

Aldersly and Subsidiary

ANNUAL REPORT

September 30, 2017

ANNUAL REPORT CHECKLIST

PROVIDER(S): Aldersly

CCRC(S): Aldersly

PROVIDER CONTACT PERSON: Gilbert Carrasco

TELEPHONE NO.: (415) 453-7425 EMAIL: gilbertcarrasco@aldersly.com



A complete annual report must consist of 3 copies of all of the following:

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$6,110
 - If applicable, late fee in the amount of: n/a
- Certification by the provider's **Chief Executive Officer** that:
 - The reports are correct to the best of his/her knowledge.
 - Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - The provider is maintaining the required *liquid* reserves and, *when applicable*, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).
- "Continuing Care Retirement Community Disclosure Statement" for **each** community.
- Form 7-1, "Report on CCRC Monthly Service Fees" for **each** community.
- Form 9-1, "Calculation of Refund Reserve Amount", *if applicable*.
- Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	69
[2]	Number at end of fiscal year	72
[3]	Total Lines 1 and 2	141
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	70.5
All Residents		
[6]	Number at beginning of fiscal year	97
[7]	Number at end of fiscal year	93
[8]	Total Lines 6 and 7	190
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	95
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	0.74

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$9,182,834
[a]	Depreciation	\$637,470
[b]	Debt Service (Interest Only)	\$312,279
[2]	Subtotal (add Line 1a and 1b)	\$949,749
[3]	Subtract Line 2 from Line 1 and enter result.	\$8,233,085
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	74%
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)	\$6,109,816
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$6,110

PROVIDER: ALDERSLY

COMMUNITY:



CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
6/30/2017

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER Arthur J. Gallagher Risk Management Services, Inc. 300 South Riverside Plaza, Suite 1900 Chicago IL 60606	CONTACT NAME: PHONE (A/C, No, Ext): 312-704-0100 FAX (A/C, No): 312-803-7443 E-MAIL ADDRESS:	
	INSURER(S) AFFORDING COVERAGE	
INSURED LCSHOLD-03 Aldersly Garden Retirement Community, Inc. 326 Mission Ave. San Rafael, CA 94901	INSURER A: Lexington Insurance Company NAIC # 19437	
	INSURER B: Zurich American Insurance Company 16535	
	INSURER C: National Union Fire Insurance Company of 19445	
	INSURER D:	
	INSURER E:	
INSURER F:		

COVERAGES

CERTIFICATE NUMBER: 50286208

REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.


INSR LTR	TYPE OF INSURANCE	ADDL INSD	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR <input checked="" type="checkbox"/> Policy Agg: \$27,500,000 GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input checked="" type="checkbox"/> LOC <input type="checkbox"/> OTHER:			6710041	6/30/2017	6/30/2018	EACH OCCURRENCE \$1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$50,000 MED EXP (Any one person) \$10,000 PERSONAL & ADV INJURY \$1,000,000 GENERAL AGGREGATE \$3,000,000 PRODUCTS - COMP/OP AGG \$3,000,000 Deductible \$0
B	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS ONLY <input checked="" type="checkbox"/> NON-OWNED AUTOS ONLY <input checked="" type="checkbox"/> CompDed:\$500 <input checked="" type="checkbox"/> CollDed:\$500			BAP 4503108-08	6/30/2017	6/30/2018	COMBINED SINGLE LIMIT (Ea accident) \$1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input checked="" type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> DED <input checked="" type="checkbox"/> RETENTION \$25,000			6710009	6/30/2017	6/30/2018	EACH OCCURRENCE \$10,000,000 AGGREGATE \$50,000,000 Facility Agg \$10,000,000
B	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) <input type="checkbox"/> Y/N If yes, describe under DESCRIPTION OF OPERATIONS below N/A			WC4503170-08	6/30/2017	6/30/2018	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$500,000 E.L. DISEASE - EA EMPLOYEE \$500,000 E.L. DISEASE - POLICY LIMIT \$500,000
C	<input checked="" type="checkbox"/> Crime <input type="checkbox"/> Medical Prof. Liab(Claims Made)			015850415 6710041	6/30/2017 6/30/2017	6/30/2018 6/30/2018	Limit of Liability \$5,000,000 Per Claim \$1,000,000 Aggregate \$3,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)

PROFESSIONAL LIABILITY DEDUCTIBLE IS SAME AS GL DEDUCTIBLE.
For informational purposes only.

CERTIFICATE HOLDER

CANCELLATION

Aldersly Garden Retirement Community 326 Mission Avenue San Rafael CA 94901 USA	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE 

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Aldersly and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Aldersly and Subsidiary

We have audited the accompanying consolidated financial statements of Aldersly (a California not-for-profit organization) and Subsidiary, which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Organization'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 Organization'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 consolidated financial position of Aldersly and Subsidiary as of September 30, 2017 and 2016, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

INDEPENDENT AUDITORS' REPORT (continued)

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is 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 audits 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.

