



Report of Independent Auditors and  
Financial Statements with Supplementary Information

**Boise Retirement Community  
(dba The Terraces of Boise)  
(a Member of Cornerstone Affiliates)**

As of December 31, 2016 and September 30, 2015, and for the  
15-Months Ended December 31, 2016 and the  
Year 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  
Boise Retirement Community (dba the Terraces of Boise)  
(a member of Cornerstone Affiliates)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Boise Retirement Community (dba the Terraces of Boise) (a member of Cornerstone Affiliates) (the "Corporation"), which comprise the balance sheets as of December 31, 2016 and September 30, 2015, and the related statements of operations and changes in net deficit, and cash flows for the 15-months ended December 31, 2016 and the year 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 assets (deficit), and its cash flows for the 15-months ended December 31, 2016 and the year 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, statements of operations and changes in net asset (deficit) and of cash flows, each for the 3-months ended December 31, 2016 and 12-months ended September 30, 2016, are presented for the purpose of additional analysis and are 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 26 and 27 which includes the statements of operations and changes in net deficit and 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.

A handwritten signature in blue ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
March 31, 2017

## **FINANCIAL STATEMENTS**

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**BOISE RETIREMENT COMMUNITY**  
**(dba THE TERRACES OF BOISE)**  
**(A MEMBER OF CORNERSTONE AFFILIATES)**  
**BALANCE SHEETS AS OF DECEMBER 31, 2016 AND SEPTEMBER 30, 2015**  
**(with comparative information as of September 30, 2016, presented as supplementary**  
**information)**  
**(in thousands)**

	December 31, 2016	Supplementary Information September 30, 2016	September 30, 2015
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS	\$ 520	\$ 760	\$ 891
RESTRICTED CASH	889	391	2,308
RESTRICTED INVESTMENTS	20,592	24,917	41,449
RESIDENT ACCOUNTS AND OTHER RECEIVABLES, NET	986	1,470	512
PREPAID EXPENSES AND OTHER DEPOSITS	184	161	111
OTHER ASSETS	8,113	8,358	8,066
LAND, BUILDINGS, AND EQUIPMENT, NET	86,067	86,755	81,427
TOTAL ASSETS	<u>\$ 117,351</u>	<u>\$ 122,812</u>	<u>\$ 134,764</u>
<b>LIABILITIES AND NET DEFICIT</b>			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 1,070	\$ 1,330	\$ 4,387
DEPOSITS	55	90	1,959
PAYABLE TO AFFILIATES	1,088	1,013	732
ACCRUED INTEREST	1,966	3,705	3,987
REBATABLE ENTRANCE FEES DUE	24,819	23,691	11,998
ENTRANCE FEES SUBJECT TO REFUND	4,477	4,103	1,846
ENTRANCE FEES NON-REFUNDABLE	3,220	3,249	1,365
NOTES AND BONDS PAYABLE, NET	85,352	87,045	100,267
SUBORDINATED NOTES AND LIQUIDITY SUPPORT PAYABLE	5,250	5,250	5,250
DUE TO GCI (NOTE 8)	650	650	650
FUTURE SERVICE BENEFIT OBLIGATION	25,023	25,023	16,629
TOTAL LIABILITIES	<u>152,970</u>	<u>155,149</u>	<u>149,070</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTE 8)			
NET DEFICIT - UNRESTRICTED	<u>(35,619)</u>	<u>(32,337)</u>	<u>(14,306)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 117,351</u>	<u>\$ 122,812</u>	<u>\$ 134,764</u>

See accompanying notes.

**BOISE RETIREMENT COMMUNITY  
(DBA THE TERRACES OF BOISE)  
(A MEMBER OF CORNERSTONE AFFILIATES)**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)  
FOR THE 15-MONTHS ENDED DECEMBER 31, 2016, AND YEAR 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)**

