Report of Independent Auditors and
Financial Statements with Supplementary Information

Las Ventanas Retirement Community
(a Member of Cornerstone Affiliates)

As of and for the Year Ended December 31, 2017

MOSSADAMS

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Report of Independent Auditors

To the Members of the Board of Directors
Las Ventanas Retirement Community
(a member of Cornerstone Affiliates)

Report on the Financial Statements

We have audited the accompanying financial statements of Las Ventanas Retirement Community (a member of Cornerstone Affiliates) (the “Corporation”), which comprise the balance sheet as of December 31, 2017, and the related statements of operations and changes in net deficit, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2017 and the results of its operations, changes in net deficit, and its cash flows for the year ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 25, which includes the balance sheet as of December 31, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 26 and 27, which includes the statement of operations and changes in net deficit and statement of cash flows, each for the 12-months ended December 31, 2016, are presented for purpose of additional analysis and 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 27, 2018

Financial Statements

Las Ventanas Retirement Community
(a Member of Cornerstone Affiliates)
Balance Sheet
As of December 31, 2017 (in thousands)

ASSETS

CASH AND CASH EQUIVALENTS	$	6,846
RESTRICTED CASH		3,244
RESTRICTED INVESTMENTS		6,839
RESIDENT ACCOUNTS RECEIVABLE, LESS		
ALLOWANCES FOR DOUBTFUL ACCOUNTS OF $296		1,791
OTHER RECEIVABLES		1,139
PREPAID EXPENSES, DEPOSITS, AND OTHER ASSETS		303
LAND, BUILDINGS, AND EQUIPMENT, NET		68,418
TOTAL ASSETS	$	88,580

LIABILITIES AND NET DEFICIT

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$	2,146
PAYABLE TO AFFILIATES		82
DEPOSITS		191
ACCRUED INTEREST PAYABLE		530
SUBORDINATED MANAGEMENT FEES		2,831
REBATABLE ENTRANCE FEES DUE		25,959
ENTRANCE FEES SUBJECT TO REFUND		6,001
ENTRANCE FEES NON-REFUNDABLE		10,533
NOTES AND BONDS PAYABLE, NET		49,115
NOTES AND BONDS PAYABLE HELD BY AFFILIATES		15,327
FUTURE SERVICE BENEFIT OBLIGATIONS		10,923
OTHER LIABILITIES		74
TOTAL LIABILITIES		123,712
COMMITMENTS AND CONTINGENCIES (SEE NOTE 9)		
NET DEFICIT - UNRESTRICTED		(35,132)
TOTAL LIABILITIES AND NET DEFICIT	$	88,580

See accompanying notes.

Las Ventanas Retirement Community
(a Member of Cornerstone Affiliates)
Statement of Operations and Changes in Net Deficit
For the Year Ended December 31, 2017 (in thousands)

OPERATING REVENUES	
Residential living	$ 8,703
Assisted living	3,381
Health center	9,897
Memory support	866
Amortization of entrance fees	2,807
Other operating revenue	225
Change in future service benefit obligations	3,492
Total operating revenues	29,371
OPERATING EXPENSES	
Salaries and wages	7,670
Employee benefits	1,556
Supplies	1,720
Chargeable ancillary services	2,225
Marketing and advertising	561
Repairs and maintenance	587
Purchased services	1,432
Leases and rents	124
Utilities	915
Travel and related	116
Management fees	606
Other operating expenses	1,283
Insurance	130
Total operating expenses	18,925
INCOME BEFORE OTHER OPERATING EXPENSES	10,446
OTHER OPERATING EXPENSES	
Investment loss, net	(5)
Depreciation	(2,445)
Mortgage interest	(2,417)
Total other operating expenses	(4,867)
INCOME FROM OPERATIONS	5,579
Unrealized gain on investments	1
Contributions in aid of construction	56
CHANGE IN NET DEFICIT	5,636
NET DEFICIT - Beginning of year	(40,768)
NET DEFICIT - End of year	$ (35,132)

Las Ventanas Retirement Community
(a Member of Cornerstone Affiliates)
Statement of Cash Flows
For the Year Ended December 31, 2017 (in thousands)

