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# ANNUAL REPORT CHECKLIST

FOR
FISCAL YEAR ENDED: September 30, 2014

**PROVIDER:** University Retirement Community at Davis

**FACILITY(IES):** University Retirement Community at Davis

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**CONTACT PERSON:** Katrina Saunders, Joanna Sexton

**TELEPHONE NO.:** (541) 857-7641 **EMAIL:** ksaunders@retirement.org

******************************************************************************************************************

Your complete annual report must consist of 3 copies of the following:

- [x] This cover sheet.

- [x] Annual Provider Fee in the amount of: $15,495.00

- [x] Certification by the provider's chief executive officer that:
  - [x] The reports are correct to the best of his/her knowledge.
  - [x] Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - [x] The Provider is maintaining the required liquid reserve and, when applicable, the required refund reserve.

- [x] Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.

- [x] Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.

- [x] Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.

- [x] Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Services Fees" for each community.

- [ ] Provider's Refund Reserve Calculation(s) - Form 9-1 abd/or 9-2, if applicable.

community.

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

UNIVERSITY
Retirement Community
*Be Part of It!*

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January 30, 2015

Allison Nakatomi
Department of Social Services
744 "P" Street, M. S. 10-90
Sacramento, CA 95814

Re: Annual Report of University Retirement Community at Davis
Certification by Chief Executive Officer

The annual report and any amendments thereto are correct to the best of my knowledge.

To the best of my knowledge every continuing care contract form in use or offered to new residents has been approved by the Department of Social Services.

As of January 30, 2015, University Retirement Community is maintaining the required liquid reserve and refund reserve.

Sincerely,

Brian McLemore, CEO
Pacific Retirement Services, Inc.
University Retirement Community at Davis, Inc.

State of California—Health and Human Services Agency

Bond No: 2193608

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California Department of Public Health
Licensing and Certification Program
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# SURETY BOND VERIFICATION

Reply to: California Department of Public Health
Licensing and Certification Program
Centralized Applications Unit
P.O. Box 997377, MS 3402
Sacramento, CA 95899-7377

California Health and Safety Code, Section 1318, Chapter 2, Division 2, requires that licensed health facilities that handle money in excess of $25 per patient or over $500 for all patients in any month, be bonded for not less than $1,000. This is to serve as a guarantee for the faithful and honest handling of the money of such patients.

**INSTRUCTIONS:** This form is to be completed by the bonding agency. In addition, attach an ***original copy of the bond***. In the event of cancellation of the bond, please send notice to the above licensing office.

BE IT KNOWN THAT:

Facility name University Retirement Community at Davis

Facility address 1515 Shasta Drive City Davis County Yolo ZIP code 95616

State of California, as *Principal,* and

Bonding agency North American Specialty Insurance Company

Agency address 650 Elm Street City Manchester County Manchester ZIP code 03101

State of New Hampshire , as *Surety,* are held and firmly bound unto the STATE OF CALIFORNIA in the full and just sum of Ten Thousand DOLLARS ($ 10,000.00 ), for the payment of which the said Principal and said Surety bind themselves, their respective heirs, successors, and assigns, jointly and severally, firmly by these presents.

The CONDITION of this obligation is such that

WHEREAS, the Principal has applied for or has been issued a license by the California Department of Public Health to maintain or conduct a health facility pursuant to Chapter 2, Division 2, of the Health and Safety Code of the State of California; and

WHEREAS, by the terms of Section 1318 of said code, the Principal is required to file with the California Department of Public Health, Licensing and Certification, the bond running to the State of California.

NOW, THEREFORE, if the above bounden Principal shall faithfully and honestly handle money of patients in the care of said Principal, then this obligation shall be null and void; otherwise to remain in full force and effect.

Every patient injured as a result of any improper or unlawful handling of the money of a patient of a health facility may bring an action in a proper court on the bond required to be posted by the licensee pursuant to this section for the amount of damage he/she suffered as a result thereof to the extent covered by the bond.

This bond may be canceled by the Surety in accordance with the provisions of Section 996.310 et seq. of the Code of Civil Procedure. This bond is effective 1/13/2015 (Date) and continuous.

IN WITNESS WHEREOF, we have subscribed our names and impressed our seal this 13th (Day), January (Month), 2015 (Year).

North American Specialty Insurance Company
Bonding agent name (please print)

Peggy A Firth
Bonding agent signature Peggy A. Firth, Attorney-in-Fact

BONDING AGENCY SEAL

HS 402 (2/08)

**NAS SURETY GROUP**

NORTH AMERICAN SPECIALTY INSURANCE COMPANY
WASHINGTON INTERNATIONAL INSURANCE COMPANY

# GENERAL POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT North American Specialty Insurance Company, a corporation duly organized and existing under laws of the State of New Hampshire, and having its principal office in the City of Manchester, New Hampshire, and Washington International Insurance Company, a corporation organized and existing under the laws of the State of New Hampshire and having its principal office in the City of Schaumburg, Illinois, each does hereby make, constitute and appoint:

ERIC A. ZIMMERMAN, ANNE E. STRIEBY, CHRISTOPHER KINYON, JENNIFER L. SNYDER, KAREN SWANSON, JAMIE DIEMER, JAMES B. BINDER, PETER J. COMFORT, PEGGY A. FIRTH, KYLE HOWAT, JULIE R. TRUITT, CARLEY ESPIRITU and BRENT HEILESEN

JOINTLY OR SEVERALLY

Its true and lawful Attorney(s)-in-Fact, to make, execute, seal and deliver, for and on its behalf and as its act and deed, bonds or other writings obligatory in the nature of a bond on behalf of each of said Companies, as surety, on contracts of suretyship as are or may be required or permitted by law, regulation, contract or otherwise, provided that no bond or undertaking or contract or suretyship executed under this authority shall exceed the amount of: FIFTY MILLION ($50,000,000.00) DOLLARS

This Power of Attorney is granted and is signed by facsimile under and by the authority of the following Resolutions adopted by the Boards of Directors of both North American Specialty Insurance Company and Washington International Insurance Company at meetings duly called and held on the 9th of May, 2012:

"RESOLVED, that any two of the Presidents, any Managing Director, any Senior Vice President, any Vice President, any Assistant Vice President, the Secretary or any Assistant Secretary be, and each or any of them hereby is authorized to execute a Power of Attorney qualifying the attorney named in the given Power of Attorney to execute on behalf of the Company bonds, undertakings and all contracts of surety, and that each or any of them hereby is authorized to attest to the execution of any such Power of Attorney and to attach therein the seal of the Company; and it is

FURTHER RESOLVED, that the signature of such officers and the seal of the Company may be affixed to any such Power of Attorney or to any certificate relating thereto by facsimile, and any such Power of Attorney or certificate bearing such facsimile signatures or facsimile seal shall be binding upon the Company when so affixed and in the future with regard to any bond, undertaking or contract of surety to which it is attached."

NORTH AMERICAN SPECIALITY INSURANCE COMPANY CORPORATE SEAL 1973 NEW HAMPSHIRE

By ______
Steven P. Anderson, Senior Vice President of Washington International Insurance Company & Senior Vice President of North American Specialty Insurance Company

By ______
David M. Layman, Vice President of Washington International Insurance Company & Vice President of North American Specialty Insurance Company

WASHINGTON INTERNATIONAL INSURANCE COMPANY CORPORATE SEAL NEW HAMPSHIRE

IN WITNESS WHEREOF, North American Specialty Insurance Company and Washington International Insurance Company have caused their official seals to be hereunto affixed, and these presents to be signed by their authorized officers this 19th day of November, 2013.

**North American Specialty Insurance Company**
**Washington International Insurance Company**

State of Illinois
County of Cook ss:

On this 19th day of November, 2013, before me, a Notary Public personally appeared Steven P. Anderson, Senior Vice President of Washington International Insurance Company and Senior Vice President of North American Specialty Insurance Company and David M. Layman, Vice President of Washington International Insurance Company and Vice President of North American Specialty Insurance Company, personally known to me, who being by me duly sworn, acknowledged that they signed the above Power of Attorney as officers of and acknowledged said instrument to be the voluntary act and deed of their respective companies.

"OFFICIAL SEAL"
DONNA D. SKLENS
Notary Public, State of Illinois
My Commission Expires 10/06/2015

Donna D. Sklens
Donna D. Sklens, Notary Public

I, Jeffrey Goldberg, the duly elected Assistant Secretary of North American Specialty Insurance Company and Washington International Insurance Company, do hereby certify that the above and foregoing is a true and correct copy of a Power of Attorney given by said North American Specialty Insurance Company and Washington International Insurance Company, which is still in full force and effect.

IN WITNESS WHEREOF, I have set my hand and affixed the seals of the Companies this 13th day of January, 2015.

______
Jeffrey Goldberg, Vice President & Assistant Secretary of Washington International Insurance Company & North American Specialty Insurance Company

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Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

# University Retirement Community at Davis, Inc. and Affiliate

September 30, 2014 and 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## CONTENTS

# REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
University Retirement Community at Davis, Inc. and Affiliate

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of University Retirement Community at Davis, Inc. and Affiliate (the "Corporation"), which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Retirement Community at Davis, Inc. and Affiliate as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

 

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of consolidating statements of financial position, consolidating statements of activities and changes in net assets, consolidating statements of cash flows, and statements of cash flows – direct method (URCAD only), presented as supplementary information, are presented for the purpose of additional analysis and are not a required part of the basic consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with 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 consolidated financial statements taken as a whole.

Moss Adams LLP

San Francisco, California
January 21, 2015

# CONSOLIDATED FINANCIAL STATEMENTS

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 1,851,693 | $ 2,553,182 |
| Investments | 31,681,453 | 28,188,662 |
| Accounts receivable, net | 487,479 | 670,527 |
| Supplies and prepaid expenses | 315,333 | 322,380 |
| Current portion of assets restricted under bond indenture agreement | 121,681 | 3,886 |
| Total current assets | 34,457,639 | 31,738,637 |
| **PROPERTY AND EQUIPMENT, NET** | 49,943,654 | 50,630,008 |
| **OTHER ASSETS** | | |
| Bond issue and other financing costs, net | 450,012 | 504,760 |
| Gift annuities | 4,954 | 11,802 |
| Total other assets | 454,966 | 516,562 |
| | $ 84,856,259 | $ 82,885,207 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 1,611,771 | $ 1,709,933 |
| Refundable deposits | 190,400 | 159,750 |
| Current portion of long-term debt | 1,099,000 | 880,000 |
| Current portion of entrance fees refundable upon reoccupancy | 120,750 | - |
| Due to affiliates, net | 104,347 | 188,067 |
| Other current liabilities | 68,166 | 53,287 |
| Total current liabilities | 3,194,434 | 2,991,037 |
| **OTHER LIABILITIES** | | |
| Long-term debt, net of current portion | 31,729,000 | 32,828,000 |
| Interest rate swap agreement | 4,063,643 | 3,982,489 |
| Deferred revenue from entrance fees, net of current portion | 32,465,595 | 33,443,264 |
| Total liabilities | 71,452,672 | 73,244,790 |
| **NET ASSETS** | | |
| Unrestricted | 13,376,265 | 9,602,242 |
| Temporarily restricted | 27,322 | 38,175 |
| Total net assets | 13,403,587 | 9,640,417 |
| | $ 84,856,259 | $ 82,885,207 |

*See accompanying notes.*

| | 2014 | 2013 |
|---|---|---|
| **CHANGES IN UNRESTRICTED NET ASSETS** | | |
| **REVENUES** | | |
| Service fees | $ 12,582,190 | $ 12,025,212 |
| Health center revenue | 4,530,287 | 4,209,298 |
| Entrance fees earned | 4,307,069 | 4,624,189 |
| Investment income | 800,719 | 497,214 |
| Contributions | 121,839 | 137,710 |
| Other revenue | 820,710 | 708,088 |
| Total revenues | 23,162,814 | 22,201,711 |
| Net assets released from restrictions | 29,086 | 9,257 |
| Total revenues, gains, and support | 23,191,900 | 22,210,968 |
| **EXPENSES** | | |
| Program expenses: | | |
| Dietary | 3,249,391 | 2,853,652 |
| Facility services and utilities | 3,619,319 | 3,392,234 |
| Health and social services | 4,146,480 | 3,936,499 |
| Memory care | 259,509 | 269,041 |
| Assisted living | 794,222 | 660,463 |
| General and administrative expenses: | | |
| Administrative and marketing | 1,932,304 | 1,917,428 |
| Interest expense and financing fees | 528,414 | 762,630 |
| Net settlement associated with interest rate swap agreement | 1,062,713 | 1,089,970 |
| Depreciation | 2,867,456 | 2,810,754 |
| Fees to affiliates | 1,333,717 | 1,605,241 |
| Net loss on disposal of property and equipment | 154,990 | 171,962 |
| Fund disbursement | 27,736 | 31,159 |
| Total expenses | 19,976,251 | 19,501,033 |
| **OPERATING INCOME** | 3,215,649 | 2,709,935 |
| **NONOPERATING INCOME (LOSS)** | | |
| Loss on extinguishment of debt | - | (951,637) |
| Unrealized change in value of investments | 639,528 | 395,251 |
| Change in value of interest rate swap agreement | (81,154) | 2,470,235 |
| Total nonoperating income | 558,374 | 1,913,849 |
| Change in unrestricted net assets | 3,774,023 | 4,623,784 |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| Contributions | 25,080 | 19,337 |
| Actuarial loss on gift annuities receivable | (6,847) | - |
| Net assets released from restriction | (29,086) | (9,257) |
| Change in temporarily restricted net assets | (10,853) | 10,080 |
| **CHANGE IN NET ASSETS** | 3,763,170 | 4,633,864 |
| **NET ASSETS**, beginning of year | 9,640,417 | 5,006,553 |
| **NET ASSETS**, end of year | $ 13,403,587 | $ 9,640,417 |

*See accompanying notes.*

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 3,763,170 | $ 4,633,864 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,867,456 | 2,810,754 |
| Amortization included in financing fees | 41,744 | 48,678 |
| Loss on extinguishment of debt | - | 951,637 |
| Change in value of interest rate swap agreement | 81,154 | (2,470,235) |
| Entrance fees received from new residents | 4,025,000 | 10,882,100 |
| Entrance fees earned | (4,307,069) | (4,624,189) |
| Entrance fees refunded | (574,850) | (274,500) |
| Unrealized change in value of investments | (639,528) | (395,251) |
| Realized gain and reinvested income on investments | (800,719) | (497,214) |
| Net loss on disposal of property and equipment | 154,990 | 171,962 |
| Net changes in: | | |
| Accounts receivable, net | 183,048 | (251,641) |
| Supplies and prepaid expenses | 7,047 | (61,571) |
| Accounts payable and accrued expenses | (179,116) | 274,917 |
| Refundable deposits | 30,650 | (66,250) |
| Gift annuities | 6,848 | - |
| Due to affiliates, net | (83,720) | 34,313 |
| Net cash provided by operating activities | 4,576,105 | 11,167,374 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (2,240,259) | (1,476,620) |
| Purchase of investments | (2,052,613) | (14,168,790) |
| Proceeds from sale of investments | 69 | - |
| Change in collateral posted related to interest rate swap agreement | - | 2,200,000 |
| Change in assets restricted under bond indenture agreement, net of realized gains | (117,795) | 2,218,433 |
| Net cash used in investing activities | (4,410,598) | (11,226,977) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Bond issue costs reimbursed (paid) | 13,004 | (508,382) |
| Proceeds from issuance of long-term debt | - | 33,708,000 |
| Repayment of long-term debt | (880,000) | (34,375,000) |
| Net cash used in financing activities | (866,996) | (1,175,382) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (701,489) | (1,234,985) |
| **CASH AND CASH EQUIVALENTS,** beginning of year | 2,553,182 | 3,788,167 |
| **CASH AND CASH EQUIVALENTS,** end of year | $ 1,851,693 | $ 2,553,182 |
| **SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION** | | |
| Cash paid during the year for interest | $ 461,140 | $ 604,336 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Property and equipment financed with accounts payable and accrued expenses | $ 95,833 | $ 95,161 |

*See accompanying notes.*

**NOTE 1 – ORGANIZATION**

University Retirement Community at Davis, Inc. ("URCAD"), was founded as a California nonprofit public benefit corporation to provide residential facilities, health and welfare programs, and various services and sponsor programs for the elderly and operates a continuing care retirement community in Davis, California.

University Retirement Community at Davis Foundation, Inc. (the "Foundation" or "URCADF"), was established by the Board of Directors and residents of URCAD to acquire, hold, and use gifts from donors for the needs of URCAD and other related programs. The Foundation is a tax-exempt, not-for-profit corporation incorporated under the laws of the State of California. Contributions to the Foundation are tax deductible by the donor as provided by the Internal Revenue Code. Restricted funds received by the Foundation are disbursed according to the donor's specified purpose.

URCAD is an affiliate of Pacific Retirement Services, Inc. ("PRS"). PRS includes the following organizations:

- Rogue Valley Manor ("RVM")
  (including Rogue Valley Manor Foundation, Inc. ["RVM Foundation"]);
- The Cumberland Rest, Inc. d.b.a. Trinity Terrace ("Trinity Terrace")
  (including Trinity Terrace Foundation, Inc. ["Trinity Foundation"]);
- Cascade Manor, Inc. ("Cascade")
  (including Cascade Manor Foundation, Inc.);
- Holladay Park Plaza, Inc. ("HPP")
  (including Holladay Park Plaza Endowment Fund, and Holladay Park Plaza Foundation, Inc. ["HPP Foundation"]);
- Mirabella ("Mirabella Seattle")
  (including Mirabella Washington Foundation, d.b.a. Mirabella Seattle Foundation);
- Capitol Lakes, Inc. ("Capitol Lakes")
  (including Capitol Lakes Foundation, Inc., Middleton Glen, Inc. ["Middleton Glen"] and Senior Housing of Middleton, Inc. ["Senior Housing"]);
- Mirabella at South Waterfront ("Mirabella Portland")
  (including Mirabella Portland Foundation, Inc.);
- Rogue Valley Manor Housing Corporation ("RVMHC");
- Community Volunteer Network;
- 965 Ellendale, LLC (included in PRS);
- Crest Park, Inc. ("Crest Park")
  (including Roxy Ann Peak, LLC);
- PRS Management, Inc. ("PRS MI")
  (including PRS Management & Consulting, LLC ["PRS MC LLC"], and The Centennial, Inc. ["Centennial"]).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF ACCOUNTING**

**Basis of presentation** – The accompanying consolidated financial statements include the accounts of URCAD and the Foundation (collectively, the "Corporation"). The consolidated financial statements are prepared on the accrual basis of accounting and all significant intercompany balances and transactions have been eliminated.

**Performance indicator** – "Change in unrestricted net assets" as reflected in the accompanying consolidated statements of activities and changes in net assets, is the performance indicator. Change in unrestricted net assets includes all changes in unrestricted net assets, including unrealized change in value of investments, change in value of interest rate swap agreement, loss on extinguishment of debt, and excluding receipt of restricted contributions, contributions of, and assets released from donor restrictions, change in value of gift annuities, and investment returns restricted by donors or law.

**Cash and cash equivalents** – Cash and cash equivalents include cash, money market accounts, and commercial paper with maturities of three months or less at date of acquisition that are not otherwise held by an investment advisor or restricted under bond indenture agreements.

**Investments –** Investments are stated at fair value based on quoted market prices. Investments acquired by gift are recorded at fair value on the date received. Investments in marketable securities are adjusted to fair value through recognition of unrealized gains and losses in performance indicator as they are classified as trading securities. Gains or losses are calculated based on specific identification of the investments. Dividend, interest, and other investment income are recorded net of related custodial and advisory fees.

**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 Residence and Care Agreements with the residents of the community.

Accounts receivable are stated at the amount management expects to collect. If necessary, management provides for possible uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individuals' 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.

**Property and equipment –** Purchased property and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, major replacements and improvements, and other related costs capitalized during construction. Maintenance, repairs, and minor replacements are charged to expense when incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 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 or expense for the period.

The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. The review addresses 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 losses were present for the years ended September 30, 2014 and 2013.

**Bond issue and other financing costs –** Bond issue and other financing costs are amortized over the term of the bonds. For the years ended September 30, 2014 and 2013, amortization expense was $41,744 and $48,678, respectively, and as of September 30, 2014 and 2013, accumulated amortization was $45,366 and $3,621, respectively. Issue costs relating to the 2013 bond issue in the amount of $508,382 were capitalized for the year ended September 30, 2013. For the year ended September 30, 2013, $951,637 in deferred financing costs was written off in connection with the refinancing of the Series 2013 Bonds.

**Refundable deposits –** The Corporation requires each applicant for residency to pay a $1,000 application fee deposit. This deposit will be refunded if the application is denied. If the application is approved but subsequently withdrawn, a portion is refunded. When a unit becomes available, the applicant is also required to pay an entrance fee deposit, which varies in amount, to reserve the unit prior to occupancy. This entrance fee deposit is refundable prior to occupancy.

**Deferred revenue from entrance fees –** Fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue and are amortized to income over the estimated remaining actuarial life expectancy of the resident. Included in such deferred revenue are amounts expected to be refunded to residents, as actuarially determined. As of September 30, 2014 and 2013, $487,630 and $586,612 was estimated to be refunded, respectively.

**Obligation to provide future services –** The Corporation annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (Future services obligation) with the corresponding charge to income. The obligation is discounted at 5.5% for 2014 and 2013, based on the expected long-term rate of return on government obligations. At September 30, 2014 and 2013, no additional future service liability was deemed to exist.

**Interest rate swap agreement** – The Corporation has an interest rate swap agreement (see Note 7), which is recorded on the statements of financial position at fair value. As this derivative does not qualify as an effective hedge, the changes in fair value of the derivative are recognized in nonoperating income on the consolidated statements of activities and changes in net assets in accordance with Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*. In addition, there is a collateral posting requirement if either the Corporation or Merrill Lynch (the "Counterparty") exceeds a certain dollar threshold in terms of the market value. The Corporation reports any collateral posted as an Other Asset on the consolidated statements of financial position. The collateral posting level is also contingent on the credit rating of the Corporation. If the Corporation were to experience a downgrade in its credit rating, the posting threshold would increase. The collateral posting requirements were $0 at September 30, 2014 and 2013.

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

**Unrestricted net assets** – Represent unrestricted resources available to support the Corporation's operations and temporarily restricted resources which have become available for use by the Corporation in accordance with the intention of the donor.

**Temporarily restricted net assets** – Represent contributions that are limited in use by the Corporation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Corporation according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets are available primarily for assistance and other projects designated by the donors.

**Permanently restricted net assets** – Represent net assets subject to donor imposed stipulations that they be maintained by the Corporation in perpetuity. The Board of Directors has interpreted California's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Corporation to use all or part of the investment return on these assets.

**Contributions** – The Corporation reports unconditional contributions of cash and other assets at fair value at the date the contribution is made. Conditional contributions are reported at fair value at the date the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as temporarily restricted contributions and net assets released from restriction in the accompanying consolidated financial statements.

**Revenue recognition** – Service fees and health center revenues are recognized in the month in which services are provided and collectability is reasonably assured. In addition, health center revenue is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided and includes guest services income, catering income, and other miscellaneous income.

The Corporation provides health care services primarily to residents of its communities. Laws and regulations governing Medicare programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

**Workers' compensation insurance** – The Corporation is insured for workers' compensation claims under a guaranteed cost policy. Under the policy, premiums are paid based on estimated annual payroll amounts, which are trued up at each yearend. All claims are covered under the policy. Should the claims made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination would be covered by the insurance policy. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Because this is a guaranteed cost policy, and all claims are covered, there is no estimated liability to record.

