PACIFIC RETIREMENT SERVICES, INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pacific Retirement Services, Inc. and Affiliates
Medford, Oregon

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pacific Retirement Services, Inc. and Affiliates (collectively, the Organization), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities and changes in net assets (deficit), and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 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 auditors' 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 Pacific Retirement Services, Inc. and Affiliates as of September 30, 2018, and the results of their operations, changes in their net assets, and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities and changes in net assets (deficit) are presented for purposes of additional analysis and are not a required part of the 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. The information has been subjected to the auditing procedures applied in the audit of the 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 as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
January 30, 2019

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 44,931,524
Restricted Cash and Cash Equivalents	3,603,461
Investments	220,896,320
Accounts Receivable, Net	9,292,005
Supplies and Prepaid Expenses	5,384,385
Current Portion of Assets Restricted Under Bond Indenture Agreements	30,795,117
Other Current Assets	589,628
Total Current Assets	315,492,440
PROPERTY AND EQUIPMENT, NET	888,252,693
OTHER ASSETS	
Cash and Cash Equivalents - Escrow Entrance Fee Deposits	16,882,501
Assets Held in Trust	26,550,479
Mineral Assets	56,697,707
Long-Term Investments	1,691,402
Assets Restricted Under Bond Indenture Agreements, Net of Current Portion	234,687,235
Restricted Deposits	4,399,335
Receivables from Members, Noncurrent	160,410
Other Noncurrent Assets	11,089,918
Total Other Assets	352,158,987
Total Assets	$ 1,555,904,120
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	$ 30,926,416
Construction Accounts Payable and Accrued Expenses	3,986,850
Accrued Interest	16,230,476
Refundable Deposits	23,795,569
Current Portion of Long-Term Debt	13,358,203
Current Portion of Repayable Entrance Fees	15,907,979
Other Liabilities	2,258,406
Total Current Liabilities	106,463,899
OTHER LIABILITIES	
Long-Term Debt and Premium, Net of Current Portion	769,379,637
Less: Unamortized Debt Issuance Costs	(14,221,769)
Long-Term Debt, Net	755,157,868
Repayable Entrance Fees, Net of Current Portion	453,171,481
Deferred Revenue from Entrance Fees	226,493,831
Interest Rate Swap Agreements	6,656,609
Other Noncurrent Liabilities	1,957,823
Total Other Liabilities	1,443,437,612
Total Liabilities	1,549,901,511
NET ASSETS (DEFICIT)	
Unrestricted	(102,130,445)
Temporarily Restricted	84,943,621
Permanently Restricted	23,189,433
Total Net Deficit	6,002,609
Total Liabilities and Net Assets (Deficit)	$ 1,555,904,120

See accompanying Notes to Consolidated Financial Statements.

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED SEPTEMBER 30, 2018

OPERATING REVENUES	
Service Fees	$ 138,499,019
Health Center Revenue, Net	40,613,159
Transfer Fees	2,125,228
Change in Future Services Obligation	679,738
Entrance Fees Earned	26,777,030
Contributions	5,480,926
Investment Income	24,749,790
Royalty Income	7,051,135
Management Fee Revenue	3,038,779
Development Fee Revenue	174,705
Other Revenue	23,448,860
Subtotal	272,638,369
Net Assets Released from Restrictions	4,949,460
Total Operating Revenues	277,587,829
OPERATING EXPENSES	
Program Expenses:	
Dietary	39,146,531
Facility Services and Utilities	44,255,367
Health and Social Services	45,378,130
Memory Care	4,307,230
Assisted Living	7,823,006
Recreation and Activities	2,108,839
General and Administrative Expenses:	
Administrative and Marketing	46,438,173
Interest Expense and Financing Fees	21,590,208
Net Settlement Associated to Interest Rate Swap Agreements	1,529,666
Depreciation	31,683,553
Disbursement of Contributed Funds	2,460,692
Loss on Disposal of Property and Equipment	1,509,303
Other Expenses	2,068,753
Total Operating Expenses	250,299,451
OPERATING INCOME	27,288,378
NONOPERATING INCOME (LOSS)	
Unrealized Change in Value of Investments	(13,656,797)
Change in Fair Value of Mineral Assets	20,630,057
Change in Value of Interest Rate Swap and Cap Agreements	3,850,595
Other Nonoperating Income	(63,141)
Loss on Restructuring of Debt	(163,816)
Total Nonoperating Income	10,596,898
CHANGE IN UNRESTRICTED NET ASSETS (DEFICIT) BEFORE INCOME TAXES	37,885,276
INCOME TAX EXPENSE	(79,203)
CHANGE IN UNRESTRICTED NET ASSETS (DEFICIT)	37,806,073

See accompanying Notes to Consolidated Financial Statements.

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2018

TEMPORARILY RESTRICTED NET ASSETS	
Contributions	$ 10,166,470
Royalty Income	1,793,322
Actuarial Gain on Gift Annuities Receivable	8,623
Investment Income	632,549
Disbursement of Contributed Funds	(139,597)
Unrealized Change in Value of Investments	(310,128)
Change in Fair Value of Split Interest Trusts	402,194
Net Assets Released from Restrictions	(4,949,460)
Change in Temporarily Restricted Net Assets	7,603,973
PERMANENTLY RESTRICTED NET ASSETS	
Contributions	1,428
Investment Income	1,776
Change in Fair Value of Perpetual Trusts	(5,833,016)
Change in Permanently Restricted Net Assets	(5,829,812)
CHANGE IN NET ASSETS (DEFICIT)	39,580,234
Net Assets (Deficit) - Beginning of Year	(33,577,625)
NET ASSETS (DEFICIT) - END OF YEAR	$ 6,002,609

See accompanying Notes to Consolidated Financial Statements.

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets (Deficit)	$ 39,580,234
Adjustments to Reconcile Change in Net Assets (Deficit) to	
Net Cash Provided by Operating Activities:	
Depreciation	31,683,553
Amortization of Debt Issuance Costs	649,301
Amortization of Bond Premium	(348,725)
Amortization of Prepaid Lease	54,887
Capital Contributions	(38,613)
Change in Value of Interest Rate Swap and Cap Agreements	(3,850,595)
Nonrepayable Entrance Fees Received	48,203,527
Nonrepayable Entrance Fees Repaid	(1,607,469)
Entrance Fees Earned	(26,777,030)
Entrance Fees Board Adjustment Valuation Liability Paid	(11,295)
Change in Value of Future Services Obligation	(679,738)
Unrealized Change in Value of Investments and Assets Held in Trust	13,966,925
Realized Gain and Reinvested Income	(25,393,820)
Change in Fair Value of Assets Held in Trust	3,637,501
Change in Fair Value of Mineral Assets	(20,630,057)
Actuarial Changes on Gift Annuities Receivable	17,206
Loss on Disposal of Property and Equipment	1,683,303
Loss on Restructuring of Debt	163,816
Net Change in:	
Accounts Receivable, Net	554,137
Notes Receivable	(12,084)
Supplies and Prepaid Expenses	(1,123,117)
Other Noncurrent Assets	(6,951,353)
Accounts Payable and Accrued Expenses	2,590,213
Accrued Interest	(299,711)
Escrow Entrance Fee, Restricted and Refundable Deposits	889,384
Other Liabilities	(2,749,810)
Net Cash Provided by Operating Activities	53,200,570
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(84,444,963)
Proceeds from Sale of Property and Equipment	13,002
Purchase of Investments	(224,809,703)
Proceeds from Sale of Investments	231,533,082
Cash Receipts from Assets Held in Trust	1,716,565
Change in Reserve Funds	61,679
Change in Receivables from Members, Noncurrent	(48,174)
Change in Assets Restricted under Bond Indenture Agreements	(213,652,940)
Net Cash Used by Investing Activities	(289,631,452)

See accompanying Notes to Consolidated Financial Statements.

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2018

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Issuance of Long-Term Debt	$ 249,602,788
Repayments of Long-Term Debt	(43,689,006)
Cost of Debt Issuance	(4,507,559)
Proceeds from Escrow Entrance Fee Deposits, Net	15,095,552
Repayable Entrance Fees Received	52,246,728
Repayable Entrance Fees Repaid	(31,664,457)
Net Cash Provided by Financing Activities	237,084,046
NET INCREASE IN CASH AND CASH EQUIVALENTS	653,164
Cash and Cash Equivalents - Beginning of Year	64,764,322
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 65,417,486
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash and Cash Equivalents	$ 44,931,524
Restricted Cash and Cash Equivalents	3,603,461
Cash and Cash Equivalents - Escrow Entrance Fee Deposits	16,882,501
Total Cash and Cash Equivalents	$ 65,417,486
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid During the Year for Interest and Letter of Credit Fees	$ 24,981,329
Cash Paid for Income Taxes	$ 95,889
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Property and Equipment Financed with Accounts Payable and Accrued Expenses	$ 9,942,366
Capital Contributions	$ 38,613

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pacific Retirement Services, Inc. (PRS) was founded as a private, nonprofit, 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 are not an obligated group, and the obligations of each corporation are satisfied solely from that corporation's assets.