	15-Months Ended December 31, 2016	Supplementary Information 3-Months Ended December 31, 2016	12-Months Ended September 30, 2016	12-Months Ended September 30, 2015
<b>OPERATING REVENUES</b>				
Residential living	\$ 4,067	\$ 964	\$ 3,103	\$ 37
Assisted living	150	74	76	-
Health center	534	159	375	-
Memory support	177	114	63	-
Amortization of entrance fees	623	150	473	26
Other operating revenue	70	18	52	4
Change in future service benefit obligation	(8,394)	-	(8,394)	(16,629)
Total operating revenues	<u>(2,773)</u>	<u>1,479</u>	<u>(4,252)</u>	<u>(16,562)</u>
<b>OPERATING EXPENSES</b>				
Employee salaries	3,290	972	2,318	461
Employee benefits	750	197	553	70
Supplies	554	124	430	48
Chargeable ancillary services	4	1	3	-
Marketing and advertising	291	74	217	1
Repairs and maintenance	62	20	42	2
Other purchased services	487	222	265	70
Leases and rents	7	3	4	46
Utilities	511	127	384	69
Management fees	285	54	231	141
Insurance	142	56	86	20
Travel and related	99	23	76	44
Other operating expenses	<u>1,322</u>	<u>283</u>	<u>1,039</u>	<u>313</u>
Total operating expenses	<u>7,804</u>	<u>2,156</u>	<u>5,648</u>	<u>1,285</u>
<b>LOSS BEFORE OTHER OPERATING INCOME (EXPENSE)</b>	<u>(10,577)</u>	<u>(677)</u>	<u>(9,900)</u>	<u>(17,847)</u>
<b>OTHER OPERATING INCOME (EXPENSE)</b>				
Realized loss on investments, net	(53)	(9)	(44)	-
Interest income	146	47	99	10
Depreciation and amortization	(3,356)	(848)	(2,508)	(196)
Mortgage interest	<u>(7,407)</u>	<u>(1,768)</u>	<u>(5,639)</u>	<u>(500)</u>
<b>LOSS FROM OPERATIONS</b>	<u>(21,247)</u>	<u>(3,255)</u>	<u>(17,992)</u>	<u>(18,533)</u>
Unrealized (loss)/gain on investments	<u>(66)</u>	<u>(27)</u>	<u>(39)</u>	<u>25</u>
<b>CHANGE IN UNRESTRICTED NET DEFICIT</b>	<u>(21,313)</u>	<u>(3,282)</u>	<u>(18,031)</u>	<u>(18,508)</u>
<b>CHANGE IN NET DEFICIT</b>	<u>(21,313)</u>	<u>(3,282)</u>	<u>(18,031)</u>	<u>(18,508)</u>
<b>NET ASSETS (DEFICIT), Beginning of year</b>	<u>(14,306)</u>	<u>(32,337)</u>	<u>(14,306)</u>	<u>4,202</u>
<b>NET DEFICIT, End of year</b>	<u>\$ (35,619)</u>	<u>\$ (35,619)</u>	<u>\$ (32,337)</u>	<u>\$ (14,306)</u>

See accompanying notes.

**BOISE RETIREMENT COMMUNITY**  
**(dba THE TERRACES OF BOISE)**  
**(A MEMBER OF CORNERSTONE AFFILIATES)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE 15-MONTHS ENDED DECEMBER 31, 2016, AND YEAR 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)**

	15-Months Ended December 31, 2016	Supplementary Information		12-Months Ended September 30, 2015
		3-Months Ended December 31, 2016	12-Months Ended September 30, 2016	
<b>OPERATING ACTIVITIES</b>				
Cash received from resident services	\$ 4,972	\$ 1,322	\$ 3,650	\$ 67
Cash received from investments	123	23	100	10
Cash paid for other operating expenses	(297)	(16)	(281)	(122)
Cash paid to employees	(3,368)	(831)	(2,537)	(441)
Cash paid for employee fringe benefits	(815)	(262)	(553)	(58)
Cash paid to vendors	(3,404)	(1,181)	(2,223)	(2,490)
Cash paid for interest, net of amounts capitalized	(11,821)	(3,482)	(8,339)	(319)
Net cash used in operating activities	(14,610)	(4,427)	(10,183)	(3,353)
<b>INVESTING ACTIVITIES</b>				
Acquisition of land, building, and equipment	(8,876)	(45)	(8,831)	(39,819)
Change in restricted cash	682	60	622	1,048
Change in restricted project related investments	20,968	4,114	16,854	15,613
Change in restricted entrance fee related investments	(177)	184	(361)	13,703
Net cash provided by (used in) investing activities	12,597	4,313	8,284	(9,455)
<b>FINANCING ACTIVITIES</b>				
Cash applied from resident deposits	(1,330)	(74)	(1,256)	-
Cash received from initial entrance fee deposits	18,547	1,648	16,899	14,846
Refunds of deposits and refundable fees	(613)	-	(613)	(1,730)
Payments of notes and bonds payable	(14,950)	(1,700)	(13,250)	-
Cash paid for deferred debt issuance costs	(12)	-	(12)	(60)
Net cash provided by (used in) financing activities	1,642	(126)	1,768	13,056
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(371)</b>	<b>(240)</b>	<b>(131)</b>	<b>248</b>
Cash and cash equivalents at beginning of year	891	760	891	643
Cash and cash equivalents at end of year	\$ 520	\$ 520	\$ 760	\$ 891

See accompanying notes.



**BOISE RETIREMENT COMMUNITY  
(dba THE TERRACES OF BOISE)  
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STATEMENTS OF CASH FLOWS (continued)**

**FOR THE 15-MONTHS ENDED DECEMBER 31, 2016, AND YEAR 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)**

	15-Months Ended December 31, 2016	Supplementary Information 3-Months Ended December 31, 2016	12-Months Ended September 30, 2016	12-Months Ended September 30, 2015
<b>OPERATING ACTIVITIES</b>				
Change in net deficit	\$ (21,313)	\$ (3,282)	\$ (18,031)	\$ (18,508)
Adjustments to reconcile change in net deficit to net cash used in operating activities				
Amortization of entrance fees	(623)	(150)	(473)	(26)
Loss (gain) on investments	66	27	39	(25)
Change in accounts receivable from residents	(254)	-	(254)	(512)
Depreciation and amortization	3,356	848	2,508	196
Change in future service benefit obligation	8,394	-	8,394	16,629
Other change in operating assets and liabilities, net	(4,236)	(1,870)	(2,366)	(1,107)
Net cash used in operating activities	<u>\$ (14,610)</u>	<u>\$ (4,427)</u>	<u>\$ (10,183)</u>	<u>\$ (3,353)</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Additions to fixed assets in accounts payable	<u>\$ 47</u>	<u>\$ 47</u>	<u>\$ 73</u>	<u>\$ 1,390</u>

See accompanying notes.