OPERATING ACTIVITIES	
Cash received from resident services	$ 22,517
Cash received from entrance fees from reoccupancy	8,635
Cash received from other operating activities	749
Cash paid for employee salaries	(7,201)
Cash paid for employee benefits	(1,511)
Cash paid for temporary labor	(411)
Cash paid to vendors	(9,338)
Cash paid for interest	(2,164)
Net cash provided by operating activities	11,276
INVESTING ACTIVITIES	
Acquisition of land, buildings, and equipment	(545)
Purchase of restricted investments	(6,838)
Change in restricted cash	5,585
Net cash used in investing activities	(1,798)
FINANCING ACTIVITIES	
Payments of notes and bonds payable	(1,719)
Refunds of deposits and refundable fees	(6,756)
Cash received from contributions in aid of construction	56
Net cash used in financing activities	(8,419)
INCREASE IN CASH AND CASH EQUIVALENTS	1,059
Cash and cash equivalents at beginning of year	5,787
Cash and cash equivalents at end of year	$ 6,846
OPERATING ACTIVITIES	
Change in net deficit	$ 5,636
Adjustments to reconcile change in net deficit to net cash provided by operating activities	
Amortization of entrance fees	(2,807)
Entrance fees from reoccupancy	8,635
Amortization of deferred fees	37
Depreciation	2,445
Unrealized gain on investments	(1)
Contr butions in aid of construction	(56)
Change in future service benefit obligations	(3,492)
Change in accounts payable and accrued expenses	(176)
Other changes in operating assets and liabilities, net	1,055
Net cash provided by operating activities	$ 11,276
NONCASH DISCLOSURES	
Compounding of accrued interest on Series 2012 B bonds to Series 2012 B bonds principal	$ 208

See accompanying notes.

NOTE 1 – BUSINESS ORGANIZATION

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

Cornerstone Affiliates ("Cornerstone"), a California nonprofit public benefit tax-exempt 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 Terraces of Phoenix or "ABE"), American Baptist Homes of Washington (dba "Judson Park"), Las Ventanas Retirement Community ("Las Ventanas" or the "Corporation"), Boise Retirement Community ("Boise" dba The Terraces of Boise), Cornerstone Affiliates International, Inc. ("CAI"), and Seniority, Inc. HumanGood and Cornerstone's Boards are composed of the same seven directors.

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, which became effective on June 1, 2017.

On March 29, 2018, amendments to the articles of incorporation of Cornerstone took effect and the corporation's name was changed to HumanGood Cornerstone.

CORNERSTONE RELATED ENTERPRISES

Las Ventanas Retirement Community – Las Ventanas Retirement Community is a California nonprofit public benefit tax-exempt corporation formed on January 7, 2004, and is qualified to do business in the state of Nevada. The Corporation was formed for the purpose of providing housing, health care, and supportive services for the elderly in Las Vegas, Nevada. The continuing care retirement community ("CCRC") consists of 172 residential living suites and common areas, six residential living villas, 60 assisted living apartments, and a 16-bed memory support suite, which accepted its first occupants in February 2016, and a 60-bed skilled nursing facility. On February 23, 2018, amendments to the articles of incorporation of Las Ventanas took effect and the Corporation's name was changed to HumanGood Nevada.

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 CCRC, the Terraces of Phoenix. On March 5, 2018, amendments to the articles of incorporation of ABE took effect and the corporation's name was changed to HumanGood Arizona.

American Baptist Homes of Washington – American Baptist Homes of Washington is a Washington nonprofit public benefit 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 the ownership of Judson Park from ABHOW to Cornerstone. On February 23, 2018, amendments to the articles of incorporation of Judson Park took effect and the corporation's name was changed to HumanGood Washington.

NOTE 1 – BUSINESS ORGANIZATION (CONTINUED)

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 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. On March 29, 2018, amendments to the articles of incorporation of ABHOW took effect and the corporation's name was changed to HumanGood NorCal.

ABHOW began managing the Corporation effective January 1, 2010. In conjunction with the Corporation's debt restructuring (see Note 10), a new management agreement was entered into with ABHOW on August 30, 2012, commencing October 1, 2012, for a ten-year term. Under the agreement, management fees accrue at 3.0% of total cash revenue, with payment deferred until certain operating metrics have been met as laid out in the agreement. The paydown of deferred fees cannot cause the total fees paid in any one year to exceed 5.0% of total revenues. No management fees were paid for the year ended December 31, 2017.