DZH Phillips LLP

San Francisco, California
December 6, 2017

Aldersly and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2017 and 2016

ASSETS		
	2017	2016
Current assets		
Cash and cash equivalents	\$ 1,364,795	\$ 797,561
Investments in marketable securities (Note B)	13,555,176	13,412,912
Accounts receivable - residents - net (Note C)	248,882	351,716
Accounts receivable - other	1,629	10,575
Interest and dividends receivable	2,614	1,349
Prepaid expenses	252,344	362,521
Total current assets	15,425,440	14,936,634
Property and equipment - net (Note E)	10,127,943	9,962,263
Assets whose use is limited or restricted (Note F)	2,287,381	2,288,014
Other noncurrent assets		
Long-term investments held for endowment (Note B)	7,358,156	6,541,213
Investment in residential real estate - net (Note D)	1,820,097	825,290
Other	5,582	5,582
	9,183,835	7,372,085
Total assets	\$ 37,024,599	\$ 34,558,996
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 591,684	\$ 437,091
Accrued salaries and wages	298,436	293,399
Deposit liability	48,279	42,055
Unearned vendor credit - current portion (Note N)	20,304	20,304
Unearned entrance fees - refundable current portion (Note H)	158,000	210,000
Current maturities of long-term debt (Note G)	165,000	160,000
Total current liabilities	1,281,703	1,162,849
Long-term liabilities		
Unearned entrance fees - refundable (Note H)	2,654,362	1,961,577
Unearned entrance fees - non-refundable (Note H)	2,731,841	2,605,267
Guaranteed refunds (Note H)	2,419,860	2,240,440
Unearned vendor credit (Note N)	12,011	32,315
Long-term debt - net of unamortized financing costs (Note G)	5,845,032	5,996,153
Premium paid on bond, net of accumulated amortization of \$71,723 in 2017, and \$44,827 in 2016	600,675	627,571
	14,263,781	13,463,323
Total liabilities	15,545,484	14,626,172
COMMITMENTS AND CONTINGENCIES (Note M)	-	-
NET ASSETS		
Unrestricted and unappropriated	13,104,520	12,126,896
Unrestricted - board designated (Note I)	8,291,631	7,724,688
Temporarily restricted (Note J)	82,964	81,240
	21,479,115	19,932,824
Total liabilities and net assets	\$ 37,024,599	\$ 34,558,996

The accompanying notes are an integral part of these consolidated statements.

Aldersly and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended September 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues						
Residential care fees	\$ 2,738,426	\$ -	\$ 2,738,426	\$ 2,710,509	\$ -	\$ 2,710,509
Health care center fees	2,604,245	-	2,604,245	2,760,267	-	2,760,267
Assisted living fees	2,012,981	-	2,012,981	1,764,299	-	1,764,299
Resident services	170,016	-	170,016	13,525	-	13,525
	<u>7,525,668</u>	<u>-</u>	<u>7,525,668</u>	<u>7,248,600</u>	<u>-</u>	<u>7,248,600</u>
Other operating revenue						
Entrance fees amortization	785,422	-	785,422	748,607	-	748,607
Total revenues	<u>8,311,090</u>	<u>-</u>	<u>8,311,090</u>	<u>7,997,207</u>	<u>-</u>	<u>7,997,207</u>
Expenses						
General operating expenses	5,865,448	-	5,865,448	5,540,287	-	5,540,287
Marketing expenses	209,147	-	209,147	272,135	-	272,135
Administrative expenses	1,804,612	-	1,804,612	1,881,287	-	1,881,287
	<u>7,879,207</u>	<u>-</u>	<u>7,879,207</u>	<u>7,693,709</u>	<u>-</u>	<u>7,693,709</u>
Other operating expenses						
Depreciation and amortization	610,574	-	610,574	590,158	-	590,158
Interest	312,279	-	312,279	331,974	-	331,974
Other expense	380,774	-	380,774	464,312	-	464,312
	<u>1,303,627</u>	<u>-</u>	<u>1,303,627</u>	<u>1,386,444</u>	<u>-</u>	<u>1,386,444</u>
Total expenses	<u>9,182,834</u>	<u>-</u>	<u>9,182,834</u>	<u>9,080,153</u>	<u>-</u>	<u>9,080,153</u>
Change in net assets before other revenues (expenses)	(871,744)	-	(871,744)	(1,082,946)	-	(1,082,946)
Other revenues (expenses)						
Donations, gifts and bequests	21,048	1,724	22,772	54,417	12,364	66,781
Loss on disposal of assets	-	-	-	(37,134)	-	(37,134)
Interest and dividend income (Note B)	543,717	-	543,717	614,662	-	614,662
Investment management fees	83,793	-	83,793	97,611	-	97,611
Realized and unrealized gain (loss) on investments (Note B)	1,753,946	-	1,753,946	1,081,276	-	1,081,276
Investment property income (expense) - net	10,807	-	10,807	(345)	-	(345)
Other income	3,000	-	3,000	-	-	-
Net assets released from restrictions	-	-	-	11,549	(11,549)	-
	<u>2,416,311</u>	<u>1,724</u>	<u>2,418,035</u>	<u>1,822,036</u>	<u>815</u>	<u>1,822,851</u>
CHANGE IN NET ASSETS	<u>1,544,567</u>	<u>1,724</u>	<u>1,546,291</u>	<u>739,090</u>	<u>815</u>	<u>739,905</u>
Net assets - beginning of year	19,851,584	81,240	19,932,824	19,112,494	80,425	19,192,919
Net assets - end of year	<u>\$ 21,396,151</u>	<u>\$ 82,964</u>	<u>\$ 21,479,115</u>	<u>\$ 19,851,584</u>	<u>\$ 81,240</u>	<u>\$ 19,932,824</u>

The accompanying notes are an integral part of these consolidated statements.

Aldersly and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows provided by (used in) operating activities:		
Cash received from residents	\$ 9,466,009	\$ 7,494,251
Cash received from donors	22,772	66,781
Investment income received	542,452	617,421
Cash paid for interest on long-term debt	(298,400)	(318,095)
Cash paid to suppliers and employees	(7,978,445)	(7,890,858)
Cash paid for fundraising costs	(3,513)	(10,297)
	<u>1,750,875</u>	<u>(40,797)</u>
Cash flows provided by (used in) investing activities:		
Net change in assets held in trust	633	(11,583)
Capital expenditures	(803,150)	(597,006)
Proceeds from sales of investments	11,470,510	10,688,908
Purchase of residential real estate	(1,015,863)	(120,290)
Purchase of investments	(10,675,771)	(9,651,276)
	<u>(1,023,641)</u>	<u>308,753</u>
Cash flows used in financing activities:		
Bond principal payments	(160,000)	(155,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	567,234	112,956
Cash and cash equivalents at beginning of year	<u>797,561</u>	<u>684,605</u>
Cash and cash equivalents at end of year	<u>\$ 1,364,795</u>	<u>\$ 797,561</u>
<u>Non-cash transactions</u>		
Donated equipment from vendor	<u>\$ 20,304</u>	<u>\$ 20,304</u>

The accompanying notes are an integral part of these consolidated statements.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 30, 2017 and 2016

NOTE A - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Founded in 1921 by Danish immigrants as a not-for-profit retirement community located in San Rafael, California, Aldersly today is a diverse and vibrant mix of residents from many cultural backgrounds. Aldersly is a continuing care retirement community that offers three lifestyle options - Independent Living, Assisted Living, and the Health and Rehabilitation Center. Residents are able to seamlessly transition between care levels, as necessary.