**Professional and general liability insurance** – The Corporation, on its behalf, has secured claims-made professional liability and general liability insurance policies with self-insured retentions of $50,000 per claim, with coverage limits of $1,000,000 per claim, and $3,000,000 in aggregate per policy period (January 1, 2014 to January 1, 2015). The Corporation, on its behalf, has also secured an excess professional and general liability insurance policy with limits of $10,000,000 per claim and $15,000,000 aggregate per policy period (January 1, 2014 to January 1, 2015). The same policy limits were in place from January 1, 2013 through January 1, 2014. The Corporation has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2014. In addition, the Corporation has accrued no liability as of September 30, 2014, in its best estimate of the cost of claims incurred but not yet reported.

**Charity care** – The Corporation provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue.

**Tax-exempt status** – The Corporation has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. No tax provision has been made in the accompanying consolidated statements of activities and changes in net assets.

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 September 30, 2014 and 2013, there were no such uncertain tax positions.

**Concentration of risks** – The Corporation's cash, cash equivalents, investments, and assets restricted under bond indenture agreement consist of various financial instruments. These financial instruments may subject the Corporation to concentrations of risk as, from time to time, cash and investment balances may exceed amounts insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation, the fair value of debt securities are dependent on the ability of the issuer to honor its contractual commitments, and the fair value of investments are subject to change. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Concentration of credit risk results from the Corporation granting credit without collateral to its residents and patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables as of September 30, 2014 and 2013, from residents and third-party payors is listed at Note 4.

**Use of estimates** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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, expenses, gains and losses during the reporting period. Significant items subject to such estimates and assumptions include the fair values of interest rate swap and investments, future service obligation, deferred revenue from entrance fees, and workers' compensation. Actual results could differ from those estimates.

**Fair value of financial instruments** – Unless otherwise indicated, the fair value of all reported assets and liabilities that represented 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. Please see Note 10 for fair value hierarchy disclosures of investments, assets restricted under bond indenture agreements, interest rate swap agreement, and long-term debt.

**Advertising** – The Corporation expenses advertising costs as incurred. The Corporation's advertising expense for the years ended September 30, 2014 and 2013, was $230,068 and $225,585, respectively.

**Reclassifications** – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on changes in net assets or net assets as previously reported.

**New accounting pronouncements –** In July 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU 2012-01"), to clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The Corporation adopted ASU 2012-01 as of October 1, 2013. The adoption did not have a material effect on the Corporation's consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-05, *Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* ("ASU 2012-05"), to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit ("NFP")-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The Corporation adopted ASU 2012-05 as of October 1, 2013. The adoption did not have a material effect on the Corporation's consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Services Received from Personnel of an Affiliate* ("ASU 2013-06") to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The adoption of ASU 2013-06 is effective for the Corporation beginning October 1, 2014. The adoption of ASU 2013-06 is not expected to have a material impact on the Corporation's consolidated financial statements.

## NOTE 3 – INVESTMENT INCOME

Income from investments, assets restricted under bond indenture agreement, and cash and cash equivalents for the years ended September 30, consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Realized gain on investments | $ 111,268 | $ 138,090 |
| Net dividends and interest | 689,451 | 359,124 |
| | $ 800,719 | $ 497,214 |

Investment income is reported net of investment expenses of $81,044 and $45,915 for the years ended September 30, 2014 and 2013, respectively.

## NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable, net consisted of the following at September 30:

| | 2014 | 2013 |
|---|---|---|
| Medicare | $ 222,005 | $ 335,393 |
| Secondary insurance | 143,856 | 152,601 |
| Resident monthly fees | 111,459 | 143,468 |
| Entrance fee receivable | - | 50,400 |
| Other | 21,824 | - |
| | 499,144 | 681,862 |
| Less allowance for doubtful accounts | (11,665) | (11,335) |
| | $ 487,479 | $ 670,527 |

Accounts receivable, gross by payor mix, consisted of the following at September 30:

| | 2014 | 2013 |
|---|---|---|
| Self pay | 23% | 23% |
| Medicare | 47% | 53% |
| HMO | 30% | 24% |

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment, net consisted of the following at September 30:

| | 2014 | 2013 |
|---|---|---|
| Building | $ 69,887,624 | $ 69,448,103 |
| Furniture and equipment | 4,540,707 | 4,300,417 |
| Land and improvements | 3,180,068 | 3,182,098 |
| Automotive | 330,449 | 330,449 |
| | 77,938,848 | 77,261,067 |
| Less accumulated depreciation | (29,029,442) | (26,698,924) |
| | 48,909,406 | 50,562,143 |
| Construction in progress | 1,034,248 | 67,865 |
| | $ 49,943,654 | $ 50,630,008 |

**NOTE 6 – LONG-TERM DEBT**

Long-term debt at September 30, consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Series 2013 Bonds | $ 32,828,000 | $ 33,708,000 |
| Current portion | (1,099,000) | (880,000) |
| | $ 31,729,000 | $ 32,828,000 |

**Series 2013 variable rate demand revenue refunding bonds –** On August 29, 2013, the Authority issued $33,708,000 Series 2013 Variable Rate Demand Revenue Bonds (Series 2013). The bonds were issued under and secured by an Indenture between the Authority and the Bond Trustee (U.S. Bank National Association). On August 29, 2013, the Corporation entered into a loan agreement with the Authority and a Continuing Covenant Agreement with Bank of America (the initial holder of the bonds). The Series 2013 bonds, initially bore interest at 67% of the one-month LIBOR plus an applicable spread as defined in the Bond Indenture, are subject to ten-year call provisions beginning August 29, 2023, and matured based on the rate mode in effect on November 1, 2033. The interest rate payable to bond holders at September 30, 2014 and 2013, was approximately 1.27% and 1.39%.

The bond agreements also contained provisions regarding the maintenance of certain covenants. Management believes that the Corporation was in compliance with all provisions as of September 30, 2014.

Aggregate maturities of long-term debt are as follows:

| | |
|---|---|
| 2015 | $ 1,099,000 |
| 2016 | 1,148,000 |
| 2017 | 1,208,000 |
| 2018 | 1,253,000 |
| 2019 | 1,319,000 |
| Thereafter | 26,801,000 |
| | $ 32,828,000 |

**NOTE 7 – INTEREST RATE SWAP AGREEMENT**

On November 1, 2005, the Corporation entered into a contract for a fixed pay interest rate swap for a variable rate (the original transaction) with the Counterparty. This interest rate swap has a trade date of September 7, 2005, an effective date of November 1, 2005, and a termination date of November 15, 2030. It was entered into for the benefit of the Corporation to manage interest rate risk on its variable rate bonds; however, it is not being accounted for as an effective hedge.

Under this interest rate swap agreement, which had a $45,085,000 original notional amount, the Corporation agrees with other parties to pay, at specified intervals, the fixed-rate of 3.2%, while receiving the variable-rate interest of 67% of the 3-month LIBOR (67% of LIBOR was approximately 0.16% and 0.17% at September 30, 2014 and 2013, respectively) according to the outstanding notional principal amount. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement was $34,610,000 and $35,940,000 at September 30, 2014 and 2013, respectively. This interest rate swap agreement will help the Corporation manage its interest rate risk on its variable rate debt.

On September 15, 2010, the Corporation amended and restated the terms and conditions of the original transaction in order to release the financial guaranty insurance policy.

**NOTE 8 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE**

At September 30, 2014 and 2013, approximately 40% and 52%, respectively, of health center revenue was derived under federal third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustments by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position, changes in net assets, or cash flows of the Corporation.

**NOTE 9 – RELATED-PARTY TRANSACTIONS**

PRS provides various general, administrative, and marketing services to the Corporation. The total fees included in the consolidated statements of activities and changes in net assets was $1,333,717 and $1,605,241, respectively, for the years ended September 30, 2014 and 2013. At September 30, 2014 and 2013, the amounts due to affiliates were $104,347 and $188,067, respectively.

**NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB ASC 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 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 maybe 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 active 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 assets value per share (or its equivalent) with the ability to redeem the investment 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 consolidated statements of financial position at September 30, 2014 and 2013, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Investments** – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment, exchange traded equities and mutual funds, debt securities and fixed income 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 values. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the fair value hierarchy.

**Interest rate swap agreement** – The interest rate swap agreement fair value is based upon current settlement values, quoted market prices of comparable instruments, or, if there are no relevant comparables, on pricing models or formulas using current assumptions.

**Long-term debt** – The fair value of long-term debt were estimated using discounted cash flows analyses based on current incremental borrowing rates for similar debt instruments (Level 3). At September 30, 2014 and 2013, the fair value of long-term debt approximates its carrying value.

**Assets restricted under bond indenture agreement** – Assets restricted under bond indenture agreement consist of cash and cash equivalents, classified within Level 1 of the valuation hierarchy.

The Corporation has an investment committee that meets at least quarterly with management and the investment advisors to review the strategy and ongoing performance of all investments, including analyzing changes in fair value measurements from period to period.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets: | | | | |
| Cash and cash equivalents | $ 919,422 | $ - | $ - | $ 919,422 |
| Domestic equity | | | | |
| Mid-cap | 539,494 | - | - | 539,494 |
| Large-cap | 4,266,183 | - | - | 4,266,183 |
| Fixed income | | | | |
| Asset backed securities | 2,434,480 | - | - | 2,434,480 |
| Corporate bonds and notes | 4,527,510 | - | - | 4,527,510 |
| Municipal securities | 30,568 | - | - | 30,568 |
| U.S. government securities | 3,617,776 | - | - | 3,617,776 |
| Mutual funds | | | | |
| Equities | 4,524,516 | - | - | 4,524,516 |
| Fixed income | 3,871,121 | - | - | 3,871,121 |
| Other | 3,466,222 | - | - | 3,466,222 |
| Non-traditional | 3,605,842 | - | - | 3,605,842 |
| Total assets | $ 31,803,134 | $ - | $ - | $ 31,803,134 |
| Liabilities: | | | | |
| Interest rate swap agreement | $ - | $ 4,063,643 | $ - | $ 4,063,643 |

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Cash and cash equivalents | $ 3,493,847 | $ - | $ - | $ 3,493,847 |
| Domestic equity | | | | |
| Mid-cap | 423,535 | - | - | 423,535 |
| Large-cap | 3,404,665 | - | - | 3,404,665 |
| Fixed income | | | | |
| Asset backed securities | 1,465,319 | - | - | 1,465,319 |
| Corporate bonds and notes | 3,533,443 | - | - | 3,533,443 |
| U.S. government securities | 3,462,050 | - | - | 3,462,050 |
| Mutual funds | | | | |
| Equities | 3,657,828 | - | - | 3,657,828 |
| Fixed income | 3,067,337 | - | - | 3,067,337 |
| Other | 5,684,524 | - | - | 5,684,524 |
| Total assets | $ 28,192,548 | $ - | $ - | $ 28,192,548 |
| Liabilities: | | | | |
| Interest rate swap agreement | $ - | $ 3,982,489 | $ - | $ 3,982,489 |

Investments consisted of the following at fair value at September 30:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents including amounts held for investment purposes | $ 919,422 | $ 3,493,847 |
| Equity, fixed income, mutual funds investments | 30,883,712 | 24,698,701 |
| Total | 31,803,134 | 28,192,548 |
| Less asset held by bond indenture | (121,681) | (3,886) |
| Total investments | $ 31,681,453 | $ 28,188,662 |

**NOTE 11 – RETIREMENT PLANS**

The Corporation has a defined contribution plan (the "Plan") covering all eligible employees. Employees who have reached the age of 21 and have completed one year of service of at least 1,000 hours are eligible for participation in both the Plan and the 403(b) Plan. The Corporation's contributions to the Plan are equal to 3% of eligible participants' compensation. The Corporation also participates in a company sponsored 403(b) plan (the 403(b) Plan) covering all eligible employees. The Corporation's contributions to the 403(b) Plan are a match of the employee contributions, up to a maximum of 4% of each participant's eligible compensation. Total contributions charged to expense for the plans was $305,619 and $263,451 for the years ended September 30, 2014 and 2013, respectively.

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, 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.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Corporation. The effect of the changes that will be required in future years are not determinable at this time.

**NOTE 13 – SUBSEQUENT EVENTS**

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

The Corporation evaluated all events or transactions that occurred after September 30, 2014, up through January 21, 2015, the date the consolidated financial statements are issued.

SUPPLEMENTARY INFORMATION

**UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.**
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**
**September 30, 2014**

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | $ 1,786,384 | $ 65,309 | $ - | $ 1,851,693 |
| Investments | 30,545,065 | 1,136,388 | - | 31,681,453 |
| Accounts receivable, net | 487,479 | - | - | 487,479 |
| Supplies and prepaid expenses | 315,333 | - | - | 315,333 |
| Current portion of assets restricted under bond indenture agreement | 121,681 | - | - | 121,681 |
| Total current assets | 33,255,942 | 1,201,697 | - | 34,457,639 |
| **PROPERTY AND EQUIPMENT, NET** | 49,943,654 | - | - | 49,943,654 |
| **OTHER ASSETS** | | | | |
| Bond issue and other financing costs, net | 450,012 | - | - | 450,012 |
| Beneficial interest in net assets of University Retirement Community at Davis Foundation, Inc. | 17,028 | - | (17,028) | - |
| Gift annuities | - | 4,954 | - | 4,954 |
| Total other assets | 467,040 | 4,954 | (17,028) | 454,966 |
| | $ 83,666,636 | $ 1,206,651 | $ (17,028) | $ 84,856,259 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ 1,610,598 | $ 1,173 | $ - | $ 1,611,771 |
| Refundable deposits | 190,400 | - | - | 190,400 |
| Current portion of long-term debt | 1,099,000 | - | - | 1,099,000 |
| Current portion of entrance fees refundable upon reoccupancy | 120,750 | - | - | 120,750 |
| Due to affiliates, net | 93,953 | 10,394 | - | 104,347 |
| Other current liabilities | 67,966 | 200 | - | 68,166 |
| Total current liabilities | 3,182,667 | 11,767 | - | 3,194,434 |
| **OTHER LIABILITIES** | | | | |
| Long-term debt, net of current portion | 31,729,000 | - | - | 31,729,000 |
| Interest rate swap agreement | 4,063,643 | - | - | 4,063,643 |
| Deferred revenue from entrance fees, net of current portion | 32,465,595 | - | - | 32,465,595 |
| Total liabilities | 71,440,905 | 11,767 | - | 71,452,672 |
| **NET ASSETS** | | | | |
| Unrestricted | 12,194,514 | 1,181,751 | - | 13,376,265 |
| Temporarily restricted | 31,217 | 13,133 | (17,028) | 27,322 |
| Total net assets | 12,225,731 | 1,194,884 | (17,028) | 13,403,587 |
| | $ 83,666,636 | $ 1,206,651 | $ (17,028) | $ 84,856,259 |

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | $ 2,510,024 | $ 43,158 | $ - | $ 2,553,182 |
| Investments | 27,150,466 | 1,038,196 | - | 28,188,662 |
| Accounts receivable, net | 670,527 | - | - | 670,527 |
| Supplies and prepaid expenses | 322,380 | - | - | 322,380 |
| Current portion of asset restricted under bond indenture agreements | 3,886 | - | - | 3,886 |
| Total current assets | 30,657,283 | 1,081,354 | - | 31,738,637 |
| **PROPERTY AND EQUIPMENT, NET** | 50,630,008 | - | - | 50,630,008 |
| **OTHER ASSETS** | | | | |
| Bond issue and other financing costs, net | 504,760 | - | - | 504,760 |
| Beneficial interest in net assets of University Retirement Community at Davis Foundation, Inc. | 20,725 | - | (20,725) | - |
| Gift annuities | - | 11,802 | - | 11,802 |
| Total other assets | 525,485 | 11,802 | (20,725) | 516,562 |
| | $ 81,812,776 | $ 1,093,156 | $ (20,725) | $ 82,885,207 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ 1,708,719 | $ 1,214 | $ - | $ 1,709,933 |
| Refundable deposits | 159,750 | - | - | 159,750 |
| Current portion of long-term debt | 880,000 | - | - | 880,000 |
| Due to affiliates, net | 174,225 | 13,842 | - | 188,067 |
| Other current liabilities | 53,087 | 200 | - | 53,287 |
| Total current liabilities | 2,975,781 | 15,256 | - | 2,991,037 |
| **OTHER LIABILITIES** | | | | |
| Long-term debt, net of current portion | 32,828,000 | - | - | 32,828,000 |
| Interest rate swap agreement | 3,982,489 | - | - | 3,982,489 |
| Deferred revenue from entrance fees | 33,443,264 | - | - | 33,443,264 |
| Total liabilities | 73,229,534 | 15,256 | - | 73,244,790 |
| **NET ASSETS** | | | | |
| Unrestricted | 8,547,242 | 1,055,000 | - | 9,602,242 |
| Temporarily restricted | 36,000 | 22,900 | (20,725) | 38,175 |
| Total net assets | 8,583,242 | 1,077,900 | (20,725) | 9,640,417 |
| | $ 81,812,776 | $ 1,093,156 | $ (20,725) | $ 82,885,207 |

## UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.
## CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## For the Year Ended September 30, 2014

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **CHANGES IN UNRESTRICTED NET ASSETS** | | | | |
| **REVENUES** | | | | |
| Service fees | $ 12,582,190 | $ - | $ - | $ 12,582,190 |
| Health center revenue | 4,530,287 | - | - | 4,530,287 |
| Entrance fees earned | 4,307,069 | - | - | 4,307,069 |
| Investment income | 727,919 | 72,800 | - | 800,719 |
| Contributions | 89,107 | 93,887 | (61,155) | 121,839 |
| Other revenue | 820,710 | - | - | 820,710 |
| Total revenues | 23,057,282 | 166,687 | (61,155) | 23,162,814 |
| Net assets released from restrictions | 21,411 | 7,675 | - | 29,086 |
| Total revenues, gains, and support | 23,078,693 | 174,362 | (61,155) | 23,191,900 |
| **EXPENSES** | | | | |
| Program expenses: | | | | |
| Dietary | 3,249,391 | - | - | 3,249,391 |
| Facility services and utilities | 3,619,319 | - | - | 3,619,319 |
| Health and social services | 4,146,480 | - | - | 4,146,480 |
| Memory care | 259,509 | - | - | 259,509 |
| Assisted Living | 794,222 | - | - | 794,222 |
| General and administrative expenses: | | | | |
| Administrative and marketing | 1,926,712 | 5,592 | - | 1,932,304 |
| Interest expense and financing fees | 528,414 | - | - | 528,414 |
| Net settlement associated with interest rate swap agreement | 1,062,713 | - | - | 1,062,713 |
| Depreciation | 2,867,456 | - | - | 2,867,456 |
| Fees to affiliates | 1,333,717 | - | - | 1,333,717 |
| Net loss on disposal of property and equipment | 154,990 | - | - | 154,990 |
| Fund disbursement | 21,411 | 67,480 | (61,155) | 27,736 |
| Total expenses | 19,964,334 | 73,072 | (61,155) | 19,976,251 |
| **OPERATING INCOME** | 3,114,359 | 101,290 | - | 3,215,649 |
| **NONOPERATING (LOSS) INCOME** | | | | |
| Unrealized change in value of investments | 614,067 | 25,461 | - | 639,528 |
| Change in value of interest rate swap agreement | (81,154) | - | - | (81,154) |
| Total nonoperating income | 532,913 | 25,461 | - | 558,374 |
| **CHANGE IN UNRESTRICTED NET ASSETS** | 3,647,272 | 126,751 | - | 3,774,023 |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | | | |
| Contributions | 20,325 | 4,755 | - | 25,080 |
| Actuarial loss on gift annuities receivable | - | (6,847) | - | (6,847) |
| Net assets released from restrictions | (21,411) | (7,675) | - | (29,086) |
| Change in beneficial interest in net assets of University Retirement at Davis Foundation, Inc. | (3,697) | - | 3,697 | - |
| Change in temporarily restricted net assets | (4,783) | (9,767) | 3,697 | (10,853) |
| **CHANGE IN NET ASSETS** | 3,642,489 | 116,984 | 3,697 | 3,763,170 |
| **NET ASSETS**, beginning of year | 8,583,242 | 1,077,900 | (20,725) | 9,640,417 |
| **NET ASSETS**, end of year | $ 12,225,731 | $ 1,194,884 | $ (17,028) | $ 13,403,587 |

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **CHANGES IN UNRESTRICTED NET ASSETS** | | | | |
| **REVENUES** | | | | |
| Service fees | $ 12,025,212 | $ - | $ - | $ 12,025,212 |
| Health center revenue | 4,209,298 | - | - | 4,209,298 |
| Entrance fees earned | 4,624,189 | - | - | 4,624,189 |
| Investment income | 451,537 | 45,677 | - | 497,214 |
| Contributions | 59,731 | 137,710 | (59,731) | 137,710 |
| Other revenue | 708,088 | - | - | 708,088 |
| Total revenues | 22,078,055 | 183,387 | (59,731) | 22,201,711 |
| Net assets released from restrictions | - | 9,257 | - | 9,257 |
| Total revenues, gains, and support | 22,078,055 | 192,644 | (59,731) | 22,210,968 |
| **EXPENSES** | | | | |
| Program expenses: | | | | |
| Dietary | 2,853,652 | - | - | 2,853,652 |
| Facility services and utilities | 3,392,234 | - | - | 3,392,234 |
| Health and social services | 3,936,499 | - | - | 3,936,499 |
| Memory care | 269,041 | - | - | 269,041 |
| Assisted Living | 660,463 | - | - | 660,463 |
| General and administrative expenses: | | | | |
| Administrative and marketing | 1,915,487 | 1,941 | - | 1,917,428 |
| Interest expense and financing fees | 762,630 | - | - | 762,630 |
| Net settlement associated with interest rate swap agreement | 1,089,970 | - | - | 1,089,970 |
| Depreciation | 2,810,754 | - | - | 2,810,754 |
| Fees to affiliates | 1,605,241 | - | - | 1,605,241 |
| Net loss on disposal of property and equipment | 171,962 | - | - | 171,962 |
| Fund disbursement | - | 90,890 | (59,731) | 31,159 |
| Total expenses | 19,467,933 | 92,831 | (59,731) | 19,501,033 |
| **OPERATING INCOME** | 2,610,122 | 99,813 | - | 2,709,935 |
| **NONOPERATING (LOSS) INCOME** | | | | |
| Loss on extinguishment of debt | (951,637) | - | - | (951,637) |
| Unrealized change in value of investments | 329,170 | 66,081 | - | 395,251 |
| Change in value of interest rate swap agreement | 2,470,235 | - | - | 2,470,235 |
| Total nonoperating income | 1,847,768 | 66,081 | - | 1,913,849 |
| **CHANGE IN UNRESTRICTED NET ASSETS** | 4,457,890 | 165,894 | - | 4,623,784 |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | | | |
| Contributions | 15,275 | 4,062 | - | 19,337 |
| Net assets released from restrictions | - | (9,257) | - | (9,257) |
| Change in beneficial interest in net assets of University Retirement at Davis Foundation, Inc. | (2,595) | - | 2,595 | - |
| Change in temporarily restricted net assets | 12,680 | (5,195) | 2,595 | 10,080 |
| **CHANGE IN NET ASSETS** | 4,470,570 | 160,699 | 2,595 | 4,633,864 |
| **NET ASSETS**, beginning of year | 4,112,672 | 917,201 | (23,320) | 5,006,553 |
| **NET ASSETS**, end of year | $ 8,583,242 | $ 1,077,900 | $ (20,725) | $ 9,640,417 |

