Report of Independent Auditors and
Financial Statements with Supplementary Information

# The Terraces at San Joaquin Gardens
## (a Member of California Life Plan Communities)

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

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# REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors
The Terraces at San Joaquin Gardens
(a Member of California Life Plan Communities)

## Report on the Financial Statements

We have audited the accompanying financial statements of The Terraces at San Joaquin Gardens ("TSJG" or the "Corporation") (a Member of California Life Plan Communities), 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 25 and 26, which includes the statements of operations and changes in net deficit, and the cash flows, each for the 12-months ended December 31, 2016, is presented for purpose of additional analysis and is 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

**THE TERRACES AT SAN JOAQUIN GARDENS**
**(A MEMBER OF CALIFORNIA LIFE PLAN COMMUNITIES)**
**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 | $ 17,152 | $ 17,919 | $ 13,274 |
| RESTRICTED INVESTMENTS | 4,352 | 4,909 | 6,237 |
| RESIDENT ACCOUNTS AND OTHER RECEIVABLES, LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS OF $105, $84 AND $131, RESPECTIVELY | 1,237 | 975 | 1,255 |
| PREPAID EXPENSES AND OTHER DEPOSITS | 145 | 103 | 100 |
| OTHER ASSETS | 6,839 | 7,064 | 3,426 |
| LAND, BUILDINGS, AND EQUIPMENT, NET | 90,556 | 91,438 | 99,857 |
| TOTAL ASSETS | $ 120,281 | $ 122,408 | $ 124,149 |
| **LIABILITIES AND NET DEFICIT** | | | |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES | $ 1,141 | $ 1,441 | $ 1,042 |
| PAYABLE TO AFFILIATES | 140 | 365 | 66 |
| DEPOSITS | 113 | 75 | 79 |
| ACCRUED INTEREST | 4,941 | 5,303 | 4,002 |
| SUBORDINATED MANAGEMENT FEES | 3,459 | 3,230 | 2,319 |
| REBATABLE ENTRANCE FEES DUE | 37,746 | 37,545 | 38,210 |
| ENTRANCE FEES SUBJECT TO REFUND | 5,980 | 6,844 | 4,858 |
| ENTRANCE FEES NON-REFUNDABLE | 11,880 | 11,268 | 10,050 |
| NOTES AND BONDS PAYABLE, NET | 46,386 | 46,375 | 47,670 |
| SUBORDINATED NOTES PAYABLE TO ABHOW | 29,774 | 29,774 | 29,774 |
| OTHER LIABILITIES | 54 | 50 | 85 |
| TOTAL LIABILITIES | 141,614 | 142,270 | 138,155 |
| COMMITMENTS AND CONTINGENCIES (NOTE 10) | | | |
| NET DEFICIT - UNRESTRICTED | (21,333) | (19,862) | (14,006) |
| TOTAL LIABILITIES AND NET DEFICIT | $ 120,281 | $ 122,408 | $ 124,149 |