Boise Retirement Community – Boise Retirement Community is a California nonprofit public benefit 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. On March 29, 2018, amendments to the articles of incorporation of Boise took effect and the corporation's name was changed to HumanGood Idaho.

Terraces at San Joaquin Gardens – Terraces at San Joaquin Gardens is a California nonprofit public benefit corporation providing housing, health care, and supportive services for the elderly in Fresno, California, through its CCRC. On March 29, 2018, amendments to the articles of incorporation of TSJG took effect and the corporation's name was changed to HumanGood Fresno.

Southern California Presbyterian Homes and Affiliates – Southern California Presbyterian Homes and Affiliates is a California nonprofit public benefit tax-exempt corporation that owns, operates, and manages CCRCs 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, Westminster Gardens, Palmer House LP ("Palmer House"), and Kirkwood Assisted Living Residence (Orange) ("Kirkwood Orange"), whose sale to Cadence Senior Living was finalized on July 10, 2017. Additionally, the operating results of SCPH include the operating activities of seven low-income housing tax credit communities. SCPH provides management services to all 27 of its affordable housing communities. On March 29, 2018, amendments to the articles of incorporation of SCPH took effect and the corporation's name was changed to HumanGood SoCal.

NOTE 1 – BUSINESS ORGANIZATION (CONTINUED)

Southern California Presbyterian Homes Foundation ("SCPH 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 SCPH residents. The SCPH Foundation's principal activity is to administer such funds under trust agreements. SCPH is the sole member of the SCPH Foundation, and therefore, elects the directors of the SCPH Foundation. As a result, SCPH has control over the SCPH Foundation, and therefore the SCPH Foundation is included in the SCPH consolidated financial statements. On March 29, 2018, amendments to the articles of incorporation of SCPH Foundation took effect and the corporation's name was changed to HumanGood Foundation South.

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

Cornerstone Affiliates International, Inc. – Cornerstone Affiliates International, Inc. ("CAI"), 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 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. On March 13, 2018, CAI was dissolved with the California Secretary of State.

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 provided sales and operational management and consulting services to the 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. During fiscal year 2015, Cornerstone transferred to Seniority the voting stock of Seniority Properties (see below). 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. and concluded the sale on April 30, 2017.

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 in the United States of America ("U.S. GAAP") 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 allowances for contractual and uncollectible accounts receivable; fair value of investments; future service benefit obligations; 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU No. 2014-09"), which provides that an entity should recognize revenue to depict the transfer of promised 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 by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date* ("ASU No. 2015-14"), which deferred the effective date of ASU No. 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations* (Reporting Revenue Gross versus Net) ("ASU No. 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing* ("ASU No. 2016-10"), which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU No. 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* ("ASU No. 2016-12"), which provides narrow-scope improvements and practical expedients to ASU No. 2014-09. ASU No. 2014-09, ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, and ASU No. 2016-12 applies to all entities and is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted. The adoption of ASU No. 2014-09, ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, and ASU No. 2016-12 is effective for the Corporation beginning January 1, 2018. Management is currently evaluating the impact of adoption 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; and 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, 2018, 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.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight cash flow classification issues where current U.S. GAAP is either unclear or does not include specific guidance. The standard will be effective for nonpublic business entities for fiscal years beginning after December 15, 2018. The Corporation is currently evaluating this new standard and the impact it will have on its financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. U.S. GAAP currently does not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents other than limited guidance for not-for-profit entities. The standard will be effective for nonpublic business entities for fiscal years 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 which is restricted in its use by regulatory or other agreements. These include entrance fees received to support payments of entrance fee refunds to residents that have had their previous apartment reoccupied as well as to support the negotiation of reductions to and the payment of outstanding entry fee refunds (see Note 10).

Restricted investments – Restricted investments include assets held by trustees in accordance with the indentures related to the debt agreement. Restricted investments include certain cash and cash equivalents and mutual funds.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Investment loss (including realized gains and losses on investments, interest, and dividends) is included in the accompanying statement of operations and changes in net deficit according to donor restrictions. Historical cost, on 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 value. Any adjustments required by this policy for unrestricted assets are charged to investment loss and restricted assets are charged to the appropriate net assets category. Unrealized gains and losses are recorded in other changes in net deficit (see Note 4).