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Change in net assets | $ 3,642,489 | $ 116,984 | $ 3,697 | $ 3,763,170 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | |
| Depreciation | 2,867,456 | - | - | 2,867,456 |
| Amortization included in financing fees | 41,744 | - | - | 41,744 |
| Change in value of interest rate swap agreement | 81,154 | - | - | 81,154 |
| Entrance fees received from new residents | 4,025,000 | - | - | 4,025,000 |
| Entrance fees earned | (4,307,069) | - | - | (4,307,069) |
| Entrance fees refunded | (574,850) | - | - | (574,850) |
| Unrealized change in value of investments | (614,067) | (25,461) | - | (639,528) |
| Realized gain and reinvested income on investments | (727,919) | (72,800) | - | (800,719) |
| Net loss on disposal of property and equipment | 154,990 | - | - | 154,990 |
| Net changes in: | | | | |
| Accounts receivable, net | 183,048 | - | - | 183,048 |
| Supplies and prepaid expenses | 7,047 | - | - | 7,047 |
| Beneficial interest in net assets of University Retirement Community at Davis Foundation, Inc. | 3,697 | - | (3,697) | - |
| Accounts payable and accrued expenses | (179,075) | (41) | - | (179,116) |
| Refundable deposits | 30,650 | - | - | 30,650 |
| Gift annuities | - | 6,848 | - | 6,848 |
| Due to affiliates, net | (80,272) | (3,448) | - | (83,720) |
| Net cash provided by operating activities | 4,554,023 | 22,082 | - | 4,576,105 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property and equipment | (2,240,259) | - | - | (2,240,259) |
| Purchase of investments | (2,052,613) | - | - | (2,052,613) |
| Proceeds from sale of investments | - | 69 | - | 69 |
| Change in assets restricted under bond indenture agreement, net of realized gains | (117,795) | - | - | (117,795) |
| Net cash used in investing activities | (4,410,667) | 69 | - | (4,410,598) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Bond issue cost reimbursed | 13,004 | - | - | 13,004 |
| Repayment of long-term debt | (880,000) | - | - | (880,000) |
| Net cash used in financing activities | (866,996) | - | - | (866,996) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (723,640) | 22,151 | - | (701,489) |
| **CASH AND CASH EQUIVALENTS**, beginning of year | 2,510,024 | 43,158 | - | 2,553,182 |
| **CASH AND CASH EQUIVALENTS**, end of year | $ 1,786,384 | $ 65,309 | $ - | $ 1,851,693 |
| **SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION** | | | | |
| Cash paid during the year for interest | $ 461,140 | $ - | $ - | $ 461,140 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | | | |
| Property and equipment financed with accounts payable and accrued expenses | $ 95,833 | $ - | $ - | $ 95,833 |

| | University Retirement Community at Davis, Inc. | University Retirement Community at Davis Foundation, Inc. | Eliminations | Total |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Change in net assets | $ 4,470,570 | $ 160,699 | $ 2,595 | $ 4,633,864 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | |
| Depreciation | 2,810,754 | - | - | 2,810,754 |
| Amortization included in financing fees | 48,678 | - | - | 48,678 |
| Loss on extinguishment of debt | 951,637 | - | - | 951,637 |
| Change in value of interest rate swap agreement | (2,470,235) | - | - | (2,470,235) |
| Entrance fees received from new residents | 10,882,100 | - | - | 10,882,100 |
| Entrance fees earned | (4,624,189) | - | - | (4,624,189) |
| Entrance fees refunded | (274,500) | - | - | (274,500) |
| Unrealized change in value of investments | (329,170) | (66,081) | - | (395,251) |
| Realized gain and reinvested income on investments | (451,537) | (45,677) | - | (497,214) |
| Net loss on disposal of property and equipment | 171,962 | - | - | 171,962 |
| Net changes in: | | | | |
| Accounts receivable, net | (251,641) | - | - | (251,641) |
| Supplies and prepaid expenses | (61,571) | - | - | (61,571) |
| Beneficial interest in net assets of University Retirement Community at Davis Foundation, Inc. | 2,595 | - | (2,595) | - |
| Accounts payable and accrued expenses | 274,301 | 616 | - | 274,917 |
| Refundable deposits | (66,250) | - | - | (66,250) |
| Due to affiliates, net | 22,005 | 12,308 | - | 34,313 |
| Net cash provided by operating activities | 11,105,509 | 61,865 | - | 11,167,374 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property and equipment | (1,476,620) | - | - | (1,476,620) |
| Purchase of investments | (14,108,844) | (59,946) | - | (14,168,790) |
| Change in collateral posted related to interest rate swap agreement | 2,200,000 | - | - | 2,200,000 |
| Change in assets restricted under bond indenture agreement, net of realized gains | 2,218,433 | - | - | 2,218,433 |
| Net cash used in investing activities | (11,167,031) | (59,946) | - | (11,226,977) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Bond issue costs paid | (508,382) | - | - | (508,382) |
| Proceeds from issuance of long-term debt | 33,708,000 | - | - | 33,708,000 |
| Repayment of long-term debt | (34,375,000) | - | - | (34,375,000) |
| Net cash used in financing activities | (1,175,382) | - | - | (1,175,382) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (1,236,904) | 1,919 | - | (1,234,985) |
| **CASH AND CASH EQUIVALENTS**, beginning of year | 3,746,928 | 41,239 | - | 3,788,167 |
| **CASH AND CASH EQUIVALENTS**, end of year | $ 2,510,024 | $ 43,158 | $ - | $ 2,553,182 |
| **SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION** | | | | |
| Cash paid during the year for interest | $ 604,336 | $ - | $ - | $ 604,336 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | | | | |
| Property and equipment financed with accounts payable and accrued expenses | $ 95,161 | $ - | $ - | $ 95,161 |

**UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.**
**STATEMENTS OF CASH FLOWS – DIRECT METHOD (URCAD ONLY)**
**For the Years Ended September 30, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from service fees | $ 12,626,107 | $ 12,089,919 |
| Receipts from health center | 4,664,597 | 3,945,275 |
| Net receipts from entrance fees | 3,500,550 | 10,607,600 |
| Interest paid | (1,518,549) | (1,850,076) |
| Receipts from other operating activities | 888,966 | 769,687 |
| Cash expended for operating activities | (15,607,648) | (14,456,896) |
| Net cash provided by operating activities | 4,554,023 | 11,105,509 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (2,240,259) | (1,476,620) |
| Purchase of investments | (2,052,613) | (14,108,844) |
| Change in collateral posted related to interest rate swap agreement | - | 2,200,000 |
| Change in assets restricted under bond indenture agreement, net of realized gains | (117,795) | 2,218,433 |
| Net cash used in investing activities | (4,410,667) | (11,167,031) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Bond issue costs reimbursed (paid) | 13,004 | (508,382) |
| Proceeds from issuance of long-term debt | - | 33,708,000 |
| Repayment of long-term debt | (880,000) | (34,375,000) |
| Net cash used in financing activities | (866,996) | (1,175,382) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (723,640) | (1,236,904) |
| **CASH AND CASH EQUIVALENTS**, beginning of year | 2,510,024 | 3,746,928 |
| **CASH AND CASH EQUIVALENTS**, end of year | $ 1,786,384 | $ 2,510,024 |
| **RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Change in net assets | $ 3,642,489 | $ 4,470,570 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,867,456 | 2,810,754 |
| Amortization included in financing fees | 41,744 | 48,678 |
| Loss on extinguishment of debt | - | 951,637 |
| Change in value of interest rate swap agreement | 81,154 | (2,470,235) |
| Entrance fees received from new residents | 4,025,000 | 10,882,100 |
| Entrance fees earned | (4,307,069) | (4,624,189) |
| Entrance fees refunded | (574,850) | (274,500) |
| Unrealized change in value of investments | (614,067) | (329,170) |
| Realized gain and reinvested income on investments | (727,919) | (451,537) |
| Net loss on disposal of property and equipment | 154,990 | 171,962 |
| Net changes in: | | |
| Accounts receivable, net | 183,048 | (251,641) |
| Supplies and prepaid expenses | 7,047 | (61,571) |
| Beneficial interest in net assets of University Retirement Community at Davis Foundation, Inc. | 3,697 | 2,595 |
| Accounts payable and accrued expenses | (179,075) | 274,301 |
| Refundable deposits | 30,650 | (66,250) |
| Due to affiliates, net | (80,272) | 22,005 |
| Net cash provided by operating activities | $ 4,554,023 | $ 11,105,509 |

## FORM 1-1
## RESIDENT POPULATION

| Line | Continuing Care Residents | | TOTAL |
|---|---|---|---|
| [1] | Number at beginning of fiscal year | | 334 |
| [2] | Number at end of fiscal year | | 318 |
| [3] | Total Lines 1 and 2 | | 652 |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x | 0.50 |
| [5] | Mean number of continuing care residents | | 326 |
| | All Residents | | |
| [6] | Number at beginning of fiscal year | | 361 |
| [7] | Number at end of fiscal year | | 339 |
| [8] | Total Lines 5 and 6 | | 700 |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x | 0.50 |
| [10] | Mean number of all residents | | 350 |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of all residents (Line 10) and enter the result (round to two decimal places). | | 0.93 |

## FORM 1-2
## ANNUAL PROVIDER FEE

| Line | | | | TOTAL |
|---|---|---|---|---|
| [1] | Total Operating Expenses (including depreciation and debt service - interest only) | | | 19,964,334 |
| [a] | Depreciation | 2,867,456 | | |
| [b] | Debt Service (Interest Only) | 461,140 | | |
| [2] | Subtotal (add Line 1a and 1b) | | | 3,328,596 |
| [3] | Subtract Line 2 from Line 1 and enter result. | | | 16,635,738 |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) | | | 0.93 |
| [5] | Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4) | | | 15,495,002 |
| | | | x | 0.001 |
| [6] | Total Amount Due (multiply Line 5 by .001) | | | 15,495.00 |

Provider: University Retirement Community at Davis
Community: University Retirement Community at Davis

Report of Independent Auditors and
Combined Financial Statements with
Supplementary Information

# Pacific Retirement Services, Inc.

September 30, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## CONTENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Pacific Retirement Services, Inc.

## Report on the Financial Statements

We have audited the accompanying combined financial statements of Pacific Retirement Services, Inc. (the "Organization"), which comprise the combined statement of financial position as of September 30, 2014, and the related combined statement of activities and changes in net assets (deficit), and combined cash flows for the year then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of September 30, 2014, and the combined results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter – Prior period restatement***

As discussed in Note 20 to the combined financial statements, the Organization restated its unrestricted and temporarily restricted net assets as of October 1, 2013. Our opinion is not modified with respect to this matter.

As further described in Note 20, beginning net deficit for Middleton Glen, Inc. and Senior Housing of Middleton, Inc. was restated. Our opinion is not modified with respect to this matter.

***Emphasis of Matter – ASU 2012-01 adoption***

As discussed in Note 2 of the combined financial statements, for the year ended September 30, 2014, the Organization adopted new accounting guidance that reflects changes to the presentation of deferred revenue from entrance fees and related amortization in accordance with Financial Accounting Standard Board ("FASB") Accounting Standards Updated ("ASU") No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU 2012-01"). Our opinion is not modified with respect to these matters.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary schedules of combining statement of financial position, and combining statement of activities and changes in net assets (deficit) as of and for the year ended September 30, 2014, presented as supplementary information, are presented for the purpose of additional analysis and are not a required part of the basic combined 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 combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with 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 combined financial statements as a whole.

Moss Adams LLP

San Francisco, California
February 13, 2015

# COMBINED FINANCIAL STATEMENTS

**PACIFIC RETIREMENT SERVICES, INC.**
**COMBINED STATEMENT OF FINANCIAL POSITION**
**September 30, 2014**

| | |
|---|---|
| **ASSETS** | |
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 40,023,473 |
| Restricted cash | 300,000 |
| Investments | 193,627,248 |
| Accounts receivable, net | 8,333,457 |
| Supplies and prepaid expenses | 4,329,948 |
| Current portion of assets restricted under bond indenture agreements | 13,291,266 |
| Current portion of assets held in trust | 3,192,746 |
| Other current assets | 51,359 |
| Total current assets | 263,149,497 |
| **PROPERTY AND EQUIPMENT, NET** | 743,483,463 |
| **OTHER ASSETS** | |
| Assets held for sale | 1,612,992 |
| Assets held in trust | 40,534,262 |
| Restricted cash | 100,000 |
| Long-term investments | 4,479,518 |
| Assets restricted under bond indenture agreements, net of current portion | 27,938,986 |
| Bond issue and other financing costs, net | 11,546,576 |
| Restricted deposits | 4,460,912 |
| Other noncurrent assets | 9,121,754 |
| Total other assets | 99,795,000 |
| | $ 1,106,427,960 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | |
| **CURRENT LIABILITIES** | |
| Accounts payable and accrued expenses | $ 28,553,970 |
| Refundable deposits | 7,873,131 |
| Current portion of entrance fees refundable upon reoccupancy | 7,512,880 |
| Current portion of long-term debt | 9,972,923 |
| Other liabilities | 132,523 |
| Total current liabilities | 54,045,427 |
| **OTHER LIABILITIES** | |
| Entrance fees refundable upon reoccupancy, net of current portion | 395,419,696 |
| Deferred revenue from entrance fees | 174,822,453 |
| Future services obligation | 35,489,342 |
| Entrance fees board valuation adjustment liability | 136,660 |
| Long-term debt, net of current portion | 497,877,866 |
| Interest rate swap agreement | 16,377,676 |
| Contingent liabilities | 7,782,621 |
| Other long-term liabilities | 711,165 |
| Total liabilities | 1,182,662,906 |
| **NET ASSETS (DEFICIT)** | |
| Unrestricted | (193,139,806) |
| Temporarily restricted | 103,125,309 |
| Permanently restricted | 13,779,551 |
| Total net assets (deficit) | (76,234,946) |
| | $ 1,106,427,960 |

*See accompanying notes.*

| | |
|---|---|
| **REVENUES** | |
| Service fees | $ 101,577,251 |
| Health center revenue | 37,227,556 |
| Change in future services obligation | 6,308,320 |
| Entrance fees earned | 21,678,783 |
| Contributions | 1,796,717 |
| Investment income | 8,859,667 |
| Royalty income | 25,597 |
| Management fee revenue | 2,981,494 |
| Other revenue | 20,884,485 |
| Total revenues | 201,339,870 |
| Net assets released from restrictions | 3,577,657 |
| Total revenue, gains, and support | 204,917,527 |
| **EXPENSES** | |
| Program expenses: | |
| Dietary | 27,014,330 |
| Facility services and utilities | 34,551,775 |
| Health and social services | 38,937,077 |
| Memory care | 2,213,607 |
| Assisted living | 5,119,156 |
| General and administrative: | |
| Administrative and marketing | 33,454,956 |
| Interest expense and financing fees | 17,980,702 |
| Net settlement associated to interest rate swap agreements | 6,951,701 |
| Depreciation | 37,661,685 |
| Fund disbursement | 560,153 |
| Other expenses | 484,288 |
| Loss on disposal of property and equipment | 1,603,418 |
| Total expenses | 206,532,848 |
| **OPERATING LOSS** | (1,615,321) |
| **NONOPERATING INCOME (LOSS)** | |
| Unrealized change in value of investments | 1,997,721 |
| Change in value of interest rate swap and cap agreement | 964,218 |
| Gain on extinguishment of interest rate swap | 2,001,631 |
| Loss on extinguishment of debt | (2,659,654) |
| Other nonoperating revenue | (1,887) |
| Total nonoperating income | 2,302,029 |
| Change in unrestricted net assets (deficit) before income taxes | 686,708 |

*See accompanying notes.*

## PACIFIC RETIREMENT SERVICES, INC.
### COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
### Year Ended September 30, 2014

| | |
|---|---|
| **INCOME TAX EXPENSE** | (103,132) |
| Change in unrestricted net assets (deficit) | 583,576 |
| **TEMPORARILY RESTRICTED NET ASSETS** | |
| Contributions | 1,025,037 |
| Royalty income | 4,312,117 |
| Actuarial gain on gift annuities receivable | 109,767 |
| Investment income | 665,752 |
| Fund disbursements | (20,763) |
| Unrealized change in value of investments | (28,384) |
| Change in fair value of split interest trusts | 11,939,290 |
| Net assets released from restrictions | (3,577,657) |
| Change in temporarily restricted net assets | 14,425,159 |
| **PERMANENTLY RESTRICTED NET ASSETS** | |
| Contributions | 100 |
| Actuarial gain on gift annuities receivable | 2,419 |
| Investment income | 819 |
| Change in fair value of perpetual trusts | 3,021,126 |
| Change in permanently restricted net assets | 3,024,464 |
| **CHANGE IN NET ASSETS (DEFICIT)** | 18,033,199 |
| **NET ASSETS (DEFICIT)**, beginning of year (as adjusted) | (94,268,145) |
| **NET ASSETS (DEFICIT)**, end of year | $ (76,234,946) |

*See accompanying notes.*

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Change in net assets (deficit) | $ 18,033,199 |
| Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities: | |
| Depreciation | 37,661,685 |
| Amortization included in financing fees | 430,859 |
| Loss on extinguishment of debt | 2,659,654 |
| Gain on extinguishment of interest rate swap agreement | (2,001,631) |
| Contributions of property and equipment | (10,638) |
| Contributions restricted for permanent endowment | (100) |
| Unrealized change in fair value of investments | (1,969,337) |
| Realized gain and reinvested income on investments | (13,838,355) |
| Change in fair value of trusts | (14,960,416) |
| Actuarial changes on gift annuities receivable | (4,835) |
| Change in fair value of derivative instruments | (964,218) |
| Entrance fees received from new residents | 26,818,635 |
| Entrance fees earned | (21,678,783) |
| Entrance fees board adjustment valuation liability paid | (20,250) |
| Entrance fees refunded | (1,306,676) |
| Change in future services obligation | (6,308,320) |
| Loss on disposal of property and equipment | 1,603,418 |
| Net change in: | |
| Accounts receivable, net | 876,267 |
| Supplies and prepaid expenses | (464,575) |
| Due to affiliates, net | (51,358) |
| Gift annuities | 6,848 |
| Other noncurrent assets | (4,360,484) |
| Accounts payable and accrued expenses | 5,493,227 |
| Refundable deposits | 2,945,529 |
| Restricted deposits | (802,647) |
| Other current liabilities | (198,272) |
| Other liabilities | 74,231 |
| Net cash provided by operating activities | 27,662,657 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchases of property and equipment | (33,995,374) |
| Proceeds from sale of property and equipment | 10 |
| Purchase of investments | (43,140,956) |
| Proceeds from sale of investments | 27,727,690 |
| Cash receipts from asset held in trust | 2,169,246 |
| Change in reserve funds | 58,233 |
| Change in assets restricted under bond indenture agreements | 7,995,063 |
| Net cash used in investing activities | (39,186,088) |

*See accompanying notes.*

| | |
|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Proceeds from issuance of long-term debt | 156,162,180 |
| Cost of debt issuance | (2,866,717) |
| Bond issue costs reimbursed | 13,004 |
| Cost of loan issuance | (153,953) |
| Repayments of long term debt | (152,657,459) |
| Premium on long term debt | 682,837 |
| Payment on interest rate swap agreement termination | (1,957,000) |
| Contributions restricted for permanent endowments | 100 |
| Entrance fees received from new residents | 39,777,687 |
| Entrance fees refunded | (25,613,610) |
| Net cash provided by financing activities | 13,387,069 |
| Net increase in cash and cash equivalents | 1,863,638 |
| **CASH AND CASH EQUIVALENTS**, beginning of year | 38,159,835 |
| **CASH AND CASH EQUIVALENTS**, end of year | $ 40,023,473 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | |
| Cash paid during the year for interest and letter of credit fees | $ 16,752,140 |
| Cash paid for income taxes | $ 94,180 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES** | |
| Property and equipment financed with accounts payable and accrued expenses | $ 1,846,469 |
| Contributions of property and equipment | $ 10,638 |

*See accompanying notes.*

## NOTE 1 - ORGANIZATION

Pacific Retirement Services, Inc. ("PRS") was founded as a private, not-for-profit, supporting corporation to provide various services and sponsor programs for the elderly, including residential facilities and health and welfare programs. PRS and the related corporations (collectively, the "Organization") are not an obligated group, and the obligations of each corporation are satisfied solely from that corporation's assets, except for certain guarantees (Note 2).

The accompanying combined financial statements include the accounts of PRS and the following related corporations, all of which are under common management:

- Rogue Valley Manor ("RVM")
  (including Rogue Valley Manor Foundation, Inc. ["RVM Foundation"] and 16 Community Housing Corporations ["RVMHC"]);
- The Cumberland Rest, Inc. d.b.a. Trinity Terrace ("Trinity Terrace")
  (including Trinity Terrace Foundation, Inc. ["Trinity Foundation"]);
- Cascade Manor, Inc. ("Cascade")
  (including Cascade Manor Foundation, Inc.);
- Holladay Park Plaza, Inc. ("HPP")
  (including Holladay Park Plaza Endowment Fund, and Holladay Park Plaza Foundation, Inc. ["HPP Foundation"]);
- University Retirement Community at Davis, Inc. ("URCAD")
  (including University Retirement Community at Davis Foundation, Inc. ["URCADF"]);
- Mirabella ("Mirabella Seattle")
  (including Mirabella Washington Foundation, d.b.a. Mirabella Seattle Foundation);
- Capitol Lakes, Inc. ("Capitol Lakes")
  (including Capitol Lakes Foundation, Inc., Middleton Glen, Inc. ["Middleton Glen"] and Senior Housing of Middleton, Inc. ["Senior Housing"]);
- Mirabella at South Waterfront ("Mirabella Portland")
  (including Mirabella Portland Foundation, Inc.);
- Community Housing Corporation ("CHC");
- Community Volunteer Network;
- 965 Ellendale, LLC (included in PRS);
- Crest Park, Inc. ("Crest Park")
  (including Roxy Ann Peak, LLC);
- PRS Management, Inc. ("PRS MI")
  (including PRS Management & Consulting, LLC ["PRS MC LLC"], and The Centennial, Inc. ["Centennial"]).

The senior living industry has been adversely impacted by the economic downturn and the residential real estate market has impacted potential residents' ability to sell their home and move into a retirement community. Management believes that due to these factors, Capitol Lakes' occupancy levels have not met original forecasts since operations commenced. In addition to the effects of the economic downturn, Capitol Lakes has been taking action to improve financial performance. Extensive renovations have been done to make more attractive units of the size desired by the market. These renovations have affected occupancy and revenues as the units are taken out of service. An operations audit was also performed by a third party to assist in identifying additional ways to improve financial performance. Dependent on actual performance compared to revised covenants, Capitol Lakes may need to seek additional debt covenant concessions in the future.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of combination** – The accompanying combined financial statements include the accounts of Pacific Retirement Services, Inc., RVM, Trinity Terrace, Cascade, HPP, URCAD, Mirabella Seattle, Capitol Lakes, Mirabella Portland, CHC, CVN, Crest Park, and PRS Management Inc. (collectively referred to as the "Organization"). The combined financial statements are prepared on the accrual basis of accounting and all significant intercompany balances and transactions have been eliminated.

**Performance indicator –** "Change in unrestricted net assets (deficit)" as reflected in the accompanying statement of activities and changes in net assets (deficit), is the performance indicator. Change in unrestricted net assets (deficit) includes all changes in unrestricted net assets (deficit), including unrealized change in value of trading investments, change in value of interest rate swap and cap agreements, loss on extinguishment of debt, gain on extinguishment of interest rate swap agreement, royalty income, actuarial gain (loss) on gift annuities, change in fair value of split interest and perpetual trusts, and excluding receipt of restricted contributions, contributions of, and assets released from donor restrictions, change in value of gift annuities, and investment returns restricted by donors or law.

**Cash and cash equivalents** – Cash and cash equivalents include cash, money market accounts, commercial paper, certificates of deposit, and other securities with maturities of three months or less at the date of acquisition that are not otherwise held by an investment advisor or restricted under bond indenture agreements.

**Investments** – Investments are stated at fair value based on quoted market prices. Investments acquired by gift are recorded at fair value on the date received. Investments in marketable securities are adjusted to fair value through recognition of unrealized gains and losses in the performance indicator as they are classified as trading securities. Gains or losses are calculated based on specific identification of the investments. Dividend, interest, and other investment income are recorded net of related custodial and advisory fees.