# THE TERRACES AT SAN JOAQUIN GARDENS
# (A MEMBER OF CALIFORNIA LIFE PLAN COMMUNITIES)
# 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 | $ 10,965 | $ 2,321 | $ 8,644 | $ 7,859 |
| Assisted living | 3,586 | 813 | 2,773 | 2,478 |
| Health center | 9,235 | 1,860 | 7,375 | 6,812 |
| Memory support | 2,252 | 443 | 1,809 | 1,636 |
| Other residential services | 59 | 18 | 41 | 97 |
| Amortization of entrance fees | 3,092 | 554 | 2,538 | 1,988 |
| Other operating revenue | 668 | 126 | 542 | 553 |
| Total operating revenues | 29,857 | 6,135 | 23,722 | 21,423 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 9,757 | 2,048 | 7,709 | 7,236 |
| Employee benefits | 2,621 | 563 | 2,058 | 2,086 |
| Loss on pension plan termination | 1,010 | 1,010 | - | - |
| Supplies | 2,416 | 502 | 1,914 | 1,833 |
| Chargeable ancillary services | 1,769 | 376 | 1,393 | 1,119 |
| Other purchased services | 951 | 192 | 759 | 682 |
| Marketing and advertising | 1,457 | 157 | 1,300 | 1,284 |
| Repairs and maintenance | 535 | 100 | 435 | 307 |
| Utilities | 1,660 | 359 | 1,301 | 1,247 |
| Insurance | 318 | 73 | 245 | 234 |
| Travel and related | 105 | 16 | 89 | 51 |
| Leases and rents | 254 | 46 | 208 | 198 |
| Management fees | 2,280 | 458 | 1,822 | 1,658 |
| Other operating expenses | 283 | 109 | 174 | 291 |
| Total operating expenses | 25,416 | 6,009 | 19,407 | 18,226 |
| INCOME BEFORE OTHER OPERATING INCOME (EXPENSE) | 4,441 | 126 | 4,315 | 3,197 |
| OTHER OPERATING INCOME (EXPENSE) | | | | |
| Realized losses on investments, net | (31) | (1) | (30) | (38) |
| Investment income, net | 63 | 13 | 50 | 60 |
| Mortgage interest | (5,199) | (1,039) | (4,160) | (4,271) |
| Depreciation and amortization | (7,666) | (1,551) | (6,115) | (5,845) |
| LOSS FROM OPERATIONS | (8,392) | (2,452) | (5,940) | (6,897) |
| Unrealized gains (losses) on investments | (17) | (29) | 12 | 27 |
| Contribution of pension termination costs for affiliates | 1,010 | 1,010 | - | - |
| Losses from change in unrecognized pension obligation | (165) | (165) | - | - |
| Contributed capital | 237 | 165 | 72 | - |
| CHANGE IN NET DEFICIT | (7,327) | (1,471) | (5,856) | (6,870) |
| NET DEFICIT - Beginning of year | (14,006) | (19,862) | (14,006) | (7,136) |
| NET DEFICIT - End of year | $ (21,333) | $ (21,333) | $ (19,862) | $ (14,006) |

**THE TERRACES AT SAN JOAQUIN GARDENS**
**(A MEMBER OF CALIFORNIA LIFE PLAN COMMUNITIES)**
**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 | $ 26,202 | $ 5,169 | $ 21,033 | $ 18,290 |
| Cash received from entrance fees from reoccupancy | 6,520 | 582 | 5,938 | 2,989 |
| Cash received from other operating activities | 653 | 395 | 258 | 565 |
| Cash earnings realized from investments | 31 | 11 | 20 | 22 |
| Cash paid for employee salaries | (9,247) | (1,936) | (7,311) | (6,808) |
| Cash paid for employee benefits | (2,604) | (558) | (2,046) | (2,059) |
| Cash paid for temporary labor | (490) | (99) | (391) | (392) |
| Cash paid to vendors | (10,814) | (2,720) | (8,094) | (8,120) |
| Cash paid for interest, net of amounts capitalized | (4,269) | (1,404) | (2,865) | (3,280) |
| Net cash provided by (used in) operating activities | 5,982 | (560) | 6,542 | 1,207 |
| INVESTING ACTIVITIES | | | | |
| Acquisition of land, buildings, and equipment | (1,710) | (430) | (1,280) | (2,838) |
| Purchase of restricted investments | (1,528) | (248) | (1,280) | (3,981) |
| Proceeds from sale of restricted investments | 3,396 | 776 | 2,620 | 9,833 |
| Net cash provided by investing activities | 158 | 98 | 60 | 3,014 |
| FINANCING ACTIVITIES | | | | |
| Cash received from initial entrance fees and deposits | 1,743 | - | 1,743 | 6,799 |
| Refunds of deposits and refundable fees | (2,742) | (305) | (2,437) | (1,204) |
| Cash received from capital contributions | 72 | - | 72 | - |
| Principal payments on notes and bonds payable | (1,335) | - | (1,335) | (7,839) |
| Net cash used in financing activities | (2,262) | (305) | (1,957) | (2,244) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,878 | (767) | 4,645 | 1,977 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 13,274 | 17,919 | 13,274 | 11,297 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 17,152 | $ 17,152 | $ 17,919 | $ 13,274 |
| OPERATING ACTIVITIES | | | | |
| Change in unrestricted net deficit | $ (7,327) | $ (1,471) | $ (5,856) | $ (6,870) |
| Adjustments to reconcile change in unrestricted net deficit to net cash provided by (used in) operating activities | | | | |
| Amortization of entrance fees | (3,092) | (554) | (2,538) | (1,988) |
| Entrance fees from reoccupancy | 6,520 | 582 | 5,938 | 2,989 |
| Depreciation and amortization | 7,666 | 1,551 | 6,115 | 5,845 |
| Change in unrealized losses (gains) on investments, net | 17 | 29 | (12) | (27) |
| Change in payable to affiliates | 74 | (225) | 299 | (73) |
| Contributed capital | (72) | - | (72) | - |
| Other changes in operating assets and liabilities, net | 2,196 | (472) | 2,668 | 1,331 |
| Net cash provided by (used in) operating activities | $ 5,982 | $ (560) | $ 6,542 | $ 1,207 |