**BOISE RETIREMENT COMMUNITY  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – BUSINESS ORGANIZATION**

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

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

***Cornerstone Related Enterprises***

**Boise Retirement Community** – Boise Retirement Community is a California nonprofit public benefit tax-exempt corporation formed on August 3, 2005, and is qualified to do business in the State of Idaho. The Corporation was formed for the purpose of constructing, owning, and operating a continuing care retirement community in Boise, Idaho, known as the Terraces of Boise (the “Community”), to provide housing, health care and other related services to its residents in Boise, Idaho.

Development activities for the Community were initiated in December 2007. In September 2009, the Corporation began the process of accepting refundable conversion deposits for future residency in the Community. The Corporation began construction of the Community in December 2013. The Community opened Phase I of residential living apartments and cottages on July 27, 2015, Phase II opened on October 27, 2015 and Phase III opened on January 6, 2016. Assisted living apartments opened on May 10, 2016. Special care assisted living apartments opened on May 31, 2016. Skilled nursing beds opened on January 27, 2016. The Corporation is financing construction of the Community using tax-exempt bond financing, as described further in Note 6. The final cost of construction, design, and engineering was approximately \$56,000,000. The Community consists of 161 residential living apartments and cottages, 40 assisted living apartments, 24 special care assisted living apartments, and 48 skilled nursing beds.

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

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

**BOISE RETIREMENT COMMUNITY  
(dba THE TERRACES OF BOISE)  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – BUSINESS ORGANIZATION (continued)**

**American Baptist Homes of the West and Affiliates** – ABHOW is a California nonprofit public benefit tax-exempt corporation, which 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. In conjunction with the issuance of the Boise Series 2014 bonds, ABHOW and American Baptist Properties, Inc. (“ABP”), a wholly owned subsidiary of ABHOW, entered into a Liquidity Support Agreement with Boise, and ABP accepted a subordinated note from the Corporation for \$2,000,000 as part of the sale to the Corporation of the parcel of land upon which the Community is constructed. The subordinated note was subsequently assigned to ABHOW.

**Las Ventanas Retirement Community** – LVRC 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, Las Ventanas.

**Terraces at San Joaquin Gardens** – TSJG is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Fresno, California through its CCRC. On September 26, 2012, the ownership of TSJG was transferred from ABHOW to Cornerstone.

**Southern California Presbyterian Homes and Affiliates** – Southern California Presbyterian Homes and Affiliates (“SCPH” dba “be.group”) is a California nonprofit public benefit tax-exempt corporation which 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 be.group residents. The be.group Foundation’s principal activity is to administer such funds under trust agreements. The be.group is the sole member of the be.group Foundation, and therefore elects the directors of the be.group Foundation. As a result, the be.group has control over the be.group Foundation, and therefore the be.group Foundation is included in the be.group’s consolidated financial statements.

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

**BOISE RETIREMENT COMMUNITY  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – BUSINESS ORGANIZATION (continued)**

**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 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 Cornerstone’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 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 currently provides sales and marketing oversight services to the Corporation (see Note 8).

**Seniority Properties** – Seniority Properties is a California for-profit corporation which 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 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.

**Reclassifications** – Certain prior period amounts have been reclassified to conform with the current period’s presentation. The reclassifications had no effect on the net income or operations for the 15-months ending December 31, 2016.

**NOTE 2 – ACCOUNTING POLICIES (continued)**

As of December 31, 2016, in connection with the Corporation's adoption of Accounting Standards Update ("ASU") No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30)*, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), the Corporation reclassified deferred financing costs, net of accumulated amortization, as a contra-liability to notes payable on the balance sheets. ASU 2015-03 requires retrospective application, wherein the balance sheet of each period presented should be adjusted to reflect the effects of the new guidance. Accordingly, for comparative purposes herein, the Corporation reclassified the September 30, 2015 balance of \$1,946,000 of deferred financing costs, net of accumulated amortization, as a contra-liability to notes payable in the balance sheet.

**New accounting pronouncements** – In August 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"), which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The ASU applies to all entities and is effective for the annual period ending after December 15, 2016, and annual periods and interim periods thereafter, with early adoption permitted. The Corporation adopted the guidance in the current fiscal year. 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 2016-01"). ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. ASU 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)* ("ASU 2016-02"), 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.

**BOISE RETIREMENT COMMUNITY  
(dba THE TERRACES OF BOISE)  
(A MEMBER OF CORNERSTONE AFFILIATES)  
NOTES TO FINANCIAL STATEMENTS**

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**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* (“ASU 2016-14”), 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 (“SIPC”). 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 accounts consist of refundable conversion deposits for future residency of the Community. A portion of the restricted cash is limited as to use in accordance with the Master Trust Indenture Agreement.