In August 2014 Aldersly formed a wholly owned subsidiary, an LLC, for the purpose of acquiring property.

A summary of significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Aldersly and its wholly-owned subsidiary, collectively the "Organization". Intercompany transactions and balances have been eliminated in consolidation.

Net assets

The net assets of the Organization are reported in groups as follows:

Unrestricted:

Net assets that are not subject to donor-imposed stipulations. Donations received and spent in accordance with donor-imposed stipulations in the same reporting period are also included in this classification.

Temporarily restricted:

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time.

Permanently restricted:

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Currently, the Organization has no permanently restricted net assets.

Income taxes

Aldersly is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d except as noted for the LLC. Accordingly, it has not provided for income taxes in these consolidated financial statements.

The LLC's net earnings (losses) are reported on the federal exempt organization tax return of its parent company. The LLC files a separate state tax return in California and is subject to an \$800 minimum tax.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE A - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these consolidated financial statements.

Cash and cash equivalents

The Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization classifies cash held in money market funds by investment custodians as short-term investments.

Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Accounts receivable - residents

Resident accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. The Organization provides for an allowance for doubtful accounts based on management's estimate of the collectability of accounts receivable. Management's estimate of allowance for doubtful accounts reflects approximately 50% of all receivables aged over 90 days. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Organization's policy to write off uncollectible accounts receivable when management determines the receivable will not be collected.

Investments

Investments in marketable equity and debt securities are presented in the consolidated financial statements at their fair value. Investment income, which consists of dividend and interest income and unrealized and realized gains (losses) on investments, is shown in the consolidated statement of activities.

Rental real estate held for investment is recorded at cost. Depreciation expense related to the investment property for the year ended September 30, 2017 and 2016 was \$21,056 and \$6,058, respectively.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE A - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

The Organization is required, under an accounting pronouncement for fair value measurements, to consider the use of market-based information over entity specific information in valuing its marketable investment securities. The pronouncement establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1* inputs to the valuation methodology - quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2* inputs to the valuation methodology - quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the investment.
- *Level 3* inputs to the valuation methodology - unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property, buildings, and equipment

Property, buildings and equipment are carried at cost. Donated assets are recorded at fair market value at the date of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets, which range from five to forty years. Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property, buildings and equipment are included in the consolidated statement of activities.

Assets whose use is limited or restricted

Assets whose use is limited or restricted represents assets held by trustees under indenture agreements. These assets are presented in the consolidated financial statements at their fair value. The underlying investments are held in marketable debt and equity securities.

Financing costs

Deferred financing costs are amortized on the straight-line basis over the term of the related financing.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE A - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing costs (continued)

Retroactive to October 1, 2015, the Organization implemented the provisions of the Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2015-03. Under ASU 2015-03, the financing fees related to a debt liability are to be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts (refer to Note G). Also under ASU 2015-03, the amortization of financing fees is to be presented as interest expense. For the years ended June 30, 2017 and 2016, the amortization of financing fees amounted to \$13,879 per year.

Entrance fees

The Organization has entered into agreements with most of its residents, whereby the Organization agrees to provide continuing care and lodging for the residents in exchange for a one-time entrance fee paid upon occupancy plus a monthly fee thereafter. Under certain circumstances, the agreements provide the resident with the right to a refund or credit, which is reduced for each month of residency, subject to a minimum of 10% of the exhaustible portion of the entrance fee. California Health and Safety Sections 1771 and 1793 require a reserve for refundable contracts be established if refund rights are not exhausted within six years. Refund rights are typically exhausted within five years, for non-guaranteed refundable contracts. For contracts that guarantee a specific refund amount that is not exhausted over time, a reserve is maintained. In addition, the refundable fees are included in liabilities (refer to Note H).

Non-refundable entrance fees are recognized as revenue over the expected remaining lives of the residents, using the straight-line method of amortization. Upon the death or withdrawal of a resident, unrecognized entrance fees, less any refundable amounts, remain the property of the Organization and are recognized as revenue.

Donated services

The Organization receives various types of volunteer services. Contributed services are not recognized unless the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased. The services received do not meet the two recognition criteria described above. Accordingly the value is not reflected in the consolidated financial statements.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE A - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through the date the consolidated financial statements were available to be issued, December 6, 2017.

NOTE B - INVESTMENTS AND FAIR VALUE DISCLOSURES

The following are the major categories of assets measured at fair value on a recurring basis during the years ended September 30, 2017 and 2016, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	September 30, 2017 - Fair Value Measurements			
	Fair Value	Level 1	Level 2	Level 3
Cash investments	\$ 1,028,387	\$ 1,028,387	\$ -	\$ -
Corporate stocks	10,014,811	10,014,811	-	-
Corporate bonds	2,110,287	-	2,110,287	-
U.S. government obligations	1,832,025	-	1,832,025	-
Foreign obligations	177,629	-	177,629	-
Municipal bonds	40,276	-	40,276	-
Fixed income funds	2,112,169	2,112,169	-	-
Equity funds	3,597,748	3,597,748	-	-
Total investments	<u>\$ 20,913,332</u>	<u>\$ 16,753,115</u>	<u>\$ 4,160,217</u>	<u>\$ -</u>
	September 30, 2016 - Fair Value Measurements			
	Fair Value	Level 1	Level 2	Level 3
Cash investments	\$ 1,121,449	\$ 1,121,449	\$ -	\$ -
Corporate stocks	9,408,641	9,408,641	-	-
Corporate bonds	2,398,210	-	2,398,210	-
U.S. government obligations	3,169,613	-	3,169,613	-
Foreign obligations	85,292	-	85,292	-
Municipal bonds	41,729	-	41,729	-
Fixed income funds	1,294,513	1,294,513	-	-
Equity funds	2,434,678	2,434,678	-	-
Total investments	<u>\$ 19,954,125</u>	<u>\$ 14,259,281</u>	<u>\$ 5,694,844</u>	<u>\$ -</u>