**Assets restricted under bond indenture agreements –** Under the terms of various bond indenture agreements, certain corporations within the Organization are required to establish certain funds which are held by the Trustee. At September 30, 2014, these funds represent Debt Service Reserve Funds of $21,222,887, Bond Project funds of $1,305,407, refund shortfall funds of $1,022,063, and other various funds of $4,388,629, as included in assets restricted under bond indenture agreements, net of current portion in the combined statement of financial position. The assets restricted under bond indenture are stated at fair value based on quoted market prices.

The current portion of assets restricted under bond indenture agreements at September 30, 2014, is comprised of Debt Service Funds of $3,560,550, Operating Reserve funds of $6,509,462, refund shortfall funds of $2,736,276, and various other funds of $484,978.

**Accounts receivable** – Accounts receivable primarily represents amounts due from residents for living accommodations, services, entrance fees, property tax reimbursements, amounts due from third-party payers, amounts due from third parties with whom the Organization has management agreements, and interest receivable. The Organization receives payment for health services from residents, insurance companies, Medicare, Medicaid, 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 Residence and Care Agreements with the residents of the community.

Accounts receivable are stated at the amount management expects to collect. If necessary, management provides for possible uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individuals' 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.

**Property and equipment** – Purchased property and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, major replacements and improvements, and other related costs capitalized during construction. Maintenance, repairs, and minor replacements are charged to expense when incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 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.

The Organization, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets when indicators of impairment are identified. The review addresses 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 losses were present for the year ended September 30, 2014.

**Assets held in trust** – Assets held in trust represent contributed funds held by trustees and restricted by the donor for a specific purpose. Assets held in trust include split interest trusts and perpetual trusts. The Organization records changes in the fair value as changes in temporarily restricted or permanently restricted net assets. Amounts are reclassified from their designated restrictions when distributions are received by the Organization.

**Bond issue and other financing costs** – Bond issue and other financing costs are amortized over the term of the various financing arrangements, except for costs associated with the letter of credit, which are amortized over the life of the letter of credit (five years). For the year ended September 30, 2014, amortization expense was $573,125. As of September 30, 2014, accumulated amortization was $7,894,089. For the year ended September 30, 2014, $2,659,654 in deferred financing costs were written off in connection with the refinancing of RVM Series 2007 bonds, and Mirabella Portland's Series 2008 bonds.

**Derivative instruments** – The Organization has several derivative instruments, which include six interest rate swaps remaining after the termination of the Mirabella Portland swap agreement, and one interest rate cap (Note 10). The swap and cap agreements are recorded on the combined statement of financial position at fair value. As the derivatives do not qualify as effective hedges, the changes in fair value of the derivatives are recognized in nonoperating loss on the combined statement of activities and changes in net assets (deficit) in accordance with Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging*.

In addition, there is a collateral posting requirement if either the derivative associated to URCAD or Merrill Lynch (the "Counterparty") exceeds a certain dollar threshold in terms of the market value. The Organization reports any collateral posted as other assets on the combined statement of financial position. The collateral posting level is also contingent on the credit rating of URCAD. If URCAD were to experience a downgrade in its credit rating, the posting threshold would increase. The collateral posting requirement at September 30, 2014, was $0.

**Refundable deposits** – The Organization requires applicants to complete an application and to pay an application fee deposit. This deposit will be refunded if the application is denied. If the application is approved but subsequently withdrawn, a portion is refunded. When a unit becomes available, the applicant is also required to pay an entrance fee deposit, which varies in amount, to reserve the unit prior to occupancy. This deposit is refundable prior to occupancy.

**Restricted deposits** – Includes cash held as entrance fees deposit prior to occupancy at the Continuing Care Retirement Communities (CCRC), tenant security deposits, escrow deposits, reserve for replacement, residual receipts reserve, minimum capital investment and unemployment deposits at CHC. Both tenant security deposits and unemployment deposits include an offsetting liability, refundable deposits, in the combined statement of financial position. In addition, the Department of Housing and Urban Development ("HUD") requires deposits be maintained within CHC for HUD-approved fixed asset replacements and improvements.

**Deferred revenue from entrance fees** – Nonrefundable fees paid by a resident upon entering into a continuing care contract are recorded as deferred revenue. The Organization has multiple continuing care contracts, which include refundable amounts ranging from 50% to 100% and nonrefundable contracts. The refundable portion of the entrance fee for these types of contracts is not amortized to income and is described in the following paragraph. The nonrefundable portion is amortized to income over the estimated remaining actuarial life expectancy of the resident. Amounts amortized to income relating to these types of contracts were $21,678,783 for the year ending September 30, 2014, and are included in entrance fees earned in the combined statements of activities and changes in net assets (deficit). At September 30, 2014, the Organization had nonrefundable entrance fees of $174,822,453, related to entrance fees received that will be recognized as revenue in future years.

**Entrance fees refundable upon reoccupancy** – Refundable contracts are 50% to 100% refundable at the time of reoccupancy after termination of the contract. Included in such balances are amounts expected to be refunded to residents, as actuarially determined. The refundable portion of entrance fees as of September 30, 2014, was $402,932,576. Of the refundable portion, $7,512,880 was due to residents as included in current portion of entrance fees refundable upon reoccupancy and will be refunded at the time the unit is re-occupied by another resident. Actual refunds of such entrance fees were $25,613,610 for the year ended September 30, 2014.

**Entrance fees board adjustment valuation liability** – The Entrance Fee Board Valuation Adjustment liability represents amounts approved at the discretion of the boards of directors of Middleton Glen and Senior Housing to be payable to the resident upon resale of the apartment. Such amounts were awarded only to residents under the applicable contract on the dates the valuation adjustments were approved by the boards of directors.

**Future services obligation** – The Organization annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (future services obligation) with the corresponding charge to expense. The obligation is discounted at 5.5% for 2014, based on the expected long-term rate of return on government obligations of each CCRC. At September 30, 2014, the future services obligation was $35,489,342.

**Asset retirement obligation** – An accrued obligation was established for estimated costs to remediate issues related to asbestos in the multiple CCRC buildings. As of September 30, 2014, the obligation was $283,542 as included in other noncurrent liabilities in the combined statement of financial position.

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

> **Unrestricted net assets** – represent unrestricted resources available to support the Organization's operations and temporarily restricted resources which have become available for use by the Organization in accordance with the intention of the donor.
>
> **Temporarily restricted net assets** – represent contributions that are limited in use by the Organization in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Organization according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets are available primarily for assistance and capital projects as designated by the donors.
>
> **Permanently restricted net assets** – represent net assets subject to donor-imposed stipulations that they be maintained by the Organization in perpetuity. The Board of Directors of each related corporation that maintain such permanently restricted assets have interpreted their respective State's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets.

**Revenue recognition** – Service fees and health center revenues are recognized in the month in which services are provided and collectability is reasonably assured. In addition, health center revenue is presented net of third-party rate adjustments. Other revenue is recognized as the related services are provided.

The Organization provides health care services primarily to residents of its communities. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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 Medicaid programs.

**Professional, medical practice, and general liability insurance** –The Organization secured claims-made professional liability and general liability insurance policies with self-insured retentions of $50,000 per claim, coverage limits of $1,000,000 per claim, and $3,000,000 in aggregate per policy period (January 1, 2014 to January 1, 2015).

Certain corporations within the Organization (PRS, RVM, Trinity Terrace, HPP, URCAD, and Mirabella) also secured an excess professional and general liability insurance policy with limits of $10,000,000 per claim and $15,000,000 aggregate per policy period (January 1, 2014 to January 1, 2015).

Other corporations within the organization (Cascade, Capitol Lakes, Mirabella Portland) secured an excess professional and general liability insurance policy with limits of $5,000,000 per claim per policy period (January 1, 2014 to January 1, 2015).

In addition, RVM, on behalf of its two employed physicians, has secured claims-made policies for medical malpractice insurance with no self-insured retention with coverage limits of $1,000,000 per claim, and $3,000,000 in aggregate per policy period (Physician 1—March 8, 2014 to March 8, 2015; Physician 2—October 1, 2013 to October 1, 2014).

The same policy limits were in place from January 1, 2013 through January 1, 2014, for the general liability policy; from March 2013 to March 8, 2014, and from October 1, 2012 to October 1, 2013, for the medical malpractice insurance. The Organization has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2014. In addition, the Organization has accrued no liability as of September 30, 2014, in its best estimate of the cost of claims incurred but not yet reported.

**Workers' compensation insurance** – All but two corporations within the Organization are insured for workers' compensation claims under a guaranteed cost policy. Under the policy, premiums are paid based on estimated annual payroll amounts, which are trued up at each yearend. All claims are covered under the policy. Should the claims made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination would be covered by the insurance policy. Accounting principles generally accepted in the United States of America require that a healthcare organization disclose the estimated costs of claims in the period of the incident, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Because this is a guaranteed cost policy, and all claims are covered, there is no estimated liability to record.

Trinity Terrace does not subscribe to the Texas workers' compensation program for their employees. Injury benefits are offered to employees as nonsubscribers, and all workers' compensation claims are covered by the professional and general liability policy held by Trinity Terrace. A workplace safety program is in place, and is managed by a professional consultant. Management believes Trinity Terrace is in compliance with all state requirements for nonsubscribers as of September 30, 2014. Trinity Terrace has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2014, and has made no accrual in its best estimate of claims incurred but not yet reported.

Mirabella receives no-fault insurance coverage for its employees through the Washington State Department of Labor & Industries ("L & I"). The benefits received include medical treatment for workers injured during the course of their employment, or that develop an occupational disease as a result of their work activities. In addition, partial wage replacement benefits are available to eligible employees. Premiums are paid quarterly by Mirabella and are based on the hours worked by employees multiplied by a rate which varies based on the job function of an employee. Mirabella also remits to L & I withholding from employee compensation, which is based on a percentage of taxable wages. Claims are managed by L & I and benefits are paid from the Washington State Fund, which is financed by premiums paid by both the employer and the employee. Mirabella has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2014, and has made no accrual in its best estimate of claims incurred by not yet reported.

**Charity care** – The Organization provides care without charge or at amounts less than its established rates to residents who meet certain criteria under its charity care policy. Because the Organization does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue.

**Contributions** – The Organization reports unconditional contributions of cash and other assets at fair value at the date the contribution is made. Conditional contributions are reported at fair value at the date the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statement of activities and changes in net assets (deficit) as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as temporarily restricted contributions and net assets released from restriction in the accompanying combined financial statements.

**Guarantees** – See Note 5 for PRS' guarantee of One West Main, LLC's construction loan.

**Deferred taxes** – As of September 30, 2014, the taxable entities have a deferred tax asset of $5,576,972 which is the result of operating losses that have occurred in current and prior years. Accounting guidance for income taxes requires the taxable entities to periodically assess whether it is more likely than not that sufficient taxable income will be generated to realize the deferred tax assets. In making this determination, the entities consider all available positive and negative evidence and make certain assumptions, including among other things, the overall business environment, historical earnings and losses, current industry trends and the outlook for future years. As of September 30, 2014, a valuation allowance has been recorded in the amount of $5,576,972. Operating losses will expire between 2019 and 2034 if not utilized.

**Tax-exempt status** – All affiliates of the Organization in which there is operating activity, except for Crest Park and PRS Management Inc., have been recognized by the Internal Revenue Service as not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related activities. A tax provision has been made in the accompanying combined statement of activities and changes in net assets (deficit).

The Organization 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 Organization recognizes interest and penalties related to income tax matters in operating expenses. At September 30, 2014, there were no such uncertain tax positions.

**Concentrations of risks** – The Organization's cash, cash equivalents, investments, assets held in trust, and assets restricted under bond indenture agreements consist of various financial instruments. These financial instruments may subject the Organization to concentrations of risk as, from time to time, cash and investment balances may exceed amounts insured by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation, the fair value of debt securities are dependent on the ability of the issuer to honor its contractual commitments, and the fair value of investments are subject to change.

Concentration of credit risk results from the Organization granting credit without collateral to its residents and patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables as of September 30, 2014, from residents and third-party payors is listed at Note 4.

**Use of estimates** – The preparation of combined financial statements, in conformity with accounting principles generally accepted in the United States, 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 combined financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting period. Significant items subject to such estimates and assumptions include the fair values of interest rate swap agreements and interest rate cap agreements, future service obligation, liability for deferred revenue from entrance fees, useful lives of fixed assets, fair market value of investments in the absence of readily determinable fair values, long-term debt, and estimated liability for workers' compensation claims. Actual results could differ from those estimates.

**Fair value of financial instruments** – Unless otherwise indicated, the fair value of all reported assets and liabilities that represented financial instruments approximate their carrying values. The Organization's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Please see Note 15 for fair value hierarchy disclosures of investments, assets restricted under bond indenture agreement, refundable deposits, derivative instruments, restricted deposits, gift annuities, restricted cash, and long-term debt.

**Advertising** – The Organization expenses advertising costs as incurred. The Organization's advertising expense for the year ended September 30, 2014, was $2,116,769.

**New accounting pronouncements** – Effective October 1, 2013, the Corporation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees* ("ASU No. 2012-01") which has resulted in the establishment of a liability for the refundable portion of advance fees which were previously included in deferred revenue and amortized into revenue over the life of the facility. In accordance with FASB ASC Topic 250, *Accounting Changes and Error Corrections*, these financial statements present the adoption of ASU No. 2012-01 as a change in accounting principle, and accordingly, beginning net deficit as of October 1, 2013, has been adjusted to apply the new accounting method retrospectively. The following line items in the September 30, 2013 combined financial statements were adjusted as a result of this adoption resulting in an increase to beginning net deficit at October 1, 2013 of $78,231,484:

| | As Previously Reported | ASU 2012-01 Adjustment* | As Adjusted |
|---|---|---|---|
| Deferred revenue from entrance fees | $ 475,788,787 | $ (304,574,109) | $ 171,214,678 |
| Entrance fees refundable upon reoccupancy, net of current portion | $ 47,863,541 | $ 340,315,079 | $ 388,178,620 |
| Future services obligation | $ - | $ 41,797,662 | $ 41,797,662 |
| Earned entrance fees | $ 29,584,402 | $ (8,844,056) | $ 20,740,346 |
| Change in future services obligation | $ - | $ 19,719,938 | $ 19,719,938 |
| Change in net deficit | $ 13,499,309 | $ 10,875,882 | $ 24,375,191 |

* includes the effect of Middleton Glen & Senior Housing restatement as discussed in Note 20.

In October 2012, the FASB issued ASU No. 2012-05, *Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* ("ASU 2012-05") to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit ("NFP") -imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The adoption of ASU 2012-05 was effective for the Organization beginning October 1, 2013. The adoption of ASU 2012-05 did not have a material impact on the Organization's combined financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Services Received from Personnel of an Affiliate* ("ASU 2013-06") to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The adoption of ASU 2013-06 is effective for the Organization beginning October 1, 2014. The adoption of ASU 2013-06 is not expected to have a material impact on the Organization's combined financial statements.

## NOTE 3 – INVESTMENT INCOME

Income from investments, assets restricted under bond indenture agreements, and cash and cash equivalents for the year ended September 30, 2014, consisted of the following:

| | |
|---|---|
| Realized gain on investments | $ 4,252,208 |
| Net dividends and interest | 5,274,030 |
| | $ 9,526,238 |

Investment income is reported net of investment expenses of $538,818 for the year ended September 30, 2014.

## NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable, net at September 30, 2014, consisted of the following:

| | |
|---|---|
| Medicare | $ 2,094,692 |
| Medicaid | 210,675 |
| HMO/Secondary insurance | 1,893,529 |
| Resident monthly fees | 2,402,343 |
| Entrance fees receivable | 958,651 |
| Other receivables | 1,562,627 |
| | 9,122,517 |
| Less allowance for doubtful accounts | (789,060) |
| | $ 8,333,457 |

Accounts receivable, gross by payor, consisted of the following at September 30, 2014:

| | |
|---|---|
| Self pay | 26% |
| Medicare | 23% |
| Medicaid | 2% |
| HMO/Secondary | 21% |
| Entrance fees | 11% |
| Other | 17% |

## NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment, net at September 30, 2014, consisted of the following:

| | |
|---|---|
| Land and improvements | $ 100,547,223 |
| Buildings and improvements | 852,581,020 |
| Equipment and furnishings | 76,809,415 |
| Automotive equipment | 2,815,438 |
| | 1,032,753,096 |
| Less accumulated depreciation | (313,875,309) |
| | 718,877,787 |
| Construction in progress | 24,605,676 |
| | $ 743,483,463 |

Roxy Ann Peak, LLC ("RAP") is a limited liability company whose sole member is Crest Park Incorporated. Roxy Ann Peak was created on October 3, 2012, for the purpose of participating in the ownership of the new PRS office building. RAP is a member of One West Main, LLC, owner of the subject office building property. RAP entered into an Operating Agreement with two other entities (BGE Properties, LLC and Blum Commercial Properties, LLC) for the purpose of acquiring property and constructing a 4-story office building in downtown Medford. This new office building became the new PRS Corporate office in September 2014. The construction loan to One West Main, LLC closed on September 26, 2013. PRS provided a guarantee on the construction loan up to a maximum of $6,240,000 plus 39% of interest and other fees. As of September 30, 2014, Crest Park Inc. had contributed capital of $1,978,127 to RAP, LLC of which $1,486,460 was provided to One West Main, LLC as equity contributions, $103,312 has been spent for construction in progress, and $345,294 has been spent on assets placed in service. The remaining balance of $43,061 will be used in the operations of RAP. An accrued liability of approximately $4.6 million was recorded as the fair value of RAP's portion of the One West Main, LLC construction loan at September 30, 2014.

## NOTE 6 – ASSETS HELD FOR SALE

Assets held for sale represents the net costs of the land, building, and improvements which were the previous location of the corporate offices. The office building is currently listed for sale. The combined statement of financial position reflects the assets at carrying value. Generally Accepted Accounting Principles ("GAAP"), requires the value of the assets held for sale to be the lower of the carrying value or the fair value less the costs to sell.

## NOTE 7 – RESTRICTED DEPOSITS

Restricted deposits represent amounts required by HUD to be held for major maintenance, repair and replacement of property, funds held aside that would otherwise be considered as surplus cash that is generated by project cash flow, tenant security deposits, unemployment deposits, minimum capital investments, and other escrowed funds. In addition, restricted deposits are entrance fees held for prospective CCRC residents.

Restricted deposits at September 30, 2014, consisted of the following:

| | | |
|---|---|---|
| Reserve for replacement | $ | 2,725,557 |
| Repair reserve | | 866,848 |
| Tenant security deposits | | 275,462 |
| Residual receipts reserve | | 190,322 |
| Escrow deposits | | 228,988 |
| Unemployment deposits | | 118,775 |
| Minimum capital investment | | 29,644 |
| Entrance fee escrow | | 25,316 |
| | $ | 4,460,912 |

## NOTE 8 – ASSETS HELD IN TRUST

Assets held in trust represent the principal of a perpetual trust and various split interest trusts whose assets and distribution of income are controlled by third-party trustees. Trinity Terrace is the beneficiary to one split interest trust. Trinity Terrace has an unconditional right to receive a portion of the specified cash flows from the assets held pursuant to the underlying trust agreements. In addition to the split interest trust, Trinity Terrace is also the beneficiary to three perpetual trusts. In accordance with standard accounting guidance for split interest trusts and perpetual trusts, Trinity Terrace records changes in the fair value as changes in temporarily restricted or permanently restricted net assets. Amounts are reclassified from their designated restriction when distributions are received by Trinity Terrace. The trust assets as of September 30, 2014, have been stated at fair market value:

| | | |
|---|---|---|
| Stonestreet Trust | $ | 32,424,870 |
| Hutt Trust | | 10,463,899 |
| Martin Trust | | 787,542 |
| Harrison Trust | | 40,000 |
| Resident Trust Funds | | 10,697 |
| | $ | 43,727,008 |

The net trust asset activity for the year ended September 30, 2014, is comprised of the following:

| | | |
|---|---|---|
| Beginning balance | $ | 26,613,722 |
| Change in fair value | | 19,626,473 |
| Trustee fees | | (354,638) |
| Trust assets released from restriction | | (2,169,246) |
| Change in resident trust funds | | 10,697 |
| | $ | 43,727,008 |

## NOTE 9 - LONG-TERM DEBT

Long-term debt at September 30, 2014, consisted of the following:

| | | |
|---|---|---|
| Trinity Terrace Series 2011 Bonds | $ | 42,165,000 |
| RVM Series 2013 and 2013B Bonds | | 107,950,500 |
| CHC Mortgage Notes Payable (RVM) | | 3,762,641 |
| URCAD Series 2013 Bonds | | 32,828,000 |
| HPP Series 2010 Bonds | | 13,555,000 |
| HPP Series 2013 Bonds | | 8,992,796 |
| Mirabella Portland Series 2014 Bonds | | 93,380,000 |
| Cascade Series 2010 Bonds | | 15,670,000 |
| Mirabella Series 2006AR Bonds | | 30,750,000 |
| Mirabella Series 2012 Bonds | | 81,440,000 |
| Stern Note Payable | | 641,915 |
| Capitol Lakes Series 2002 Bonds | | 5,730,000 |
| Capitol Lakes Series 2008A Bonds | | 15,210,000 |
| Capitol Lakes Series 2008B Bonds | | 26,705,000 |
| Capitol Lakes Series 2008C Bonds | | 5,775,000 |
| Middleton Glen Bonds | | 3,760,000 |
| Senior Housing of Middleton Glen Bonds | | 3,226,146 |
| CHC Mortgage Notes Payable | | 341,112 |
| Centennial Note Payable | | 10,725,068 |
| PRS Note Payable | | 1,559,523 |
| | | 504,167,701 |
| Add: Unamortized premium | | 3,683,088 |
| Current portion | | (9,972,923) |
| | $ | 497,877,866 |

***Trinity Terrace***

**Series 2011 revenue refunding bonds** – On December 29, 2011, the Tarrant County Cultural Education Facilities Finance Corporation (the "Issuer") issued $46,675,000 in Series 2011 Revenue Refunding Bonds, which were directly placed with Wells Fargo Bank, National Association. The Series 2011 Bonds were issued pursuant to an indenture by and between the Issuer and U.S. Bank National Association ("Bond Trustee"). On December 29, 2011, Trinity Terrace entered into a loan agreement with the Issuer and a Continuing Covenant Agreement with Wells Fargo Bank, National Association (the initial holder of the Series 2011 Bonds). The Series 2011 Bonds initially bear interest at 67% of the one-month LIBOR rate (67% of the one-month LIBOR was 0.103% at September 30, 2014) plus an applicable margin of 1.225% at September 30, 2014. The Series 2011 Bonds have a final maturity of August 15, 2036, but are subject to a five-year put provision on September 29, 2016.

The bond indenture agreement also contains provisions regarding the maintenance of certain covenants and financial ratios. Management believes that Trinity Terrace was in compliance with all provisions as of September 30, 2014.

***Rogue Valley Manor***

**Series 2013A fixed rate revenue refunding bonds** – On April 4, 2013, the Hospital Facilities Authority of the City of Medford, Oregon issued the Official Statement for a fixed rate financing to refinance its Series 2012 Bonds and redeem $15,000,000 of its Series 2007 Bonds. On April 11, 2013, the 2013A Bonds were issued in the amount of $60,200,000 with a maturity of October 2042.

**Series 2013B revenue refunding bonds** – On November 19, 2013, the Hospital Facilities Authority of the City of Medford, Oregon, issued $50,000,000 directly placed with Banc of America Public Capital Corp (the "Trustee"). The bonds initially bear interest at 67% of one-month LIBOR plus an applicable spread of 1.27%. On June 24, 2014, the applicable spread was decreased from 1.27% to 1.17%

The bonds were secured by a bond trust indenture between the Authority and the Trustee. The principal of, premium, if any, and interest on the bonds will be payable solely from the revenues pledged under the bond indenture, including (i) amounts payable under a loan agreement between the Authority and RVM, including payments made on an obligation issued by RVM under a master trust indenture to evidence and secure the loan by the Authority to RVM, and (ii) the funds established under the bond indenture.

