Fair Value at September 30, 2015
Investments				
Cash and cash equivalents	$ 2,344	$ -	$ -	$ 2,344
Domestic corporate debt securities	2,371	-	-	2,371
U.S. government securities	4,332	-	-	4,332
Total	$ 9,047	$ -	$ -	$ 9,047

Note 3 – Fair Value (continued)

The following table presents estimated fair values of the Corporation's financial instruments in accordance with FASB ASC Topic 825, *Financial Instruments* at December 31, 2016, and September 30, 2015 (in thousands):

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents - unrestricted	$ 5,507	$ 5,507	$ 3,132	$ 3,132
Cash and cash equivalents - restricted	$ -	$ -	$ 701	$ 701
Notes and bonds payable	$ 60,198	$ 60,281	$ 60,350	$ 52,665

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Corporation would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management at December 31, 2016 and September 30, 2015. Current estimates of fair value may differ significantly from the amounts presented.

Note 4 – Investments

Investments are held at December 31, 2016 and September 30, 2015, for the following purpose (at fair value) (in thousands):

	December 31, 2016	September 30, 2015
Investments - restricted		
Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements	$ -	$ 2,140
Investments - unrestricted	9,939	6,907
Total investments	$ 9,939	$ 9,047

Investment income for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, is as follows (in thousands):

	15-Months Ended December 31, 2016	12-Months Ended September 30, 2015
Dividend, interest, and other investment income	$ 266	$ 214
Net realized gains on investments	40	43
Total investment income, net	306	257
Unrealized losses on investments	$ (270)	$ (93)

Investment income is net of investment expenses of $40,000 and $43,000 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively.

Note 5 – Land, Buildings, and Equipment

Land, buildings, and equipment at cost at December 31, 2016 and September 30, 2015, consist of the following (in thousands):

	December 31, 2016	September 30, 2015
Land and improvements	$ 2,367	$ 2,619
Buildings and improvements	68,662	72,876
Furnishings and equipment	3,604	6,420
Automotive equipment	4	188
	74,637	82,103
Accumulated depreciation	(28,206)	(32,553)
	46,431	49,550
Construction in progress	1,165	170
Total	$ 47,596	$ 49,720

Depreciation expense for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, was $3,151,000 and $2,678,000, respectively.

Note 6 – Notes and Bonds Payable

A summary of the Corporation's notes and bonds payable at December 31, 2016 and September 30, 2015, is as follows (in thousands):

	December 31, 2016	September 30, 2015
Bonds used to refinance existing debt and renovate and redevelop the Community:		
Series 2015 Tax Exempt Revenue Refunding Bonds (dated December 15, 2015), secured by deed of trust and gross revenue - Serial certificates, annual principal payable commencing on December 1, 2016, in varying amounts ranging from $954,000 to $2,142,000 through 2040. Interest at 30-day London Interbank Offered Rate (LIBOR) plus a credit spread, payable monthly. Rate before fees at December 31, 2016 was 2.18%.	$ 36,398	$ -
Series 2013 Tax Exempt Revenue Refunding Bonds (dated November 20, 2013), secured by deed of trust and gross revenue - Serial certificates, annual principal payable commencing on December 1, 2014, in varying amounts ranging from $1,065,000 to $3,420,000 through 2037. Interest at 30-day London Interbank Offered Rate (LIBOR) plus a credit spread, payable monthly. Rate before fees at September 30, 2015, was 2.16%. The bond was fully paid off during the 15 months ended December 31, 2016.	$ -	$ 47,550
Related-Party Notes Payable:		
Subordinated unsecured notes payable to ABHOW. The note bears interest at 4.0%, compounded annually, and is due in full no later than October 1, 2045.	11,000	-
Subordinated note payable to ABHOW. The note is unsecured and is subordinated to the lien in favor of the Series 2015 Bonds. The note is non-interest bearing and is payable from operating revenues based on the achievement of certain operating and liquidity covenants, estimated to begin in 2030.	12,000	12,000
Promissory note to American Baptist Service Corporation ("ABSCO"), secured by deeds of trust. The note is non-interest bearing and is payable on a ratable basis with the ABHOW note estimated to begin in 2030, or if not amortized, in a single payment due on January 28, 2028, or upon the sale of the community.	800	800
	60,198	60,350
Less: Unamortized debt issuance cost	(860)	(1,209)
Total notes and bonds payable	$ 59,338	$ 59,141

Note 6 – Notes and Bonds Payable (continued)

On November 20, 2013, the Corporation closed on a refunding whereby its Series 2003 and Series 2007 bonds were refunded with a $48,615,000 direct placement financing with Santander that extended through December 1, 2014, with two additional one year extensions as long as specified potential covenant violations are timely cured by ABHOW credit support. The first of these two extensions occurred on December 1, 2014. As a condition of the refunding, ABHOW's board approved a credit support package including unfunded credit support up to a cumulative maximum of $2,000,000 (increasing to $2,500,000 in the event of an occupancy covenant violation) to cure potential covenant violations in achieving the Corporation's minimum liquidity, debt service coverage, or minimum occupancy covenants.