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE B - INVESTMENTS AND FAIR VALUE DISCLOSURES (continued)

Investments are reflected in the consolidated statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Current	\$ 13,555,176	\$ 13,412,912
Long-term - held for endowment	<u>7,358,156</u>	<u>6,541,213</u>
	<u>\$ 20,913,332</u>	<u>\$ 19,954,125</u>

The investment return for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 543,717	\$ 614,662
Realized gains and unrealized gains	<u>1,753,946</u>	<u>1,081,276</u>
	<u>\$ 2,297,663</u>	<u>\$ 1,695,938</u>

The investment return/(loss) for the years ended September 30, 2017 and 2016 includes \$816,943 and \$1,079,961, respectively, in earnings from the board designated Endowment Fund.

Investment management fees and other investment-related expenses for the years ended September 30, 2017 and 2016 amounted to \$83,793 and \$97,611, respectively.

NOTE C - ACCOUNTS RECEIVABLE - RESIDENTS

Accounts receivable - residents consist of the following:

	<u>2017</u>	<u>2016</u>
Private	\$ 195,211	\$ 229,198
Medicare/MediCal	78,865	151,303
Other insurance	<u>22,680</u>	<u>22,215</u>
	296,756	402,716
Allowance for doubtful accounts	<u>(47,874)</u>	<u>(51,000)</u>
	<u>\$ 248,882</u>	<u>\$ 351,716</u>

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE D - INVESTMENT IN RESIDENTIAL REAL ESTATE

At September 30, 2017 and 2016 rental real estate held for investment consists of the following:

	<u>2017</u>	<u>2016</u>
Residential Property		
Land	\$ 990,000	\$ 390,000
Buildings	716,245	315,000
Building improvements	<u>140,966</u>	<u>126,348</u>
	1,847,211	831,348
Less: accumulated depreciation	<u>(27,114)</u>	<u>(6,058)</u>
	<u>\$ 1,820,097</u>	<u>\$ 825,290</u>

Operating results for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Rental income	\$ 69,080	\$ 13,750
Bank fees	(334)	(300)
Utilities and maintenance	(6,375)	(737)
Professional fees	(12,604)	(3,175)
Depreciation	(21,056)	(6,058)
Taxes and licenses	<u>(17,904)</u>	<u>(3,825)</u>
Investment property income (expense) - net	<u>\$ 10,807</u>	<u>\$ (345)</u>

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE E - PROPERTY AND EQUIPMENT - NET

Property and equipment consists of:

	<u>2017</u>	<u>2016</u>
Land	\$ 232,822	\$ 232,822
Buildings and building improvements	18,575,848	18,052,465
Land improvements	267,998	267,998
Equipment	1,552,229	1,520,404
Furniture	366,205	364,959
Assisted living furniture	144,693	144,693
Vehicles	<u>109,787</u>	<u>109,787</u>
Total property and equipment	21,249,582	20,693,128
Less: accumulated depreciation	<u>(11,645,766)</u>	<u>(11,008,296)</u>
	9,603,816	9,684,832
Construction in progress:		
Elevator project	329,087	187,541
Unit remodels	7,809	4,628
Living room project	103,856	9,911
IT Infrastructure	<u>83,375</u>	<u>75,351</u>
	<u>524,127</u>	<u>277,431</u>
	<u>\$ 10,127,943</u>	<u>\$ 9,962,263</u>

NOTE F - ASSETS WHOSE USE IS LIMITED OR RESTRICTED

At September 30, 2017 and 2016, assets with limited or restricted use consist of the following:

Money market and bond investments (bond funds) with and managed by the trustees (as required by trust indentures):

	<u>2017</u>	<u>2016</u>
2015 Series A and B bond funds	<u>\$ 2,287,381</u>	<u>\$ 2,288,014</u>

Funds held by the trustee at September 30, 2017 and 2016 include approximately \$1.6 Million for capital projects. It is expected that management will draw on the remainder of these funds during its next fiscal year.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
In February 2015, the California Statewide Communities Development Authority (CSCDA) issued Revenue Refunding Bonds series 2015A and 2015B on behalf of the Organization at an aggregate purchase price of \$7,307,398. The purchase amount reflects \$6,635,000 of aggregate par amounts plus an original issue premium of the Series 2015A Bonds of \$765,288 and less an aggregate purchase discount of \$92,890 (of which \$29,458 relates to the Series 2015A bonds and \$63,432 relates to the series 2015B bonds). The bond proceeds were used to pay off existing bond debt from the California Health Facilities Financing Authority (CHFFA), pay off a note to a financial institution, establish funding for future capital projects, and a debt service reserve fund. The bonds bear interest rates ranging from 2.5% to 5% and mature at various dates through May 15, 2040.		
	\$ 6,320,000	\$ 6,480,000
Less: unamortized financing costs	<u>(309,968)</u>	<u>(323,847)</u>
	6,010,032	6,156,153
Less: current maturities	<u>(165,000)</u>	<u>(160,000)</u>
	<u>\$ 5,845,032</u>	<u>\$ 5,996,153</u>

Future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	
2018	\$ 165,000
2019	165,000
2020	170,000
2021	180,000
2022	190,000
Thereafter	<u>5,450,000</u>
	<u>\$ 6,320,000</u>

The debt is collateralized by a deed of trust on the real property, certain personal property, and a security interest in the gross revenues of the Organization.