 See accompanying notes.

## Note 1 – Business and Organization

**Parent Organization** – California Life Plan Communities ("Parent Organization" or "CLPC"), formerly American Baptist Properties, Inc. ("ABP"), is a California nonprofit public benefit corporation. CLPC is the sole member of The Terraces at San Joaquin Gardens ("TSJG" or the "Corporation"), 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 Boards of Directors of American Baptist Homes of Washington (dba Judson Park), American Baptist Estates, Inc. (dba The Terraces of Phoenix, "ABE"), Las Ventanas Retirement Community ("Las Ventanas"), Boise Retirement Community (dba The Terraces of Boise "Boise"), Cornerstone Affiliates International, Inc. ("CAI"), and Seniority, Inc. CLPC and Cornerstone's Boards are composed of the same seven directors.

***Cornerstone Related Enterprises***

**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 continuing care retirement community ("CCRC"). Prior to September 26, 2012, the Corporation was one of the eight CCRCs constituting ABHOW's California Obligated Group. Effective September 26, 2012, by vote of the ABHOW Board of Directors, and consistent with the rights and abilities granted in ABHOW's Master Trust Indenture, sole corporate membership and control of the Corporation was transferred from ABHOW to Cornerstone. On January 12, 2016, the ABP board of directors voted to amend and restate its by-laws and articles of incorporation, thus changing its name to California Life Plan Communities, as well as voting to accept membership of ABHOW, TSJG, SCPH, and Cornerstone Affiliates.

**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.

**American Baptist Homes of Washington –** American Baptist Homes of Washington is a Washington nonprofit public benefit 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 the ownership of Judson Park from ABHOW to Cornerstone.

**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. ABHOW developed the Corporation's campus in 1966 and has managed the community since then.

### Note 1 – Business and Organization (continued)

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 workers' compensation, and a pooled program for property and liability insurance as well as other services through ABHOW affiliates. TSJG reimburses ABHOW for its pro-rata share of employee benefit costs incurred.

ABHOW continues to manage the Corporation under a multi-year management agreement. The current agreement began on September 26, 2012, and continues for 10 years. Under the management agreement, TSJG is charged a base management fee equal to 8.5% of total budgeted cash revenues. Half of this fee is payable to ABHOW monthly, with the remaining half subordinated to debt service and payable annually if certain occupancy, debt service coverage, and days cash on hand requirements are met. Total management fees for the 15-months ended December 31, 2016 and the 12-months ended September 30, 2015, were $2,280,000 and $1,658,000, respectively. $3,459,000 and $2,319,000 of management fees have been accrued but not paid and are included in subordinated management fees in the accompanying balance sheets at December 31, 2016 and September 30, 2015, respectively.

**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 ABP 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.

**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.

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.

**Note 1 – Business and Organization (continued)**

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 which 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 the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable; fair values of investments; future service benefit obligations; rebatable entrance fees due; entrance fees subject to refund; entrance fees non-refundable; and liabilities for self-insured workers' compensation. Actual results could differ from those estimates.

## Note 2 – Accounting Policies (continued)

**New Accounting Pronouncements** – In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40).* The amendments in this update provide 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, 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, FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, a consensus of the Emerging Issues 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 makes 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 that 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; 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, 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.