The accompanying consolidated financial statements include the accounts of PRS and the following related corporations, all of which are under common governance and are referred to as the Organization:

Life Plan Communities (LPCs):

- Rogue Valley Manor (RVM) (including Rogue Valley Manor Foundation, Inc.);
- The Cumberland Rest, Inc. dba: Trinity Terrace (Trinity Terrace) (including Trinity Terrace Foundation, Inc.);
- Cascade Manor, Inc. (Cascade Manor) (including Cascade Manor Foundation, Inc.);
- Holladay Park Plaza, Inc. (HPP) (including Holladay Park Plaza Foundation, Inc.);
- University Retirement Community at Davis, Inc. (URCAD) (including University Retirement Community at Davis Foundation, Inc.);
- Capitol Lakes, Inc. (Capitol Lakes) (including Capitol Lakes Foundation, Inc., Middleton Glen, Inc. [Middleton Glen] and Senior Housing of Middleton, Inc. [Senior Housing]);
- Mirabella (Mirabella Seattle) (including Mirabella Washington Foundation, dba: Mirabella Seattle Foundation);
- Mirabella at South Waterfront (Mirabella Portland) (including Mirabella Portland Foundation, Inc.);
- Mirabella at ASU, Inc. (Mirabella ASU);
- Bay Area Senior Services, Inc. (BASS) dba: The Peninsula Regent (TPR).

Other affiliates:

- 25 Affordable Housing Corporations under various corporate names (AHC);
- Community Volunteer Network (CVN);
- PRS Property Holdings, LLC (included in PRS);
- Crest Park, Incorporated (Crest Park) (including Roxy Ann Peak, LLC);
- Pacific Retirement Services Foundation (PRS Foundation) (included in PRS);
- PRS Management, Inc. (PRS MI) (including PRS Management & Consulting, LLC, and The Centennial, Inc.).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Pacific Retirement Services, Inc., RVM, Trinity Terrace, Cascade Manor, HPP, URCAD, Capitol Lakes, Mirabella Seattle, Mirabella Portland, Mirabella ASU, BASS, AHC, CVN, Crest Park, and PRS MI (collectively referred to as the Organization). 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 deficit as reflected in the accompanying consolidated statement of activities and changes in net deficit, is the performance indicator. Change in unrestricted net deficit includes all changes in unrestricted net deficit, including unrealized change in value of trading investments, change in value of mineral assets, change in value of interest rate swap and cap agreements, other nonoperating income expenses incurred as a result of bankruptcy filing, and excluding receipt of restricted contributions, royalty income, actuarial gain on gift annuities, change in fair value of perpetual trusts 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, certificate of deposits, money market accounts, commercial paper, 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.

Restricted Cash and Cash Equivalents

Restricted Cash represents amounts funded by PRS as collateral for a letter of credit required by the bond financing for Mirabella ASU. Under the terms of the Series 2017 bond issuance (see Note 7), PRS executed a Liquidity Support Agreement, pursuant to which PRS agreed to periodically fund up to $8,000,000 in liquidity support. Such funds are designated for working capital purposes (including debt service) and 2017 project costs. The guaranty amount required under the Liquidity Support Agreement reduces incrementally to $0 upon satisfaction of certain covenants following commencement of operations, at which time unused funds will be returned to PRS. At September 30, 2018, $3,603,461 of the $8,000,000 requirement has been funded.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Organization provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. The Organization receives payment for health services from residents, insurance companies, Medicare, Medicaid, and other third-party payors. As a result, the Organization is exposed to certain credit risks. The Organization 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 revenues 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.

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 a Trustee (see Note 3). If, on any payment date, a corporation is deficient in payment of principal and interest, the Trustee is required to transfer money from the Debt Service Reserve Fund to eliminate such deficiency. If money is withdrawn, the corporation is then obligated to make additional deposits into the Debt Service Reserve Fund to maintain its balance in the amount equal to the bond reserve requirements.

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. The Organization capitalizes fixed assets with a cost of at least $2,000, with the exception of AHC and CVN, whom capitalize fixed assets with a cost of at least $1,500. 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 5 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 or expense 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, 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents – Escrow Entrance Fee Deposits

Mirabella ASU requires each applicant for residency to pay a $1,000 wait list deposit. The wait list deposit is fully refundable, or will be applied to the 10% entrance fee deposit if the prospective resident's application is approved and an apartment is reserved. Mirabella ASU has collected entrance fee deposits from prospective residents of Mirabella ASU equal to 10% of the entrance fee for the selected independent living apartment. These entrance fee deposits are credited to the required entrance fee upon move-in to the independent living apartments of Mirabella ASU. These entrance fee deposits are maintained in separate escrow accounts. If the prospective resident terminates the reservation agreement prior to occupancy, the full amount is refunded to the prospective resident within 30 days.

At September 30, 2018, escrow entrance fee deposits were $16,882,501. There is a corresponding liability, other noncurrent liabilities, on the statement of financial position.

Assets Held in Trust

Assets held in trust include perpetual trusts. Trusts are designated to manage the leasing of mineral assets and investments into perpetuity. Mineral income and valuations are determined based on the production of wells, the price of oil, and leasing terms. 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.

Mineral Assets

Mineral assets consist of oil and gas mineral rights located in Texas, New Mexico, and Oklahoma, which are reported at estimated fair value (see Note 13). Distributions are reported as royalty income and changes of the estimated fair value of mineral assets are reported as nonoperating income (loss) in the consolidated statement of activities and changes in net assets (deficit).

Restricted Deposits

Restricted deposits represent amounts required by the Department of Housing and Urban Development (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 at the AHC's. Both tenant security deposits and unemployment deposits include an offsetting liability, called Refundable Deposits, in the consolidated statement of financial position.

In addition, restricted deposits represent segregated accounts established by Capitol Lakes. See Note 6 for a summary of restricted deposit amounts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables from Members, Noncurrent

As a nonprofit corporation, The Peninsula Regent (TPR) does not terminate membership agreements when Members experience financial difficulties and are unable to fully pay their monthly fees. Instead, a reduced fee is arranged based on each Member's ability to pay, as determined by TPR. The monthly fee reduction under this arrangement is treated as a loan from TPR, which is secured by the member's interest in their condominium and is to be repaid upon the sale of the condominium, along with interest. It is possible that the advances could exceed the sales value of the condominium. Management believes that none of the current advances outstanding, which total $160,410 as of September 30, 2018, exceed the sales value of the Members' condominiums.

Other Noncurrent Assets

The Organization has other noncurrent assets, which include investments in the One West Main building and One West Main, LLC; investment in Caring Communities Reciprocal Risk Retention Group, and a prepaid amount for a waste treatment upgrade. The Organization has title to the third floor of the One West Main building, consisting of office space for PRS and PRS MI staff, as well as commercial space for lease. Roxy Ann Peak, LLC is one of three members of One West Main, LLC, which owns the ground floor and common areas of the One West Main building. PRS has a member savings account with Caring Communities. Mirabella Seattle has an amount that was prepaid and will be amortized to expense over multiple future years for a waste treatment upgrade. RVM has other noncurrent assets which include master plan and urban growth boundary assets, shown net of amortization, assets of the pharmacy, and donated art received from RVM Foundation. MASU has other noncurrent assets which include a prepaid land lease.

Refundable Deposits

Applicants for residency pay wait list and entrance fee deposits, which vary in amount, prior to occupancy. Generally, depositors may cancel their reservation agreements at any time prior to admission and receive partial to full repayment of their deposits, in accordance with their reservation agreements. Refundable deposits also include the deposits held on leased spaces, and tenant security deposits held by the AHC's.

Deferred Revenue from Entrance Fees

Nonrepayable fees paid by a resident upon entering into a life plan contract are recorded as deferred revenue. The Organization has multiple life plan contracts, which include repayable amounts ranging from 50% to 100% and nonrepayable contracts. The repayable portion of the entrance fee for these types of contracts is not amortized to income and is described in the following paragraph. The nonrepayable deferred entrance fees are amortized to income over the estimated remaining actuarial life expectancy of the resident. Amounts amortized to income relating to these types of contracts were $26,777,030 for the year ended September 30, 2018, and are included in entrance fees earned in the consolidated statements of activities and changes in net assets (deficit). At September 30, 2018, the Organization had nonrepayable entrance fees of $226,493,831, related to entrance fees received that will be recognized as revenue in future years.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Repayable Entrance Fees

Repayable contracts are 50% to 100% repayable according to the provisions of the respective contract. The repayable portion of entrance fees as of September 30, 2018 was $469,079,460. Of the repayable portion, $15,907,979 was due to residents as included in current portion of repayable entrance fees and will be repaid according to the provisions of the respective contracts. Actual refunds of such entrance fees were $31,664,457 for the year ended September 30, 2018.

Future Services Obligation

The Organization annually calculates each Life Plan Community's (LPC) 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 plus the present value of future monthly fees to be received from current residents. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees plus the present value of future monthly fees to be received from current residents, a liability is recorded (future services obligation) with the corresponding charge to expense. The obligation is discounted at 5.5% for 2018. At September 30, 2018, the future services obligation was $-0-.