**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, domestic corporate debt securities and U.S. government securities.

**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, 2016 and September 30, 2015, represent noninterest bearing, unsecured promissory notes from residents to pay entrance fees. All amounts are due within one year.

**NOTE 2 – ACCOUNTING POLICIES (continued)**

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 as of December 31, 2016 and September 30, 2015, and, accordingly, an allowance for doubtful accounts is not considered necessary.

**Prepaid expenses and other deposits** – Prepaid expenses and other deposits consist of prepaid insurance premiums and inventory at December 31, 2016 and September 30, 2015.

**Land, building, and equipment, net** – Land, building, and equipment, net are recorded at cost, or fair value when received, if donated. 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. Depreciation of building 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.

On January 28, 2014, the Corporation purchased 12.6 acres of undeveloped land located in Ada County in Idaho, on which to construct the Community. Costs associated with the purchase of the land that have been incurred and capitalized total \$5,203,000 and \$5,160,000 at December 31, 2016 and September 30, 2015, respectively.

**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 as of December 31, 2016 and September 30, 2015.

**Fair value measurements** – 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 effective interest method. Unamortized deferred debt issuance costs amounted to \$1,925,000 and \$1,946,000 at December 31, 2016 and September 30, 2015, respectively, and are included in notes and bonds payable, net in the accompanying balance sheets. Accumulated amortization of deferred debt issuance cost was \$73,000 and \$37,000 at December 31, 2016 and September 30, 2015, respectively.

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**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 \$8,113,000 and \$8,066,000 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 \$347,000 and \$38,000 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. A liability of \$25,023,000 and \$16,629,000 has been recorded in the accompanying balance sheets at December 31, 2016 and September 30, 2015, respectively. The discount rate used to calculate the obligation to provide future services was 5.5% for the 15-months ended December 31, 2016 and the year ended September 30, 2015, respectively.

**Refund policy on entrance fee deposits** – The Reservation Agreement provides the resident with the right to a refund of the conversion deposits, less any expenses incurred by the Community on the depositor's behalf, with interest, and a processing fee of \$250, if the resident terminates the Reservation Agreement prior to the execution and delivery of the Care and Residence Agreement and acceptance of the Care and Residence Agreement by the Corporation.

The Corporation may terminate the Reservation Agreement if, in the Corporation's sole discretion, it is concluded that the resident fails to execute a Care and Residence Agreement prior to the occupancy date of the Community.

**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 Corporation offers contract options whereby 0% to 95% of the entrance fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. At December 31, 2016 and September 30, 2015, the Corporation had nonrefundable entrance fees of \$3,220,000 and \$1,365,000, 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 \$4,477,000 and \$1,846,000, respectively, that will be recognized as revenue in future years, unless refunded. Amounts amortized to income relating to these types of contracts were \$623,000 and \$26,000 for the 15-months ended December 31, 2016 and the year ended September 30, 2015, respectively.

Additionally, at December 31, 2016 and September 30, 2015, \$24,819,000 and \$11,998,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable.



**NOTE 2 – ACCOUNTING POLICIES (continued)**

Actual refunds and rebates of entrance fees were \$613,000 and \$1,730,000 for the 15-months ended December 31, 2016 and the year ended September 30, 2015, respectively. Upon achieving stabilized occupancy, management expects to pay refunds in future years of approximately \$3,000,000 per year.

**Revenue recognition** – Occupancy of the Community began in July 2015. 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 will be fully reserved.

Entrance fees are paid by residents as they take occupancy of their reserved apartment. Of this total fee, a portion is non-rebatable and is recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. The life expectancy of each resident is updated annually based upon the 2000 Group Annuity Mortality Table. The remaining portion of this fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. This portion of the fee is refunded upon reoccupancy by another resident. The balance of the fees expected to be refunded will be accounted for and reported as a liability.

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 2004 Group Annuity Mortality Table.

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

**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 assets (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.

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**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 15-months ended December 31, 2016 and the year ended September 30, 2015, there was no benevolence recorded as the Corporation had not received any requests for benevolent care.

**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. There has been no revenue from third-party payors for the 15-months ended December 31, 2016 and the year ended September 30, 2015.

**Performance indicator** – "Loss from operations" as reflected in the accompanying statements of operations and changes in net assets (deficit) is the performance indicator. Loss from operations includes all changes in unrestricted net assets (deficit), other than non-cash changes in unrealized (losses) gains on investments.

**Workers' compensation plan** – The Corporation has a workers' compensation insurance policy through Aureon HR, Inc. ("Aureon"), 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 costs in the statements of operations and changes in net assets (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 \$10,000 deductible for each claim as of December 31, 2016 and September 30, 2015. Management is not aware of any claims outstanding which 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 Accounting Standards Codification ("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.