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.

**Note 2 – Accounting Policies (continued)**

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 Investments –** Investments include certain cash equivalents held by investment managers, domestic corporate debt, foreign corporate debt, and U.S. government securities, held by the trustee in accordance with the indentures relating to debt agreements, and are stated at fair value.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the accompanying statements of operations and changes in net deficit. 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, Medi-Cal, HMOs, and other third-party payors. In September 2014, the Corporation decertified from the state Medi-Cal program and no longer accepts Medi-Cal as a form of payment from new admits into its health center. 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 CCRC.

**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. Real estate predevelopment costs, such as architectural and entitlement costs, costs of model units, furnishings, etc., are capitalized as part of the building cost and depreciated over the useful life of the related building. Maintenance and repair costs are charged to operations when incurred.

**Note 2 – Accounting Policies (continued)**

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 $11,928,000 of various TSJG fixed assets 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 impairment was recognized for the 15-months ended December 31, 2016, and 12-months ended 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.

**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 $1,764,000 and $1,833,000 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 deficit, or cash flows in the current or previous reporting periods. Accumulated amortization of deferred debt issuance costs were $384,000 and $317,000 at December 31, 2016, and September 30, 2015, respectively.

**Note 2 – Accounting Policies (continued)**

**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 $6,839,000 and $3,426,000 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 $2,055,000 and $930,000 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 to be necessary at December 31, 2016 and September 30, 2015. The discount rate used to calculate the obligation to provide future services is 6% 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, and are recorded as either rebatable entrance fees due, entrance fees subject to refund, or entrance fees non-refundable. 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), new development, 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% for each month of residency for 44 months after an initial reduction of 12% of the original fee, under certain circumstances. For a majority of contracts, upon the move out of a resident, the unamortized balance of the entrance fee becomes the property of the Corporation and is included in income. The amounts amortized to income relating to these types of contracts were $3,092,000 and $1,988,000 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 nonrefundable entrance fees of $11,880,000 and $10,050,000, 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 $5,980,000 and $4,858,000, respectively, that will be recognized as revenue in future years unless refunded.

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. The Corporation's redevelopment apartments were sold offering primarily rebatable entrance fee contracts. At December 31, 2016 and September 30, 2015, $37,746,000 and $38,210,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable, and reflected as rebatable entrance fees due in the accompanying balance sheets.

**Note 2 – Accounting Policies (continued)**

Actual refunds and rebates of entrance fees were $2,742,000 and $1,204,000, for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, respectively. Based on historical experience, management expects refunds in future years to approximate $2,500,000 per year.

**Subordinated Notes Payable to ABHOW** – Includes both a fixed rate subordinated note and a variable rate subordinated note to ABHOW (see Note 6).

**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.

**Revenue Recognition** – Non-rebatable entrance fees are initially recorded as either entrance fees non-refundable or entrance fees subject to refund and 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 2004 Group Annuity Mortality Table.

Monthly service fees, ancillary, and other service 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 and Medi-Cal program accounted for approximately 25% and 27% 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 and Medi-Cal programs 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 and Medi-Cal programs.

**Note 2 – Accounting Policies (continued)**

**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 $28,000 and $17,000 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, was approximately $187,000 and $128,000, respectively, and is reflected in other operating revenue in the accompanying statements of operations and changes in net deficit.

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 statements 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 revenue. Benevolence provided as follows (in thousands):

| | 15-Months Ended December 31, 2016 | 12-Months Ended September 30, 2015 |
|---|---|---|
| Benevolence, at cost | $ 1,024 | $ 797 |

**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 | $ 3,094 | $ 2,273 |

**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 deficit other than non-cash changes in unrealized gains and losses on investments, loss from change in unrecognized pension obligation, contribution of pension termination costs for affiliates, and contributed capital.