Derivative Instruments

The Organization has several derivative instruments, which include three interest rate swaps and three interest rate cap agreements (see Note 8). The swap and cap agreements are recorded on the consolidated 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 income (loss) on the consolidated 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 consolidated statements 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, 2018 was $-0-.

Other Liabilities

In July 2016, Mirabella Seattle entered into a settlement agreement with Lehman Brothers Special Financing, Inc. (LBSF) under which Mirabella Seattle agreed to pay LBSF $5,400,000 according to a defined payment schedule. As of September 30, 2018, $1,400,000 was outstanding and included in other current and long-term liabilities, with the final payment due October 7, 2019.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Deficit)

The Organization reports three classifications of net assets (deficit). A description of each classification of net assets is as follows:

Unrestricted

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

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 other projects as designated by the donors.

Permanently Restricted

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 (see Note 11).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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.

Transfer Fees

Upon the resale of a condominium, TPR is entitled to a transfer fee equal to 10% of the seller's purchase price plus 75% of any realized appreciation. Revenue is recognized in the period in which the condominium sale takes place. Pursuant to various agreements, TPR allocates portions of earned transfer fees as shown below.

	January 1, 2018 to September 30, 2018 Share	October 1, 2017 to December 31, 2017 Share
Marketing Agreement	0.00%	5.00%
Management Agreement	25.00	23.75
Lease Agreement	75.00	71.25
Total	100.00%	100.00%

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. The Organization recorded charity care of $1,740,567 for the year ended September 30, 2018.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated 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 consolidated financial statements. When temporarily restricted contributions are disbursed, they are reported as disbursement of contributed funds on the consolidated statement of activities and changes in net assets (deficit).

Tax-Exempt Status

PRS and all affiliates of the Organization in which there is operating activity, except for Crest Park and PRS MI (taxable entities), have been recognized by the Internal Revenue Service as nonprofit 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 consolidated statement of activities and changes in net assets (deficit) for the two taxable entities.

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, 2018, there were no such uncertain tax positions.

Deferred Taxes

As of September 30, 2018, the taxable entities have a deferred tax asset of approximately $2,300,000 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, 2018, a valuation allowance has been recorded in the amount of $2,300,000. Operating losses will expire between 2019 and 2035 if not utilized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (FDIC) and the Securities Investor Protection Corporation (SIPC), 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 Organization granting credit without collateral to its residents and patients, most of whom are local residents and may be insured under third-party payor agreements. See Note 2 for the mix of receivables from residents and third-party payors as of September 30, 2018.

Workers' Compensation Insurance

All but three 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 year-end. 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, 2018. Trinity Terrace has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2018, and has made no accrual in its best estimate of claims incurred but not yet reported.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Workers' Compensation Insurance (Continued)

Mirabella Seattle 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 Seattle and are based on the hours worked by employees multiplied by a rate which varies based on the job function of an employee. Mirabella Seattle 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 Seattle has accrued no liability in its best estimate of the cost of known claims incurred prior to September 30, 2018, and has made no accrual in its best estimate of claims incurred but not yet reported.

The Peninsula Regent (TPR) has coverage through GuardianComp, Inc., a California corporation. Under the policy, premiums are paid based on estimated annual payroll amounts, which are trued up at each year-end. All claims are covered under the policy. Should the 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 policy.

Professional, Medical Malpractice, 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, 2018 to January 1, 2019).

Certain corporations within the Organization (PRS, RVM, Trinity Terrace, HPP, Capitol Lakes, URCAD, Mirabella Seattle, and BASS) also secured an excess professional and general liability insurance policy with limits of $10,000,000 per claim and $20,000,000 aggregate per policy period (January 1, 2018 to January 1, 2019).

Other corporations within the organization (Cascade Manor and Mirabella Portland) secured an excess professional and general liability insurance policy with limits of $5,000,000 per claim and $20,000,000 aggregate per policy period (January 1, 2018 to January 1, 2019).

In addition, RVM, on behalf of its three employed physicians, has secured claims-made policies for medical malpractice insurance with no retention with coverage limits of $1,000,000 per claim, and $3,000,000 in aggregate per policy period (Physician 1 – March 8, 2018 to March 8, 2019; Physician 2 – September 21, 2018 to September 21, 2019; Physician 3 – August 16, 2018 to August 16, 2019).

The Organization has accrued approximately $145,000 in its best estimate of the cost of known claims incurred prior to September 30, 2018. In addition, the Organization has accrued no liability as of September 30, 2018, in its best estimate of the cost of claims incurred but not yet reported.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

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. See Note 13 for fair value hierarchy disclosure.

Advertising

The Organization expenses advertising costs as incurred. The Organization's advertising expense for the year ended September 30, 2018 was $2,427,700.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2018 consisted of the following:

	Amount	Percentage
Resident Monthly Fees	$ 2,712,504	27%
Medicare	2,561,452	25
Secondary Insurance	2,083,253	21
Entrance Fees	1,353,571	13
Medicaid	214,687	2
Other Receivables	1,246,538	12
Total Accounts Receivable	10,172,005	100%
Less: Allowance for Doubtful Accounts	(880,000)	
Accounts Receivable, Net	$ 9,292,005	

NOTE 3 ASSETS RESTRICTED UNDER BOND INDENTURE AGREEMENTS

Assets restricted under bond indenture agreements at September 30, 2018 consisted of the current portion and noncurrent portion as follows:

Current portion:

Debt Service Reserve Funds	$ 12,069,078
Operating Reserve Funds	6,981,968
Other Various Funds	11,744,071
Assets Restricted under Bond Indenture Agreements	$ 30,795,117

Noncurrent portion:

Bond Project Clearing Fund	$ 163,092,714
Debt Service Reserve Funds	37,099,578
Bond Interest Fund	28,377,796
Bond Working Capital	4,937,035
Refund Shortfall Funds	1,078,994
Other Various Funds	101,118
Assets Restricted under Bond Indenture Agreements	$ 234,687,235

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2018 consisted of the following:

Land	$ 76,691,537
Buildings and Land Improvements	1,090,816,729
Equipment and Furnishings	79,579,909
Subtotal	1,247,088,175
Less: Accumulated Depreciation	(447,044,988)
Subtotal	800,043,187
Construction in Progress	88,209,506
Property and Equipment, Net	$ 888,252,693

Interest costs incurred on borrowed funds during the construction of capital assets are capitalized as a component of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation.

NOTE 4 PROPERTY AND EQUIPMENT (CONTINUED)

Construction in progress at September 30, 2018 includes costs related to various routine continued apartment remodeling and other capital improvements at the LPC's, which are funded by operations. In addition, the LPC's have the following capital project activity:

RVM

RVM had construction in progress at September 30, 2018 of approximately $18.4 million related to a memory care construction project that will be completed in fiscal year 2019. Total costs of the project are expected to be approximately $18.5 million, which are being funded by operations.

Trinity Terrace

Trinity Terrace had construction in progress at September 30, 2018 consisted of ongoing routine facility improvements and unit renovations, which are funded by operations. During the year ended September 30, 2018, Trinity Terrace began a Dining Room and Health Center Renovation. Total project costs included in CIP were approximately $6.1 million. The total project budget is approximately $10.5 million. The project is being funded by operations and is expected to be completed in 2019.

URCAD

URCAD had construction in progress at September 30, 2018 related primarily to a health care center expansion project that is expected to be completed in calendar year 2018. Total costs as of September 30, 2018 were approximately $8.6 million with a total project budget of approximately $8.9 million. All construction in progress is currently being funded by operations.

Mirabella at ASU

Mirabella ASU is constructing a 304-unit LPC on a 1.89-acre site in Tempe, Arizona. The LPC is planned to include 252 independent living residential apartments, 11 assisted living apartments, 20 memory care units, and 21 private skilled nursing beds and related common and administrative areas. Nine of the independent living apartments are designed to be converted to assisted living units in the future as the need for additional assisted living units arises.

The LPC will include four dining venues, together with an indoor pool and wellness center, an auditorium, a library, and underground parking. During the year ended September 30, 2018, $11,415,709 of the total Development Fee and Consulting Fee of $13,358,309 was capitalized into construction in progress. The total cost of the project is expected to be approximately $296 million and the project is expected to be completed in the fall of 2020. The project is being funded by contributions from affiliates and proceeds from the issuance of long-term debt (see Note 7).

Interest expense for the year ended September 30, 2018 of $10,136,787 has been capitalized into construction in progress. The interest expense capitalized for the year ended September 30, 2018 was capitalized net of interest income of $2,750,919.

NOTE 5 ASSETS HELD IN TRUST

Assets held in trust represent the principal and earnings of perpetual trusts whose assets and distribution of income are controlled by third-party trustees. 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.

Trinity Terrace is the beneficiary to three perpetual trusts. In accordance with standard accounting guidance for 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.

Additionally, resident funds are held in trust for certain health care and assisted living residents.