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**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 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:

**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, 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	\$ 11,701	\$ -	\$ -	\$ 11,701
Domestic corporate debt	6,010	-	-	6,010
Foreign corporate debt	465	-	-	465
U.S. government securities	2,416	-	-	2,416
Total	<u>\$ 20,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,592</u>

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**NOTE 3 – FAIR VALUE (continued)**

	Level 1	Level 2	Level 3	Fair Value at September 30, 2015
Restricted Investments				
Cash and cash equivalents	\$ 24,997	\$ -	\$ -	\$ 24,997
Domestic corporate debt	13,487	-	-	13,487
Foreign corporate debt	1,640	-	-	1,640
U.S. government securities	1,325	-	-	1,325
Total	<u>\$ 41,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,449</u>

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 notes and bonds payable is estimated based on discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents 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	\$ 520	\$ 520	\$ 891	\$ 891
Restricted cash	\$ 889	\$ 889	\$ 2,308	\$ 2,308
Notes and bonds payable	\$ 92,527	\$ 98,947	\$ 107,463	\$ 114,414

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 as of December 31, 2016 and September 30, 2015. Current estimates of fair value may differ significantly from the amounts presented.

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**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, 2016, and September 30, 2015, consisted of the following amounts at fair value (in thousands):

	December 31, 2016	September 30, 2015
Restricted Investments		
Cash and cash equivalents	\$ 11,701	\$ 24,997
Domestic corporate debt	6,010	13,487
Foreign corporate debt	465	1,640
U.S. government securities	2,416	1,325
Total	<u>\$ 20,592</u>	<u>\$ 41,449</u>

**NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT**

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

	December 31, 2016	September 30, 2015
Land and improvements	\$ 5,203	\$ 5,160
Buildings and improvements	83,361	22,155
Furnishings and equipment	662	360
Vehicles	123	113
Computer equipment	288	232
	89,637	28,020
Accumulated depreciation and amortization	<u>(3,570)</u>	<u>(532)</u>
	86,067	27,488
Construction in progress	-	53,939
Total	<u>\$ 86,067</u>	<u>\$ 81,427</u>

Capitalized interest expense for the 15-months ended December 31, 2016 was \$2,572,000, comprised of \$2,583,000 of interest expense net of \$11,000 of interest income. Capitalized interest expense for the year ended September 30, 2015 was \$7,309,000, comprised of \$7,714,000 of interest expense net of \$405,000 of interest income. Depreciation expense for the 15-months ended December 31, 2016 and the year ended September 30, 2015 was \$3,047,000 and \$150,000, respectively.

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**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
Bonds used to develop the Community:		
Series 2014 Tax Exempt, Fixed Rate Term Revenue Bonds (dated January 28, 2014), secured by deed of trust and gross revenue - Serial certificates, annual principal payable commencing on April 1, 2016, in varying amounts ranging from \$710,000 to \$6,565,000 through 2049. Interest rates are fixed ranging from 6.00% to 8.125% for the various tranches of the debt.	\$ 88,235	\$ 103,185
American Baptist Properties, Inc. subordinated promissory note, with interest accruing at 4.0% annually and repayment of principal and interest subject to restrictions defined in the Master Trust Indenture.	2,000	2,000
American Baptist Properties, Inc. Liquidity Support Agreement dated January 1, 2014. Non-interest bearing obligation with repayment contingent upon the achievement of certain financial performance criteria defined in the Master Trust Indenture.	1,000	1,000
GCI Boise, LP Liquidity Support Agreement dated January 1, 2014. Non-interest bearing obligation with repayment contingent upon the achievement of certain financial performance criteria defined in the Master Trust Indenture.	2,250	2,250
	93,485	108,435
Less unamortized bond issuance costs, net	(1,925)	(1,946)
Less unamortized bond discount, net	(958)	(972)
Total notes and bonds payable	<u>\$ 90,602</u>	<u>\$ 105,517</u>

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

**Year Ending December 31,**

2017	\$ 5,082
2018	-
2019	710
2020	760
2021	815
Thereafter	86,118
	<u>\$ 93,485</u>

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**NOTE 6 – NOTES AND BONDS PAYABLE (continued)**

The Corporation closed on the Series 2014 Bonds (the “2014 Bonds”) issued by the Idaho Health Facilities Authority (the “Authority”) in the amount of \$103,185,000 on January 28, 2014. The 2014 Bonds were issued pursuant to a Bond Indenture of Trust (the “Bond Indenture”) dated January 1, 2014, by and between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”).

Concurrent with issuance of the Series 2014 Bonds, GCI Boise, LP (“GCI Boise”) entered into a Liquidity Support Agreement with the Corporation, dated January 1, 2014, and contributed \$2,250,000 million to the Liquidity Support Fund. Additionally, ABHOW and American Baptist Properties, Inc. (“ABP”) entered into a separate Liquidity Support Agreement with the Corporation, dated January 1, 2014, with ABP contributing \$1,000,000 and ABHOW agreeing to potentially fund \$1,250,000 into the fund contingent upon the occurrence of certain funding events defined in the Liquidity Support Agreement. This fund is held under the Master Trust Indenture to pay costs of the project, operating costs of the Corporation or debt services payments with respect to the Bonds. Finally, at closing of the Series 2014 bonds, ABP accepted a subordinated note of \$2,000,000 from the Corporation in conjunction with the sale of the Community’s land (see Note 8). In September 2015, ABP transferred its interest in the subordinated promissory note and liquidity support agreement to ABHOW.