**Workers' Compensation Plan** – The Corporation participated in ABHOW's partially self-insured workers' compensation program for workers' compensation claims up to $200,000 per year under an occurrence form insurance policy for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015. For claims over $200,000 in the 2016 and 2015 policy years, there is an additional layer of partial self-insurance, for a total of $300,000. Beginning October 1, 2016, the policy was revised such that the first $500,000 of each workers' compensation claim under an occurrence form insurance policy is self-insured, with no additional layer of partial self-insurance. Claims are accrued under the plan as the incidents that give rise to them occur. The estimate of incurred but not reported claims is based on actuarial projections of the ultimate cost of settlement, including claim settlement expenses, using ABHOW's historical claim payment experience. The estimated liability is continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments of self-insured workers' compensation claims are dependent upon future developments, management is of the opinion that the recorded reserve is adequate. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

## 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 at December 31, 2016 and September 30, 2015, and for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015. Management of the Corporation is not aware of any claims outstanding that are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

**Tax-Exempt Status** – The Corporation is a California nonprofit 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, 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 that 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 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:

**Note 3 – Fair Value (continued)**

**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, domestic corporate debt securities, foreign 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, 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 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 |
|---|---|---|---|---|
| Restricted investments | | | | |
| Cash and cash equivalents | $ 1,028 | $ - | $ - | $ 1,028 |
| Domestic corporate debt | 1,287 | - | - | 1,287 |
| Foreign corporate debt | 429 | - | - | 429 |
| U.S. government securities | 1,608 | - | - | 1,608 |
| Total | $ 4,352 | $ - | $ - | $ 4,352 |

| | Level 1 | Level 2 | Level 3 | Fair value at September 30, 2015 |
|---|---|---|---|---|
| Restricted investments | | | | |
| Cash and cash equivalents | $ 3,064 | $ - | $ - | $ 3,064 |
| Domestic corporate debt | 1,253 | - | - | 1,253 |
| Foreign corporate debt | 380 | - | - | 380 |
| U.S. government securities | 1,540 | - | - | 1,540 |
| Total | $ 6,237 | $ - | $ - | $ 6,237 |

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

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

**Notes and Bonds Payable** – The fair value of 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.

**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 | $ 17,152 | $ 17,152 | $ 13,274 | $ 13,274 |
| Notes and bonds payable | $ 77,459 | $ 80,047 | $ 78,794 | $ 80,992 |

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 – Restricted Investments**

Restricted 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 |
|---|---|---|
| Restricted investments | | |
| Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements | $ 4,352 | $ 6,237 |

Investment income is as follows (in thousands):

| | 15-Months Ended December 31, 2016 | 12-Months Ended September 30, 2015 |
|---|---|---|
| Dividend, interest, and other investment income | $ 63 | $ 60 |
| Net realized loss on investments | (31) | (38) |
| Total investment income, net | $ 32 | $ 22 |
| Unrealized (losses) gains on investments | $ (17) | $ 27 |

Investment income is net of investment expenses of $37,000 and $38,000 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, consists of the following (in thousands):

| | December 31, 2016 | September 30, 2015 |
|---|---|---|
| Land and improvements | $ 3,476 | $ 4,128 |
| Buildings and improvements | 112,388 | 125,135 |
| Furnishings and equipment | 6,589 | 8,581 |
| Automotive equipment | 172 | 198 |
| Total | 122,625 | 138,042 |
| Accumulated depreciation | (33,822) | (39,208) |
| Total | 88,803 | 98,834 |
| Construction in progress | 1,753 | 1,023 |
| Total | $ 90,556 | $ 99,857 |

Depreciation expense for the 15-months ended December 31, 2016, and the 12-months ended September 30, 2015, was $6,542,000 and $5,399,000, respectively.

## Note 6 – Notes and Bonds Payable

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

| | December 31, 2016 | September 30, 2015 |
|---|---|---|
| **Secured** | | |
| Series 2012 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated September 26, 2012), Serial certificates, to fund redevelopment spending at TSJG, with annual principal payable commencing on April 1, 2014, in varying amounts depending on initial entrance fee collections through 2016; interest at fixed rates ranging from 4.00% to 6.00%, payable annually on October 1. | $ 47,685 | $ 49,020 |
| **Subordinated** | | |
| Series A Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 4.22% until October 1, 2014, 4.00% per annum until October 1, 2018, and thereafter bears interest at the average rate per annum on the ABHOW Series 2006 bonds or any bonds refunding those bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any. | 23,336 | 23,336 |
| Series B Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 6.20% per annum, or if the ABHOW Series 2010 bonds are refunded, the average interest rate per annum on any such refunding bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any. | 6,438 | 6,438 |
| Total secured and subordinated notes and bonds payable | 77,459 | 78,794 |
| Add: unamortized bond premium | 465 | 483 |
| Less: unamortized bond issuance costs, net | (1,764) | (1,833) |
| Total bonds and subordinated notes payable | $ 76,160 | $ 77,444 |

