

WESLEY HOMES AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2016 AND 2015

WESLEY HOMES AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Wesley Homes and Subsidiaries
Des Moines, Washington

We have audited the accompanying consolidated financial statements of Wesley Homes and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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.

Board of Trustees
Wesley Homes and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wesley Homes and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
April 12, 2017

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,633,255	\$ 5,160,988
Current Portion of Assets Limited as to Use	1,107,193	4,522,332
Undesignated Investments	10,087,254	11,379,144
Accounts Receivable, Net	1,994,647	2,641,489
Current Portion of Resident Entrance Fees Receivable	789,984	416,673
Other Current Assets	616,922	674,746
Total Current Assets	<u>17,229,255</u>	<u>24,795,372</u>
ASSETS LIMITED AS TO USE		
Board-Designated Investments	8,768,343	8,101,362
Restricted Investments	7,031,941	7,058,271
Trustee-Held Funds	19,552,428	6,678,607
Total Assets Limited as to Use	<u>35,352,712</u>	<u>21,838,240</u>
Less: Current Portion of Assets Limited as to Use	1,107,193	4,522,332
Noncurrent Assets Limited as to Use	<u>34,245,519</u>	<u>17,315,908</u>
PROPERTY, BUILDINGS, AND EQUIPMENT, Net	79,323,760	74,976,852
OTHER ASSETS		
Resident Entrance Fees Receivable, Net of Current Portion	166,792	233,400
Pledges Receivable	912,708	774,177
Intangible Assets	350,000	350,000
Total Other Assets	<u>1,429,500</u>	<u>1,357,577</u>
Total Assets	<u><u>\$ 132,228,034</u></u>	<u><u>\$ 118,445,709</u></u>

See accompanying Notes to Consolidated Financial Statements.

	2016	2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,278,088	\$ 1,008,067
Construction Accounts Payable	549,986	1,255,386
Accrued Salaries and Related Benefits	2,139,844	1,957,758
Accrued Interest	750,886	1,266,063
Funds Held for Residents	228,434	142,896
Current Portion of Resident Entrance Fees	358,661	175,219
Current Portion of Long-Term Debt	-	1,306,114
Total Current Liabilities	5,305,899	7,111,503
LONG-TERM DEBT , Net of Current Portion	70,842,968	53,333,789
OTHER NONCURRENT LIABILITIES		
Gift Annuities	912,900	995,875
Resident Entrance Fees	27,184,523	28,172,875
Total Other Noncurrent Liabilities	28,097,423	29,168,750
Total Liabilities	104,246,290	89,614,042
NET ASSETS		
Unrestricted	19,677,220	20,531,311
Temporarily Restricted	6,005,461	6,016,992
Permanently Restricted	2,299,063	2,283,364
Total Net Assets	27,981,744	28,831,667
Total Liabilities and Net Assets	\$ 132,228,034	\$ 118,445,709

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Resident/Client Services Revenue	\$ 37,958,324	\$ 36,759,158
Amortization of Resident Entrance Fees	2,171,138	1,884,550
Other Income	356,899	196,777
Net Assets Released from Restrictions	81,798	68,766
Total Operating Revenues	<u>40,568,159</u>	<u>38,909,251</u>
OPERATING EXPENSES		
Salaries and Wages	19,931,015	17,937,534
Payroll Taxes and Employee Benefits	3,722,973	3,099,983
Depreciation and Amortization	5,294,047	4,521,128
Supplies	3,330,538	3,356,566
Contract Services and Labor	3,908,235	3,638,017
Interest	2,196,989	2,284,926
Utilities and Maintenance	2,009,028	1,940,026
Professional Services	281,616	404,732
Insurance	532,068	507,411
Bad Debt Expense	715,308	722,200
Leases and Rentals	119,912	107,027
Licenses, Dues, and Taxes	385,628	324,258
Marketing	455,963	374,407
Resident and Community Programs	331,343	282,253
Other	476,209	382,891
Total Operating Expenses	<u>43,690,872</u>	<u>39,883,359</u>
OPERATING LOSS	(3,122,713)	(974,108)
OTHER INCOME (EXPENSE)		
Net Investment Income	1,598,421	537,102
Contributions, Gifts, and Bequests	63,585	169,527
Change in Fair Value of Charitable Gift Annuity	(63,184)	(125,073)
Loss on Refinancing	(476,641)	-
Total Other Income	<u>1,122,181</u>	<u>581,556</u>
DEFICIT OF REVENUES OVER EXPENSES	<u>\$ (2,000,532)</u>	<u>\$ (392,552)</u>

See accompanying Notes to Consolidated Financial Statements.