For the years ended September 30, 2017 and 2016, interest costs on the long-term debt have been charged to other operating expenses and amounted to \$312,279 and \$331,974 respectively.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE H - UNEARNED ENTRANCE FEES AND GUARANTEED REFUNDS

Changes in unearned entrance fees and guaranteed refunds are as follows:

	Unearned Entrance Fees	Guaranteed Refunds	Total
Balance at September 30, 2015	\$ 4,767,895	\$ 2,386,805	\$ 7,154,700
Net entrance fees received	896,010	132,060	1,028,070
	5,663,905	2,518,865	8,182,770
Less: amounts included in revenues	(748,607)	-	(748,607)
Less: refunds	(138,454)	(278,425)	(416,879)
Balance at September 30, 2016	4,776,844	2,240,440	7,017,284
Net entrance fees received	996,740	179,420	1,176,160
	5,773,584	2,419,860	8,193,444
Less: amounts included in revenues	(229,381)	-	(229,381)
Balance at September 30, 2017	<u>\$ 5,544,203</u>	<u>\$ 2,419,860</u>	<u>\$ 7,964,063</u>

Unearned entrance fees are reflected in the consolidated statements of financial position as follows:

	2017	2016
Unearned entrance fees - refundable	\$ 2,812,362	\$ 2,171,577
Unearned entrance fees - non-refundable	2,731,841	2,605,267
Total unearned entrance fees	<u>\$ 5,544,203</u>	<u>\$ 4,776,844</u>

Continuing care retirement communities are required to report a liability recognizing an obligation to provide future services and the use of the facilities to current residents in excess of related anticipated revenues, when the present value of future net cash outflows plus depreciation to be charged related to the contracts exceeds the unearned entrance fees. A calculation of the obligation for future services was done as of September 30, 2017. There was no obligation for future services at September 30, 2017 as the projected revenues exceeded projected expenses by approximately \$7,710,216, discounted to approximately \$6,026,358. The interest rate used to discount the asset was 5.50%.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE I - UNRESTRICTED NET ASSETS - BOARD DESIGNATED

Board designated for endowment

Certain gifts and realized and unrealized gains or losses on these gifts have been internally appropriated by the Board of Directors to be maintained similar to an endowment fund. Dissolution of this appropriation requires a 3/4 vote of the full Board. The Organization does not have any donor restricted endowment funds.

The Board of Directors adopted a spending policy for the board designated endowment fund with an objective of allocating 3% of the fund balance annually (based on the rolling average of the 12 preceding quarters' balances) to fund various projects at the discretion of the Board.

The investment objective is to provide liquidity for debt service, operations, projects, and capital needs as required. The asset allocations are set up to maintain approximately 35% of the assets in fixed income investments with the remaining assets in equities with large market capitalization and a high level of liquidity.

Board designated for Care Fund

The Board Designated Care fund was established to provide assistance to residents who have developed a financial need due to unforeseen or uncontrollable circumstances. The Board of Directors has established a set of guidelines to be used in considering applications for hardship assistance each year.

Board designated for Living Room Project

The Board Designated Living Room Project fund was established to provide partial funding for the living room project at Aldersly. The Board of Directors has not yet determined the full cost of the project and will be designating additional funds as necessary in the future to cover anticipated costs.

Board Designated for Elevator Project

During the year ended September 30, 2017, the Organization decided to postpone their plans to add an additional elevator to the facility. As such, the Board of Directors decided to release the \$250,000 designated for the additional elevator to unrestricted net assets.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE I - UNRESTRICTED NET ASSETS - BOARD DESIGNATED (continued)

Changes in unrestricted net assets - board designated are as follows:

	Endowment	Care Fund	Living Room Project	Elevator Project	Total
Balances at September 30, 2015	\$ 5,461,252	\$ 168,173	\$ 765,302	\$ 250,000	\$ 6,644,727
Donations allocated to endowment	33,790	-	-	-	33,790
Designated investment gain (loss)	504,006	-	-	-	504,006
Amounts allocated by the board	542,165	-	-	-	542,165
Balances at September 30, 2016	6,541,213	168,173	765,302	250,000	7,724,688
Donations allocated to endowment	4,000	-	-	-	4,000
Designated investment gain (loss)	812,943	-	-	-	812,943
Amounts released to unrestricted	-	-	-	(250,000)	(250,000)
Balances at September 30, 2017	<u>\$ 7,358,156</u>	<u>\$ 168,173</u>	<u>\$ 765,302</u>	<u>\$ -</u>	<u>\$ 8,291,631</u>

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2017 and 2016, temporarily restricted net assets were held for the following purposes:

	2017	2016
Music Memory	\$ 9,821	\$ 9,771
Aldersly Care Fund	73,143	71,469
	<u>\$ 82,964</u>	<u>\$ 81,240</u>

For the year ended September 30, 2017, there were no amounts released from restriction from the Care Fund.

NOTE K - RETIREMENT PLAN

The Organization has an Internal Revenue Code section 401(k) retirement plan. Plan participants may elect to defer a portion of their compensation (up to the maximum allowed by law) and have such salary deferrals contributed to their plan accounts. The Organization matches up to 4% of the employee's salary. Matching contributions for the years ended September 30, 2017 and 2016 were \$34,632 and \$37,925, respectively. The Plan also provides for discretionary employer profit sharing contributions to the Plan. There were no discretionary contributions made for the years ended September 30, 2017 and 2016.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE L - STATEMENTS OF CASH FLOWS - ADDITIONAL DISCLOSURES

Reconciliation of change in net assets to net cash flows provided by operating activities for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Change in net assets	\$ 1,546,291	\$ 739,905
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unearned entrance fees		
Net entrance fees received	996,740	896,010
Revenue recognized/refunds	(229,381)	(887,061)
Change in return of capital contracts received	179,420	(146,365)
Amortization of deferred financing costs	13,879	13,879
Amortization of premium on bond discount	(26,896)	(26,896)
Depreciation	658,526	618,476
In-kind donations	(20,304)	(20,304)
Loss on asset disposal	-	37,134
Net realized/unrealized gain on investments	(1,753,946)	(1,081,276)
Changes in operating assets and liabilities:		
Accounts receivable - residents - net	102,834	(211,633)
Accounts receivable - other	8,946	(10,575)
Interest and dividends receivable	(1,265)	2,759
Prepaid expenses	110,177	(30)
Accounts payable and accrued expenses	159,630	178,512
Deposit liability	6,224	(143,332)
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	<u>\$ 1,750,875</u>	<u>\$ (40,797)</u>

NOTE M - COMMITMENTS AND CONTINGENCIES

Legal proceedings

From time to time the Organization is involved in litigation arising out of claims from the normal operations of the Organization. Based on the information presently available, management believes that there are no claims or actions pending or threatened against the Organization which will have a material adverse effect on the consolidated financial position, liquidity or results of operations, although the results of the litigation are inherently uncertain and adverse outcomes are possible.