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 its 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.

Other receivables – Other receivables at December 31, 2017, includes noninterest bearing, unsecured promissory notes from residents to pay entrance fees in the amount of $411,000. All amounts are contractually due within 180 days. Also included in other receivables at December 31, 2017 is $300,000 and of litigation insurance recovery receivables, (see professional liability insurance section of Note 2).

Other receivables 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 other receivables. Management considers other receivables to be fully collectible at December 31, 2017, and accordingly, an allowance for doubtful accounts is not considered necessary.

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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

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 during the year ended December 31, 2017.

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 as of the end of the reporting period. See Note 3 for fair value hierarchy disclosures.

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 and are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Unamortized deferred debt issuance costs amounted to $791,000 at December 31, 2017. Accumulated amortization of deferred debt issuance costs were $168,000 at December 31, 2017. Amortization expense was $37,000 for the year ended December 31, 2017 and is included in mortgage interest expense in the accompanying statement of operations and changes in net deficit.

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 was performed following the adoption of ASU No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees*, as a change in accounting principle. Under the new accounting standard, rebatable entrance fees due can no longer be used to reduce the calculated obligations. As such, a liability of $10,923,000 has been recorded in the accompanying balance sheet at December 31, 2017. The discount rate used to calculate the obligation to provide future services is 7% for 2017.

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, and 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 offers contract options whereby 50% to 100% of the entrance fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. Prior to fiscal year ended September 30, 2013, the predominant contract type outstanding was a 90% rebatable contract. Effective for fiscal year 2013 and beyond, primarily 75% rebatable entrance fee contracts, 0% rebatable contracts and Type C contracts, which are non-life care contracts and are non-rebatable, have been offered by the Corporation.

At December 31, 2017 the Corporation had non-refundable entrance fees of $10,533,000, related to entrance fees received that will be recognized as revenue in future years. Additionally, at December 31, 2017 the Corporation had entrance fees subject to refund of $6,001,000 that will be recognized as revenue in future years, unless refunded.

Additionally, at December 31, 2017, $25,959,000 of the entrance fees are contractually rebatable and are presented as rebatable entrance fees due in the accompanying balance sheet. Included in these amounts are $281,000 of entrance fee rebates due pending apartment reoccupancy, $580,000 of entrance fee rebates due pending the move-out of residents who are currently residing in higher levels of care and reoccupancy of their apartment, and $7,074,000 of entrance fee rebates due pending only the move-outs of residents currently residing in higher levels of care at December 31, 2017. The non-rebatable amounts amortized to income relating to these types of contracts were $2,807,000 for the year ended December 31, 2017.

Actual refunds and rebates of entrance fees were $6,756,000 for the year ended December 31, 2017. Based on historical experience, management expects to pay refunds in future years of approximately $4,000,000 per year.

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 statement of operations and changes in net deficit as net assets released from restrictions. At December 31, 2017, 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, 2017, the Corporation had no permanently restricted net assets.

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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

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 32% of the Corporation's total operating revenue, less amortization of entrance fees and change in future service obligations, for the year ended December 31, 2017. 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 programs.

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 funds 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 $418,000 at December 31, 2017. 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. Included in the accompanying statement of operations and changes in net deficit are $56,000 for the year ended December 31, 2017, of contributions in aid of construction received from ABHFOW.

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.

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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

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 not reported as revenues. For the year ended December 31, 2017 benevolence amounted to $96,000. Additionally, the Corporation utilized reductions to the rebatable portion of certain residents' entry fees to satisfy unpaid monthly service fees. The total amount of these reductions was $49,000 for the year ended December 31, 2017.

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 and were $357,000 for the year ended December 31, 2017.

Performance indicator – Income from operations as reflected in the accompanying statement of operations and changes in net deficit is the performance indicator. Income from operations includes all changes in unrestricted net assets, other than unrealized gain on investments and contributions in aid of construction.