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS - DECEMBER 31, 2014	\$ 21,218,792	\$ 4,731,352	\$ 2,252,302	\$ 28,202,446
Deficit of Revenues Over Expenses	(392,552)	-	-	(392,552)
Net Assets Released from Restrictions for Capital	61,310	(61,310)	-	-
Net Assets Released from Restrictions	-	(68,766)	-	(68,766)
Reclassification of Temporarily Restricted Net Assets	(356,814)	356,814	-	-
Contributions, Gifts, and Bequests	-	68,828	31,062	99,890
Contributions, Gifts, and Bequests for Capital	575	934,987	-	935,562
Interest and Dividend Income	-	52,233	-	52,233
Net Realized Loss on Sale of Investments	-	300,058	-	300,058
Net Unrealized Gain on Investments	-	(297,204)	-	(297,204)
Changes in Net Assets	<u>(687,481)</u>	<u>1,285,640</u>	<u>31,062</u>	<u>629,221</u>
NET ASSETS - DECEMBER 31, 2015	20,531,311	6,016,992	2,283,364	28,831,667
Deficit of Revenues Over Expenses	(2,000,532)	-	-	(2,000,532)
Net Assets Released from Restrictions for Capital	1,145,087	(1,145,087)	-	-
Net Assets Released from Restrictions	-	(81,798)	-	(81,798)
Contributions, Gifts, and Bequests	-	1,069,695	15,699	1,085,394
Contributions, Gifts, and Bequests for Capital	1,354	-	-	1,354
Interest and Dividend Income	-	47,159	-	47,159
Net Realized Gain on Sale of Investments	-	23,052	-	23,052
Net Unrealized Gain on Investments	-	75,448	-	75,448
Changes in Net Assets	<u>(854,091)</u>	<u>(11,531)</u>	<u>15,699</u>	<u>(849,923)</u>
NET ASSETS - DECEMBER 31, 2016	<u>\$ 19,677,220</u>	<u>\$ 6,005,461</u>	<u>\$ 2,299,063</u>	<u>\$ 27,981,744</u>

See accompanying Notes to Consolidated Financial Statements.

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (849,923)	\$ 629,221
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,294,047	4,521,128
Loss on Disposal of Equipment	11,199	48,585
Amortization of Bond Premium	(179,953)	(218,724)
Amortization of Issue Costs	31,108	-
Loss on Refinancing	476,641	-
Bad Debt Expense	715,308	722,200
Amortization of Resident Entrance Fees	(2,171,138)	(1,884,550)
Net Realized and Unrealized (Gain) Loss on Investments	(1,668,632)	(889,393)
Change in Fair Value of Charitable Gift Annuities	63,184	125,073
Contributions Restricted for Capital and Endowments	(1,354)	(966,624)
Deferred Revenue from Resident Entrance Fees Received	3,374,825	3,786,937
Refunded Resident Entrance Fees	(2,315,300)	(1,538,251)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(68,466)	(723,185)
Pledges Receivable	(302,086)	(439,844)
Other Current Assets	57,824	210,710
Accounts Payable	270,021	(421,632)
Accrued Salaries and Related Benefits	182,086	106,273
Accrued Interest	(515,177)	(10,960)
Funds Held for Residents	85,538	43,375
Net Cash Provided by Operating Activities	<u>2,489,752</u>	<u>3,100,339</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	24,003,678	9,592,699
Purchases of Investments	(34,557,628)	(8,041,190)
Purchase of Property, Buildings, and Equipment	(10,357,554)	(9,565,469)
Net Cash Used by Investing Activities	<u>(20,911,504)</u>	<u>(8,013,960)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions for Capital and Endowments	164,909	1,418,297
Proceeds from Issuance of Long-Term Debt	75,707,394	9,258,942
Payments Made on Annuities Held, Net of Proceeds	(146,159)	(136,901)
Principal Payments on Long-Term Debt	(56,408,763)	(3,238,327)
Payments of Bond Issuance Costs	(3,423,362)	-
Change in Other Noncurrent Liabilities	-	(24,242)
Net Cash Provided by Financing Activities	<u>15,894,019</u>	<u>7,277,769</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,527,733)</u>	<u>2,364,148</u>
Cash and Cash Equivalents - Beginning of Year	<u>5,160,988</u>	<u>2,796,840</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,633,255</u></u>	<u><u>\$ 5,160,988</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest (Including Capitalized Interest)	<u>\$ 2,712,166</u>	<u>\$ 2,685,151</u>
Resident Entrance Fees Receivable	<u>\$ 956,776</u>	<u>\$ 650,073</u>
Construction Accounts Payable	<u>\$ (705,400)</u>	<u>\$ 1,255,386</u>