Aldersly and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended September 30, 2017 and 2016

NOTE M - COMMITMENTS AND CONTINGENCIES (continued)

Service agreement

The Organization entered into a five year agreement with a vendor for various nutrition services commencing in March 2013. During the year ended September 30, 2014, the vendor purchased approximately \$100,000 of equipment and enhancements which were installed at the Organization. Pursuant to the agreement, ownership of the assets transfers to the Organization proportionally over a five year period commencing at the asset purchase date. Should the agreement expire or be terminated prior to the complete amortization of the transfer of ownership, the Organization shall reimburse the vendor for any unamortized portion. At September 30, 2017 and 2016, the unearned vendor credit was \$32,315 and \$52,619, respectively. These amounts are recorded as liabilities at September 30, 2017 and 2016.

The expected future income from this credit is as follows:

<u>Year ending September 30.</u>	
2018	\$ 20,304
2019	12,011
	<u>\$ 32,315</u>

Other

The Organization does not have any amounts accumulated for contingencies. At September 30, 2017 and 2016, the Organization had set aside approximately \$2.4 million and \$2.7 million, for future capital projects (refer to Notes F and I).

SUPPLEMENTAL INFORMATION

Aldersly and Subsidiary

SCHEDULES OF GENERAL OPERATING EXPENSES

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Plant		
Salaries and wages	\$ 276,123	\$ 252,518
Utilities	287,631	263,521
Contract services	203,635	200,546
Maintenance and repairs	71,068	79,438
Payroll taxes and related benefits	95,296	89,243
Supplies	52,108	52,321
	<u>985,861</u>	<u>937,587</u>
Environmental services		
Salaries and wages	220,782	205,220
Linen and bedding	56,338	61,222
Payroll taxes and related benefits	75,719	76,921
Supplies	27,493	25,825
Other	14,185	6,664
	<u>394,517</u>	<u>375,852</u>
Food services		
Salaries and wages	552,042	541,228
Food	413,691	406,904
Food service contract	244,155	238,365
Payroll taxes and related benefits	159,054	152,142
Supplies	13,487	14,236
Catering	17,496	13,755
Other	3,814	5,933
	<u>1,403,739</u>	<u>1,372,563</u>
Resident services		
Salaries and wages	106,449	91,870
Payroll taxes and related benefits	54,188	34,861
Activities	42,024	52,384
	<u>\$ 202,661</u>	<u>\$ 179,115</u>

Aldersly and Subsidiary

SCHEDULES OF GENERAL OPERATING EXPENSES (continued)

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Health center		
Salaries and wages	\$ 1,038,500	\$ 921,791
Payroll taxes and related benefits	342,786	208,859
Therapy	143,429	209,250
Professional fees	103,349	105,667
Drugs	51,256	50,706
Minor equipment	33,875	36,750
Activities	19,737	27,268
Ancillaries	14,970	8,942
Travel	3,600	5,950
Other nonmedical supplies	11,541	11,449
Education	8,591	4,245
Recruiting	10,654	20,479
Temporary staffing	34,829	66,616
Other	3,200	985
Licenses and fees	15,976	8,130
	<u>1,836,293</u>	<u>1,687,087</u>
Assisted living		
Salaries and wages	771,273	725,245
Payroll taxes and related benefits	174,920	163,558
Other nonmedical supplies	20,127	23,469
Professional fees	22,925	24,835
Consultants	13,374	14,992
Other	12,796	7,005
Maintenance and repairs	-	1,351
Activities	26,962	27,628
	<u>1,042,377</u>	<u>988,083</u>
 TOTAL GENERAL OPERATING EXPENSES	 <u>\$ 5,865,448</u>	 <u>\$ 5,540,287</u>

Aldersly and Subsidiary

SCHEDULES OF MARKETING EXPENSES

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Advertising	\$ 78,832	\$ 144,145
Promotion and sales	91,788	77,721
Other	8,025	8,525
Printing	19,237	38,280
Postage	<u>11,265</u>	<u>3,464</u>
 TOTAL MARKETING EXPENSES	 <u>\$ 209,147</u>	 <u>\$ 272,135</u>

Aldersly and Subsidiary

SCHEDULES OF ADMINISTRATIVE EXPENSES

Years ended September 30, 2017 and September 30, 2016

	<u>2017</u>	<u>2016</u>
Management fee	\$ 275,835	\$ 304,148
Salaries and wages	383,242	277,133
Contract personnel (LCS)	264,271	338,500
Professional services	155,949	229,306
Insurance	162,774	170,447
Property taxes	96,215	95,297
Payroll taxes and related benefits	73,305	60,049
Professional accounting services	23,554	46,290
Telephone	91,122	60,930
Bad debts - net	57,617	12,445
Maintenance and repairs	41,783	42,740
Dues and subscriptions	16,457	22,535
Data communication and connect charges	62,283	18,238
Travel and transportation	48,513	52,257
Office supplies	11,623	28,842
Recruiting	3,843	11,232
Licenses and fees	21,265	18,576
Temporary staffing	109	84,231
Other	14,852	8,091
	<u>14,852</u>	<u>8,091</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 1,804,612</u>	<u>\$ 1,881,287</u>

ALDERSLY AND SUBSIDIARY
CONTINUING CARE RESERVE REPORT AND
INDEPENDENT AUDITORS' REPORT

September 30, 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
Aldersly

Report on the Continuing Care Reserve Report

We have audited the accompanying continuing care reserve report (“Report”) of Aldersly and Subsidiary as of September 30, 2017. The accompanying Report was prepared for the purpose of complying with California Health and Safety Code Section 1792 and is not intended to be a complete presentation of Aldersly and Subsidiary’s financial statements.