RVM is subject to financial covenants on debt which include a debt service coverage ratio and minimum days of cash-on-hand requirement. Management believes that RVM was in compliance with both of these covenants as of and for the year ended September 30, 2014. RVM is also required to prepare comparative audited financial statements within 120 days of year end. RVM was in compliance with the 120 day requirement as of and for the year ended September 30, 2014. RVM obtained waivers dated December 12, 2014, from Bank of America for the comparative audited financial statement requirement since they weren't in compliance as of and for the year ended September 30, 2014.

CHC (RVM) has two mortgage notes with a total principal balance of $3,762,641 at September 30, 2014. The notes mature between November 2026 and June 2029. At September 30, 2014, the interest rates on the notes ranged from 4.43% to 9%. The mortgage notes to HUD are secured by all real and personal property of the individual HUD project facilities.

***University Retirement Community at Davis, Inc.***

**Series 2013 variable rate demand revenue refunding bonds** – On August 29, 2013, the Authority issued $33,708,000 Series 2013 Variable Rate Demand Revenue Bonds (Series 2013). The bonds were issued under and secured by an Indenture between the Authority and the Bond Trustee (U.S. Bank National Association). On August 29, 2013, URCAD entered into a loan agreement with the Authority and a Continuing Covenant Agreement with Bank of America (the initial holder of the bonds). The Series 2013 bonds, initially bore interest at 67% of the one-month LIBOR plus an applicable spread as defined in the Bond Indenture, are subject to ten-year call provisions beginning August 29, 2023, and matured based on the rate mode in effect on November 1, 2033. The interest rate payable to bond holders at September 30, 2014, was approximately 1.27%.

The bond agreements also contained provisions regarding the maintenance of certain covenants. Management believes that URCAD was in compliance with all provisions as of September 30, 2014.

***Holladay Park Plaza, Inc.***

**Series 2010 revenue refunding bonds** – On December 23, 2010, the Hospital Facilities Authority of Multnomah County, (the "Issuer") issued $14,460,000 in Series 2010 variable rate demand revenue refunding bonds. The bonds were issued pursuant to an indenture by and between the Issuer and U.S. Bank National Association ("Bond Trustee"). The Series 2010 Bonds are tax-exempt bank qualified bonds pursuant to IRC Section 265(c).

On December 23, 2010, HPP entered into a loan agreement with the Issuer and a credit agreement with Union Bank (the initial holder of the bonds). The Series 2010 Bonds shall initially bear interest at 65% of the one month LIBOR rate (.150% at September 30, 2014) plus an applicable margin of 1.376%. The Series 2010 Bonds are subject to a seven year put provision beginning on December 1, 2023, and mature on December 1, 2040. The proceeds of the Series 2010 Bonds were used to pay off the Series 2003 Bonds.

**Series 2013 revenue bonds** – On October 31, 2013, the Hospital Facilities Authority of Multnomah County, Oregon ("the Issuer") issued $14,138,000 in Variable Rate Demand Revenue Bonds, Series 2013A. The bonds were issued pursuant to an indenture by and between the Issuer and U.S. Bank National Association ("Trustee"). The purpose of the Series 2013A bonds is to finance, develop, construct and equip a 19 unit expansion commonly known as Holladay Place, certain improvements to HPP's existing facility and pay for certain costs of issuance of the Bonds.

On October 31, 2013, HPP entered into a Loan Agreement with the Issuer and a Credit Agreement with Union Bank (the purchase of the bonds). The Series 2013A bonds shall bear an initial rate of .3198% plus 65.01% of the sum of the one-month LIBOR rate plus the Applicable Margin or the Union Bank Reference Rate, provided however the reference rate option may not be elected for an interest period beginning after April 30, 2015. Interest is calculated based on the balance of construction disbursements drawn on the Series 2013A bonds for construction costs made by the Trustee.

The bond indenture agreement also contains provisions regarding the maintenance of certain covenants and financial ratios. Management believes that HPP was in compliance with all provisions as of September 30, 2014.

***Mirabella Portland***

**Series 2014A revenue refunding bonds –** On September 30, 2014, the Hospital Facilities Authority of Multnomah County, Oregon (the "Authority") issued $93,380,000 ("Series 2014A") of Revenue Refunding Bonds. The bonds were issued at a premium of $682,837 and bear interest at a fixed rate of 5.40%. The bonds are subject to redemptions, as scheduled, prior to final maturity in October 2049. The proceeds of the bonds were used to pay off the Series 2008 Variable Rate Demand Revenue Bonds.

The bonds were issued under and secured by a bond indenture between the Authority and the Bond Trustee (U.S. Bank National Association). The principal of and interest on the bonds are payable solely from revenues pledged under the bond indenture, including (i) amounts payable under a loan agreement between the Authority and Mirabella Portland, (ii) the funds established under the bond indenture and (iii) amounts drawn under any credit facility or liquidity facility supporting the bonds.

Redemptions are scheduled annually, with the first bond redemption due on October 1, 2015, for $910,000.

Mirabella Portland will be subject to financial covenants which include a debt service coverage ratio and a minimum days cash on hand requirement beginning next fiscal year.

***Cascade Manor***

**Series 2010 variable rate demand revenue refunding bonds –** On December 30, 2010, the Hospital Facilities Authority of the City of Medford, Oregon ("the Authority") issued $16,865,000 in Series 2010 variable rate demand refunding revenue bonds. The bonds were issued pursuant to an indenture by and between the Authority and U.S. Bank National Association (Bond Trustee). The Series 2010 Bonds are tax-exempt bank qualified bonds pursuant to IRC Section 265(c). On December 30, 2010, Cascade Manor entered into a loan agreement with the Authority and a Continuing Covenant Agreement with Wells Fargo Bank National Association (the initial holder of the bonds). The Series 2010 Bonds shall initially bear interest at 70% of the 1-month LIBOR rate (70% of the 1-motnh LIBOR rate was 0.108% at September 30, 2014) plus an applicable margin of 1.93%. The Series 2010 Bonds are subject to a five-year put provision beginning December 1, 2015, and mature based on the rate mode in effect on July 1, 2036. The proceeds of the Series 2010 Bonds were used to pay off the Series 2006 Bonds.

The Series 2010 bonds also contain provisions regarding the maintenance of certain covenants and financial ratios. Management believes Cascade Manor was in compliance with all provisions as of September 30, 2014.

***Mirabella***

**Stern note payable –** Mirabella entered into an agreement with Lela O. Stern as a part of the land purchase for Mirabella stipulating a payment of $4,000 per month of principal and interest to Ms. Stern from July 2006 to July 2031. The payments will be adjusted in July 2014, 2022, and 2030 for inflation, based on an inception present value of $660,000 and an interest rate of 4.96%.

**Series 2012 bonds –** On December 27, 2012, the Commission issued Series 2012 Bonds, consisting of $81,440,000 in Series 2012A fixed rate bonds and $7,800,000 in Series 2012C temporary fixed rate bonds pursuant to an Indenture Trust between the Washington State Housing Commission and U.S. Bank National Association (the "Trustee"). The proceeds of the bonds were used pursuant to a Mortgage Origination and Financing Agreement ("Loan Agreement") to (i) refund a portion of the outstanding Washington State Housing Finance Commission Variable Rate Demand Nonprofit Housing Revenue Series 2006A Bonds, (ii) fund the debt service reserve fund for the 2012A Bonds, (iii) reimburse Mirabella and pay for costs of the project, and (iv) pay the costs of issuing the bonds. The Series 2012A Bonds were issued in three tranches with interest rates that range from 6.00% to 6.75% and maturities that range from October 1, 2022 to October 1, 2047. The Series 2012C Bonds consist of term bonds with an interest rate of 5.00% and maturity date of October 1, 2017.

The Series 2012A Bonds are subject to optional redemption prior to maturity by the Commission at the direction of Mirabella in whole or in part on October 1, 2022, or any date thereafter, at the redemption price equal to the principal amount of such Series 2012A bonds to be redeemed, together with accrued interest to the redemption date. The Series 2012C Bonds are not subject to optional redemption prior to maturity.

In conjunction with the issuance of the Series 2012 Bonds the Commission refunded and retired $86,900,000 of the Series 2006A Bonds, and $30,750,000 of the Series 2006A bonds were restructured and reissued as Series 2006 AR Subordinate Bonds, which are secured by a Series 2006 AR subordinate note. Interest is accrued on the Subordinate Bonds pursuant to the terms of the Master Indenture and Supplemental Indenture No. 1, and is dependent on the total outstanding principal and accrued interest balance. The outstanding principal and accrued interest on the Series 2006 AR Bonds was $31,295,062 at September 30, 2014, which carried an interest rate of 1% as of September 30, 2014.

Effective December 27, 2012, in connection with the Series 2012 bond issuance, PRS executed a Liquidity Support Agreement. Under the terms of the agreement, PRS is obligated to advance Mirabella a maximum of $500,000 annually if, and to the extent that, Mirabella fails to maintain days cash on hand equal to the covenant level required in the bond documents. The Liquidity Support Agreement commences on October 1, 2014.

Included in current portion of assets restricted under bond indenture agreement is entrance fees collected, and transferred to the Entrance Fee Fund, that had yet to be used to redeem (pay down) the Series 2012C bonds. The balance of the Entrance Fee fund as of September 30, 2013, was $5,408,158. Further, Mirabella is obligated to use the first $7,800,000 of entrance fees to redeem the Series 2012C bonds of which $3,750,000 had yet to be redeemed as of September 30, 2013, as included in current portion of long-term debt in the combined statements of financial position. All Funds were redeemed as of September 30, 2014.

***Capitol Lakes***

**Series 2002 Wisconsin Health and Educational Facilities Authority (the "Authority") Variable Rate Demand Revenue Bonds ("Series 2002 Bonds")** – On April 2, 2002, the Authority issued $8,000,000 Series 2002 Bonds. The Series 2002 Bonds bear interest at a daily rate mode, determined by the remarketing agent, subject to rate mode changes in the future, with final maturity on March 1, 2025. At September 30, 2014, the applicable interest rate was 0.07%.

Under the Loan Agreement between Capitol Lakes and the Authority, (the "2002 Agreement"), all of the proceeds of the bonds were loaned to Capitol Lakes on the date of issuance of the Series 2002 Bonds. The Series 2002 Bonds are limited obligations of the Authority payable solely from the properties and funds pledged for repayment of the Series 2002 Bonds under the 2002 Agreement.

The 2002 Bonds are collateralized by pledged revenues and mortgages on land and buildings owned by Capitol Lakes. As additional security for the Series 2002 Bonds, the bonds are secured by a substitute, direct pay irrevocable letter of credit issued by KBC Bank. The 2002 Letter of Credit issued by KBC Bank was originally scheduled to expire on March 15, 2013, but was subsequently extended to March 15, 2016 (see Note 21). At September 30, 2014, the fee associated with the letter of credit was 2.50%.

**Series 2008 Wisconsin Health and Educational Facilities Authority ("the Authority") Variable Rate Demand Revenue Bonds ("Series 2008 Bonds")** – On April 1, 2008, the Authority issued $51,575,000 Series 2008 Bonds. The Series 2008 Bonds were issued in three series: the 2008A Bonds for $15,210,000 (tax exempt), the 2008B Bonds for $29,380,000 (tax exempt), and the 2008C Bonds for $6,985,000 (taxable). The Series 2008 Bonds bear interest at a weekly rate mode, determined by the remarketing agent, subject to rate mode changes in the future. Final maturity for the Series 2008A and 2008B Bonds is on March 1, 2038, and for the Series 2008C Bonds it is on March 1, 2029. At September 30, 2014, the interest rate payable to bondholders on the tax exempt bonds was 0.14%. At September 30, 2014, the interest rate payable to bondholders on the taxable bonds was 0.14%.

Under the Loan Agreement between Capitol Lakes and the Authority (the "2008 Agreement"), all of the proceeds of the bonds were loaned to Capitol Lakes on the date of issuance of the Series 2008 Bonds. The Series 2008 Bonds are collateralized by a first lien mortgage and security interest in the facilities of Capitol Lakes, the Debt Service Reserve Fund as defined in the bond indenture agreements, and a security interest in the gross revenues of Capitol Lakes. As additional security for the Series 2008 Bonds, payments of principal and interest on, and the purchase price of the Series 2008 Bonds will be initially supported by three separate direct pay irrevocable letters of credit issued in favor of the related bond trustee (U.S. Bank National Association) pursuant to two separate reimbursement agreements. KBC Bank issued the letters of credit for the Series 2008A Bonds and the Series 2008C Bonds. Santander Bank issued the letter of credit for the Series 2008B Bonds. The stated expiration date of the letters of credit was March 15, 2013, but was subsequently extended to March 15, 2016, and is subject to further extensions at the discretion of KBC and Santander Bank upon request of Capitol Lakes (see Note 21). At September 30, 2014, the fee associated with each letter of credit was 2.50%.

**Amendments and waivers** – On May 1, 2011, Capitol Lakes entered in the Second Amendment to the Reimbursement Agreements (the "Second Amendment"). Among other modifications, the Second Amendment provided historical covenant default waivers through March 31, 2011, modified definitions, and provided favorable modifications to future covenant levels. In addition, the Second Amendment required Capitol Lakes to use excess bond proceeds to pay down $1,710,000 of aggregate principal of the bonds by July 1, 2011.

On June 1, 2012, Capitol Lakes entered into the Third Amendment to the Reimbursement Agreements (the "Third Amendment"). Among other modifications, the Third Amendment provided historical covenant default waivers through March 31, 2012, and provided favorable modifications to future covenant levels. In addition, the Third Amendment required Capitol Lakes to amend its Management Agreement with PRS to defer repayment of a portion of the management fee, without interest, until the letters of credit are terminated and all bank obligations are paid in full.

The Series 2008 Bonds are variable rate demand bonds that are guaranteed by liquidity facilities (principally letters of credit). Under the terms of those liquidity facilities, the holder of those facilities has the right to accelerate the amount due in certain circumstances. Management considers the likelihood of these circumstances being invoked to be remote and has, therefore, classified this debt as current and noncurrent based upon the scheduled repayment terms of the related liquidity facilities, if draws were to occur.

***Middleton Glen and Senior Housing***

The Wisconsin Health and Educational Facilities Authority issued $6,065,000 of Revenue Bonds on October 1, 1998 ("Series 1998 Bonds"). On the same date, the Wisconsin Health and Educational Facilities Authority loaned the bond proceeds to Middleton Glen. The loan proceeds were used to finance the acquisition and construction of Middleton Glen's facilities. The bonds are secured by Middleton Glen's facilities, equipment, and lease agreements. The bonds mature on October 1, through the year 2028. At September 30, 2014, the interest rate on the bonds was 5.75%.

The Wisconsin Health and Educational Facilities Authority issued $4,970,000 of Revenue Bonds on April 1, 2001 (Series 2001 Bonds). On the same date, the Wisconsin Health and Educational Facilities Authority loaned the bond proceeds to Senior Housing. The loan proceeds were used to finance the acquisition and construction of Senior Housing's facilities. The bonds are secured by Senior Housing's facilities, equipment, and lease agreements. The bonds mature through April 1, 2030. At September 30, 2014, the interest rate on the bonds was 3.75%.

The Series 2001 Bonds contain an option to the owner of the bond to tender the bonds on April 1, 2012. On December 31, 2014, Senior Housing entered into an Extension and Modification Agreement (the "Agreement") with the Trustee. Among other modifications, the Agreement deferred the optional tender of the bonds to December 31, 2016.

The bond indenture agreements contain provisions regarding the maintenance of certain covenants and financial ratios. Management believes that Senior Housing of Middleton Inc., and Capitol Lakes were in compliance with all provisions as of September 30, 2014. Capitol Lakes is also required to prepare comparative audited financial statements within 120 days of year end. Capitol Lakes obtained waivers dated January 28, 2015 and January 29, 2015, respectively, from KBC Bank and Santander Bank, for the comparative audited financial statement requirement since they weren't in compliance as of and for the year ended September 30, 2014.

Middleton Glen is not in compliance with their debt service coverage ratio requirement as of November 30, 2014. In accordance with the provisions of the Loan Agreement, management is in the process of hiring a consultant to cure this covenant violation.

***CHC Mortgage Notes Payable***

CHC has two mortgage notes with a total principal balance of $341,112 at September 30, 2014. The notes mature between December 2015 and August 2035. At September 30, 2014, the interest rates on the notes ranged from 7% to 8.75%. The mortgage notes to HUD are secured by all real and personal property of the individual HUD project facilities.

***Centennial Note Payable***

Centennial entered into a loan agreement with AmericanWest Bank, formerly Premier West Bank, on October 17, 2006, to consolidate prior loans related to the Centennial golf course. The note matures on October 17, 2016. At September 30, 2014, the interest rate on the note was 7.41%. The Centennial note payable is guaranteed by PRS Management & Consulting Inc.

***PRS Note Payable***

In 2005, PRS entered into a tax-exempt note payable in the amount of $2,100,000 through The Hospital Facilities Authority of the City of Medford, Oregon. On October 15, 2012, this agreement was modified removing the tax-exempt status and modifying the interest rate to a fixed rate of interest equal to 4.75%. The note is through AmericanWest Bank, formerly Premier West Bank, with final maturity on April 5, 2015. PRS was in compliance with all provisions of the note as of September 30, 2014.

Aggregate scheduled mandatory maturities of long-term debt are as follows:

| Year Ending September 30, | | |
|---|---|---|
| 2015 | $ | 9,972,923 |
| 2016 | | 11,757,847 |
| 2017 | | 20,893,534 |
| 2018 | | 9,800,867 |
| 2019 | | 10,236,388 |
| Thereafter | | 441,506,142 |
| Add: unamortized premium | | 3,683,088 |
| | $ | 507,850,789 |

**NOTE 10 – INTEREST RATE SWAP AND CAP AGREEMENTS**

***Rogue Valley Manor***

On November 24, 2008, RVM entered into a contract for a fixed-pay interest rate swap with Deutsche Bank. This interest rate swap has a trade date and an effective date of November 24, 2008, and a termination date of August 15, 2031. It was entered into for the benefit of RVM to manage interest rate risk on its variable rate bonds; however it is not being accounted for as an effective hedge.

Under this interest rate swap agreement, RVM agrees with other parties to pay, at specified intervals, the fixed rate of 3.80%, while receiving the variable rate of 65% of the three-month LIBOR interest according to the outstanding notional principal amount. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement at September 30, 2014, was $26,162,500.

***University Retirement Community at Davis, Inc.***

On November 1, 2005, URCAD entered into a contract for a fixed pay interest rate swap for a variable rate (the original transaction) with Merrill Lynch (Counterparty). This interest rate swap has a trade date of September 7, 2005, an effective date of November 1, 2005, and a termination date of November 15, 2030. It was entered into for the benefit of URCAD to manage interest rate risk on its variable rate bonds; however, it is not being accounted for as an effective hedge.

Under this interest rate swap which had a $45,085,000 original notional amount, URCAD agrees with other parties to pay, at specified intervals, the fixed-rate of 3.2%, while receiving the variable-rate interest of 67% of the 3-month LIBOR (67% of 3-month LIBOR was approximately 0.16% at September 30, 2014) according to the outstanding notional principal amount. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement was $34,610,000 at September 30, 2014. This interest rate swap agreement will help URCAD manage its interest rate risk on its variable debt.

***Mirabella Portland***

On January 24, 2008, Mirabella Portland entered into a contract for a fixed pay interest rate swap. This interest rate swap agreement has a trade date of January 24, 2008, an effective date of June 1, 2008, and a termination date of June 1, 2015. The contract was entered into for the benefit of Mirabella Portland to manage interest rate risk on the Series 2008 Bonds; however, it is not being accounted for as an effective hedge.

Under this interest rate swap agreement, which had a $200,000,000 original notional amount, Mirabella Portland agrees with other parties to pay, at specified intervals, the fixed-rate of 2.598%, while receiving the variable-rate of 67% of the 1-month LIBOR according to the outstanding notional principal amount. The effect of this interest rate swap agreement was to reduce Mirabella Portland's exposure to fluctuating interest rates. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement was $103,406,000 at September 30, 2013. The interest rate swap agreement was terminated as of September 30, 2014, and a gain on termination of interest rate swap was recognized in the combined statement of activities and changes in net assets (deficit) of $2,001,631.

***Capitol Lakes***

On April 1, 2008, Capitol Lakes entered into contracts for fixed pay interest rate swaps for a variable rate. These interest rate swaps have a trade and effective date of April 1, 2008, and a termination date of March 1, 2020. The contracts were entered into for the benefit of Capitol Lakes to manage interest rate risk on the 2008 Bonds; however, they are not being accounted for as effective hedges.

**Series 2008C Bonds** – Under this interest rate swap agreement, which had a $6,985,000 original notional amount, Capitol Lakes agrees with other parties to pay, at specified intervals, the fixed rate of 4.365%, while receiving the variable rate of the 1-month LIBOR (0.15% at September 30, 2014) according to the outstanding notional principal amount. The effect of this interest rate swap is to reduce Capitol Lakes' exposure to fluctuating interest rates. The outstanding notional principal amount decreases during the term of the swap. The outstanding notional amount under the interest rate swap agreement was $6,485,000 at September 30, 2014.

**Series 2008A/B Bonds** – Under this interest rate swap agreement, which had a $47,284,375 original notional amount, Capitol Lakes agrees with other parties to pay, at specified intervals, the fixed-rate of 3.005%, while receiving the variable-rate of 67% of the 1-month LIBOR according to the outstanding notional principal amount. The effect of this interest rate swap is to reduce Capitol Lakes' exposure to fluctuating interest rates. The outstanding notional principal amount changes according to the amortization schedule. The outstanding notional amount under the interest rate swap agreement was $48,935,000 at September 30, 2014.

***Trinity Terrace***

On December 28, 2006, Trinity Terrace entered into a contract with Morgan Stanley ("counterparty") for a fixed pay interest rate swap. This interest rate swap has a trade date and an effective date of December 14, 2006, and a termination date of August 15, 2036. It was entered into for the benefit of Trinity Terrace to manage interest rate risk on its variable rate bonds; however, it is not being accounted for as an effective hedge.

Under this interest rate swap agreement which had a $48,276,850 original notional amount, Trinity Terrace agrees to pay, at specified intervals, the fixed rate of 3.47%, while receiving the variable-rate interest of 67% of the 1-month LIBOR. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement was $19,554,150 at September 30, 2014.

***Cascade Manor***

On December 30, 2010, Cascade Manor entered into a contract for a fixed pay interest rate swap with Wells Fargo Bank ("Counterparty"). This interest rate swap has a trade date of December 30, 2010, an effective date of February 1, 2011, and a termination date of December 1, 2015. It was entered into for the benefit of Cascade Manor, to manage interest rate risk on the Series 2010 Bonds; however, it is not being accounted for as an effective hedge.

Under this interest rate swap agreement which has an initial notional amount of $12,648,750, Cascade Manor agrees to pay, at monthly intervals, the fixed rate of 1.756% per annum, while receiving the variable rate interest of 70% of the 1-month LIBOR applied to the outstanding notional principal amount. The outstanding notional principal amount decreases ratably with scheduled annual principal payments. The outstanding notional amount under the interest rate swap agreement was $11,752,500 at September 30, 2014.

***Holladay Park Plaza, Inc.***

On August 11, 2011, HPP entered into an interest rate cap agreement with the Commonwealth Bank of Australia ("Counterparty"). This interest rate cap has a trade date and an effective date of August 11, 2011, and a termination date of December 1, 2017. It was entered into for the benefit of HPP, to manage interest rate risk on a portion of the Series 2010 Bonds.