Workers' compensation plan – The Corporation has a workers' compensation insurance policy through Merit Resources, Inc., a professional employer organization. The coverage under Part A of the workers' compensation policy does not have a limit unless set forth by the State statute. The coverage under Part B of the workers' compensation policy has a limit of $1,000,000 per accident, $1,000,000 per disease (per employee), and $1,000,000 per disease (policy limit). The expense for this coverage is reflected as a component of employee benefits in the statement of operations and changes in net deficit.

Professional liability insurance – The Corporation has a professional liability insurance program through which the Corporation has secured a claims-made policy that provides insurance for the Corporation with a $0 deductible for each claim at December 31, 2017. During the year ended December 31, 2017, the Corporation secured a claims-made policy for malpractice and general liability insurance with self-insured retentions of $150,000 for each claim at December 31, 2017. The Corporation has accrued a liability of $450,000 as its best estimate of the cost of known claims incurred prior to December 31, 2017. These liabilities are included in accounts payable and accrued expenses in the accompanying balance sheet. Related insurance recovery receivables of $300,000 at December 31, 2017 are recorded under other receivables in the accompanying balance sheet. Management is not aware of any claims outstanding that are in excess of policy limits.

Tax-exempt status – The Corporation is a California 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 California Franchise Tax Board.

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, 2017, 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.

Following is a description of the valuation methodology 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:

- **Restricted 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 and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, discounted cash flows, or net asset value as described below.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheet 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, 2017 (in thousands):

	Level 1	Level 2	Level 3	Fair Value
Restricted investments				
Cash and cash equivalents	$ 6,238	$ -	$ -	$ 6,238
Mutual funds	601	-	-	601
Total	$ 6,839	$ -	$ -	$ 6,839

The following methods were used to estimate the fair value of all other financial instruments.

Cash and cash equivalents and restricted cash – The carrying amount approximates fair value.

Notes and bonds payable – The fair value of notes and bonds payable is determined based on estimates provided by a third-party using a small sample of sales comparables of other non-related CCRC fixed rate bonds.

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, 2017 (in thousands):

	Carrying Amount	Fair Value
Cash and cash equivalents		
Unrestricted	$ 6,846	$ 6,846
Restricted cash	$ 3,244	$ 3,244
Other receivables	$ 1,139	$ 1,139
Notes and bonds payable	$ 65,233	$ 38,471

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, 2017. Current estimates of fair value may differ significantly from the amounts presented.

NOTE 4 – RESTRICTED INVESTMENTS

Restricted investments include assets held by trustees in accordance with the indentures related to the debt agreement. Restricted investments at December 31, 2017 consisted of the following amounts at fair value (in thousands):

Restricted investments	
Cash and cash equivalents	$ 6,238
Mutual funds	601
Total	$ 6,839

Investment income (loss) for the year ended December 31, 2017, is as follows (in thousands):

Dividend, interest, and other investment income	$ (5)
Total investment loss	$ (5)
Unrealized gain on investments	$ 1

Investment income is net of investment expenses of $28,000 for the year ended December 31, 2017.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at cost at December 31, 2017 consisted of the following (in thousands):

Land and improvements	$	9,235
Buildings and improvements		83,821
Furnishings and equipment		2,724
		95,780
Accumulated depreciation		(27,588)
		68,192
Construction in progress		226
Total	$	68,418

Depreciation expense for the year ended December 31, 2017, was $2,445,000.

NOTE 6 – NOTES AND BONDS PAYABLE

A summary of the Corporation's notes and bonds payable at December 31, 2017, is as follows (in thousands):

Secured		
Series 2012 A-1 Tax Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012, and due October 1, 2042), with interest at 7.0%, funded monthly, and paid on October 1 and April 1.	$	27,237
Series 2012 A-2 Tax Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012, and due October 1, 2042), with interest at 3.0%, with a projected step up to 5.0% by fiscal year 2016 and another step up to 7.0% upon paydown of the Series B Bonds, with interest that accrues but does not compound. The Series A-2 Bonds are at parity with the Series 2012 A-1 Bonds in collateral but subordinate in cash flow and do not have voting rights.		4,250
Series 2012 B-1 Tax Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012, and due October 1, 2042), with interest at 2.0%, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow.		10,974

NOTE 6 – NOTES AND BONDS PAYABLE (CONTINUED)