The Corporation has utilized the proceeds from the sale of the 2014 Bonds, together with other available funds, to: (i) finance or reimburse the Corporation for a portion of the costs of the Community; (ii) refinance outstanding indebtedness of an affiliate of the Corporation incurred in connection with the acquisition of the land upon which the Community will be located; (iii) pay a portion of the interest on the 2014 Bonds during the construction of the Community; (iv) fund a debt service reserve fund; and (v) pay certain costs associated with the issuance of the 2014 Bonds.

The Series 2014A bonds were sold at a discount of \$1,057,000 in order to affect a market rate of interest. The discount is being amortized under the effective interest rate. At December 31, 2016 and September 30, 2015, the net unamortized discount was \$958,000 and \$972,000, respectively. Amortization included in capitalized interest was \$31,000 and \$17,000 as of December 31, 2016 and September 30, 2015, respectively. The effective interest rate on Series 2014A bonds ranges from 7.0% to 8.25%.

The Series 2014A bonds maturing on and after October 1, 2029, are subject to optional redemption prior to maturity by the Authority at the direction of the Corporation in whole or in part on October 1, 2024, or on any date thereafter, at the redemption price equal to the principal amount together with accrued interest to the redemption date.

The Series 2014B-1, B-2, and B-3 bonds are subject to optional redemption prior to maturity by the Authority at the direction of the Corporation in whole or in part on October 1, 2015, or on any date thereafter, at the redemption price equal to the principal amount together with accrued interest at the redemption date. The Series 2014B-3 bonds were paid in full during the 15-months ended December 31, 2016.

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**NOTE 6 – NOTES AND BONDS PAYABLE (continued)**

The Series 2014C bonds are subject to optional redemption prior to maturity by the Authority at the direction of the Corporation in whole or in part on October 1, 2015, or on any date thereafter, at the redemption price equal to the principal amount together with accrued interest at the redemption date. The Series 2014C bonds were paid in full during the 15-months ended December 31, 2016.

The Corporation is currently subject to a Marketing Covenant, an Occupancy Covenant, and a Cumulative Cash Operating Loss Covenant until stabilized occupancy is achieved. Management notes that the Corporation was in compliance with all required abovementioned covenants except the Marketing Covenant at December 31, 2016. The Marketing Covenant was also not met as of September 30, 2016, and as such, a Management Marketing Report was prepared and posted to EMMA on November 15, 2016. As the Marketing Covenant was not met for the second consecutive fiscal quarter as of December 31, 2016, a consultant was engaged to provide a Consultant's Report and Recommendations.

**NOTE 7 – FUNCTIONAL EXPENSES**

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

	December 31, 2016	September 30, 2015
Direct resident care	\$ 1,383	\$ -
Dietary services	1,288	96
Housekeeping and laundry services	263	25
Marketing and advertising	608	9
Property	2,204	188
Resident Services and activities	278	16
Administrative and general	1,780	951
Total operating expenses	<u>\$ 7,804</u>	<u>\$ 1,285</u>



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**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

**Management and Marketing Services Agreement** – The Corporation entered into a Management and Marketing Services Agreement, as amended and restated on October 25, 2013, with Greystone Management Services Company Idaho, LLC (“GMSC”) whereby GMSC assumed pre-opening duties to manage and operate the Community. The Management and Marketing Services Agreement commenced in June 2014 for a term of 84 months.

In conjunction with the Management and Marketing Services Agreement, the Corporation agreed to pay a monthly management fee of \$12,500 per month from the commencement date through July 2015, the month of initial occupancy. Beginning with the Initial Occupancy Date, an ongoing Base Management Fee will be adjusted as follows:

<u>Occupancy Months</u>	<u>Monthly Base</u>
Months 1-54	\$ 12,500
Months 55-66	\$ 32,500
Months 67 and thereafter	\$ 35,000

Beginning in the first month of the second full fiscal year following the achievement of Stabilized Occupancy, as defined in the Master Trust Indenture, the Corporation will pay GMSC a fee equal to \$4,500 for each occupancy and/or reoccupancy of the residential living apartments.

The Corporation incurred management fees to GMSC of \$188,000 and \$142,000 for the 15-months ended December 31, 2016 and the year ended September 30, 2015, respectively, included in management fees on the statements of operations and changes in net assets (deficit).

**Sales and Marketing Oversight Services Agreement** – The Sales and Marketing Oversight Services Agreement with Seniority was amended and restated on October 24, 2013. This agreement is effective from the execution date of the Management and Marketing Services Agreement and shall continue in full force and effect during the term of the Management and Marketing Services Agreement.