The trust assets at September 30, 2018 have been stated at estimated fair market value:

Hutt Trust	$ 20,131,054
Stonestreet Trust	5,577,484
Martin Trust	784,010
Harrison Trust	40,000
Resident Trust Funds	17,931
Total Assets Held in Trust	$ 26,550,479

The net trust asset activity for the year ended September 30, 2018 is comprised of the following:

Beginning Balance	$ 31,905,561
Change in Fair Value	(3,417,656)
Trustee Fees	(220,861)
Cash Received from Assets Held in Trust	(1,716,565)
Ending Balance	$ 26,550,479

NOTE 6 RESTRICTED DEPOSITS

Restricted deposits at September 30, 2018 consisted of the following:

	Capitol Lakes	AHC	Total
Reserve for Replacement	$ -	$ 2,833,634	$ 2,833,634
Entrance Fee Repayment Reserve	832,969	-	832,969
Tenant Security Deposits	-	287,489	287,489
Escrow Deposits	-	190,517	190,517
Unemployment Deposits	-	149,614	149,614
Residual Receipts Reserve	-	100,756	100,756
Minimum Capital Investment	-	4,356	4,356
Total Restricted Deposits	$ 832,969	$ 3,566,366	$ 4,399,335

NOTE 7 LONG-TERM DEBT

Long-term debt at September 30, 2018 consisted of the following:

Description	Amount
Life Plan Communities	
Bonds	$ 685,780,145
Credit and Security Agreement	49,729,327
Loans	30,930,000
Note Payable	578,961
Affordable Housing Corporation	
Mortgage Notes Payable	3,823,586
Crest Park Incorporated	
Roxy Ann Peak Loan	5,209,782
Total Long-Term Debt	776,051,801
Add: Unamortized Premium	6,686,039
Subtotal	782,737,840
Less: Unamortized Debt Issuance Costs	(14,221,769)
Less: Current Portion	(13,358,203)
Long-Term Debt, Net	$ 755,157,868

Aggregate maturities of long-term debt are as follows:

Year Ending September 30,	Amount
2019	$ 13,358,203
2020	12,249,372
2021	12,656,343
2022	32,029,394
2023	104,913,255
Thereafter	600,845,234
Total	$ 776,051,801

Unamortized Debt Issuance Costs

Issue costs relating to the bond issues, mortgage notes and loans as shown above total $14,221,769, and were reported as a direct reduction of the carrying amount of debt. Unamortized debt issuance costs are amortized over the term of the debt. For the year ended September 30, 2018, amortization expense was $649,301 and accumulated amortization was $3,543,773. Amortization expense of $274,882 was capitalized as part of construction in progress for Mirabella ASU.

NOTE 7 LONG-TERM DEBT (CONTINUED)

The terms of the Organization's outstanding long-term debt at September 30 related to numerous bonds and notes payable are discussed in the following paragraphs. In addition, certain Corporations of the Organization have entered into interest rate swap and cap agreements (see Note 8).

RVM

Series 2013A Fixed Rate Revenue Refunding Bonds

On April 4, 2013, the Hospital Facilities Authority of the City of Medford, Oregon (the Authority) 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. The bonds were issued at a premium of $3,244,303 and bear interest at a fixed rate of 4.85%.

The bonds are secured by a bond trust indenture between the Authority and the Trustee (U.S. Bank National Association). 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.

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 Bank of America. 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 has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with U.S. Bank National Association, as master trustee, and the associated deed of trust.

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, 2018.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Trinity Terrace

Series 2014A 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. The amortization of the bond in 2017 and 2018 are based on anticipated receipts of entrance fees and actual amortization of the bond in those years may differ from the assumed amortization due to the timing differences in the entrance fee.

Compass 2014 Tax Exempt Loan

On December 18, 2014, Tarrant County Cultural Education Facilities Finance Corporation issued a $45,000,000 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 known as the River Tower. The interest rate as of September 30, 2018 was 2.60%. The loan agreement included $20,000,000 in short-term principal payments to be paid with initial entrance fees, and a long-term portion of $25,000,000 with a final maturity date of December 2024. As of September 30, 2018, Trinity Terrace has drawn $45,000,000. As of September 30, 2018, initial entrance fees of $14,070,000 were used to pay down the loan. In September 2018 Compass Mortgage Corporation amended the original loan agreement, amortizing $5,930,000 to be repaid beginning December 2019 with a final maturity date of December 2025.

Trinity Terrace has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with the U.S. Bank National Association, as master trustee, and the associated deed of trust.

The Series 2014A Revenue bonds and the 2014 Tax Exempt Loan agreements also contain 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, 2018.

Cascade Manor

Series 2014 Revenue Refunding Bonds

On October 15, 2014, the Hospital Facilities Authority of the City of Medford, Oregon, issued $33,842,000 of Series 2014 revenue refunding bonds (Series 2014 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%. The purpose of the Series 2014 bonds is to refinance the Series 2010 variable rate demand revenue refunding bonds and to finance, develop, construct and equip a 30-unit expansion commonly known as 29th Place, certain improvements to Cascade Manor's existing facility, and pay for certain costs of issuance of the bonds.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Cascade Manor (Continued)

Series 2014 Revenue Refunding Bonds (Continued)

The bonds are subject to optional and required redemption provisions. Initial entrance fees collected as of September 30, 2018 of $-0- were remitted as principal payments on the Series 2014 Bonds in accordance with the Continuing Covenant Agreement. Under the terms of the Continuing Covenant Agreement, the total minimum debt redemption requirement related to the initial entrance fees was $11,271,000. As a result of the shortfall in collection of initial entrance fees of $629,000 of principal payments was paid during September 2018.

Cascade Manor has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the bonds described above.

The Series 2014 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, 2018.

URCAD

Series 2013 Variable Rate Demand Revenue Refunding Bonds

On August 29, 2013, the California Statewide Communities Development Authority (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 10-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, 2018, was approximately 2.56%.

URCAD has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with U.S. Bank National Association, as master trustee, and the associated deed of trust.

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, 2018.

NOTE 7 LONG-TERM DEBT (CONTINUED)

HPP

Series 2010 Revenue Refunding Bonds

On December 23, 2010, The Hospital Facility 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 Internal Revenue Code 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 (2.256% at September 30, 2018) plus an applicable margin of 1.376%. The Series 2010 bonds are subject to a put provision beginning 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 North, 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 purchaser of the bonds). The Series 2013A bonds shall bear an initial rate of 65% of the one-month LIBOR plus 1.3923%.

HPP has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with U.S. Bank National Association, as master trustee, and the associated deed of trust.

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, 2018.

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.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Mirabella Portland (Continued)

Series 2014A Revenue Refunding Bonds (Continued)

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 and (ii) the funds established under the bond indenture.

Mirabella Portland has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with U.S. Bank National Association, as master trustee, and the associated deed of trust.

Mirabella Portland is subject to financial covenants including a debt service coverage ratio, a debt service reserve requirement, and a minimum days cash-on-hand requirement. Management believes that Mirabella Portland was in compliance with all of these covenants as of and for the year ended September 30, 2018.

Mirabella Seattle

Series 2012 Bonds and 2006AR Subordinate Bonds

On December 27, 2012, the Washington State Housing Finance Commission (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 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 Seattle 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.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Mirabella Seattle (Continued)

Series 2012 Bonds and 2006AR Subordinate Bonds (Continued)

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 reissued as Series 2006AR Subordinate Bonds, which are secured by a Series 2006AR subordinate note. Interest is accrued on the Subordinate Bonds pursuant to the terms of the Indenture. The outstanding principal and accrued interest on the Series 2006AR Bonds were $32,569,894 at September 30, 2018, which carried an interest rate of 1% as of September 30, 2018.

Mirabella Seattle has granted a security interest and lien on certain real property, improvements, and tangible personal property in connection with the Bonds described above. The security interest and lien are described in the Master Trust Indenture entered into with U.S. Bank National Association, as master trustee, and the associated deed of trust.

The Series 2006AR and 2012 Bonds also contain provisions regarding the maintenance of certain covenants and financial ratios, which include a debt service coverage ratio, a debt service reserve requirement, an operating reserve requirement, an occupancy requirement, a management fee cap, and a minimum days cash on hand requirement, which began during the 2015 fiscal year. Management believes Mirabella was in compliance with all provisions as of September 30, 2018.

Stern Note Payable

Mirabella Seattle entered into an agreement with Lela O. Stern as a part of the land purchase for Mirabella Seattle 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 2022, and 2030 for inflation, based on an inception present value of $660,000 and an interest rate of 4.96%.

Capitol Lakes

Credit and Security Agreement

Under the terms of the Credit and Security Agreement (the Agreement) between Capitol Lakes and Santander Bank, N.A. as administrative agent for itself and KBC Bank N.V., Capitol Lakes agreed to make quarterly payments over ten and a half years, calculated by taking one-quarter of $36,000,000 times the higher of 4.65% or the average of the Prime rate during any calendar quarter plus 1.15%, with any resulting increase in quarterly payments taken as a reduction against the final balloon payment due on March 31, 2027.

The credit and security agreement granted a security interest in all tangible and intangible property of Capitol Lakes as defined under the agreement.