Series 2012 B-2 Tax Exempt, Fixed Rate Term Revenue Bonds (dated September 12, 2012, and due October 1, 2042), with interest that began at 0.0% and stepped up to 2.0% over the course of 2017, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow, however the Series 2012 B-2 Bonds do not have voting rights.		1,570
Series 2012 B-3 Taxable, Fixed Rate Term Revenue Bonds (dated September 12, 2012, and due October 1, 2042), with interest that began at 0.0% and stepped up to 2.0% over the course of 2017, that accrues and compounds. Payments on the Series 2012 B Bonds will be made from available cash flow as detailed in the Master Trust Indenture. All Series 2012 B Bonds are at parity in collateral and cash flow, however the Series 2012 B-3 Bonds do not have voting rights.		4,953
Series 2012 C-1 Tax Exempt, non-interest bearing bonds (dated September 12, 2012, and due October 1, 2042). Payments on the Series 2012 C Bonds will be made from available cash flow as detailed in the Master Trust Indenture only after the Series A and B Bonds are paid in full. All Series 2012 C Bonds are at parity in collateral and cash flow.		11,695
Series 2012 C-2 Taxable, non-interest bearing bonds (dated September 12, 2012, and due October 1, 2042). Payments on the Series 2012 C Bonds will be made from available cash flow as detailed in the Master Trust Indenture only after the Series A and B Bonds are paid in full. All Series 2012 C Bonds are at parity in collateral and cash flow, however the Series C-2 bonds do not have voting rights.		4,554
		65,233
Less unamortized bond issuance costs		(791)
Total notes and bonds payable	$	64,442

Estimated maturities of notes and bonds payable are dependent on cash flows and are estimated as follows (in thousands):

Year Ending December 31,		
2018	$	800
2019		800
2020		800
2021		800
2022		800
Thereafter		61,233
	$	65,233

NOTE 7 – COMPLIANCE WITH FINANCIAL COVENANTS

The Series 2012 Bonds are subject to certain financial and occupancy covenants. Days cash on hand must be maintained at a level of 90 days, the debt service coverage ratio must be maintained at a level of 1.2 times, and residential living occupancy must be no lower than 90% stabilized occupancy. Management believes that the Corporation was in compliance with these financial and occupancy covenants at the December 31, 2017 measurement date.

NOTE 8 – FUNCTIONAL EXPENSES

Management of the Corporation presents operating expenses in its accompanying statement of operations and changes in net deficit by natural class categories. Operating expenses classified by functional categories for the year ended December 31, 2017 were as follows (in thousands):

Direct resident care	$	7,307
Dietary services		3,341
Housekeeping and laundry services		723
Property		3,201
Resident services and activities		1,061
Marketing and advertising		1,197
Administrative and general		2,095
Total operating expenses	$	18,925

NOTE 9 – 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 10 – RESTRUCTURING OF OBLIGATIONS

The Corporation failed to pay installments of principal and interest due from January 2009 through September 12, 2012, on its Series 2004A and 2004B Bonds. The Corporation also failed to promptly repay amounts withdrawn from the debt service reserve fund and failed to pay down its original construction loan in full on February 27, 2009. These events represented events of default under the construction loan and bond financing agreements.

On December 16, 2011, American Baptist Properties (“ABP”), a separately incorporated not-for-profit affiliate of ABHOW, purchased the rights to the construction loan, any accrued interest related thereto, and additional rights granted under the Las Ventanas intercreditor agreement. On December 29, 2011, a forbearance agreement was entered into, by and among the Corporation and its creditors.

NOTE 10 – RESTRUCTURING OF OBLIGATIONS (CONTINUED)

On June 22, 2012, the bondholders, the Corporation, ABHOW as manager, and ABP as construction loan and ground lease holder, executed a letter of agreement for the restructuring of Las Ventanas' debt and lease obligations. On September 12, 2012, the restructuring was finalized, which involved the exchanging of existing bonded indebtedness for three new series of tax-exempt bonds at 90% of the face value of the Series 2004 Bonds. 53.8% of these new bonds bear interest at 7.0% with a 30-year bullet maturity ("Series A–1"), 23.1% accrete interest at 2.0% with principal payments made only as cash flows permit ("Series B–1"), and the remaining 23.1% are noninterest bearing with principal payments made only after the Series A–1 and Series B–1 Bonds are paid in full ("Series C–1"). ABP contributed $2,000,000, which was used to pay down accrued interest on the Series 2004 Bonds, in exchange for interests in Series A–2 and Series B–2 Bonds. Another key component was the relinquishment by ABP of its interests in the ground lease and Construction Loan in exchange for interests in Series A–2, Series B–3, and Series C–2 Bonds. See Note 6 for a further description of each bond series.