Under this interest rate cap agreement which has an initial notional amount of $7,230,000, HPP agreed to pay an upfront premium of $56,000 to the Counterparty in return for interest rate protection if 65% of the 1-month LIBOR rate exceeds 3.45% (strike price) during the term of the contract. If 65% of the 1-month LIBOR rate exceeds 3.45% for a given month (reset the beginning of each month), HPP will receive a payment from the Counterparty equal to the difference by which 65% of the 1-month LIBOR rate exceeds the strike price, effectively capping the interest rate risk associated to approximately half of the Series 2010 Bonds. The outstanding notional amount decreases annually. The outstanding notional amount under the interest rate cap agreement was $6,780,000 at September 30, 2014.

## NOTE 11 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

The Organization classifies as temporarily restricted net assets that are restricted by time or purpose.

Temporarily restricted net assets at September 30, 2014, consisted of the following:

| | | |
|---|---|---|
| RVM - Section 202, Capital Advance Program | $ | 42,588,906 |
| Trinity Terrace - other funds | | 33,552,328 |
| CHC - Section 202, Capital Advance Program | | 20,306,655 |
| Rogue Valley Manor - other funds | | 3,484,432 |
| HPP - Residents' Assistance Trust | | 1,618,729 |
| Cascade Manor - Foundation | | 745,724 |
| Capitol Lakes Foundation | | 372,435 |
| HPP - Foundation | | 179,015 |
| Others | | 277,085 |
| | $ | 103,125,309 |

The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to net assets.

Permanently restricted net assets at September 30, 2014, consisted of the following:

| | | |
|---|---|---|
| Trinity Terrace - other funds | $ | 11,603,666 |
| RVM Foundation | | 1,366,819 |
| HPP - Endowment Fund | | 500,000 |
| HPP - Foundation | | 232,739 |
| Capitol Lakes - Foundation | | 76,327 |
| | $ | 13,779,551 |

Net assets released from temporary restrictions for the year ended September 30, 2014, comprised of the following:

| | | |
|---|---|---|
| Funds released from assets held in trust | $ | 2,169,246 |
| Resident assistance fund | | 621,215 |
| Medical transport fund | | 177,160 |
| Health Center fund | | 138,224 |
| Employee scholarships / development | | 113,474 |
| Affiliates | | 96,415 |
| Special Care / Memory Care fund | | 69,428 |
| Fairy Godmother fund | | 66,700 |
| Miscellaneous other funds | | 53,410 |
| Other employee support | | 33,327 |
| Other funds | | 21,500 |
| Cultural / spiritual enrichment | | 9,269 |
| Community outreach | | 5,764 |
| Activities | | 2,525 |
| Total temporary net assets released from restrictions | $ | 3,577,657 |

### NOTE 12 – OTHER REVENUE

Other revenue as of September 30, 2014, consisted of the following:

| | | |
|---|---|---|
| Urban housing and development operations | $ | 6,441,900 |
| Golf course operations | | 2,263,647 |
| Food and beverage (catering, additional meals) | | 2,455,662 |
| Facility services | | 1,056,931 |
| Pharmacy | | 1,272,151 |
| Home care | | 2,320,629 |
| Media/marketing services | | 533,063 |
| Other medical services | | 1,436,356 |
| Other miscellaneous items | | 3,104,146 |
| | $ | 20,884,485 |

### NOTE 13 – THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

For the year ended September 30, 2014, approximately 47% of health center revenue was derived under federal third party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. In the opinion of management, retroactive adjustments, if any, would not be material to the combined financial position, the combined activities and changes in net assets (deficit), or combined statement of cash flows of the Organization.

### NOTE 14 – RETIREMENT PLANS

The Organization has various defined contribution employee benefit plans which provide retirement benefits to employees of Pacific Retirement Services, Inc. and certain affiliates. Contributions to the plans are determined by reference to each Plan. Total contributions charged to expense for the plans for the year ended September 30, 2014, was $3,251,309.

### NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 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 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 maybe 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 active 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 investment 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 combined statement of financial position at September 30, 2014, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Cash and cash equivalents –** Cash and cash equivalents approximate fair value due to the short maturity of such instruments, and include those held in bond sinking funds and held for refundable deposits.

**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, exchange traded equities and mutual funds, debt securities and fixed income 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 values. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

**Oil and gas mineral rights** – The Organization has interest in several trusts that contain oil and gas mineral rights. The values of the oil and gas lease interests were estimated based on a multiplier of annual net revenue. Significant increases (decreases) in the annual net revenue would significantly increase (decrease) the estimated fair value measurement.

**Interest rate swap and cap agreements** – The interest rate swap and cap agreements' fair value are based upon current settlement values, quoted market prices of comparable instruments, or, if there are no relevant comparables, on pricing models or formulas using current assumptions and are classified within Level 2 of the hierarchy.

**Gift annuities** – The gift annuities receivable value is based on life expectancy tables and an assumed rate of return of 4% and are classified within Level 2 of the hierarchy.

**Assets restricted under bond indenture agreement** – Asset restricted under bond indenture agreement consist of cash and cash equivalents, classified within Level 1 of the valuation hierarchy.

**Long-term debt** – The fair value of long-term debt is based on quoted market prices in an active market (Level 1), except for $164,217,202 at September 30, 2014, which was estimated using discounted cash flows analyses based on current incremental borrowing rates for similar debt instruments (Level 3). At September 30, 2014, the fair value of long-term debt was $516,900,658.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 27,540,841 | $ 874,903 | $ - | $ 28,415,744 |
| Domestic equity | | | | |
| Small-cap | 1,010,756 | - | - | 1,010,756 |
| Mid-cap | 3,084,690 | - | - | 3,084,690 |
| Large-cap | 27,115,612 | - | - | 27,115,612 |
| Fixed income | | | | |
| Asset backed securities | 14,070,838 | - | - | 14,070,838 |
| Corporate bonds and notes | 25,323,678 | - | - | 25,323,678 |
| Closed end funds | 369,523 | - | - | 369,523 |
| Holding | 1,394,819 | - | - | 1,394,819 |
| Mutual funds | 772,681 | - | - | 772,681 |
| Municipal securities | 71,642 | - | - | 71,642 |
| U.S. government securities | 45,375,261 | - | - | 45,375,261 |
| Mutual funds | | | | |
| Equities | 45,149,838 | - | - | 45,149,838 |
| Fixed income | 28,989,026 | - | - | 28,989,026 |
| Other | 19,991,427 | - | - | 19,991,427 |
| Nontraditional | 9,824,176 | - | - | 9,824,176 |
| Oil and gas mineral rights | - | - | 36,965,227 | 36,965,227 |
| Gift annuity receivable | - | 130,747 | - | 130,747 |
| Interest rate cap agreement | - | 2,045 | - | 2,045 |
| Total assets | $ 250,084,808 | $ 1,007,695 | $ 36,965,227 | $ 288,057,730 |
| Liabilities: | | | | |
| Interest rate swap agreement | $ - | $ 16,377,676 | $ - | $ 16,377,676 |

The following table reconciles the beginning and ending balances of recurring fair value measurements for significant unobservable (Level 3) inputs:

| | | |
|---|---|---|
| Balance at October 1, 2013 | $ | 23,275,622 |
| Total net realized and unrealized gains included in earnings | | 15,601,769 |
| Contributions | | - |
| Distributions | | (1,912,164) |
| Balance at September 30, 2014 | $ | 36,965,227 |

Quantitative information on significant unobservable inputs on Level 3 investments is summarized as follows:

| Investments | Valuation techniques | Unobservable input | Range (weighted average) |
|---|---|---|---|
| Oil and gas mineral rights | Multiples of cash flow | Annual net revenue multiplier | 5 - 12 (7) |

The Board of Directors, in conjunction with the external investment advisors and management, monitors and analyzes the valuation of the investments on a quarterly basis. The valuations consider variables such as financial performance of several publicly traded companies in the oil and gas market, recent sales prices of investments, and other pertinent information.

Short-term investments consisted of the following at fair value at September 30, 2014:

| | | |
|---|---|---|
| Cash and cash equivalents including amounts held for investment purposes | $ | 28,415,744 |
| Equity, fixed income, mutual funds investments | | 222,543,967 |
| Oil and gas mineral rights | | 36,965,227 |
| Others | | 132,792 |
| Total | | 288,057,730 |
| Less asset restricted by bond indenture | | (41,230,252) |
| Less long-term investments | | (4,479,518) |
| Less assets held in trust | | (43,727,008) |
| Less restricted cash and resident deposits | | (4,860,912) |
| Less gift annuity receivable & interest cap agreement | | (132,792) |
| Total short-term investments | $ | 193,627,248 |

## NOTE 16 – CAPITAL ADVANCES ON HUD PROJECTS

CHC has obtained capital advances from HUD. The capital advances bear no interest and are not required to be repaid so long as the housing offered by CHC remains available to eligible low income households for a period of 40 years in accordance with Section 202 of the National Housing Act of 1959. The capital advances are secured by mortgages on CHC's properties and constitutes a valid first lien on CHC's property improvements. The capital advances have been classified as temporarily restricted net assets.

## NOTE 17 – CONTINGENT LIABILITIES

The Organization's net assets include a contingent liability that was the result of terminating Mirabella's fixed pay interest rate swap with Lehman Brothers Special Financing Inc. ("LBSF"). On October 3, 2008, LBSF filed for Chapter 11 bankruptcy which constituted an Event of Default under International Swaps and Derivatives Association ("ISDA") master agreement (the "Master Agreement") between LBSF and Mirabella. In accordance with the terms of the Master Agreement, Mirabella, as the non-defaulting parties in connection with the early termination took certain steps to terminate the interest rate swap agreement and calculate the associated termination value. One of those steps was to solicit actionable quotations from certain reference market-makers for replacement transactions to the interest rate swap agreement.

The Master Agreement with LBSF was terminated on November 24, 2008. The theoretical mid-market value of the liability relating to the interest rate swap agreement on the termination date was $7,782,621. This theoretical value was obtained from an independent third party organization, but does not reflect actionable quotations, which could not be obtained. On the termination date, quotations for replacement transactions to the interest rate swap agreements were solicited from ten reference market-makers, none of which provided an actionable quotation. Since no reference market-makers provided an actionable quotation, management, in coordination with its financial advisor, determined that the early termination value of the interest rate swap agreement was zero. Due to the number of variables and assumptions involved in assessing the possible outcome of any dispute by LBSF of the early termination amount calculated by Mirabella in any proceedings linked to LBSF's bankruptcy, the contingency relating to the early termination of the interest rate swap agreement has been measured by Mirabella in accordance with accounting guidance on contingencies. This guidance states that contingencies that result in gains are not reflected in the accounts since to do so might be to recognize revenue prior to its realization. As a result, Mirabella maintains a liability in connection with the potential gain contingency relating to the early termination of the interest rate swap agreement. The long-term liability at September 30, 2014, was $7,782,621, which was the theoretical mid-market value at the date of termination assuming quotations could be received upon solicitation.

On March 25, 2011, LBSF submitted an alternative dispute resolution ("ADR") notice to Mirabella, asserting that Mirabella owes LBSF certain termination damages in connection with the terminated interest rate swap agreements transaction. The ADR notice was submitted pursuant to procedures established by the Bankruptcy Court in connection with the LBSF bankruptcy filing. The ADR procedures provide that, in the event the parties do not agree on a settlement amount, mandatory mediation is scheduled. On May 16, 2011, Mirabella submitted its response to LBSF's ADR notice, disputing LBSF's arguments and claims and declining the payment demand made by LBSF. On May 31, 2011, LBSF submitted its reply in connection with the ADR notice. On September 9, 2011, LBSF and Mirabella participated in mandatory mediation; no agreement to settle was reached. On August 25, 2014, Lehman Brothers Holdings, Inc., in its capacity as Plan Administrator on behalf of LBSF, filed an Adversary Proceeding Complaint against Mirabella in the United States Bankruptcy Court for the Southern District of New York. An answer has been filed on behalf of Mirabella, and the parties entered into a stipulated Scheduling Order and Discovery Plan on December 31, 2014. Mirabella intends to vigorously defend its position in the pending litigation.

## NOTE 18 – COMMITMENTS AND CONTINGENCIES

The Organization is party to various claims and legal actions in the normal course of business. In the opinion of management, the Organization has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the combined financial position of the Organization.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Organization. The effect of the changes that will be required in future years are not determinable at this time.

On October 30, 2013, Holladay Park Plaza entered into a construction contract with Turner Construction Company for the sum of $12,580,206 for the expansion project known as Holladay Place. As of September 30, 2014, the remaining balance on the contract to finish the expansion project was $1,658,352.

As disclosed in Note 5, pursuant to One West Main, LLC's construction loan agreement, PRS entered into a guarantee agreement dated September 11, 2014, with the construction loan lender, up to a maximum of $6,240,000 plus 39% of interest and other fees.

RVMHC and CHC operate 25 apartment complexes with a total of 1,095 units. The Facility's operations are concentrated in the multifamily real estate market. In addition, the Facility operates in a heavily regulated environment. The operations of the Facility are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

## NOTE 19 – OREGON STATE RESERVE REQUIREMENTS

In accordance with Oregon Revised Statues Chapter 101.060(1), RVM, Cascade Manor, HPP and Mirabella Portland must maintain a debt service liquid reserve (as defined) in an amount exceeding the total of all principal and interest payments due during the next 12 months as well as an operating liquid reserve (as defined) in an amount equal to or exceeding the total projected operating expenses for three months. At September 30, 2014, management believes RVM, Cascade Manor, HPP and Mirabella Portland were in compliance with these reserve requirements.

## NOTE 20 – RESTATEMENT OF BEGINNING NET ASSETS

*Classification of Section 202 Capital Advance Programs in RVMHC and CHC*

Management has elected to change the classification of the Section 202 Capital Advance Program in several of the RVMHC and CHC entities from unrestricted net assets to temporarily restricted net assets, to reflect common practice within the industry. Management believes this change provides the users of the combined financial statements with better transparency into the Organization's obligations under the Section 202 Capital Advance Program as disclosed in the footnotes to the combined financial statements. As a result, combined beginning unrestricted net assets and temporarily restricted net assets as of October 1, 2013, have decreased and increased, respectively, by $62,895,561.

*Middleton Glen and Senior Housing Entrance Fee Board Adjustment Valuation Liability*

Beginning net deficit for Middleton Glen, Inc. and Senior Housing of Middleton, Inc. as of October 1, 2013, were restated to reflect errors in the treatment of entrance fee board valuation adjustment liability. As a result, beginning net deficit for Capitol Lakes was increased in the amount of $716,446.

## NOTE 21 – SUBSEQUENT EVENTS

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

The Organization evaluated all events or transactions that occurred after September 30, 2014, up through February 13, 2015, the date the combined financial statements were available to be issued. During fiscal year 2015, certain of the Organization's corporations refinanced or entered into amendments to their then outstanding bonds or had other significant events occur:

*Rogue Valley Manor*

During the fiscal year ended September 30, 2014, RVM board of directors voted to transfer the 16 affordable housing communities that they are currently the sole member to PRS. Subsequently, during the fiscal year ended September 30, 2014, the PRS board of directors voted to accept these communities and become the sole member of these corporations. Management is in the process of making the appropriate changes to the articles and bylaws along with requesting the appropriate HUD approvals in order to transfer the sole membership to PRS as requested by RVM. Management expects this process to be completed by September 30, 2015.

*Trinity Terrace*

**Series 2014 Tax Exempt Loan** – On December 18, 2014, Tarrant County Cultural Education Facilities Finance Corporation issued a loan directly placed with Compass Mortgage Corporation. The loan initially bears interest at 65.01% of LIBOR plus an applicable margin of 1.80%. Interest is calculated based on the balance of disbursements drawn on the Series 2014 loan for costs of the project.

**Series 2014 A revenue bonds** – On December 18, 2014, Tarrant County Cultural Education Facilities Finance Corporation issued $82,640,000 ("Series 2014A") of Revenue Bonds. The bonds were issued at a premium of $4,102,084 and bear interest at an average coupon of 4.91%. The bonds are subject to redemptions, as scheduled, prior to final maturity in October 2049.

**Stonestreet trust release** – On October 1 2014, U.S. Trust, the trustee of Stonestreet trust, distributed equal shares of all mineral rights to the beneficiaries, Trinity Terrace and All Church Home for Children. The impact of this distribution moves those mineral assets which were valued at $25,713,786 as of September 30, 2014, from temporarily restricted to unrestricted.

**Oil prices** – Subsequent to September 30, 2014, the price of oil has fallen from the high $90s to the low $50s, a decrease of nearly 50%. With this drop of oil prices, this directly impacts the revenues of Trinity Terrace's mineral rights as they earn a percentage of earnings based on the sale price of the oil which may reduce these assets in future months. Management does not believe the current drop has impaired the fair value of the mineral rights as discussed in Note 15.

*Cascade Manor*

**Series 2014 revenue refunding bonds** – On October 15, 2014, the Hospital Facilities of the City of Medford, Oregon, issued $33,842,000 of Series 2014 revenue refunding bonds directly placed with Compass Mortgage Corporation. The bonds initially bear interest at 65.01% of one-month LIBOR plus an applicable spread of 1.65%.

On October 10, 2014, Cascade Manor entered into an agreement with Wells Fargo Bank to terminate the interest rate swap agreement with an effective date of February 1, 2011. The termination date is December 1, 2015. Cascade Manor paid termination fees in the amount of $214,300 by October 15, 2014.

On November 13, 2014, Cascade Manor entered into an interest rate cap agreement with the Commonwealth Bank of Australia for a notional amount of $10,000,000. This interest rate cap has a trade date and an effective date of November 13, 2014, and a termination date of October 15, 2022. The agreement was entered into for the benefit of Cascade Manor, to manage interest rate risk on the Series 2014 bonds. Interest rate protection occurs if 65% of the one-month LIBOR rate exceeds 4.00%.

*Holladay Park Plaza*

**HPPRAT dissolution and termination** – On October 16, 2014, and October 23, 2014, the boards of directors of HPP and HPPF, respectively, approved receipt by HPPF of the assets of HPPRAT upon its dissolution. Such assets shall be applied in a manner that benefits the impoverished residents of HPP, consistently with the charitable purposes of HPPF.

*Capitol Lakes*

Subsequent to September 30, 2014, on December 31, 2014, Senior Housing entered into an Extension and Modification Agreement (the "Agreement") with the Trustee. Among other modifications, the Agreement deferred the optional tender of the bonds to December 31, 2016.

On January 29, 2015, Capitol Lakes received waivers from Santander Bank and KBC Bank, for the comparative audited financial statement requirement as of September 30, 2014, as well as the letter of credit extension through March 15, 2016.

*PRS*

Roxy Ann Peak, LLC and Umpqua Bank plan to enter into a term loan agreement, to finance the cost of acquisition of office space located at 1 West Main in Medford, Oregon. The loan amount is $5.7 million, with an interest rate of 4.25%. The loan has a ten year term, with a 25 year principal amortization. Periodic financial reporting and financial compliance calculations, including a debt service coverage ratio are required.

# SUPPLEMENTARY INFORMATION

| | Pacific Retirement Services, Inc. | PRS Management Inc. | Rogue Valley Manor | The Cumberland Rest, Inc. | Cascade Manor, Inc. | Holladay Park Plaza, Inc. | University Retirement Community at Davis, Inc. | Mirabella |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | $ 3,055,451 | $ 351,472 | $ 5,376,432 | $ 1,369,662 | $ 3,874,467 | $ 3,739,936 | $ 1,851,693 | $ 5,988,704 |
| Restricted cash | 300,000 | - | - | - | - | - | - | - |
| Investments | 3,659,511 | 561,671 | 88,681,353 | 39,000,868 | 6,213,043 | 12,644,006 | 31,681,453 | 388,702 |
| Accounts receivable, net | 54,168 | 553,688 | 1,538,011 | 423,048 | 441,350 | 741,967 | 487,479 | 715,624 |
| Supplies and prepaid expenses | 320,386 | 319,466 | 1,092,998 | 283,833 | 224,669 | 208,607 | 315,333 | 507,762 |
| Current portion of assets restricted under bond indenture agreements | - | - | - | 45,195 | 400,561 | 34,847 | 121,681 | 8,916,988 |
| Current portion of assets held in trust | - | - | - | 3,192,746 | - | - | - | - |
| Other current assets | - | - | - | - | - | - | - | 51,359 |
| Due from affiliates | 1,495,960 | 152,272 | - | - | - | - | - | - |
| Total current assets | 8,885,476 | 1,938,569 | 96,688,794 | 44,315,352 | 11,154,090 | 17,369,363 | 34,457,639 | 16,569,139 |
| Property and equipment, net | 346,783 | 13,949,537 | 161,082,891 | 53,665,964 | 21,593,534 | 39,505,823 | 49,943,654 | 202,121,528 |
| Due from affiliates | 29,610,970 | 447,800 | - | - | - | - | - | - |
| Investment in affiliates | 4,506,059 | - | - | - | - | - | - | - |
| Other assets: | | | | | | | | |
| Assets held for sale | 1,612,992 | - | - | - | - | - | - | - |
| Assets held in trust | - | - | - | 40,523,565 | - | - | - | - |
| Restricted cash | - | - | - | - | - | - | - | - |
| Long-term investments | - | - | - | 1,350,674 | - | 3,128,844 | - | - |
| Assets restricted under bond indenture agreements, net of current portion | - | - | 7,362,983 | - | - | - | - | 10,055,390 |
| Bond issue and other financing costs, net | 3,012 | 28,225 | 2,076,171 | 986,945 | 335,603 | 779,858 | 450,012 | 3,571,267 |
| Restricted deposits | - | - | 3,457,003 | - | - | - | - | - |
| Other noncurrent assets | 868,375 | 581,559 | 460,555 | 50,907 | - | 9,570 | 4,954 | 1,029,719 |
| Beneficial interest in net assets of foundation | - | - | - | - | - | - | - | - |
| Notes receivable from affiliate | 5,258,345 | - | - | - | - | - | - | - |
| Total other assets | 7,742,724 | 609,784 | 13,356,712 | 42,912,091 | 335,603 | 3,918,272 | 454,966 | 14,656,376 |
| Total assets | $ 51,092,012 | $ 16,945,690 | $ 271,128,397 | $ 140,893,407 | $ 33,083,227 | $ 60,793,458 | $ 84,856,259 | $ 233,347,043 |

| | Capitol Lakes, Inc. | Community Housing Corporations | Community Volunteer Network | Mirabella at South Waterfront | Crest Park Incorporated | Eliminations/ Reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $ 7,165,013 | $ 72,053 | $ 50,716 | $ 5,476,126 | $ 1,651,748 | $ - | $ 40,023,473 |
| Restricted cash | - | - | - | - | - | - | 300,000 |
| Investments | 4,732,120 | - | - | 6,064,521 | - | - | 193,627,248 |
| Accounts receivable, net | 2,267,099 | 12,239 | 43,850 | 1,054,934 | - | - | 8,333,457 |
| Supplies and prepaid expenses | 702,498 | 39,685 | 2,680 | 310,474 | 1,557 | - | 4,329,948 |
| Current portion of assets restricted under bond indenture agreements | 3,344 | - | - | 3,768,650 | - | - | 13,291,266 |
| Current portion of assets held in trust | - | - | - | - | - | - | 3,192,746 |
| Other current assets | - | - | - | - | - | - | 51,359 |
| Due from affiliates | - | - | - | - | - | (1,648,232) | - |
| Total current assets | 14,870,074 | 123,977 | 97,246 | 16,674,705 | 1,653,305 | (1,648,232) | 263,149,497 |
| Property and equipment, net | 56,277,216 | 14,801,754 | 243 | 164,720,232 | 445,091 | (34,970,787) | 743,483,463 |
| Due from affiliates | - | - | - | - | - | (30,058,770) | - |
| Investment in affiliates | - | - | - | - | - | (4,506,059) | - |
| Other assets: | | | | | | | |
| Assets held for sale | - | - | - | - | - | - | 1,612,992 |
| Assets held in trust | 10,697 | - | - | - | - | - | 40,534,262 |
| Restricted cash | 100,000 | - | - | - | - | - | 100,000 |
| Long-term investments | - | - | - | - | - | - | 4,479,518 |
| Assets restricted under bond indenture agreements, net of current portion | 4,647,646 | - | - | 5,872,967 | - | - | 27,938,986 |
| Bond issue and other financing costs, net | 1,119,681 | - | - | 2,195,802 | - | - | 11,546,576 |
| Restricted deposits | 25,317 | 978,592 | - | - | - | - | 4,460,912 |
| Other noncurrent assets | - | - | - | - | 6,123,825 | (7,710) | 9,121,754 |
| Beneficial interest in net assets of foundation | - | - | 28,897 | - | - | (28,897) | - |
| Notes receivable from affiliate | - | - | - | - | - | (5,258,345) | - |
| Total other assets | 5,903,341 | 978,592 | 28,897 | 8,068,769 | 6,123,825 | (5,294,952) | 99,795,000 |
| Total assets | $ 77,050,631 | $ 15,904,323 | $ 126,386 | $ 189,463,706 | $ 8,222,221 | $ (76,478,800) | $ 1,106,427,960 |