Management believes Capitol Lakes is in compliance with all covenant provisions as of September 30, 2018.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Middleton Glen

Series 1998 Bonds

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 were issued at interest rates ranging from 4.40% to 5.90% and mature on October 1 through the year 2028.

Senior Housing

Series 2001 Bonds

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 and were issued at an adjustable interest rate. At September 30, 2018, the interest rate on the bonds was 3.90%.

The Series 2001 Bonds contain an option to the owner of the bond to tender the bonds on April 1, 2012. On December 31, 2017, Senior Housing entered into an Extension and Modification Agreement (the Agreement) with Johnson Bank (the Trustee). Among other modifications, the Agreement deferred the optional tender of the bonds to January 31, 2023, modified the applicable rate to 3.90% through January 31, 2023, and converts to a variable interest rate based on the five-year Treasury Rate plus 3% on February 1, 2023.

The bond indenture agreements contain provisions regarding the maintenance of certain covenants and financial ratios. Management believes that Senior Housing, Middleton Glen, and Capitol Lakes were in compliance with all provisions as of September 30, 2018.

Mirabella ASU

Series 2017 Bonds

On December 1, 2017, the Industrial Development Authority of the City of Tempe, Arizona (the Authority) issued Series 2017 Bonds, consisting of $82,155,000 in Series 2017A fixed rate bonds, $157,000,000 in Series 2017B fixed rate bonds, and $12,000,000 in Series 2017C subordinate fixed rate bonds pursuant to an Indenture Trust between the Authority and U.S. Bank National Association (the Trustee). The proceeds of the bonds are used to (i) fund the total construction project costs and pre-development costs, (ii) pay off the Piper Jaffray loan payable, (iii) fund the debt service reserve fund for the 2017A and 2017B Bonds, (iii) fund the capitalized interest fund to cover approximately 37 months of interest, (iv) fund the startup working capital funds, and (v) pay the costs of issuing the bonds.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Mirabella ASU (Continued)

Series 2017 Bonds (Continued)

The Series 2017A Bonds consisted of term bonds with interest rates that range from 5.50% to 6.125% and maturities that range from October 1, 2027 to October 1, 2052. The Series 2017A Bonds are subject to optional redemption prior to maturity by the Authority at the direction of Mirabella ASU in whole or in part on October 1, 2027, at the redemption price equal to the principal amount of such Series 2017A bonds to be redeemed, together with accrued interest to the redemption date.

The Series 2017B Bonds consisted of term bonds with interest rates that range from 4.00% to 5.35% and maturities that range from October 1, 2023 to October 1, 2025. The Series 2017B-1 Bonds are subject to optional redemption on October 1, 2020. The Series 2017B-2 Bonds are subject to optional redemption on April 1, 2021. The Series 2017B-3 Bonds are subject to optional redemption on October 1, 2021.

The Series 2017C Bonds consisted of term bonds with an interest rate of 6.09% and mature on October 1, 2037. Payment of principal of and interest on the Series 2017C Bonds is subordinate to payment of principal of and interest on the Series 2017A Bonds. No payment may be made on or with respect to the Series 2017C Bonds unless all payments of principal of and interest on the Series 2017A Bonds are current, Mirabella ASU is in compliance with all covenants under the Loan Agreement and the Master Indenture, and the Series 2017B Bonds have been fully redeemed. Interest on the Series 2017C Bonds is due on April 1 of each year, commencing April 1, 2018.

The Series 2017 Bonds were issued at a net premium of $379,712.

AHC Mortgage Notes Payable

AHC has three mortgage notes with a total principal balance of $3,823,586 at September 30, 2018. The notes mature between August 2035 and February 2049. At September 30, 2018, the interest rates on the notes ranged from 4.43% to 8.75%. The mortgage notes to HUD are secured by all real and personal property of the individual HUD project facilities.

Roxy Ann Peak Loan Payable

In 2015, Roxy Ann Peak, LLC entered into a loan agreement with Umpqua Bank, in the amount of $5,700,000. The loan has a fixed interest rate of 4.10% for the first five years. The interest rate will then be adjusted to a rate equal to the sum of the five-year long-term amortizing fixed-rate advance, as published by the Federal Home Loan Bank of Seattle, plus 2.50% per annum. The loan has a final maturity of March 10, 2025.

NOTE 8 INTEREST RATE SWAP AND CAP AGREEMENTS

RVM

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, 2018 was $21,357,500.

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 one-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 $17,259,000 at September 30, 2018.

Cascade Manor

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%.

URCAD

On November 1, 2005, URCAD 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 URCAD to manage interest rate risk on its variable rate bonds; however, it is not being accounted for as an effective hedge.

NOTE 8 INTEREST RATE SWAP AND CAP AGREEMENTS (CONTINUED)

URCAD (Continued)

Under this interest rate swap agreement, 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 three-month LIBOR (67% of LIBOR was approximately 1.61% at September 30, 2018) 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 $28,810,000 at September 30, 2018. This interest rate swap agreement will help URCAD manage its interest rate risk on its variable rate debt.

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

HPP

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 one-month LIBOR rate exceeds 3.45% (cap rate) during the term of the contract. If 65% of the one-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 one-month LIBOR rate exceeds the cap rate, 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 at September 30, 2017 was $6,277,500.

On October 22, 2015, HPP entered into an interest rate cap agreement with the Commonwealth Bank of Australia (Counterparty). This interest rate cap has a trade date of October 22, 2015, an effective date of November 5, 2015, and a termination date of October 1, 2023. This agreement was entered into for the benefit of HPP, to manage interest rate risk on its long-term debt.

Under this interest rate cap agreement, which has a notional amount of $15,000,000, HPP agreed to pay an upfront premium of $124,200 to the Counterparty in return for interest rate protection if 65% of the one-month LIBOR rate plus a spread of 1.39% exceeds 4.50% (cap rate) during the term of the contract. If 65% of the one-month LIBOR rate plus a spread of 1.39% exceeds 4.50% for a given month (reset at the beginning of each month), HPP will receive a payment from the Counterparty equal to the difference by which 65% of the one-month LIBOR rate plus a spread of 1.39% exceeds the cap rate, effectively capping the interest rate risk associated to the long-term debt.

NOTE 9 RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 consisted of the following:

AHC - Section 202, Capital Advance Program	$ 62,895,561
Life Plan Communities:	
Trinity Terrace - Stonestreet Trust	5,577,484
Trinity Terrace - Moore Trust	1,110,365
Trinity Terrace - Hutt Trust	566,185
Trinity Terrace - Other Funds	106,472
Life Plan Communities - Miscellaneous	14,468,492
Pacific Retirement Services	212,306
Others	6,756
Total Temporarily Restricted Net Assets	$ 84,943,621

Net assets released from temporary restrictions for the year ended September 30, 2018 were released for the following purposes:

Funds Released from Assets Held in Trust	$ 1,716,565
Employee Appreciation Fund	1,663,433
Resident Assistance Fund	596,351
Miscellaneous Other Funds	528,914
Employee Scholarships/Development Fund	265,915
Fairy Godmother Fund	68,800
Medical Transport Fund	59,374
Special Care/Memory Care Fund	25,357
Cultural/Spiritual Enrichment Fund	18,415
Health Center Fund	6,336
Total Temporary Net Assets Released from Restrictions	$ 4,949,460

Permanently restricted net assets at September 30, 2018 consisted of the following:

Life Plan Communities:	
Trinity Terrace - Hutt Trust	$ 19,564,869
Trinity Terrace - Martin Trust	784,010
Trinity Terrace - Moore Trust	581,038
Trinity Terrace - Harrison Trust	40,000
Life Plan Communities - Miscellaneous	2,204,875
PRS Foundation	14,641
Total Permanently Restricted Net Assets	$ 23,189,433

NOTE 9 RESTRICTED NET ASSETS (CONTINUED)

The Organization's endowment consists of various individual funds established for various purposes. Its endowment includes donor-restricted endowment funds. As required by ASC 958-205, *Not-for-Profit Entities*, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds 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 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 the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization, in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Trinity Terrace, PRS Foundation, RVM Foundation, HPP Foundation, and Capitol Lakes Foundation, consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources
- The investment policies

Changes in Endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ENDOWMENT NET ASSETS - SEPTEMBER 30, 2017	$ 995,512	$ 2,148,965	$ 2,216,314	$ 5,360,791
Investment Return:				
Investment Income, Net	-	47,371	1,777	49,148
Realized Gains	-	288,697	-	288,697
Unrealized Losses	-	(151,981)	-	(151,981)
Contributions	-	108,144	1,425	109,569
Appropriations of Endowment Assets for Expenditures	-	(410,730)	-	(410,730)
ENDOWMENT NET ASSETS - SEPTEMBER 30, 2018	$ 995,512	$ 2,030,466	$ 2,219,516	$ 5,245,494

NOTE 9 RESTRICTED NET ASSETS (CONTINUED)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the board, the endowment assets are invested in a manner that exceeds the consumer price index plus 4%. The respective foundations have an Investment Policy Statement that outlines their designated asset allocations.

Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 10 THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

For the year ended September 30, 2018, 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 consolidated financial position, the consolidated statement of activities and changes in net assets (deficit), or consolidated statement of cash flows of the Organization.

NOTE 11 OTHER REVENUE

Other revenue consisted of the following for the year ended September 30, 2018:

Urban Housing and Development Operations	$ 7,131,069
Other Miscellaneous	2,923,523
Private Duty	2,843,398
Food and Beverage	2,732,336
Golf Course Operations	2,553,204
Pharmacy	1,558,511
Medical Services	1,144,827
Lease/Rental	969,011
Facility Services	542,177
Garage and Carport	478,651
Guest Room	365,726
Parking	131,373
Application Fees	75,054
Total Other Revenue	$ 23,448,860

NOTE 12 INVESTMENT INCOME

Income from investments, assets restricted under bond indenture agreements, and cash and cash equivalents consisted of the following for the year ended September 30, 2018:

Realized Gain on Investments	$ 19,996,177
Dividends and Interest, Net of Investment Expense	5,387,938
Total Investment Income	$ 25,384,115

Investment income is reported net of investment expenses of $356,842 for the year ended September 30, 2018.

The total unrealized gains (losses) on investments was ($13,966,925) for the year ended September 30, 2018.

NOTE 13 FINANCIAL INSTRUMENTS

FASB Accounting Standards Codification (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 may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in 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 consolidated statement of financial position at September 30, 2018, 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.

NOTE 13 FINANCIAL INSTRUMENTS (CONTINUED)

Investments and Assets Restricted Under Bond Indenture Agreements: 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.

Mineral Assets: The Organization has interest in several trusts that contain mineral rights. The values of the mineral 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 values 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 is classified within Level 2 of the hierarchy.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis at September 30, 2018:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and Cash Equivalents	$ 257,539,433	$ -	$ -	$ 257,539,433
Domestic Equity:				
Mid Cap	20,811,422	-	-	20,811,422
Large Cap	57,652,645	-	-	57,652,645
International Equity:				
EAFE Equity	18,321,385	-	-	18,321,385
Developed	3,018,938	-	-	3,018,938
Emerging	8,111,811	-	-	8,111,811
Fixed Income:				
U.S. Fixed Income	111,594,754	-	-	111,594,754
Alternative Assets:				
Hedge Funds	13,453,858	-	-	13,453,858
Real Estate & Infrastructure	5,997,215	-	-	5,997,215
Hard Assets	1,603,363	-	-	1,603,363
Mineral Assets	-	-	77,612,771	77,612,771
Gift Annuity Receivable	-	180,165	-	180,165
Interest Rate Cap Agreement	-	25,401	-	25,401
Total Assets	$ 498,104,824	$ 205,566	$ 77,612,771	$ 575,923,161
Liabilities:				
Interest Rate Swap Agreement	$ -	$ 6,656,609	$ -	$ 6,656,609

NOTE 13 FINANCIAL INSTRUMENTS (CONTINUED)

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

	Oil and Gas Mineral Rights			
	Mineral Rights	Hutt Trust	Martin Trust	Total
Balance - September 30, 2017	$ 36,067,650	$ 25,864,981	$ 806,342	$ 62,738,973
Change in Fair Value of Mineral Assets	20,630,057	-	-	20,630,057
Royalty Income	7,051,135	1,763,991	29,232	8,844,358
Change in Fair Value of Split Interest Trust	-	(5,810,683)	(22,332)	(5,833,015)
Distribution and Royalty Income	(7,051,135)	(1,687,235)	(29,232)	(8,767,602)
Balance - September 30, 2018	$ 56,697,707	$ 20,131,054	$ 784,010	$ 77,612,771

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

Investments	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Mineral Assets	Multiples of Cash Flow	Annual Net Revenue Multiplier	5 - 12 (9)

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.

The financial instruments are classified in the consolidated statement of financial position at September 30, 2018:

Investments	$ 222,587,722
Assets Held in Trust	26,550,479
Mineral Assets	56,697,707
Assets Restricted Under Bond Indenture	265,482,352
Restricted Deposits	4,399,335
Gift Annuity Receivable	180,165
Interest Rate Cap Agreement	25,401
Total Assets	$ 575,923,161

NOTE 14 RETIREMENT PLANS

The Pacific Retirement Services, Inc. 401(k) Plan allows employees of all corporations of the Organization to defer funds from their compensation into the 401(k) plan. As well, safe harbor matching funds are provided by the employer to eligible employees based on the employee contributions up to a maximum of 4% of the employee's eligible annual compensation. Nonelective profit sharing contributions are also provided at the election of the employer and are based on a percentage of the qualified employee's eligible annual compensation, as defined by the plan.

Total contributions charged to expense were $4,666,461 for the year ended September 30, 2018.

NOTE 15 CAPITAL ADVANCES ON HUD PROJECTS

The AHC's have 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 the AHC 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 the AHC's properties and constitutes a valid first lien on the AHC's property improvements. The capital advances have been classified as temporarily restricted net assets.

NOTE 16 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 consolidated financial position of the Organization.

AHC operate 25 apartment complexes with a total of 1,095 units. The Facility's operations are concentrated in the multi-family 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 17 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, 2018, management believes RVM, Cascade Manor, HPP, and Mirabella Portland were in compliance with these reserve requirements.

NOTE 18 STATUTORY RESERVES

URCAD and BASS are certified as a Life Plan Community (LPC) by the State of California Department of Social Services. California Code Chapter 10, Article 6, Section 1792 requires LPCs to establish “liquid reserves” (cash, marketable securities, etc.) equal to, or greater than, the annual principal and interest payments on long-term obligations plus 75 days of the LPC’s adjusted operating expenses. URCAD and BASS’ liquid reserves at September 30, 2018 were sufficient to meet this requirement.

NOTE 19 MIRABELLA ASU

Organization

Mirabella ASU is an Arizona nonprofit corporation, which has been formed for the principal purpose of developing, owning and operating a life plan community in Tempe, Arizona. Mirabella ASU has been determined by the Internal Revenue Service to be exempt from federal income taxes to the extent provided by Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an organization described in Section 501(c)(3) of the Code. The Internal Revenue Service has determined Mirabella ASU to be a public charity under Section 509(a)(2) of the Code.

Mirabella ASU was formed on August 16, 2016, by an independent affiliate of Arizona State University, Mirabella ASU Tempe LLC, an Arizona limited liability company (MAT), and PRS. MAT is entirely owned by University Realty LLC, an Arizona limited liability company, which in turn is wholly owned by ASU Enterprise Partners, an Arizona nonprofit corporation that is exempt from tax as an organization described in Section 501(c)(3) of the Code and that is an independent affiliate of Arizona State University (ASU).

Since inception on August 16, 2016 through September 30, 2018, operations have been devoted to planning and development of the Project, obtaining licenses and permits, obtaining financing, and marketing the Project.

NOTE 19 MIRABELLA ASU (CONTINUED)

Organization (Continued)

MAT and PRS are both members of the Corporation under Arizona law. Mirabella ASU is governed by a seven-member board of directors, with four members appointed by PRS and three members appointed by MAT. Mirabella ASU's board of directors has general authority to manage and direct the business and affairs of Mirabella ASU. However, day-to-day management will be performed by PRS pursuant to a Management and Support Services Agreement. In addition, (i) the board of directors may not take or approve certain fundamental actions without the unanimous consent of both MAT and PRS in their capacities as the members of Mirabella ASU, including merger, dissolution, the sale or other transfer of substantially all the assets of Mirabella ASU, and any transfer of a member's membership interest in Mirabella ASU; (ii) PRS, as a member, has the exclusive authority to approve the strategic plan for the Corporation, approve policies and monitor progress towards Mirabella ASU's strategic goals, and (iii) approve of the operating and capital budgets and facility planning of Mirabella ASU.

Further, certain decisions that qualify as "Major Decisions" must be approved by an affirmative majority vote of the directors appointed by PRS (the PRS Block) and the affirmative majority vote of the directors appointed by MAT (the MAT Block). Finally, the business and affairs of Mirabella ASU, and the relationship of the members to one another, are subject to a Membership Agreement, which controls in the event of a conflict between the Membership Agreement on the one hand, and the articles of incorporation and bylaws of Mirabella ASU and the Arizona Non-Profit Corporation Act.

Development Services Agreement

During the fiscal year, Mirabella ASU and PRS entered into a development services agreement, dated as of October 6, 2017. Under the terms of the agreement Mirabella ASU has engaged PRS as a co-development manager to provide development services in connection with the development of the Project. Development services under the agreement include, but are not limited to:

- Assembly of project team
- Construction planning advice and make recommendations regarding finishes and value engineering
- Development of plan/project budget
- Assist MAT in identifying and procuring federal, state, and local permits, approvals and other requirements for the development and construction of the Project
- Assist the architect in preparing final construction plans for the Project
- Review of architectural plans and specifications
- Marketing and initial sales to residents
- Assist Mirabella ASU in securing appropriate financing for the construction of the Project

NOTE 19 MIRABELLA ASU (CONTINUED)

Development Services Agreement (Continued)

As compensation for the development services to be rendered by PRS, Mirabella ASU agreed to pay to PRS a fee (the Development Fee) consisting of four percent (4%) of Project Costs, plus reimbursement of PRS' actual out-of-pocket expenses. In accordance with the Membership Agreement between PRS and MAT dated September 26, 2017, PRS shall contribute, at the time of bond financing, the Development Fee due of $8,905,873 under this agreement to Mirabella ASU as a financial contribution to Mirabella ASU and the Project. For the year ended September 30, 2018, $6,962,773 of the Development Fee had been incurred and contributed to the Project. The remaining balance of $1,943,100 is to be incurred and contributed over the remainder of the Project period.