Under the amended and restated terms of the Sales and Marketing Oversight Services Agreement, Seniority will be paid a Marketing Administrative Services Fee equal to \$8,000 per month beginning in July 2015, the first month of occupancy of a residential living apartment, and continuing until achievement of 90% occupancy of the residential living apartments. In addition, Seniority will be paid an Incentive Fee equal to \$80,000 as follows: (i) \$5,000 upon completion of the marketing collateral and first ad series, (ii) \$30,000 upon achievement of the Priority Member goal, (iii) \$35,000 upon achievement of the minimum number of Reservation Deposits necessary to secure financing, and (iv) \$10,000 upon obtaining an initial Certificate of Occupancy for resident occupancy. The Sales and Marketing Oversight Services Fee is subject to the provisions of the Master Indenture with respect to Affiliate Related Subordinated Debt and is therefore deferred at least until stabilization of the Community.

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**NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)**

Pursuant to the amended and restated terms of this agreement, fees of \$224,000 and \$120,000 were incurred as of December 31, 2016 and September 30, 2015, respectively, and are included in payable to affiliates on the balance sheets.

**Development Consulting Agreement** – The Corporation entered into a Development Consulting Agreement, as amended on October 23, 2013, with Greystone Development Services XX, LLC (“GDS”), as assigned by Greystone Development Company II, LP (“GDC”), an affiliate of GMSC, whereby GDS plans, coordinates, and implements a development plan relating to the construction and financing of the Community, and for the services and activities of the residents. GDS also employs, trains, and supervises the marketing and sales staff for the Community, on behalf of the Corporation, and is responsible for the payroll-related expenses, sales commissions, and payroll tax liabilities for this staff. These personnel costs are billed monthly and are to be reimbursed to GDS by the Corporation.

In addition, the development consulting agreement called for an investment limited partnership, GCI Boise, LP (“GCI”), to be formed for the purposes of providing the funds necessary to pay for any pre-financing costs incurred by the Corporation prior to the tax-exempt bond financing. Through GCI, GDC advanced funds to the Corporation of \$8,600,000. Pursuant to the amended development consulting agreement, the funds advanced by GCI are to be repaid as follows: (i) \$5,600,000 was paid upon delivery of the 2014 Bonds and (ii) \$650,000 remains to be paid in three equal annual installments of \$216,667 upon achieving stabilized occupancy. The remaining \$2,350,000 advanced by GDS was forgiven by GDS and recorded as an equity contribution during the year ended September 30, 2014.

As compensation for the services provided pursuant to the amended development consulting agreement, the Corporation agreed to pay GDS a consulting fee consisting of a fixed base fee, a variable base fee and an incentive occupancy fee. The fixed base fee is equal to \$1,023,000, reduced from \$5,758,000. The variable base fee is equal to \$3,365,000 and will be paid as follows: (i) \$358,000 upon commencement of development consulting services, (ii) \$415,000 paid pro-rata over 12 months after commencement of development consulting services, (iii) \$207,000 paid upon the presale of 25% of the residential living apartments, (iv) \$207,000 paid upon the presale of 50% of the residential living apartments, (v) \$781,000 upon issuance of the Series 2014 Bonds, (vi) \$371,000 paid in equal installments during the construction period of the Community, (vii) \$308,000 upon obtaining an initial Certificate of Occupancy for resident occupancy, (viii) \$287,000 paid on a pro-rata basis upon first occupancy of each residential living apartments, (ix) \$100,000 paid upon the Community having achieved 25% occupancy of the residential living apartments, (x) \$100,000 paid upon the Community having achieved 50% occupancy of the residential living apartments, (xi) \$77,000 paid upon the Community having achieved 65% occupancy of the residential living apartments, (xii) \$77,000 paid upon the Community having achieved 80% occupancy of the residential living apartments, and (xiii) \$77,000 paid upon the Community having achieved 90% of the residential living apartments.

As of December 31, 2016 and September 30, 2015, there was \$0 and \$99,000, respectively, of accounts payable due to GDC, of which \$0 and \$99,000, respectively, represent reimbursable personnel expenses related to the marketing and sales staff, included in accounts payable and accrued expenses on the balance sheets. As of December 31, 2016 and September 30, 2015, there was \$650,000, respectively, due to GCI.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)**

**Development Administrative Services Agreement** – The Development Administrative Services Agreement with ABHOW, dated February 1, 2008, to provide certain development administrative support services in connection with development of the Community was amended and restated on October 24, 2013. This agreement is effective from the execution date of the Management and Marketing Services Agreement and shall continue in full force and effect during the term of the Management and Marketing Services Agreement.

Pursuant to the terms of the agreement, the Corporation will use ABHOW to review and assess components of the business plan and proposed revisions thereto; provide information necessary for the Corporation's agents to secure necessary government approvals; assist in the selection of architects, engineers and other design professionals; review the work of the design consultants; review the selection of a preconstruction consultant; and provide oversight of the work of GDC in the preparation of a resident program, marketing plan, and pricing.

Under the amended and restated terms of the Development Administrative Services Agreement, ABHOW is paid a development administrative support services fee equal to \$17,000 per month for each month that GDC is compensated during the term. As of December 31, 2016 and September 30, 2015, fees of \$867,000 and \$612,000, respectively, have been incurred and capitalized in connection with this agreement. These amounts are included in payable to affiliates and land, buildings, and equipment, net, in the accompanying balance sheets. Repayment of the development administrative support services fee is subject to the restrictions in the Master Indenture concerning payments on the development administrative support services fee and is therefore deferred at least until stabilization of the Community.