| | Pacific Retirement Services, Inc. | PRS Management Inc. | Rogue Valley Manor | The Cumberland Rest, Inc. | Cascade Manor, Inc. | Holladay Park Plaza, Inc. | University Retirement Community at Davis, Inc. | Mirabella |
|---|---|---|---|---|---|---|---|---|
| Liabilities and net assets (deficit) | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | $ 1,692,232 | $ 1,890,870 | $ 5,308,048 | $ 1,662,212 | $ 996,058 | $ 1,824,301 | $ 1,611,771 | $ 4,517,781 |
| Refundable deposits | - | - | 1,159,460 | 2,778,614 | 1,424,311 | 719,657 | 190,400 | 327,529 |
| Current portion of entrance fees refundable upon reoccupancy | - | - | - | 2,134,010 | 605,700 | - | 120,750 | 1,158,210 |
| Current portion of long-term debt | 1,559,523 | 517,818 | 2,211,008 | 1,610,000 | 934,922 | 330,000 | 1,099,000 | 679,098 |
| Current portion of due to affiliates | - | 3,854 | 377,225 | 88,753 | 114,998 | 131,614 | 104,347 | 75,075 |
| Other liabilities | - | - | - | - | - | - | 68,166 | - |
| Total current liabilities | 3,251,755 | 2,412,542 | 9,055,741 | 8,273,589 | 4,075,989 | 3,005,572 | 3,194,434 | 6,757,693 |
| Other liabilities: | | | | | | | | |
| Entrance fees refundable upon reoccupancy, net of current portion | - | - | - | 38,053,847 | 21,431,080 | - | - | 169,638,813 |
| Deferred revenue from entrance fees | - | - | 80,968,380 | 12,843,186 | 3,312,739 | 15,978,659 | 32,465,595 | 11,654,375 |
| Future services obligation | - | - | - | - | - | - | - | 23,965,315 |
| Entrance fees board valuation adjustment liability | - | - | - | - | - | - | - | - |
| Long-term debt, net of current portion | - | 10,207,250 | 112,502,385 | 40,555,000 | 15,310,000 | 22,217,796 | 31,729,000 | 112,152,817 |
| Interest rate swap agreements | - | - | 4,420,322 | 3,088,220 | 196,964 | - | 4,063,643 | - |
| Contingent liabilities | - | - | - | - | - | - | - | 7,782,621 |
| Other long-term liabilities | 316,656 | 5,334,134 | 47,518 | - | 119,745 | 102,744 | - | - |
| Due to affiliates, net of current portion | - | 16,535 | - | - | - | - | - | 14,773,687 |
| Total liabilities | 3,568,411 | 17,970,461 | 206,994,346 | 102,813,842 | 44,446,517 | 41,304,771 | 71,452,672 | 346,725,321 |
| Net assets (deficit): | | | | | | | | |
| Unrestricted | 47,523,601 | (1,024,771) | 16,693,894 | (7,076,429) | (12,109,014) | 16,958,203 | 13,376,265 | (113,573,405) |
| Temporarily restricted | - | - | 46,073,338 | 33,552,328 | 745,724 | 1,797,745 | 27,322 | 195,127 |
| Permanently restricted | - | - | 1,366,819 | 11,603,666 | - | 732,739 | - | - |
| Total net assets (deficit) | 47,523,601 | (1,024,771) | 64,134,051 | 38,079,565 | (11,363,290) | 19,488,687 | 13,403,587 | (113,378,278) |
| Total liabilities and net assets (deficit) | $ 51,092,012 | $ 16,945,690 | $ 271,128,397 | $ 140,893,407 | $ 33,083,227 | $ 60,793,458 | $ 84,856,259 | $ 233,347,043 |

| | Capitol Lakes, Inc. | Community Housing Corporations | Community Volunteer Network | Mirabella at South Waterfront | Crest Park Incorporated | Eliminations/ Reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Liabilities and net assets (deficit) | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable and accrued expenses | $ 2,679,248 | $ 186,500 | $ 53,833 | $ 1,351,953 | $ 4,786,872 | $ (7,709) | $ 28,553,970 |
| Refundable deposits | 568,071 | 93,679 | - | 611,410 | - | - | 7,873,131 |
| Current portion of entrance fees due upon reoccupancy | 2,235,351 | - | - | 1,258,859 | - | - | 7,512,880 |
| Current portion of long-term debt | 1,549,757 | 56,935 | - | - | - | (575,138) | 9,972,923 |
| Current portion of due to affiliates | 499,661 | 171,011 | 113,055 | 163,611 | 100,545 | (1,943,749) | - |
| Other liabilities | 58,062 | - | 6,295 | - | - | - | 132,523 |
| Total current liabilities | 7,590,150 | 508,125 | 173,183 | 3,385,833 | 4,887,417 | (2,526,596) | 54,045,427 |
| Other liabilities: | | | | | | | |
| Entrance fees refundable upon reoccupancy, net of current portion | 40,441,933 | - | - | 125,854,023 | - | - | 395,419,696 |
| Deferred revenue from entrance fees | 5,254,045 | - | - | 12,345,474 | - | - | 174,822,453 |
| Future services obligation | 1,514,811 | - | - | 10,009,216 | - | - | 35,489,342 |
| Entrance fees board valuation adjustment liability | 136,660 | - | - | - | - | - | 136,660 |
| Long-term debt, net of current portion | 58,856,389 | 297,241 | - | 94,062,837 | - | (12,849) | 497,877,866 |
| Interest rate swap agreements | 4,608,527 | - | - | - | - | - | 16,377,676 |
| Contingent liabilities | - | - | - | - | - | - | 7,782,621 |
| Other long-term liabilities | 48,713 | - | - | - | - | (5,258,345) | 711,165 |
| Due to affiliates | 3,153,608 | - | - | 11,231,436 | - | (29,175,266) | - |
| Total liabilities | 121,604,836 | 805,366 | 173,183 | 256,888,819 | 4,887,417 | (36,973,056) | 1,182,662,906 |
| Net assets (deficit): | | | | | | | |
| Unrestricted | (45,002,967) | (5,207,698) | (55,932) | (67,479,748) | 3,334,804 | (39,496,609) | (193,139,806) |
| Temporarily restricted | 372,435 | 20,306,655 | 9,135 | 54,635 | - | (9,135) | 103,125,309 |
| Permanently restricted | 76,327 | - | - | - | - | - | 13,779,551 |
| Total net assets (deficit) | (44,554,205) | 15,098,957 | (46,797) | (67,425,113) | 3,334,804 | (39,505,744) | (76,234,946) |
| Total liabilities and net assets (deficit) | $ 77,050,631 | $ 15,904,323 | $ 126,386 | $ 189,463,706 | $ 8,222,221 | $ (76,478,800) | $ 1,106,427,960 |

| | Pacific Retirement Services, Inc. | PRS Management Inc. | Rogue Valley Manor | The Cumberland Rest, Inc. | Cascade Manor, Inc. | Holladay Park Plaza, Inc. | University Retirement Community at Davis, Inc. | Mirabella |
|---|---|---|---|---|---|---|---|---|
| Unrestricted net deficit: | | | | | | | | |
| Revenues | | | | | | | | |
| Service fees | $ - | $ - | $ 28,209,038 | $ 10,976,540 | $ 4,601,830 | $ 6,520,222 | $ 12,582,190 | $ 17,211,512 |
| Health center revenue | - | - | 3,252,626 | 3,185,962 | 2,064,412 | 5,735,977 | 4,530,287 | 2,381,844 |
| Change in future services obligation | - | - | - | - | - | - | - | 466,474 |
| Entrance fees earned | - | - | 8,096,247 | 2,454,433 | 533,630 | 2,483,765 | 4,307,069 | 1,467,192 |
| Contributions | - | - | 842,680 | 102,980 | 135,499 | 7,586 | 121,839 | 51,327 |
| Investment income | 36,001 | 9,759 | 4,844,154 | 1,417,354 | 203,049 | 501,356 | 800,719 | 480,097 |
| Royalty income | - | - | - | 25,597 | - | - | - | - |
| Management fee revenue | 9,484,217 | 2,981,494 | - | - | - | - | - | - |
| Development fee revenue | 902,755 | - | - | - | - | - | - | - |
| Gain on disposal of property and equipment, net | - | - | - | - | - | - | - | - |
| Other revenue | 2,582,769 | 2,866,371 | 9,958,104 | 462,237 | 368,148 | 892,051 | 820,710 | 1,130,196 |
| Total revenues | 13,005,742 | 5,857,624 | 55,202,849 | 18,625,103 | 7,906,568 | 16,140,957 | 23,162,814 | 23,188,642 |
| Net assets released from restrictions | - | - | 922,767 | 2,171,338 | 116,324 | 191,455 | 29,086 | 50,020 |
| Total revenue, gains, and support | 13,005,742 | 5,857,624 | 56,125,616 | 20,796,441 | 8,022,892 | 16,332,412 | 23,191,900 | 23,238,662 |
| Expenses: | | | | | | | | |
| Program expenses: | | | | | | | | |
| Dietary | - | 577,599 | 7,406,746 | 2,534,387 | 1,055,117 | 2,049,746 | 3,249,391 | 4,268,237 |
| Facility services and utilities | 167,986 | 1,177,760 | 10,451,833 | 3,384,531 | 1,535,760 | 2,632,452 | 3,619,319 | 4,180,255 |
| Health and social services | - | - | 9,474,695 | 3,396,934 | 1,871,347 | 4,491,844 | 4,146,480 | 3,142,875 |
| Memory care | - | - | 1,125,940 | - | - | - | 259,509 | 717,006 |
| Assisted living | - | - | 917,138 | 507,130 | 316,520 | 425,571 | 794,222 | 818,527 |
| General and administrative expenses: | | | | | | | | |
| Administrative and marketing | 1,771,298 | 10,799,412 | 5,149,715 | 2,370,512 | 1,265,447 | 1,638,328 | 1,932,304 | 2,695,353 |
| Interest expense and financing fees | 82,616 | 629,349 | 3,609,570 | 644,632 | 380,803 | 238,693 | 528,414 | 6,173,551 |
| Net settlement associated to interest rate swap agreements | - | - | 988,855 | 673,613 | 194,699 | - | 1,062,713 | - |
| Depreciation | 302,957 | - | 10,661,190 | 3,933,569 | 1,952,497 | 2,176,688 | 2,867,456 | 5,803,039 |
| Fund disbursement | - | - | 222,931 | 42,554 | 118,822 | 66,528 | 27,736 | 67,126 |
| Other expenses | - | 66,000 | 13,192 | - | - | - | - | - |
| Loss on disposal of property and equipment | - | - | 782,445 | 333,476 | 33,301 | 57,263 | 154,990 | 15,752 |
| Fees to affiliates and management fee expense | 7,556,335 | (7,679,880) | 3,008,841 | 1,358,528 | 593,166 | 986,502 | 1,333,717 | 1,351,331 |
| Total expenses | 9,881,192 | 5,570,240 | 53,813,091 | 19,179,866 | 9,317,479 | 14,763,615 | 19,976,251 | 29,233,052 |
| Operating income (loss) | 3,124,550 | 287,384 | 2,312,525 | 1,616,575 | (1,294,587) | 1,568,797 | 3,215,649 | (5,994,390) |

## COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)

### Year Ended September 30, 2014

| | Capitol Lakes, Inc. | Community Housing Corporations | Community Volunteer Network | Mirabella at South Waterfront | Crest Park Incorporated | Eliminations/ Reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Unrestricted net deficit: | | | | | | | |
| Revenues | | | | | | | |
| Service fees | $ 9,195,108 | $ - | $ - | $ 12,280,811 | $ - | $ - | $ 101,577,251 |
| Health center revenue | 9,956,420 | - | - | 6,120,028 | - | - | 37,227,556 |
| Change in future services obligation | (392,396) | - | - | 6,234,242 | - | - | 6,308,320 |
| Entrance fees earned | 939,780 | - | - | 1,396,667 | - | - | 21,678,783 |
| Contributions | 43,783 | 6,273 | 565,060 | 5,365 | - | (85,675) | 1,796,717 |
| Investment income | 345,386 | 1,211 | 79 | 220,502 | - | - | 8,859,667 |
| Royalty income | - | - | - | - | - | - | 25,597 |
| Management fee revenue | - | - | - | - | - | (9,484,217) | 2,981,494 |
| Development fee revenue | - | - | - | - | - | (902,755) | - |
| Gain on disposal of property and equipment | - | - | - | - | - | - | - |
| Other revenue | 487,606 | 2,341,361 | 26,447 | 1,524,945 | 4,428 | (2,580,888) | 20,884,485 |
| Total revenues | 20,575,687 | 2,348,845 | 591,586 | 27,782,560 | 4,428 | (13,053,535) | 201,339,870 |
| Net assets released from restrictions | 69,063 | - | - | 27,604 | - | - | 3,577,657 |
| Total revenue, gains, and support | 20,644,750 | 2,348,845 | 591,586 | 27,810,164 | 4,428 | (13,053,535) | 204,917,527 |
| Expenses: | | | | | | | |
| Program expenses: | | | | | | | |
| Dietary | 2,323,767 | - | - | 3,548,539 | 801 | - | 27,014,330 |
| Facility services and utilities | 2,833,444 | 1,156,492 | - | 3,410,964 | 9,779 | (8,800) | 34,551,775 |
| Health and social services | 7,741,133 | - | - | 4,671,769 | - | - | 38,937,077 |
| Memory care | 111,152 | - | - | - | - | - | 2,213,607 |
| Assisted living | 1,003,487 | - | - | 336,561 | - | - | 5,119,156 |
| General and administrative expenses: | | | | | | | |
| Administrative and marketing | 2,926,693 | 617,510 | 549,030 | 2,126,965 | 33,332 | (420,943) | 33,454,956 |
| Interest expense and financing fees | 2,390,649 | 31,486 | - | 3,369,605 | - | (98,666) | 17,980,702 |
| Net settlement associated to interest rate swap agreements | 1,706,177 | - | - | 2,325,644 | - | - | 6,951,701 |
| Depreciation | 3,748,018 | 716,103 | 393 | 5,496,259 | 3,516 | - | 37,661,685 |
| Fund disbursement | 71,547 | - | - | 28,584 | - | (85,675) | 560,153 |
| Other expenses | - | 6,362 | 21,040 | - | 377,694 | - | 484,288 |
| Loss on disposal of property and equipment | 136,859 | 57,552 | | 31,780 | 2,089 | (2,089) | 1,603,418 |
| Fees to affiliates and management fee expense | 1,137,088 | 289,291 | - | 1,478,231 | 123,546 | (11,536,696) | - |
| Total expenses | 26,130,014 | 2,874,796 | 570,463 | 26,824,901 | 550,757 | (12,152,869) | 206,532,848 |
| Operating income (loss) | (5,485,264) | (525,951) | 21,123 | 985,263 | (546,329) | (900,666) | (1,615,321) |

| | Pacific Retirement Services, Inc. | PRS Management Inc. | Rogue Valley Manor | The Cumberland Rest, Inc. | Cascade Manor, Inc. | Holladay Park Plaza, Inc. | University Retirement Community at Davis, Inc. | Mirabella |
|---|---|---|---|---|---|---|---|---|
| Operating income (loss) (forward) | $ 3,124,550 | $ 287,384 | $ 2,312,525 | $ 1,616,575 | $ (1,294,587) | $ 1,568,797 | $ 3,215,649 | $ (5,994,390) |
| Nonoperating income (loss): | | | | | | | | |
| Unrealized change in value of investments | (29,795) | (566) | 481,390 | 695,224 | 97,804 | 100,047 | 639,528 | (116,973) |
| Change in value of interest rate swap & cap agreements | - | - | 105,710 | (143,588) | 167,996 | (10,004) | (81,154) | - |
| Gain on extinguishment of interest rate swap | - | - | - | - | - | - | - | - |
| Loss on extinguishment of debt | - | - | (798,368) | - | - | - | - | - |
| Change in beneficial interest in net assets of foundation | - | - | - | - | - | - | - | - |
| Other nonoperating revenue | - | - | - | - | - | - | - | - |
| Total nonoperating income (loss) | (29,795) | (566) | (211,268) | 551,636 | 265,800 | 90,043 | 558,374 | (116,973) |
| Change in unrestricted net assets (deficit) before income taxes | 3,094,755 | 286,818 | 2,101,257 | 2,168,211 | (1,028,787) | 1,658,840 | 3,774,023 | (6,111,363) |
| Income tax benefit | (10,118) | (39,974) | - | - | - | - | - | - |
| Change in unrestricted net assets (deficit) | 3,084,637 | 246,844 | 2,101,257 | 2,168,211 | (1,028,787) | 1,658,840 | 3,774,023 | (6,111,363) |
| Temporarily restricted net assets (deficit): | | | | | | | | |
| Contributions | - | - | 453,983 | 26,846 | 124,068 | 158,409 | 25,080 | 118,774 |
| Royalty income | - | - | - | 4,312,117 | - | - | - | - |
| Actuarial gain (loss) on gift annuities receivable | - | - | 111,779 | 2,249 | - | 2,586 | (6,847) | - |
| Investment income | - | - | 334,288 | 87,833 | - | 220,681 | - | - |
| Fund disbursements | - | - | - | (20,292) | - | (471) | - | - |
| Unrealized change in value of investments | - | - | (122,862) | 24,408 | - | 70,070 | - | - |
| Change in fair value of split interest trusts | - | - | - | 11,939,290 | - | - | - | - |
| Change in beneficial interest in net assets of foundation | - | - | - | - | - | - | - | - |
| Net assets released from restrictions | - | - | (922,767) | (2,171,338) | (116,324) | (191,455) | (29,086) | (50,020) |
| Change in temporarily restricted net assets (deficit) | - | - | (145,579) | 14,201,113 | 7,744 | 259,820 | (10,853) | 68,754 |
| Permanently restricted net assets: | | | | | | | | |
| Contributions | - | - | 100 | - | - | - | - | - |
| Actuarial gain on gift annuities receivable | - | - | 2,419 | - | - | - | - | - |
| Investment income | - | - | - | - | - | 819 | - | - |
| Change in beneficial interest in net assets of foundation | - | - | - | - | - | - | - | - |
| Change in fair value of perpetual trusts | - | - | - | 3,021,126 | - | - | - | - |
| Net assets released from restrictions | - | - | - | - | - | - | - | - |
| Change in permanently restricted net assets | - | - | 2,519 | 3,021,126 | - | 819 | - | - |
| Change in net assets (deficit) | 3,084,637 | 246,844 | 1,958,197 | 19,390,450 | (1,021,043) | 1,919,479 | 3,763,170 | (6,042,609) |
| Net assets (deficit), beginning of year (as adjusted) | 44,438,964 | (1,271,615) | 62,175,854 | 18,689,115 | (10,342,247) | 17,569,208 | 9,640,417 | (107,335,669) |
| Net assets (deficit), end of year | $ 47,523,601 | $ (1,024,771) | $ 64,134,051 | $ 38,079,565 | $ (11,363,290) | $ 19,488,687 | $ 13,403,587 | $ (113,378,278) |

| | Capitol Lakes, Inc. | Community Housing Corporations | Community Volunteer Network | Mirabella at South Waterfront | Crest Park Incorporated | Eliminations/ Reclassifications | Total |
|---|---|---|---|---|---|---|---|
| Operating income (loss) (forward) | $ (5,485,264) | $ (525,951) | $ 21,123 | $ 985,263 | $ (546,329) | $ (900,666) | $ (1,615,321) |
| Nonoperating income (loss): | | | | | | | |
| Unrealized change in value of investments | 110,369 | - | - | 20,693 | - | - | 1,997,721 |
| Change in value of interest rate swap & cap agreements | 925,258 | - | - | - | - | - | 964,218 |
| Gain on extinguishment of interest rate swap | - | - | - | 2,001,631 | - | - | 2,001,631 |
| Loss on extinguishment of debt | - | - | - | (1,861,286) | - | - | (2,659,654) |
| Change in beneficial interest in net assets of foundation | - | - | - | - | - | - | - |
| Other nonoperating revenue | - | - | - | - | (1,887) | - | (1,887) |
| Total nonoperating income (loss) | 1,035,627 | - | - | 161,038 | (1,887) | - | 2,302,029 |
| Change in unrestricted net assets (deficit) before income taxes | (4,449,637) | (525,951) | 21,123 | 1,146,301 | (548,216) | (900,666) | 686,708 |
| Income tax benefit | - | - | - | - | (53,040) | - | (103,132) |
| Change in unrestricted net assets (deficit) | (4,449,637) | (525,951) | 21,123 | 1,146,301 | (601,256) | (900,666) | 583,576 |
| Temporarily restricted net assets (deficit): | | | | | | | |
| Contributions | 39,899 | - | - | 77,978 | - | - | 1,025,037 |
| Royalty income | - | - | - | - | - | - | 4,312,117 |
| Actuarial gain (loss) on gift annuities receivable | - | - | - | - | - | - | 109,767 |
| Investment income | 22,950 | - | - | - | - | - | 665,752 |
| Fund disbursements | - | - | - | - | - | - | (20,763) |
| Unrealized change in value of investments | - | - | - | - | - | - | (28,384) |
| Change in fair value of split interest trusts | - | - | - | - | - | - | 11,939,290 |
| Change in beneficial interest in net assets of foundation | - | - | 4,873 | - | - | (4,873) | - |
| Net assets released from restrictions | (69,063) | - | - | (27,604) | - | - | (3,577,657) |
| Change in temporarily restricted net assets (deficit) | (6,214) | - | 4,873 | 50,374 | - | (4,873) | 14,425,159 |
| Permanently restricted net assets: | | | | | | | |
| Contributions | - | - | - | - | - | - | 100 |
| Actuarial gain on gift annuities receivable | - | - | - | - | - | - | 2,419 |
| Investment income | - | - | - | - | - | - | 819 |
| Change in beneficial interest in net assets of foundation | - | - | - | - | - | - | - |
| Change in fair value of perpetual trusts | - | - | - | - | - | - | 3,021,126 |
| Net assets released from restrictions | - | - | - | - | - | - | - |
| Change in permanently restricted net assets | - | - | - | - | - | - | 3,024,464 |
| Change in net assets (deficit) | (4,455,851) | (525,951) | 25,996 | 1,196,675 | (601,256) | (905,539) | 18,033,199 |
| Net assets (deficit), beginning of year (as adjusted) | (40,098,354) | 15,624,908 | (72,793) | (68,621,788) | 3,936,060 | (38,600,205) | (94,268,145) |
| Net assets (deficit), end of year | $ (44,554,205) | $ 15,098,957 | $ (46,797) | $ (67,425,113) | $ 3,334,804 | $ (39,505,744) | $ (76,234,946) |

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

# University Retirement Community at Davis, Inc.

As of and for the year ended September 30, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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CONTINUING CARE
CONTRACTS BRANCH

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
University Retirement Community at Davis, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of University Retirement Community at Davis, Inc. ("URCAD"), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended September 30, 2014.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 continuing care reserves of University Retirement Community at Davis, Inc. as of and for the year ended September 30, 2014, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

 

### *Basis of Accounting*

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by URCAD on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Part of Form 5-5, Description of Reserves and Additional Disclosures (Section 1790), Schedule of interest, credit enhancements (LOC fees and other fees), Reconciliation to Audit Report, Part of Form 5-4, Non CCRC Revenue Reconciliation, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the basic 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 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 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, taken as a whole.