## Note 6 – Notes and Bonds Payable (continued)

The Corporation undertook a plan to redevelop portions of its campus (the "Project"). As part of this plan, sole corporate membership and control of the Corporation was transferred from ABHOW to Cornerstone on September 26, 2012. Concurrent with this change in legal structure, the repayment of funds previously provided from the Corporation to ABHOW for corporate purposes were forgiven. As part of the transfer, at closing, $4,807,000 of the proceeds from the financing discussed below were transferred from the Corporation to ABHOW to reimburse for construction costs advanced by ABHOW in anticipation of the financing. Additionally, the portion of ABHOW's Series 2006 bonds previously allocated to the Corporation were replaced with a $23,336,000 variable rate subordinated note, and the portion of ABHOW's Series 2010 bonds previously allocated to the Corporation were replaced with a $6,438,000 fixed rate subordinate note. Debt service payments on these subordinate notes are contingent upon the Corporation being compliant with certain performance metrics. Interest expense of $4,382,000 and $2,717,000 related to these notes were accrued but not paid at December 31, 2016 and September 30, 2015, respectively, pending achievement of these performance criteria.

To finance the Project, the Corporation issued $71,035,000 of tax-exempt bonds in September 2012 ("Series 2012 bonds"). ABHOW has no obligation for and does not guarantee the Series 2012 bonds. These bonds were sold at a premium of $567,000 in order to affect a market rate of interest. The premium is being amortized under the effective interest method. At December 31, 2016 and September 30, 2015, the accumulated amortized premium was $102,000 and $84,000, respectively.

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

| Year Ending December 31, | | |
|---|---|---|
| 2017 | $ | 309 |
| 2018 | | 936 |
| 2019 | | 987 |
| 2020 | | 1,040 |
| 2021 | | 1,092 |
| Thereafter | | 73,095 |
| | $ | 77,459 |

## Note 7 – Compliance with Financial Covenants

The Corporation is subject to financial covenants on its debt that include a debt service coverage ratio and minimum days of cash-on-hand requirement. Management believes that the Corporation was in compliance with each of these debt covenants at December 31, 2016 and September 30, 2015, on its Series 2012 bonds. Performance of the Corporation has not yet been at a level to pay subordinated interest on management fees as discussed in Note 6.

### Note 8 – 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, were as follows (in thousands):

| | 15-Months Ended December 31, 2016 | 12-Months Ended September 30, 2015 |
|---|---|---|
| Direct resident care | $ 8,699 | $ 6,119 |
| Dietary services | 3,968 | 3,243 |
| Housekeeping and laundry services | 1,091 | 850 |
| Property | 4,024 | 2,911 |
| Resident services and activities | 959 | 741 |
| Marketing and advertising | 1,632 | 1,283 |
| Loss on pension plan termination | 1,010 | - |
| Administrative and general | 4,033 | 3,079 |
| Total operating expenses | $ 25,416 | $ 18,226 |

### 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 are 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 non-union 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 ending 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 of Los Altos | 756 |
| Plymouth Village | 700 |
| Rosewood | 906 |
| Valle Verde | 1,214 |
| Terraces of Los Gatos | 1,074 |
| Foundation | 52 |
| The Terraces of Pheonix | 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 – Health and Safety Code Section 1790(a)(3) Disclosure

The following disclosure is made pursuant to Section 1790(a)(3) of the California Health & Safety Code. The Corporation has identified certain corporate initiatives and contingencies listed below to which unrestricted assets may be exposed; and, therefore, have designated reserves as a safeguard against such contingencies. Although not restricted in accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, an amount of $7,842,000 and $5,036,000 is designated for commitments due to ABHOW at December 31, 2016 and September 30, 2015, respectively, and is accrued in accrued interest and subordinated management fees on the balance sheets.