**Contractor agreement** – The Corporation entered into a Guaranteed Maximum Price Construction Contract with Petra on December 16, 2013. The sum of the cost of the work and the general contractor's fee is guaranteed by Petra not to exceed \$52,970,000, subject to additions and deductions by change order as provided in the construction contract. The final construction costs for the Terraces of Boise were \$56,133,000 which includes a total Change Order amount of \$3,163,000. The construction contract commenced February 3, 2014 with final project completion in February 2016.

**Other agreements** – Included in buildings at December 31, 2016 and September 30, 2015, are design and engineering fees and reimbursable expenses of \$3,208,000 and \$3,075,000, respectively.

Included in land, buildings, and equipment, net, is \$74,000 and \$1,168,000 at December 31, 2016 and September 30, 2015, respectively, of costs incurred on a furniture and equipment procurement contract with Faulkner Design Group to procure and install furniture and equipment for the Community. The agreement provides for a total fee of \$1,170,000.

**BOISE RETIREMENT COMMUNITY  
(dba THE TERRACES OF BOISE)  
(A MEMBER OF CORNERSTONE AFFILIATES)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9 – SUBSEQUENT EVENTS**

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

On February 24, 2017, at its annual meeting, CLPC 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 March 31, 2017, which is the date the financial statements are issued.

## **SUPPLEMENTARY INFORMATION**

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**BOISE RETIREMENT COMMUNITY  
(dba THE TERRACES OF BOISE)  
(A MEMBER OF CORNERSTONE AFFILIATES)  
STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT  
FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)**

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OPERATING REVENUES	
Residential living	\$ 3,694
Assisted living	159
Health center	534
Memory support	161
Amortization of entrance fees	539
Other operating revenue	61
Change in future service benefit obligation	<u>(8,394)</u>
Total operating revenues	<u>(3,246)</u>
OPERATING EXPENSES	
Employee salaries	2,919
Employee benefits	717
Supplies	490
Chargeable ancillary services	4
Marketing and advertising	340
Repairs and maintenance	55
Other purchased services	320
Leases and rents	6
Utilities	435
Management fees	247
Insurance	123
Travel and related	76
Other operating expenses	<u>1,237</u>
Total operating expenses	<u>6,969</u>
LOSS BEFORE OTHER OPERATING INCOME (EXPENSE)	(10,215)
OTHER OPERATING INCOME (EXPENSE)	
Realized losses on investments	(52)
Interest income	130
Depreciation and amortization	(2,785)
Mortgage interest	<u>(6,677)</u>
LOSS FROM OPERATIONS	(19,599)
Unrealized losses on investments	<u>(47)</u>
CHANGE IN UNRESTRICTED NET DEFICIT	<u>(19,646)</u>
CHANGE IN NET DEFICIT	(19,646)
NET DEFICIT, Beginning of year	<u>(15,973)</u>
NET DEFICIT, End of year	<u><u>\$ (35,619)</u></u>

**BOISE RETIREMENT COMMUNITY**  
**(dba THE TERRACES OF BOISE)**  
**(A MEMBER OF CORNERSTONE AFFILIATES)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE 12-MONTHS ENDED DECEMBER 31, 2016 (UNAUDITED)**

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**OPERATING ACTIVITIES**

Cash received from resident services	\$ 4,582
Cash received from investments	90
Cash paid for other operating expenses	(207)
Cash paid to employees	(3,024)
Cash paid for employee fringe benefits	(736)
Cash paid to vendors	(3,068)
Cash paid for interest, net of amounts capitalized	(7,338)
	<u>(9,701)</u>
Net cash used in operating activities	<u>(9,701)</u>

**INVESTING ACTIVITIES**

Acquisition of land, building, and equipment	(4,791)
Change in restricted cash	451
Change in restricted project related investments	14,623
Change in restricted entrance fee related investments	3,558
	<u>13,841</u>
Net cash provided by investing activities	<u>13,841</u>

**FINANCING ACTIVITIES**

Cash received from initial entrance fee deposits	10,834
Refunds of deposits and refundable fees	(451)
Payments of notes and bonds payable	(14,950)
	<u>(4,567)</u>
Net cash used in financing activities	<u>(4,567)</u>

**DECREASE IN CASH AND CASH EQUIVALENTS**

	(427)
Cash and cash equivalents at beginning of year	947
Cash and cash equivalents at end of year	<u>\$ 520</u>

**OPERATING ACTIVITIES**

Change in net deficit	\$ (19,646)
Adjustments to reconcile change in net deficit	
to net cash used in operating activities	
Amortization of entrance fees	(539)
Change in accounts receivable from residents	(201)
Depreciation and amortization	2,785
Change in future service benefit obligation	8,394
Other change in operating assets and liabilities, net	(494)
	<u>\$ (9,701)</u>
Net cash used in operating activities	<u>\$ (9,701)</u>

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

Additions to fixed assets in accounts payable	<u>\$ 803</u>
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