In conjunction with the restructuring, ABP transferred $500,000 to the Corporation, which was deposited with the trustee in an escrow account and will be utilized to support the voluntary reduction and restructuring of resident entry fee rebate liabilities. In exchange, ABP received $500,000 in Series B–3 Bonds. The remaining balance in this account was $0 at December 31, 2017. Based on consent of bondholders, the remaining balance at September 30, 2015, was made available to fund start up deficits for the Ronald Reagan Memory Support Suites, which began accepting occupants in February 2016. Also, as part of the restructuring, ABP provided $2,000,000 in unfunded debt service support for the Series A–1 Bonds, with any funded amounts resulting in the issuance to ABP of an offsetting amount of Series B–4 Bonds, which are identical in structure to the Series B–3 Bonds. On September 22, 2015, ABP transferred its ownership interest in the Las Ventanas Bonds as well as its Series A-1 unfunded debt service support agreement to ABHOW.

The restructuring allowed for an entry fee escrow, whereby entry fee funds received from turnover occupancy of an apartment wherein the previous occupant had moved into a higher level of care are deposited into a restricted account and may only be utilized to aid in funding entry fee refunds of the residents in higher levels of care. At December 31, 2017, this account contained a balance of $3,244,000, which is reported as restricted cash on the accompanying balance sheet.

The restructuring, associated forgiveness of liabilities, and write-off of unamortized bond issuance costs for the Series 2004 Bonds, resulted in an extraordinary gain of $33,810,000 during the year ended September 30, 2012. As a result of the restructuring, annual contractual obligations of over $5,000,000 were reduced to approximately $2,000,000 that is subject to default.

NOTE 10 – RESTRUCTURING OF OBLIGATIONS (CONTINUED)

In accordance with the restructured loan agreements, cash in excess of 100 days was deposited in the debt service reserve fund. The excess of funds above $1,906,000 was available for distribution in accordance with the indenture. Upon Trustee notice in accordance with the indenture, distributions were made to the Series B-1, B-2 and B-3 bondholders, and funds were designated to fund the repair and replacement fund and the Series A-1 principal sinking fund, respectively, as follows:

	Series B-1 Principal	Series B-2 Principal	Series B-3 Principal	Repair & Replacement Fund	Series A Principal Sinking Fund	Total Distribution
January 2016	$ 860,000	$ 121,000	$ 407,000	$ 173,000	$ 173,000	$ 1,734,000
January 2017	1,116,000	155,000	517,000	224,000	224,000	2,236,000
February 2018	1,936,000	267,000	893,000	387,000	387,000	3,870,000
	$ 3,912,000	$ 543,000	$ 1,817,000	$ 784,000	$ 784,000	$ 7,840,000

Amounts in the repaired replacement fund are available to supplement the capital budget. As of December 31, 2017, $173,000 of these funds have been utilized to fund capital expenditures.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be 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.

See Note 10 for certain subsequent events that did not impact the financial statements.

Effective January 1, 2018, team members of the Corporation were enrolled into ABHOW's benefit offerings and the co-employer relationship with Merit was terminated. Coinciding with this change, a workers' compensation policy was obtained with Republic Indemnity.

The Corporation has evaluated subsequent events through April 27, 2018, which is the date the financial statements were issued.