**Note 12 – Subsequent Events**

Subsequent events are events or transactions that occur after the balance sheet date but before the 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 are issued.

# SUPPLEMENTARY INFORMATION

## THE TERRACES AT SAN JOAQUIN GARDENS
## (A MEMBER OF CALIFORNIA LIFE PLAN COMMUNITIES)
## STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT
## FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)

| | 12-Months Ended December 31, 2016 |
|---|---|
| OPERATING REVENUES | |
| Residential living | $ 8,875 |
| Assisted living | 2,927 |
| Health center | 7,398 |
| Memory support | 1,796 |
| Other residential services | 421 |
| Amortization of entrance fees | 2,552 |
| Other operating revenue | 150 |
| Total operating revenues | 24,119 |
| OPERATING EXPENSES | |
| Salaries and wages | 7,868 |
| Employee benefits | 2,075 |
| Loss on pension plan termination | 1,010 |
| Supplies | 1,921 |
| Chargeable ancillary services | 1,411 |
| Other purchased services | 791 |
| Marketing and advertising | 1,135 |
| Repairs and maintenance | 391 |
| Utilities | 1,331 |
| Insurance | 256 |
| Travel and related | 68 |
| Leases and rents | 200 |
| Management fees | 1,834 |
| Other operating expenses | 187 |
| Total operating expenses | 20,478 |
| INCOME BEFORE OTHER OPERATING INCOME (EXPENSE) | 3,641 |
| OTHER OPERATING INCOME (EXPENSE) | |
| Realized losses on investments, net | (31) |
| Investment income, net | 43 |
| Mortgage interest | (4,158) |
| Depreciation and amortization | (6,217) |
| LOSS FROM OPERATIONS | (6,722) |
| Unrealized gains on investments | 5 |
| Contribution of pension termination costs for affiliates | 1,010 |
| Losses from change in unrecognized pension obligation | (165) |
| Contributed capital | 237 |
| CHANGE IN NET DEFICIT | (5,635) |
| NET DEFICIT - Beginning of year | (15,698) |
| NET DEFICIT - End of year | $ (21,333) |

**STATEMENT OF CASH FLOWS**
**FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)**

| | 12-Months Ended December 31, 2016 |
|---|---|
| OPERATING ACTIVITIES | |
| Cash received from resident services | $ 20,577 |
| Cash received from entrance fees from reoccupancy | 5,807 |
| Cash received from other operating activities | 511 |
| Cash received from bequests and trust maturities | (6) |
| Cash earnings realized from investments | 15 |
| Cash paid for employee salaries | (7,456) |
| Cash paid for employee benefits | (2,059) |
| Cash paid for temporary labor | (373) |
| Cash paid to vendors | (8,468) |
| Cash paid for interest, net of amounts capitalized | (2,834) |
| Net cash provided by operating activities | 5,714 |
| INVESTING ACTIVITIES | |
| Acquisition of land, buildings, and equipment | (1,334) |
| Purchase of restricted investments | (1,263) |
| Proceeds from sale of restricted investments | 1,071 |
| Net cash used in investing activities | (1,526) |
| FINANCING ACTIVITIES | |
| Cash received from initial entrance fees and deposits | 1,549 |
| Refunds of deposits and refundable fees | (2,551) |
| Cash received from deferred debt issuance costs | 54 |
| Cash received from capital contributions | 71 |
| Principal payments on notes and bonds payable | - |
| Net cash used in financing activities | (877) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 3,311 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 13,841 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 17,152 |
| OPERATING ACTIVITIES | |
| Change in unrestricted net deficit | $ (5,635) |
| Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities | |
| Amortization of entrance fees | (2,552) |
| Entrance fees from reoccupancy | 5,807 |
| Depreciation and amortization | 6,217 |
| Change in unrealized gains on investments, net | (5) |
| Contributed capital | (72) |
| Other changes in operating assets and liabilities, net | 1,954 |
| Net cash provided by operating activities | $ 5,714 |