On December 15, 2015, the Corporation entered into a direct placement financing with Washington Federal to replace Santander. The five-year facility with renewal options included a key provision that ABHOW make a $10,000,000 subordinated note to the Corporation bearing interest at 4% to be used for a $9,000,000 partial paydown of existing primary debt with the remainder being utilized for liquidity and debt issuance costs. Key covenants include a minimum 30% cash to primary debt ratio, debt service coverage of 1.25 times, and a debt service guaranty from ABHOW at an initial level of $3,500,000. Opportunities for reductions in the spread over 70% of one-month LIBOR and the guaranty amount are available for increased levels of liquidity.

ABHOW advanced $750,000 in fiscal year 2014 to fund the completion of refurbishments on The Terraces of Phoenix campus and approximately $250,000 to provide for the costs of issuance for the new credit facility. In conjunction with the December 2015 replacement financing, these advances were converted into a $1,000,000 subordinated note bearing interest at 4%. As of September 29, 2003, due to the transfer of sole membership of the Corporation from ABHOW to Cornerstone, $12,000,000 of funds previously advanced by ABHOW to support the Corporation's operating and capital needs were retained in the form of a note payable to ABHOW from the Corporation. Based on the Corporation's projected cash flows, payments on the notes payable are not anticipated until 2030. Repayment of the note is subordinate to the 2015 bonded indebtedness.

Scheduled maturities of notes and bonds payable are as follows (in thousands):

Year Ending December 31,		
2017	$	1,029
2018		1,062
2019		1,095
2020		1,128
2021		1,168
Thereafter		54,716
	$	60,198

Note 7 – Compliance with Financial Covenants

The Corporation is subject to financial covenants on debt, which include a debt service coverage ratio and cash to primary debt ratio. Management believes the Corporation was in compliance with each of these debt covenants at and for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015.

The Corporation suffered losses before and throughout the redevelopment process. The net accumulated deficit at December 31, 2016 and September 30, 2015, was $50,664,000 and $48,556,000, respectively. Management plans to reduce the magnitude of future deficits by continuing to increase occupancy while containing growth in operational costs. Management intends to achieve this improved occupancy by continuing to offer competitive pricing and attractive contract incentives for rapid move-ins. To this end, the Corporation achieved 199 out of 209 (95.2%) residential living apartments occupancy at December 31, 2016. In addition, positioning the Corporation to generate positive cash flow from turnover entrance fees in the future will enhance the Corporation's liquidity while providing the source of funds for principal retirement and capital expenditures.

Note 8 – Interest Rate Cap

In connection with the issuance of the Series 2015 bonds, the Corporation entered into an interest rate cap agreement with Commonwealth Bank of Australia to manage interest rate risk on $18,700,000 of its Series 2015 bonds. The agreement establishes that when 70% of the one month LIBOR rate exceeds 2.5%, The Terraces of Phoenix is reimbursed for the excess by the counterparty to the transaction. The agreement expires in February 2026.

The net effect of this interest rate cap was an increase in interest expense of approximately $37,000 and $0 for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively.

The change in the fair value of the interest rate cap for the 15-months ended December 31, 2016 and the 12-months ended September 30, 2015, was $66,000 and $0, respectively.

Note 9 – Employee Benefit Plans

Defined Benefit Pension Plan – The Corporation's employees with service prior to December 31, 2002, were eligible to participate in ABHOW's defined benefit retirement plan, which covers certain employees who are at least 21 years of age and have completed one year of service. Benefits were based on years of service and a percentage of the employee's compensation. Employees vest after completion of five years of service. ABHOW's Board of Directors approved the freezing of the plan for all nonunion employees effective December 31, 2002, and for union employees effective September 30, 2003. Contributions are intended to provide for benefits attributed to service to the date of freezing. In March 2015, ABHOW provided terminated vested plan participants with a time limited option to terminate their participation in the plan in exchange for a lump sum payout.

Note 9 – Employee Benefit Plans (continued)

In late calendar year 2016, the majority of the scheduled plan termination was consummated, with an estimated outstanding pension termination liability of $2,350,000 remaining at December 31, 2016. Remaining plan assets of $926,000 at December 31, 2016, plus a final cash contribution from the Corporation will be used to satisfy this liability. As a result of the aforementioned actions taken as part of the plan termination, $10,584,000 of previously unrecognized net actuarial losses was recognized by ABHOW as part of employee benefits. A summary of how these non-cash losses were allocated by community and impacted the Corporation for the 15-months ended December 31, 2016 is as follows (in thousands):