Consulting Services Agreement

During the fiscal year, Mirabella ASU and MAT entered into a consulting services agreement, dated as of October 6, 2017. Under the terms of the agreement, Mirabella ASU has engaged MAT as a consultant to provide the consulting and other services in connection with the development of the Project. Under the terms of the consulting services agreement, MAT is expected to assist in the development services described above.

As compensation for the consulting services to be rendered by MAT, Mirabella ASU agreed to pay to MAT a fee (the Consulting Fee) consisting of two percent (2%) of Project Costs, plus reimbursement of MAT's actual out-of-pocket expenses. In accordance with the Membership Agreement between PRS and MAT dated September 26, 2017, MAT shall contribute, at the time of bond financing, the Consulting Fee due under this agreement to Mirabella ASU as a financial contribution to Mirabella ASU and the Project. For the year ended September 30, 2018, $4,452,936 of the Consulting Fee had been incurred and contributed to the Project. There is no remaining balance to be incurred over the remainder of the Project period.

Management and Support Services Agreement

Mirabella ASU and PRS entered into a management and support services agreement, dated as of October 6, 2017. Under the terms of the agreement, Mirabella ASU has engaged PRS to oversee and manage the general operations of the Project. The management and support services agreement shall commence on that date that is one hundred and eighty (180) days prior to the date that Mirabella ASU intends to commence operations within the Project (the Commencement Date) and shall have an initial term of ten (10) years after the Commencement Date, unless sooner terminated as provided in the management and support services agreement.

Beginning on the Commencement Date, Mirabella ASU shall pay PRS a Base Management Fee as defined by the agreement.

NOTE 19 MIRABELLA ASU (CONTINUED)

Prepaid Land Lease

On December 15, 2017, Mirabella ASU and Arizona Board of Regents (ABOR), a body corporate, for and on behalf of Arizona State University (ASU) entered into a lease for the land on which the Project will be developed. The effective date of the lease is December 20, 2017. The term of the lease is ninety-nine (99) years. In accordance with the Membership Agreement, referenced above, MAT contributed, at the time of bond financing, $7,011,414 representing the amount of the 99-year prepaid land lease as a temporarily restricted contribution to Mirabella ASU. The contribution is released based on a straight-line amortization schedule over the 99-year lease term.

NOTE 20 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 Organization 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 Organization'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.

URCAD and BASS

On September 4, 2018, BASS created BASS Real Estate Holdings, LLC (BASS LLC), a wholly owned limited liability corporation incorporated under the laws of the state of California, for purposes of purchasing land and common areas from BAC.

On September 12, 2018, BASS LLC and BAC, entered into a Purchase and Sale Agreement, under which BASS LLC agreed to purchase certain assets from the BAC, including the land and common area of TPR referred to as Parcel A and the BAC's receivables outstanding of $1,351,705 for a purchase price of $33,500.000. The transaction closed on October 29, 2018.

On October 29, 2018, BASS, BASS LLC, and URCAD (collectively, The Obligated Group) formed a group jointly obligated to the long-term debt agreement entered into below.

NOTE 20 SUBSEQUENT EVENTS (CONTINUED)

The purchase of Parcel A, made by BASS LLC, was funded as follows:

- On October 29, 2018, The Obligated Group entered into a loan agreement in the amount of $23,500,000 with Bank of America. The loan bears interest at 4.61% per annum and matures on August 29, 2023. The loan agreement also contained provisions regarding the maintenance of certain covenants. The loan is secured by Parcel A.

- Also on October 29, 2018, URCAD entered into an agreement to loan $14,000,000 to BASS LLC. The loan earns interest at 5.5% per annum and matures on January 29, 2024.

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	Pacific Retirement Services, Inc.	PRS Management, Inc.	Community Volunteer Network	Crest Park Incorporated	Life Plan Communities	Affordable Housing Corporation	Eliminations/ Reclassifications	Total
CURRENT ASSETS								
Cash and Cash Equivalents	$ 5,329,593	$ 2,038,270	$ 54,953	$ 234,525	$ 37,058,437	$ 215,746	$ -	$ 44,931,524
Restricted Cash and Cash Equivalents	3,603,461	-	-	-	-	-	-	3,603,461
Investments	15,581,530	-	-	-	211,631,155	-	(6,316,365)	220,896,320
Accounts Receivable, Net	1,880	396,462	31,789	-	8,835,571	26,303	-	9,292,005
Supplies and Prepaid Expenses	365,255	198,475	2,571	-	4,500,318	317,766	-	5,384,385
Current Portion of Assets Restricted Under Bond Indenture Agreements	-	-	-	-	30,795,117	-	-	30,795,117
Other Current Assets	-	-	-	-	589,628	-	-	589,628
Current Portion of Due from Affiliates	1,578,307	1,766,305	-	91,212	-	-	(3,435,824)	-
Total Current Assets	26,460,026	4,399,512	89,313	325,737	293,410,226	559,815	(9,752,189)	315,492,440
PROPERTY AND EQUIPMENT, NET	700,160	-	-	5,261,391	882,363,334	39,014,101	(39,086,293)	888,252,693
DUE FROM AFFILIATES, Net of Current Portion	20,364,958	821,277	-	-	-	-	(21,186,235)	-
INVESTMENT IN AFFILIATES	12,606,059	-	-	-	-	-	(12,606,059)	-
OTHER ASSETS								
Cash and Cash Equivalents - Escrow Entrance Fee Deposits	-	-	-	-	16,882,501	-	-	16,882,501
Assets Held in Trust	-	-	-	-	26,550,479	-	-	26,550,479
Mineral Assets	-	-	-	-	56,697,707	-	-	56,697,707
Long-Term Investments	-	-	-	-	1,691,402	-	-	1,691,402
Assets Restricted Under Bond Indenture Agreements, Net of Current Portion	-	-	-	-	234,687,235	-	-	234,687,235
Restricted Deposits	-	-	-	-	832,969	3,566,366	-	4,399,335
Receivables from Members, Noncurrent	-	-	-	-	160,410	-	-	160,410
Other Noncurrent Assets	2,017,250	600,323	-	1,031,403	7,466,035	-	(25,093)	11,089,918
Beneficial Interest in Net Assets of Foundation	-	-	29,770	-	-	-	(29,770)	-
Notes Receivable from Affiliate	2,450,359	-	-	-	-	-	(2,450,359)	-
Total Other Assets	4,467,609	600,323	29,770	1,031,403	344,968,738	3,566,366	(2,505,222)	352,158,987
Total Assets	$ 64,598,812	$ 5,821,112	$ 119,083	$ 6,618,531	$ 1,520,742,298	$ 43,140,282	$ (85,135,998)	$ 1,555,904,120

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
SEPTEMBER 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