Management’s Responsibility for the Report

Management is responsible for the preparation and fair presentation of the Report in accordance with the report preparation provisions of California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Report that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion the Report 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 Report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Report. 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 Aldersly and Subsidiary’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 Aldersly and Subsidiary’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 Report.

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

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the Report presents fairly, in all material respects, the liquid reserve requirements of Aldersly and Subsidiary as of September 30, 2017 in conformity with the report preparation provisions of California Health and Safety Code Section 1792.

This Report is intended solely for the information and use of the board of directors and management of Aldersly and Subsidiary and for filing with the California Department of Social Services and is not intended to be and should not be used by anyone other than these specified parties. However, this Report is a matter of public record and its distribution is not limited.

DZH Phillips LLP

San Francisco, California
December 29, 2017

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	02/01/15	\$160,000	\$312,279		\$472,279
2					\$0
3					\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$312,279	\$0	\$472,279

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

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

PROVIDER: ALDERSLY

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

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

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

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

PROVIDER: ALDERSLY

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	<u>\$472,279</u>
2	Total from Form 5-2 bottom of Column (e)	<u>\$0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<u>NONE</u>
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>\$472,279</u></u>

PROVIDER: ALDERSLY

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

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$9,182,834</u>
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	<u>\$312,279</u>	
	b. Credit enhancement premiums paid for long-term debt (see instructions)	<u>NONE</u>	
	c. Depreciation	<u>\$637,470</u>	
	d. Amortization	<u>-\$13,017</u>	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$4,135,536</u>	
	f. Extraordinary expenses approved by the Department	<u>NONE</u>	
3	Total Deductions		<u>\$5,072,268</u>
4	Net Operating Expenses		<u>\$4,110,566</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$11,262</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u><u>\$844,637</u></u>

PROVIDER: ALDERSLY

COMMUNITY: _____

**ATTACHMENT TO FORM 5-4
CALCULATION OF NET OPERATING EXPENSES**

Provider Name: ALDERSLY
Fiscal Year Ended: SEPTEMBER 30, 2017

Amount per Form 5-4, line 2-e: Revenues received for services to persons without a continuing care contract		\$ 4,135,536
Add: Monthly care fees	\$ 2,739,112	
Healthcare center fees	773,595	
Assisted living fees	846,841	
Entrance fees (net)	946,779	
Other resident services	<u>24,146</u>	<u>5,330,473</u>
Cash received from residents per statement of cash flows		<u>\$ 9,466,009</u>

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: ALDERSLY
 Fiscal Year Ended: SEPTEMBER 30, 2017


We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended SEPTEMBER 30, 2017 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 30-Sep-17 are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$472,279</u>
[2] Operating Expense Reserve Amount	<u>\$844,637</u>
[3] Total Liquid Reserve Amount:	<u>\$1,316,916</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> <u>(market value at end of quarter)</u>	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$682,397</u>	<u>\$682,398</u>
[5] Investment Securities	<u>\$10,456,666</u>	<u>\$10,456,666</u>
[6] Equity Securities		
[7] Unused/Available Lines of Credit		
[8] Unused/Available Letters of Credit		
[9] Debt Service Reserve	<u>\$632,770</u>	(not applicable)
[10] Other:		
<u>(describe qualifying asset)</u>		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	<u>\$11,771,833 [12]</u>	<u>\$11,139,064</u>
Reserve Obligation Amount: [13]	<u>\$472,279 [14]</u>	<u>\$844,637</u>
Surplus/(Deficiency): [15]	<u>\$11,299,554 [16]</u>	<u>\$10,294,427</u>

Signature: 
 (Authorized Representative)
Executive Director
 (Title)

Date: 2/1/18

**ATTACHMENT TO FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: ALDERSLY
Fiscal Year Ended: SEPTEMBER 30, 2017

Aldersly currently maintains its Debt Service Reserve of \$472,279 and its Operating Reserve of \$844,637 by investing in corporate stocks and bonds, U.S. government obligations, cash equivalents and mutual funds with a combined value of \$22,278,127 at September 30, 2017.

As part its bond financing, Aldersly has \$2,287,381 in reserves held by the bond trustee, of which \$1,654,843 is to be used for capital projects.

There are no other funds specifically held for identified projects or purposes or any funds maintained or designated for specific contingencies except for board designated reserves of \$8,291,631 and the temporarily restricted net assets of \$82,964. The income from the board designated reserves may be used for assistance to residents or other specific projects identified by the board from time to time.

Total operating expenses for the year ended September 30, 2017, amounted to \$9,182,834. This amount, divided by the mean number of all residents for the year of 95, results in per capita costs of operation of \$96,661.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: 01/23/2018

FACILITY NAME: Aldersly, Inc.
 ADDRESS: 326 Mission Blvd San Rafael, CA ZIP CODE: 94901 PHONE: 415-453-7425
 PROVIDER NAME: Aldersly FACILITY OPERATOR: 14 Member Board of Directors
 RELATED FACILITIES: None RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1921 # OF ACRES: 3+ SINGLE STORY MULTI-STORY OTHER: Both MILES TO SHOPPING CTR: <1 mile
 MILES TO HOSPITAL: 4 miles

NUMBER OF UNITS:

RESIDENTIAL LIVING	HEALTH CARE
APARTMENTS — STUDIO: <u>15</u>	ASSISTED LIVING: <u>30</u>
APARTMENTS — 1 BDRM: <u>40</u>	SKILLED NURSING: <u>20</u>
APARTMENTS — 2 BDRM: _____	SPECIAL CARE: _____
COTTAGES/HOUSES: _____	DESCRIPTION: > _____
RLU OCCUPANCY (%) AT YEAR END: <u>88.4%</u>	> _____

TYPE OF OWNERSHIP: NOT-FOR-PROFIT FOR-PROFIT ACCREDITED?: YES NO BY: _____

FORM OF CONTRACT: CONTINUING CARE LIFE CARE ENTRANCE FEE FEE FOR SERVICE
(Check all that apply) ASSIGNMENT OF ASSETS EQUITY MEMBERSHIP RENTAL

REFUND PROVISIONS: *(Check all that apply)* 90% 75% 50% FULLY AMORTIZED OTHER: Prorated to 0% and 50% after 4 years

RANGE OF ENTRANCE FEES: \$ 107,588 - \$ 249,408 **LONG-TERM CARE INSURANCE REQUIRED?** YES NO

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Priority Placement into SNF and Assisted Living

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: No Max Age

RESIDENT REPRESENTATIVE(S) TO, AND RESIDENT MEMBER(S) ON, THE BOARD (briefly describe provider's compliance and residents' role): >

> Resident Member on the Board of Directors and participates in committees. Resident Representative present residents' concerns to the Board.

FACILITY SERVICES AND AMENITIES					
<u>COMMON AREA AMENITIES</u>	<u>AVAILABLE</u>	<u>FEE FOR SERVICE</u>	<u>SERVICES AVAILABLE</u>	<u>INCLUDED IN FEE</u>	<u>FOR EXTRA CHARGE</u>
BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING (<u>2</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (<u>3</u> /DAY)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input type="checkbox"/>	<input checked="" type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SPA	<input type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL HOME CARE	<input type="checkbox"/>	<input checked="" type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input checked="" type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Wireless Internet</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>			

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

PROVIDER NAME: Aldersly, Inc.

OTHER CCRCs

LOCATION (City, State)

PHONE (with area code)

MULTI-LEVEL RETIREMENT COMMUNITIES

LOCATION (City, State)

PHONE (with area code)

FREE-STANDING SKILLED NURSING

LOCATION (City, State)

PHONE (with area code)

SUBSIDIZED SENIOR HOUSING

LOCATION (City, State)

PHONE (with area code)

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Aldersly, Inc.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME				
(Excluding amortization of entrance fee income)	7,018,284	7,111,994	7,248,600	7,525,668
LESS OPERATING EXPENSES				
(Excluding depreciation, amortization, and interest)	6,953,516	7,373,562	8,158,021	8,259,981
NET INCOME FROM OPERATIONS	<u>64,768</u>	<u>(261,568)</u>	<u>(909,421)</u>	<u>(734,313)</u>
LESS INTEREST EXPENSE	292,407	234,533	318,095	312,279
PLUS CONTRIBUTIONS	850,522	98,424	66,781	22,772
PLUS NON-OPERATING INCOME (EXPENSES)				
(excluding extraordinary items)	1,531,624	-651,968	1,756,070	2,395,263
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>2,154,507</u>	<u>-1,049,665</u>	<u>595,335</u>	<u>1,371,443</u>
NET CASH FLOW FROM ENTRANCE FEES				
(Total Deposits Less Refunds)	1,777,265	1,240,985	611,191	946,779

DESCRIPTION OF SECURED DEBT *(as of most recent fiscal year end)*

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGINATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>
CSCDA	\$6,320,000	variable	2/1/2015	5/15/2040	25 years

FINANCIAL RATIOS (see next page for ratio formulas)

	<u>2015 CCAC Medians 50th Percentile</u> <i>(optional)</i>	<u>2015</u>	<u>2016</u>	<u>2017</u>
DEBT TO ASSET RATIO		19%	18%	16.6%
OPERATING RATIO		107%	116.9%	113.9%
DEBT SERVICE COVERAGE RATIO		3.04%	3.22%	7.2%
DAYS CASH ON HAND RATIO		988	894	949

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2014</u>	<u>%</u>	<u>2015</u>	<u>%</u>	<u>2016</u>	<u>%</u>	<u>2017</u>
STUDIO	3,513	3.8	3,645	4.7	3,818	2.9	3,929
ONE BEDROOM	5,024	2.8	5,165	3.9	5,366	2.9	5,030
TWO BEDROOM							
COTTAGE/HOUSE							
ASSISTED LIVING	173/Day	3.5	179/Day	4.8	187/Day	4.2	198/Day
SKILLED NURSING	280/Day	3.2	289/Day	4.8	303/Day	3.3	313/Day
SPECIAL CARE							

COMMENTS FROM PROVIDER: > CCRC residents receive a discount when transitioning into the Assisted Living and Health Care Center.

> _____
> _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ - \text{ Depreciation Expense} \\ - \text{ Amortization Expense} \end{array}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash \& Investments} \\ + \text{ Unrestricted Non-Current Cash \& Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

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

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	\$3,292 to \$5,522	\$5,076 to \$5,886	\$9,0390 to \$9,780
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	2.9%	3.5%	.9 - 3.3%

Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: **October 1, 2016**
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

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

PROVIDER: ALDERSLY
COMMUNITY: _____

ALDERSLY

FORM 7-1 INCREASES IN MONTHLY SERVICE FEES

Year ended September 30, 2017

Increases in monthly service fees

Aldersly's continuing care contracts do not specify a rate or dollar amount that monthly fees may be raised on an annual basis. The contract allows for adjustments periodically as deemed necessary based on financial indicators. The Board of Directors is responsible for reviewing financial indicators and recommending increases. Increases are determined on a case by case basis within the parameters set by the Board based on individual resident's factors. For the year ended September 30, 2017, the average increase in service fees for residential living was 2.9%. For the year ended September 30, 2017, the average increase in service fees for skilled nursing was .9 % to 3.3%. For the year ended September 30, 2017, the average increase in service fees for assisted living was 3.5%.