Supplementary Information

Las Ventanas Retirement Community
(A Member of Cornerstone Affiliates)
Balance Sheet
As of December 31, 2016 (in thousands)

ASSETS

CASH AND CASH EQUIVALENTS	$	5,787
RESTRICTED CASH		8,829
RESIDENT ACCOUNTS RECEIVABLE, LESS		
ALLOWANCES FOR DOUBTFUL ACCOUNTS OF $128		1,158
OTHER RECEIVABLES		2,639
PREPAID EXPENSES, DEPOSITS, AND OTHER ASSETS		185
LAND, BUILDINGS, AND EQUIPMENT, NET		70,318
TOTAL ASSETS	$	88,916

LIABILITIES AND NET DEFICIT

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$	2,322
PAYABLE TO AFFILIATES		81
DEPOSITS		232
ACCRUED INTEREST PAYABLE		567
SUBORDINATED MANAGEMENT FEES		2,225
REBATABLE ENTRANCE FEES DUE		28,213
ENTRANCE FEES SUBJECT TO REFUND		5,867
ENTRANCE FEES NON-REFUNDABLE		9,751
NOTES AND BONDS PAYABLE, NET		49,955
NOTES AND BONDS PAYABLE HELD BY AFFILIATES		15,961
FUTURE SERVICE BENEFIT OBLIGATIONS		14,415
OTHER LIABILITIES		95
TOTAL LIABILITIES		129,684
COMMITMENTS AND CONTINGENCIES		
NET DEFICIT - UNRESTRICTED		(40,768)
TOTAL LIABILITIES AND NET DEFICIT	$	88,916

Las Ventanas Retirement Community
(A Member of Cornerstone Affiliates)
Statement of Operations and Changes in Net Deficit
For the 12-months Ended December 31, 2016 (unaudited) (in thousands)

OPERATING REVENUES	
Residential living	$ 8,286
Assisted living	2,943
Health center	9,245
Memory support	561
Amortization of entrance fees	2,344
Other operating revenue	247
Change in future service benefit obligations	(1,239)
Total operating revenues	22,387
OPERATING EXPENSES	
Salaries and wages	7,405
Employee benefits	1,509
Supplies	1,596
Chargeable ancillary services	2,211
Marketing and advertising	611
Repairs and maintenance	662
Purchased services	1,324
Leases and rents	153
Utilities	905
Travel and related	75
Management fees	568
Other operating expenses	968
Insurance	125
Total operating expenses	18,112
INCOME BEFORE OTHER OPERATING INCOME (EXPENSES)	4,275
OTHER OPERATING INCOME (EXPENSES)	
Investment income, net	13
Depreciation and amortization	(2,407)
Mortgage interest	(2,451)
Total other operating expenses, net	(4,845)
LOSS FROM OPERATIONS	(570)
Contributions in aid of construction	430
CHANGE IN NET DEFICIT	(140)
NET DEFICIT - Beginning of year	(40,628)
NET DEFICIT - End of year	$ (40,768)

Las Ventanas Retirement Community
(A Member of Cornerstone Affiliates)
Statement of Cash Flows
For the 12-Months Ended December 31, 2016 (unaudited) (in thousands)

OPERATING ACTIVITIES		
Cash received for resident services	$	20,887
Cash received for entrance fees from reoccupancy		6,068
Cash received from other operating activities		249
Cash earnings realized from investments		12
Cash paid for employee salaries		(6,993)
Cash paid for employee benefits		(1,470)
Cash paid for temporary labor		(392)
Cash paid to vendors		(8,320)
Cash paid for interest		(2,365)
Net cash provided by operating activities		7,676
INVESTING ACTIVITIES		
Acquisition of land, buildings, and equipment		(874)
Change in restricted cash		(1,092)
Net cash used in investing activities		(1,966)
FINANCING ACTIVITIES		
Payments of notes and bonds payable		(1,080)
Refunds of deposits and refundable fees		(3,461)
Cash received from contributions in aid of construction		430
Net cash used in financing activities		(4,111)
INCREASE IN CASH AND CASH EQUIVALENTS		1,599
Cash and cash equivalents at beginning of year		4,188
Cash and cash equivalents at end of year	$	5,787
OPERATING ACTIVITIES		
Change in net deficit	$	(140)
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Amortization of entrance fees		(2,344)
Entrance fees from reoccupancy		6,068
Depreciation and amortization		2,407
Contributions in aid of construction		(430)
Change in future service benefit obligations		1,239
Change in accounts payable and accrued expenses		(2,520)
Other changes in operating assets and liabilities, net		3,396
Net cash provided by operating activities	$	7,676
NONCASH DISCLOSURES		
Compounding of accrued interest on Series 2012 B bonds to Series 2012 B bonds principal	$	224

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