	15-Months ended December 31, 2016
Corporate Office	$ 1,064
Grand Lake Gardens	177
Piedmont Gardens	1,382
Terraces at Los Altos	756
Plymouth Village	700
Rosewood	906
Valle Verde	1,214
Terraces of Los Gatos	1,074
Foundation	52
The Terraces of Phoenix	989
Judson Park	1,083
The Terraces at San Joaquin Gardens	1,010
Seniority, Inc.	177
	$ 10,584

Note 10 – Commitments and Contingencies

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Note 11 – Functional Expenses

Management of the Corporation presents operating expenses in its accompanying statements of operations and changes in net deficit by natural class categories. Operating expenses classified by functional categories for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, are as follows (in thousands):

	15-Months Ended December 31, 2016	12-Months Ended September 30, 2015
Direct resident care	$ 8,250	$ 6,711
Dietary services	4,349	3,400
Housekeeping and laundry services	1,007	800
Property	3,449	2,630
Resident services and activities	1,300	1,008
Marketing and advertising	1,492	1,119
Loss on pension plan termination	989	-
Administrative and general	3,185	2,424
Total operating expenses	$ 24,021	$ 18,092

Note 12 – Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Corporation’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued.

On February 24, 2017, at its annual meeting, Cornerstone revealed its new brand identity, HumanGood. As part of this rebranding initiative, on February 27, 2017, CLPC amended and restated its articles of incorporation to change the name of the corporation to HumanGood. This new brand identity becomes effective on June 1, 2017.

The Corporation has evaluated subsequent events through April 28, 2017, which is the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

AMERICAN BAPTIST ESTATES, INC. (dba THE TERRACES OF PHOENIX)
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT
FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)
(in thousands)

	12-Months Ended December 31, 2016
OPERATING REVENUES	
Residential living	$ 8,941
Assisted living	2,842
Health center	6,627
Memory support	1,593
Other residential services	110
Amortization of entrance fees	982
Other operating revenue	371
Total operating revenues	21,466
OPERATING EXPENSES	
Salaries and wages	8,007
Employee benefits	1,965
Loss on pension plan termination	989
Supplies	1,914
Chargeable ancillary services	1,045
Marketing and advertising	238
Repairs and maintenance	1,048
Purchased services	986
Leases and rents	184
Utilities	1,118
Travel and related	95
Management fees	1,227
Other operating expenses	158
Insurance	288
Total operating expenses	19,262
INCOME FROM OPERATIONS BEFORE OTHER OPERATING INCOME (EXPENSES)	2,204
OTHER OPERATING INCOME (EXPENSE)	
Change in fair value of interest rate swap	66
Investment income, net	239
Mortgage interest	(1,280)
Depreciation and amortization	(2,582)
LOSS FROM OPERATIONS	(1,353)
Unrealized losses on investments	(175)
Loss from change in unrecognized pension obligation	(159)
Contribution of pension termination costs from affiliates	989
Capital contributions	159
CHANGE IN NET DEFICIT	(539)
NET DEFICIT - Beginning of year	(50,125)
NET DEFICIT - End of year	$ (50,664)

AMERICAN BAPTIST ESTATES, INC. (dba THE TERRACES OF PHOENIX)
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENT OF CASH FLOWS
FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)
(in thousands)

	12-Months Ended December 31, 2016
OPERATING ACTIVITIES	
Cash received for resident services	$ 19,946
Cash received for entrance fees from reoccupancy	9,131
Cash provided by other operating activities	477
Cash earnings realized from investments	245
Cash paid for employee salaries	(7,291)
Cash paid for employee benefits	(1,955)
Cash paid for temporary labor	(666)
Cash paid to vendors	(7,757)
Cash paid for interest	(1,123)
Net cash provided by operating activities	11,007
INVESTING ACTIVITIES	
Acquisition of land, buildings, and equipment	(901)
Change in restricted cash	701
Purchase of unrestricted investments	(5,392)
Proceeds from sale of unrestricted investments	2,154
Proceeds from sale of restricted investments	1,732
Net cash used in investing activities	(1,706)
FINANCING ACTIVITIES	
Refunds of deposits and refundable fees	(5,510)
Cash paid for deferred debt issuance costs	(421)
Principal payments on notes and bonds payable	(998)
Net cash used in financing activities	(6,929)
INCREASE IN CASH AND CASH EQUIVALENTS	2,372
CASH AND CASH EQUIVALENTS - Beginning of year	3,135
CASH AND CASH EQUIVALENTS - End of year	$ 5,507
OPERATING ACTIVITIES	
Change in net deficit	(539)
Adjustments to reconcile change in net deficit to net cash provided by operating activities	
Amortization of entrance fees	(982)
Entrance fees from reoccupancy	9,131
Depreciation and amortization	2,582
Unrealized losses on investments	(175)
Change in fair value of interest rate swap	(66)
Change in accounts payable and accrued expenses	536
Other changes in operating assets and liabilities, net	520
Net cash provided by operating activities	$ 11,007