LIABILITIES AND NET ASSETS (DEFICIT)	Pacific Retirement Services, Inc.	PRS Management, Inc.	Community Volunteer Network	Crest Park Incorporated	Life Plan Communities	Affordable Housing Corporation	Eliminations/ Reclassifications	Total
CURRENT LIABILITIES								
Accounts Payable and Accrued Expenses	$ 801,157	$ 3,156,092	$ 94,955	$ -	$ 26,394,706	$ 479,506	$ -	$ 30,926,416
Construction Accounts Payable and Accrued Expenses	-	-	-	-	3,986,850	-	-	3,986,850
Accrued Interest	-	25,093	-	11,867	16,203,566	15,043	(25,093)	16,230,476
Current Portion of Due to Affiliates	-	-	191,569	15,671	3,330,438	400,468	(3,938,146)	-
Refundable Deposits	-	-	-	-	23,508,158	287,411	-	23,795,569
Current Portion of Long-Term Debt	-	-	-	154,148	13,141,306	65,033	(2,284)	13,358,203
Current Portion of Repayable Entrance Fees	-	-	-	-	15,907,979	-	-	15,907,979
Other Liabilities	1,003,480	96,598	99	-	1,158,229	-	-	2,258,406
Total Current Liabilities	1,804,637	3,277,783	286,623	181,686	103,631,232	1,247,461	(3,965,523)	106,463,899
OTHER LIABILITIES								
Long-Term Debt and Premium, Net of Current Portion	-	-	-	5,055,634	766,575,081	3,758,553	(6,009,631)	769,379,637
Less: Unamortized Debt Issuance Costs	(142,500)	-	-	(24,071)	(13,868,385)	(186,813)	-	(14,221,769)
Long-Term Debt, Net	(142,500)	-	-	5,031,563	752,706,696	3,571,740	(6,009,631)	755,157,868
Repayable Entrance Fees, Net of Current Portion	-	-	-	-	453,171,481	-	-	453,171,481
Deferred Revenue from Entrance Fees	-	-	-	-	226,493,831	-	-	226,493,831
Interest Rate Swap Agreements	-	-	-	-	6,656,609	-	-	6,656,609
Other Noncurrent Liabilities	408,572	3,043,135	-	-	1,165,800	-	(2,659,684)	1,957,823
Due to Affiliates	-	-	-	-	20,681,628	-	(20,681,628)	-
Total Other Liabilities	266,072	3,043,135	-	5,031,563	1,460,876,045	3,571,740	(29,350,943)	1,443,437,612
Total Liabilities	2,070,709	6,320,918	286,623	5,213,249	1,564,507,277	4,819,201	(33,316,466)	1,549,901,511
NET ASSETS (DEFICIT)								
Unrestricted	62,301,156	(499,806)	(174,296)	1,405,282	(88,777,530)	(24,574,480)	(51,810,771)	(102,130,445)
Temporarily Restricted	212,306	-	6,756	-	21,837,759	62,895,561	(8,761)	84,943,621
Permanently Restricted	14,641	-	-	-	23,174,792	-	-	23,189,433
Total Net Assets (Deficit)	62,528,103	(499,806)	(167,540)	1,405,282	(43,764,979)	38,321,081	(51,819,532)	6,002,609
Total Liabilities and Net Assets (Deficit)	$ 64,598,812	$ 5,821,112	$ 119,083	$ 6,618,531	$ 1,520,742,298	$ 43,140,282	$ (85,135,998)	$ 1,555,904,120

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED SEPTEMBER 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Pacific Retirement Services, Inc.	PRS Management, Inc.	Community Volunteer Network	Crest Park Incorporated	Life Plan Communities	Affordable Housing Corporation	Eliminations/ Reclassifications	Total
OPERATING REVENUES								
Service Fees	$ -	$ -	$ -	$ -	$ 138,499,019	$ -	$ -	$ 138,499,019
Health Center Revenue, Net	-	-	-	-	40,613,159	-	-	40,613,159
Transfer Fees	-	-	-	-	2,125,228	-	-	2,125,228
Change in Future Services Obligation	-	-	-	-	679,738	-	-	679,738
Entrance Fees Earned	-	-	-	-	26,777,030	-	-	26,777,030
Contributions	79,812	98,507	544,767	-	5,601,575	5,866	(849,601)	5,480,926
Investment Income (Loss)	307,738	-	20	-	24,439,186	2,846	-	24,749,790
Royalty Income	-	-	-	-	7,051,135	-	-	7,051,135
Management Fee Revenue	13,914,459	3,038,787	-	-	-	-	(13,914,467)	3,038,779
Development Fee Revenue	9,510,419	174,705	-	-	-	-	(9,510,419)	174,705
Other Revenue	4,067,940	2,947,683	37,094	460,747	12,977,814	7,131,069	(4,173,487)	23,448,860
Subtotal	27,880,368	6,259,682	581,881	460,747	258,763,884	7,139,781	(28,447,974)	272,638,369
Net Assets Released from Restrictions	-	-	-	-	4,949,460	-	-	4,949,460
Total Operating Revenues	27,880,368	6,259,682	581,881	460,747	263,713,344	7,139,781	(28,447,974)	277,587,829
OPERATING EXPENSES								
Program Expenses:								
Dietary	-	774,750	-	-	38,371,781	-	-	39,146,531
Facility Services and Utilities	90,339	1,161,286	-	-	39,864,062	3,370,218	(230,538)	44,255,367
Health and Social Services	-	-	-	-	45,378,130	-	-	45,378,130
Memory Care	-	-	-	-	4,307,230	-	-	4,307,230
Assisted Living	-	-	-	-	7,823,006	-	-	7,823,006
Recreation and Activities	-	-	-	-	2,108,839	-	-	2,108,839
General and Administrative Expenses:								
Administrative and Marketing	2,288,473	16,053,458	649,713	4,697	26,935,818	1,926,610	(1,420,596)	46,438,173
Interest Expense and Financing Fees	28,500	23,187	-	223,333	21,312,203	188,151	(185,166)	21,590,208
Net Settlement Associated to Interest Rate Swap Agreements	-	-	-	-	1,529,666	-	-	1,529,666
Depreciation	251,801	-	-	284,401	39,097,641	2,101,909	(10,052,199)	31,683,553
Disbursement of Contributed Funds	-	-	-	-	2,460,692	-	-	2,460,692
Grant Expenses	522,514	-	-	-	-	-	(522,514)	-
Loss on Disposal of Property and Equipment	-	-	-	-	1,460,276	49,027	-	1,509,303
Other Expenses	-	33,000	28,451	-	1,986,747	20,555	-	2,068,753
Fees to Affiliates	12,109,428	(12,153,323)	-	43,895	15,830,036	894,429	(16,724,465)	-
Total Operating Expenses	15,291,055	5,892,358	678,164	556,326	248,466,127	8,550,899	(29,135,478)	250,299,451
OPERATING INCOME (LOSS)	12,589,313	367,324	(96,283)	(95,579)	15,247,217	(1,411,118)	687,504	27,288,378

PACIFIC RETIREMENT SERVICES, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Pacific Retirement Services, Inc.	PRS Management, Inc.	Community Volunteer Network	Crest Park Incorporated	Life Plan Communities	Affordable Housing Corporation	Eliminations/ Reclassifications	Total
NONOPERATING INCOME (LOSS)								
Unrealized Change in Value of Investments	$ 152,271	$ -	$ -	$ -	$ (13,492,703)	$ -	$ (316,365)	$ (13,656,797)
Change in Fair Value of Mineral Assets	-	-	-	-	20,630,057	-	-	20,630,057
Change in Value of Interest Rate Swap and Cap Agreements	-	-	-	-	3,850,595	-	-	3,850,595
Other Nonoperating Income (Loss)	-	430,386	-	(55,347)	(217,941)	-	(220,239)	(63,141)
Loss on Restructuring of Debt	-	-	-	-	(163,816)	-	-	(163,816)
Contribution from (to) Affiliate	(6,962,773)	-	-	-	6,962,773	-	-	-
Total Nonoperating Income (Loss)	(6,810,502)	430,386	-	(55,347)	17,568,965	-	(536,604)	10,596,898
CHANGE IN UNRESTRICTED NET ASSETS (DEFICIT) BEFORE INCOME TAXES	5,778,811	797,710	(96,283)	(150,926)	32,816,182	(1,411,118)	150,900	37,885,276
INCOME TAX BENEFIT (EXPENSE)	(5,200)	(73,853)	-	(150)	-	-	-	(79,203)
CHANGE IN UNRESTRICTED NET ASSETS (DEFICIT)	5,773,611	723,857	(96,283)	(151,076)	32,816,182	(1,411,118)	150,900	37,806,073
TEMPORARILY RESTRICTED NET ASSETS (DEFICIT)								
Contributions	179,748	-	210	-	10,014,512	-	(28,000)	10,166,470
Royalty Income	-	-	-	-	1,793,322	-	-	1,793,322
Actuarial Gain (Loss) on Gift Annuities Receivable	-	-	-	-	8,623	-	-	8,623
Investment Income	772	-	-	-	631,777	-	-	632,549
Disbursement of Contributed Funds	(177,997)	-	-	-	-	-	38,400	(139,597)
Unrealized Change in Value of Investments	-	-	-	-	(310,128)	-	-	(310,128)
Change in Fair Value of Split Interest Trusts	-	-	-	-	402,194	-	-	402,194
Other Changes	-	-	753	-	-	-	(753)	-
Net Assets Released from Restrictions	-	-	-	-	(4,949,460)	-	-	(4,949,460)
Change in Temporarily Restricted Net Assets (Deficit)	2,523	-	963	-	7,590,840	-	9,647	7,603,973
PERMANENTLY RESTRICTED NET ASSETS (DEFICIT)								
Contributions	-	-	-	-	1,428	-	-	1,428
Investment Income	-	-	-	-	1,776	-	-	1,776
Change in Fair Value of Perpetual Trusts	-	-	-	-	(5,833,016)	-	-	(5,833,016)
Change in Permanently Restricted Net Assets (Deficit)	-	-	-	-	(5,829,812)	-	-	(5,829,812)
CHANGE IN NET ASSETS (DEFICIT)	5,776,134	723,857	(95,320)	(151,076)	34,577,210	(1,411,118)	160,547	39,580,234
Net Assets (Deficit) - Beginning of Year	56,751,969	(1,223,663)	(72,220)	1,556,358	(78,342,189)	39,732,199	(51,980,079)	(33,577,625)
NET ASSETS (DEFICIT) - END OF YEAR	$ 62,528,103	$ (499,806)	$ (167,540)	$ 1,405,282	$ (43,764,979)	$ 38,321,081	$ (51,819,532)	$ 6,002,609