### *Restriction on Use*

Our report is intended solely for the information and use of the Board of Directors and management of URCAD and for filing with the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
January 28, 2015

# CONTINUING CARE LIQUID RESERVE SCHEDULES

**FORM 5-1**
**LONG-TERM DEBT INCURRED**
**IN A PRIOR FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Principal Paid During Fiscal Year | (c) Interest Paid During Fiscal Year | (d) Credit Enhancement Premiums Paid in Fiscal Year | (e) Total Paid (columns (b) + (c) + (d)) |
|---|---|---|---|---|---|
| 1 | 08/29/13 | $880,000 | $1,523,853 | $0 | $2,403,853 |
| 2 | | | | | $0 |
| 3 | | | | | $0 |
| 4 | | | | | $0 |
| 5 | | | | | $0 |
| 6 | | | | | $0 |
| 7 | | | | | $0 |
| 8 | | | | | $0 |
| | **TOTAL:** | $880,000 | $1,523,853 | $0 | $2,403,853 |

*(Transfer this amount to Form 5-3, Line 1)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**PROVIDER:** University Retirement Community at Davis, Inc.

**FORM 5-2**
**LONG-TERM DEBT INCURRED**
**DURING FISCAL YEAR**
**(Including Balloon Debt)**

| Long-Term Debt Obligation | (a) Date Incurred | (b) Total Interest Paid During Fiscal Year | (c) Amount of Most Recent Payment on the Debt | (d) Number of Payments over next 12 months | (e) Reserve Requirement (see instruction 5) (columns (c) x (d)) |
|---|---|---|---|---|---|
| 1 | | | | | $0 |
| 2 | | | | | $0 |
| 3 | | | | | $0 |
| 4 | | | | | $0 |
| 5 | | | | | $0 |
| 6 | | | | | $0 |
| 7 | | | | | $0 |
| 8 | | | | | $0 |
| | **TOTAL:** | $0 | $0 | 0 | $0 |

*(Transfer this amount to Form 5-3, Line 2)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

**PROVIDER:** University Retirement Community at Davis, Inc.

**FORM 5-3**
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

| Line | | TOTAL |
|---|---|---|
| 1 | Total from Form 5-1 bottom of Column (e) | $2,403,853 |
| 2 | Total from Form 5-2 bottom of Column (e) | $0 |
| 3 | Facility leasehold or rental payment paid by provider during fiscal year | $0 |
| 4 | **TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:** | $2,403,853 |

**PROVIDER:** University Retirement Community at Davis, Inc.

## FORM 5-4
## CALCULATION OF NET OPERATING EXPENSES

| Line | | | Amounts | TOTAL |
|---|---|---|---|---|
| 1 | | Total operating expenses from financial statements | | $19,964,334 |
| 2 | | Deductions: | | |
| | a. | Interest paid on long-term debt | $1,523,853 | |
| | b. | Credit enhancement premiums paid for long-term debt | $0 | |
| | c. | Depreciation | $2,867,456 | |
| | d. | Amortization | $41,744 | |
| | e. | Revenues received during the fiscal year for services to persons who did not have a continuing care contract | $3,597,920 | |
| | f. | Extraordinary expenses approved by the Department | $0 | |
| 3 | | Total Deductions | | $8,030,973 |
| 4 | | Net Operating Expenses | | $11,933,361 |
| 5 | | Divide Line 4 by 365 and enter the result. | | $32,694 |
| 6 | | **Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount. | | $2,452,050 |

**PROVIDER:** University Retirement Community at Davis, Inc.; Pacific Retirement Services, Inc.
**COMMUNITY:** University Retirement Community at Davis, Inc.

# UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.
## FORM 5-5
## ANNUAL RESERVE CERTIFICATION

**FORM 5-5**

Provider Name: University Retirement Community at Davis, Inc.
Fiscal Year Ended: 30-Sep-14

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 9/30/2014 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

| | | Amount |
|---|---|---|
| [1] | Debt Service Reserve Amount | $2,403,853 |
| [2] | Operating Expense Reserve Amount | $2,452,050 |
| [3] | **Total Liquid Reserve Amount:** | $4,855,903 |

Qualifying assets sufficient to fulfill the above requirements are held as follows:

| | Qualifying Asset Description | Amount: Debt Service Reserve | | Amount: Operating Reserve |
|---|---|---|---|---|
| [4] | Cash and Cash Equivalents | $0 | | $2,570,893 |
| [5] | Investment Securities | $0 | | $0 |
| [6] | Equity Securities | $0 | | $4,470,709 |
| [7] | Unused/Available Lines of Credit | $0 | | $0 |
| [8] | Unused/Available Letters of Credit | $0 | | $0 |
| [9] | Debt Service Reserve | $121,681 | | (not applicable) |
| [10] | Other: | | | |
| | Fixed income securities | $2,282,172 | | $8,328,162 |
| | Large/mid/small cap growth/value | $0 | | $14,679,513 |
| | Deposit account | $0 | | $0 |
| | (describe qualifying asset) | | | |
| | **Total Amount of Qualifying Assets** | $2,403,853 | [12] | $30,049,277 |
| | **Reserve Obligation Amount:** [13] | $2,403,853 | [14] | $2,452,050 |
| | **Surplus/(Deficiency):** [15] | $0 | [16] | $27,597,227 |

Signature:

Sheri Loya
(Authorized Representative)

Date: 1/28/15

Corporate Controller
(Title)

**NOTE 1 – BASIS OF ACCOUNTING**

The accompanying reserve reports have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of University of Retirement Community at Davis, Inc.'s assets, liabilities, revenues, and expenses.

## SUPPLEMENTARY SCHEDULES

# UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.
## PART OF FORM 5-5
## DESCRIPTION OF RESERVES AND ADDITIONAL DISCLOSURES (SECTION 1790)
## September 30, 2014

| | | URCAD | | | URCADF | | Total | |
|---|---|---|---|---|---|---|---|---|
| Commercial paper sweep | $ | 1,785,227 | [B] | $ | 65,309 | $ | 1,850,536 | |
| Cash | | 1,157 | [B] | | - | | 1,157 | |
| Fidelity governmental fund | | 121,681 | | | - | | 121,681 | |
| Per audited financials: | $ | 1,908,065 | | $ | 65,309 | $ | 1,973,374 | |

| | | URCAD | | | URCADF | | Total | |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalent | $ | 784,509 | [B] | $ | 13,232 | $ | 797,741 | [4] |
| Fixed income | | 10,610,334 | | | - | | 10,610,334 | [2], [A] |
| Mutual funds | | 14,679,513 | | | 788,188 | | 15,467,701 | [1] |
| Equity | | 4,470,709 | | | 334,968 | | 4,805,677 | [3] |
| | $ | 30,545,065 | | $ | 1,136,388 | $ | 31,681,453 | |

| | | | |
|---|---|---|---|
| [1] | Per audited financials: | | |
| | Mutual funds - equities | $ | 4,524,516 |
| | Mutual funds - fixed income | | 3,871,121 |
| | Mutual funds - other | | 3,466,222 |
| | Mututal funds - non-traditional | | 3,605,842 |
| | | $ | 15,467,701 |
| [2] | Per audited financials: | | |
| | Fixed income - asset backed securities | $ | 2,434,480 |
| | Fixed income - corporate bonds and notes | | 4,527,510 |
| | Fixed income - municipal securities | | 30,568 |
| | Fixed income - U.S. government securities | | 3,617,776 |
| | | $ | 10,610,334 |
| [3] | Per audited financials: | | |
| | Domestic equity - mid cap | $ | 539,494 |
| | Domestic equity - large cap | | 4,266,183 |
| | | $ | 4,805,677 |
| [4] | Per audited financials: | | |
| | Cash and cash equivalents including amounts held for investment purposes | $ | 919,422 |
| | Less cash held by bond indenture | | (121,681) |
| | | $ | 797,741 |
| [A] | Fixed income securities per Form 5-5: | | |
| | Debt service reserve | $ | 2,282,172 |
| | Operating reserve | | 8,328,162 |
| | | $ | 10,610,334 |
| [B] | Cash and cash equivalents per Form 5-5: | | |
| | Commercial paper sweep | $ | 1,785,227 |
| | Cash | | 1,157 |
| | Cash & cash equivalents | | 784,509 |
| | | $ | 2,570,893 |

Per the September 2014 audit, the URCAD Reserves listed above are liquid and available for use as needed.
There are no restrictions on the funds listed above. However, if necessary, excess funds from the above investments will be used to cover any deficiency that may exist in the debt service reserve calculation on Form 5-5.

Per the 2014 Audited Statement the following funds are restricted under the bond indenture agreement:

| | | | |
|---|---|---|---|
| Fidelity Governmental Fund | $ | 121,681 | Debt Service Fund - Series 2013 |
| Asset held by bond indenture per audited financials | $ | 121,681 | |

**UNIVERSITY RETIREMENT COMMUNITY AT DAVIS, INC.**
**SCHEDULE OF INTEREST, CREDIT ENHANCEMENTS (LOC FEES, AND OTHER FEES), RECONCILIATION TO AUDIT REPORT**
**Year Ended September 30, 2014**

| | | | |
|---|---|---|---|
| Interest - Series 2013 | $ | 461,140 | |
| **Total interest paid** | | 461,140 | |
| Other Fees (authority/remarketing/trustee fees) | | 25,530 | |
| Issue Cost Amortization | | 41,744 | Form 5-4, (2d) |
| **Total Other Fees** | | 67,274 | |
| **Total Interest expense and financing fees per audited financials** | $ | 528,414 | |
| **Net Settlement on Interest Rate Swap per audited financials** | $ | 1,062,713 | |
| **PLUS: Total interest paid (see above)** | | 461,140 | |
| **Total Interest paid on LTD** | $ | 1,523,853 | Form 5-4, (2a)<br>Form 5-1, column (c) |
| **Reconciliation to interest paid per cash flow** | | | |
| Interest expense including swap | $ | 1,523,853 | Form 5-4 |
| PLUS: Other fees | | 25,530 | |
| LESS: Change in accrued interest payable | | 30,834 | |
| **Interest paid per audited financials** | $ | 1,518,549 | cash flow from operating activities |

**URC - Non-CCRC Revenue**
**October 2013 - September 2014**

| LOC Type | Daily Rate | # of Days | Estimated Annual Revenue | |
|---|---|---|---|---|
| ALD1 | $ 243.63 | 1,460 | $ 355,700 | |
| ALD2 | $ 63.88 | 365 | 23,316 | |
| *Total Assisted Living* | | | $ 379,016 | |
| *Total Special Care* | | | $ 336,168 | * |
| HC Public | | | $ 1,133,652 | * |
| SND | $ 683.43 | 2,194 | 1,499,445 | |
| *Total Health Services* | | | $ 2,633,097 | |
| <u>*Other non-operating revenue:*</u> | | | | |
| Catering | | | $ 55,609 | |
| Employee Meals | | | 30,255 | |
| Guest Rooms | | | 84,678 | |
| Guest Meals | | | 24,428 | |
| Lease Revenue - space rental for outside parties | | | 54,669 | |
| | | | $ 249,639 | * |
| ** YTD actual revenue* | | | | |
| | | **Total Non-CCRC Revenue** | $ 3,597,920 | |
| **Reconciliation to audited financial statements** | | | | |
| Total CCRC Service fees revenue | | | $ 11,867,010 | |
| Total CCRC Health center revenue | | | 1,897,190 | |
| Total CCRC Other revenue | | | 571,067 | |
| | | | $ 14,335,267 | |
| Per audited financial statements: | | | | |
| Service fees revenue | | | $ 12,582,190 | |
| Health center revenue | | | 4,530,287 | |
| Other revenue | | | 820,710 | |
| | | *Total CCRC/Non-CCRC Revenue* | $ 17,933,187 | |
| Less CCRC Revenue | | | (14,335,267) | |
| | | **Total Non-CCRC Revenue** | $ 3,597,920 | |

**FORM 7-1**

**REPORT ON CCRC MONTHLY SERVICE FEES**

| | | INDEPENDENT LIVING | ASSISTED LIVING | SKILLED NURSING |
|---|---|---|---|---|
| [1] | Monthly Service Fees at beginning of reporting period: | $3060 - $5542 | $4210 - $7984 | $6357 - $17581 |
| [2] | Indicate percentage of increase in fees imposed during reporting period: | 3.00% | 3.00% | 3.25% |

[ ] Check here if monthly service fees at this community were not increased during the reporting period.

[3] Indicate the date the fee increase was implemented: October 1, 2013

[4] Check each of the appropriate boxes:

[X] Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

[X] All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

[X] At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

[X] At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

[X] The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

[X] The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.



PROVIDER NAME: URCAD - Pacific Retirement Services
COMMUNITY NAME: University Retirement Community

Each year as part of our budget process we incorporate suggestions from residents on ways in which we can improve the services we provide. We also work closely with our department heads to include those suggestions where possible and to refine our program of services while keeping the costs as low as possible.

As you can imagine, with so many different individuals: residents, employees and board members, our budget takes several months each year to prepare before it is finalized. The URCAD Board and Pacific Retirement Services have reviewed and approved the budget for this next fiscal year.

Our goal each year is to produce a budget, which keeps monthly rate increases reasonable while continuing to maintain and improve the services we provide. The budget must cover inflationary increases (including the necessary adjustments to salaries and benefits to retain and attract quality employees) and meet regulatory requirements, bond covenants, and our actuarial reserve requirements.

We raised public health rates, public memory care and assisted living fees by 5.00% and Independent living rates by 3.00%. This is necessary to accommodate the rising costs of providing health care. Our goal has been to build and staff University Retirement Community to provide a great place for you to live a happy and healthy life. We will be monitoring our services and implementing changes as necessary.

We realize the importance of keeping fee increases to the most reasonable level possible and have made every effort to do so.

# CONTINUING CARE RETIREMENT COMMUNITY
# DISCLOSURE STATEMENT
# GENERAL INFORMATION



FACILITY NAME: University Retirement Community at Davis (URCAD)
ADDRESS: 1515 Shasta Drive, Davis CA  ZIP CODE: 95616  PHONE: (541) 857-7644
FACILITY OWNER: Pacific Retirement Services Inc  FACILITY OPERATOR: Matt Neal
RELATED FACILITIES: See Attached  RELIGIOUS AFFILIATION:
YEAR OPENED: 2000  NO. OF ACRES: 11.15  MULTI-STORY: ______ SINGLE STORY: ______ BOTH: X
MILES TO SHOPPING CTR: Under 1  MILES TO HOSPITAL: Under 1

**NUMBER OF UNITS:**

| INDEPENDENT LIVING | | HEALTH CARE | |
|---|---|---|---|
| APARTMENTS -STUDIO | 0 | ASSISTED LIVING | 36 |
| APARTMENTS -1 BDRM | 48 | SKILLED NURSING | 37 |
| APARTMENTS - 2 BDRM | 124 | SPECIAL CARE | 14 |
| APARTMENTS - 3 BDRM | 4 | DESCRIBE SPECIAL CARE: | |
| COTTAGES/HOUSES | 29 | | |
| % OCCUPANCY AT YEAR END | 95.70% | | |

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ☑ ACCREDITED: ☑ Y ☐ N BY: CARF-CCAC

FORM OF CONTRACT: ☑ CONTINUING CARE ☐ LIFE CARE ☑ ENTRANCE FEE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☐ MEMBERSHIP ☐ RENTAL

REFUND PROVISIONS (CHECK ALL THAT APPLY): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☑ OTHER: Prorated up to 3 yrs

RANGE OF ENTRANCE FEES: $ 104,000 TO $ 492,000  LONG -TERM CARE INSURANCE REQUIRED? ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT:

ENTRY REQUIREMENTS: MIN. AGE: 60  PRIOR PROFESSION: ______ OTHER: ______

## FACILITY SERVICES AND AMENITIES

**COMMON AREA AMENITIES**

| | AVAILABLE | FEE FOR SERVICE |
|---|---|---|
| BEAUTY/BARBER SHOP | ☑ | ☑ |
| BILLIARD ROOM | ☑ | ☐ |
| BOWLING GREEN | ☐ | ☐ |
| CARD ROOMS | ☑ | ☐ |
| CHAPEL | ☑ | ☐ |
| COFFEE SHOP | ☑ | ☑ |
| CRAFT ROOMS | ☑ | ☐ |
| EXERCISE ROOM | ☑ | ☐ |
| GOLF COURSE ACCESS | ☐ | ☐ |
| LIBRARY | ☑ | ☐ |
| PUTTING GREEN | ☐ | ☐ |
| SHUFFLEBOARD | ☐ | ☐ |
| SPA | ☑ | ☐ |
| SWIMMING POOL-INDOOR | ☑ | ☐ |
| SWIMMING POOL-OUTDOOR | ☑ | ☐ |
| TENNIS COURT | ☐ | ☐ |
| WORKSHOP | ☑ | ☐ |
| OTHER Computer Lab | ☑ | ☐ |
| On-site Banking | ☑ | ☑ |
| On-site Physical Therapist | ☑ | ☑ |

**SERVICES AVAILABLE**

| | INCLUDED IN FEE | FOR EXTRA CHARGE |
|---|---|---|
| HOUSEKEEPING TIMES/MONTH | 2 | |
| NUMBER OF MEALS/DAY | (Depends on level of care) | |
| SPECIAL DIETS AVAILABLE | | |
| 24-HOUR EMERGENCY RESPONSE | ☑ | ☐ |
| ACTIVITIES PROGRAM | ☑ | ☐ |
| ALL UTILITIES EXCEPT PHONE | ☐ | ☑ |
| APARTMENT MAINTENANCE | ☑ | ☐ |
| CABLE TV | ☑ | ☐ |
| LINENS FURNISHED | ☐ | ☑ |
| LINENS LAUNDERED | ☐ | ☑ |
| MEDICATION MANAGEMENT | ☐ | ☑ |
| NURSING/WELLNESS CLINIC | ☐ | ☑ |
| PERSONAL NURSING/HOME CARE | ☐ | ☑ |
| TRANSPORTATION-PERSONAL | ☐ | ☑ |
| TRANSPORTATION-PREARRANGED | ☐ | ☑ |
| OTHER______ | ☐ | ☐ |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

**PROVIDER NAME: Pacific Retirement Services**

| CCRCs | LOCATION (City, State) | PHONE (with area code) |
|---|---|---|
| The Cumberland Rest, Inc. | Fort Worth, TX | (800) 841-0561 |
| Holladay Park Plaza, Inc. | Portland, OR | (503) 288-6671 |
| Cascade Manor, Inc. | Eugene, OR | (800) 248-2398 |
| Rogue Valley Manor, Inc. | Medford, OR | (800) 848-7868 |
| University Retirement Community at Davis | Davis, CA | (530) 747-7000 |
| Capitol Lakes, Inc. | Madison, WI | (608) 283-2000 |
| Mirabella Seattle, Inc. | Seattle, WA | (206) 254-1441 |
| Mirabella Portland, Inc. | Portland, OR | (503) 245-4742 |

**MULTI-LEVEL RETIREMENT COMMUNITIES**

| | | |
|---|---|---|
| Middleton Glen Inc (IL only) | Middleton, WI | (608) 836-7998 |
| Senior Housing of Middleton Inc (IL only) | Middleton, WI | (608) 836-7998 |

**FREE-STANDING SKILLED NURSING**

**SUBSIDIZED SENIOR HOUSING**

See Attached List of HUD Operations

***PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

**SINGLE-SITE FACILITY**
**FINANCIAL DISCLOSURE STATEMENT**
**FACILITY NAME: University Retirement Community**

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **INCOME FROM ONGOING OPERATIONS** | | | | |
| **OPERATING INCOME** (excluding amortization of entrance fee income) | 19,179,000 | 16,200,491 | 17,394,135 | 18,682,517 |
| **LESS OPERATING EXPENSES** (excluding depreciation, amortization, & interest) | 13,062,428 | 14,009,533 | 14,804,579 | 15,505,751 |
| **NET INCOME FROM OPERATIONS** | 6,116,572 | 2,190,958 | 2,589,556 | 3,176,766 |
| **LESS INTEREST EXPENSE** | 2,066,749 | 1,898,747 | 1,852,600 | 1,591,127 |
| **PLUS CONTRIBUTIONS** | - | - | 59,731 | 89,107 |
| **PLUS NON-OPERATING INCOME (EXPENSES)** (excluding extraordinary items) | (5,012,116) | (212,307) | 896,131 | 532,913 |
| **NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION** | (962,293) | 79,904 | 1,813,435 | 1,439,613 |
| **NET CASH FLOW FROM ENTRANCE FEES** (Total Deposits Less Refunds) | 5,269,306 | 5,531,110 | 10,607,600 | 3,450,150 |

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|---|---|---|---|---|---|
| Series 2013 Variable Rate Bonds ( B of A) | 32,828,000 | 1.39% | 8/29/2013 | 11/01/2033 | 20 Years |

**FINANCIAL RATIOS (see next page for ratio formulas)**

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **DEBT TO ASSET RATIO** | 0.45 | 0.45 | 0.40 | 0.37 |
| **OPERATING RATIO** | 0.79 | 0.98 | 0.96 | 0.92 |
| **DEBT SERVICE COVERAGE RATIO** | 0.83 | 2.85 | 4.21 | 3.42 |
| **DAYS CASH-ON-HAND RATIO** | 409.85 | 651.84 | 648.65 | 692.84 |

**HISTORICAL MONTHLY SERVICE FEES**
AVERAGE FEE AND PERCENT CHANGE

| | 2010 | % | 2011 | % | 2013 | % | 2014 | % |
|---|---|---|---|---|---|---|---|---|
| STUDIO | $ - | | $ - | | $ - | | $ - | |
| ONE BEDROOM | $ 3,256.33 | 4.75% | $ 2,925.00 | 3.00% | $ 3,028.00 | 3.50% | $ 3,220.00 | 3.00% |
| TWO & THREE BEDROOM | $ 3,823.29 | 4.75% | $ 3,970.00 | 3.00% | $ 4,109.00 | 3.50% | $ 4,370.00 | 3.00% |
| COTTAGE/GARDEN APT | $ 4,173.67 | 4.75% | $ 4,299.00 | 3.00% | $ 4,449.00 | 3.50% | $ 4,732.00 | 3.00% |
| ASSISTED LIVING | $ 4,704.00 | 6.00% | $ 4,746.00 | 3.00% | $ 4,997.00 | 4.50% | $ 5,087.00 | 3.00% |
| SKILLED NURSING | $ 5,704.00 | 7.00% | $ 5,810.00 | 4.00% | $ 6,083.00 | 4.50% | $ 6,570.00 | 3.25% |
| SPECIAL CARE | $ 5,297.00 | 6.00% | $ 5,521.00 | 4.00% | $ 5,764.00 | 4.50% | $ 6,190.00 | 2.75% |

**COMMENTS FROM PROVIDER:**

**Provider Name: University Retirement Community at Davis**

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\text{Total Operating Expenses} \;\text{--Depreciation Expense} \;\text{--Amortization Expense}}{\text{Total Operating Revenues} \;\text{--Amortization of Deferred Revenue}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} \;\text{+Interest, Depreciation, and Amortization Expenses} \;\text{--Amortization of Deferred Revenue} \;\text{+ Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} \;\text{+ Unrestricted Non-Current Cash And Investments}}{\text{(Operating Expenses - Depreciation -Amortization)/365}}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.