See accompanying Notes to Consolidated Financial Statements.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Wesley Homes is a nonprofit tax-exempt organization affiliated with the Pacific Northwest Annual Conference of the United Methodist Church. Wesley Homes operates a network of services offering a continuum of care for the aging population in King, Snohomish, and Pierce Counties in Washington. Wesley Homes operates a continuing care retirement community in Des Moines, Washington; a retirement community in Auburn, Washington; a private duty licensed home care agency; and a Medicare/Medicaid certified Home Health agency.

Wesley Homes Subsidiaries

Wesley Homes Des Moines, LLC, of which Wesley Homes is the sole member, owns and operates a continuing care retirement community located in Des Moines, Washington. The community campus consists of 50 independent cottages, 258 independent apartment units, 39 assisted-living units, and 148 skilled-nursing beds, which are occupied by residents meeting age and health requirements specified by residence agreements.

Wesley Homes Lea Hill, LLC, of which Wesley Homes is the sole member, owns and operates a retirement community located in Auburn, Washington. The site contains 22 village homes, 2 Brownstone style apartments with 12 units each, and a main lodge with 80 independent-living units, 32 housing with services units, and 16 memory care units and a 36-bed skilled nursing facility, which are occupied by residents meeting age and health requirements specified by residence agreements.

Wesley Homes Foundation (the Foundation), a nonprofit tax-exempt organization of which Wesley Homes is the sole member, is organized for charitable and educational purposes to facilitate the solicitation, recognition, and management of charitable gifts in support of the Organization.

Wesley Homes Community Health Services (Wesley Homes CHS), a nonprofit tax-exempt organization of which Wesley Homes is the sole member, is organized to provide health services to Wesley Homes' residents and clients in surrounding communities.

Wesley Homes at Home, LLC, of which Wesley Homes CHS is the sole member, is organized to provide health services under Medicare to Wesley Homes' residents and clients in surrounding communities.

Wesley Homes Bradley Park, LLC, a nonprofit tax-exempt organization of which Wesley Homes is the sole member, owns and is developing a retirement community in Puyallup, Washington. The first phase of this project is currently under construction and consists of 99 independent apartments, a Brownstone style apartment with 32 units, 50 housing with services units and 16 memory care units. A future phase will include a 36-bed skilled nursing facility and an additional Brownstone.

Wesley Homes Renton, LLC, is a nonprofit tax-exempt organization of which Wesley Homes is the sole member. The property sits on 19.6 acres on which a full continuum of care facility consisting of independent and assisted living and a skilled nursing unit will be developed.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The consolidated financial statements include the accounts of Wesley Homes and its Subsidiaries (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated.

Social Accountability

The Organization provides charitable services and housing for residents who are not able to pay the full rates associated with the services they receive from the Organization. In addition, the Organization contributes to the surrounding communities in a variety of ways. These include, but are not limited to: providing buildings and meeting spaces to local church organizations, support groups, service societies, and other nonprofit organizations; sponsoring training sessions and fairs for seniors and the surrounding community; and hosting swimming classes for developmentally disabled youth. The Organization estimates the amount of providing these services based on the overall direct and indirect costs in relation to revenues. During the years ended December 31, 2016 and 2015, the amount of charitable services and community support provided was \$4,875,673 and \$3,884,000, respectively.

Basis of Presentation

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those assets over which the boards of Wesley Homes and its Subsidiaries have discretionary control. Designated amounts represent those assets that the boards have set aside for a particular purpose.

Temporarily Restricted – Those assets subject to donor imposed restrictions which will be satisfied by actions of the Organization or the passage of time.

Permanently Restricted – Those assets subject to donor imposed restrictions that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation for unrestricted or temporarily restricted purposes.

The Organization records restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Excess (Deficit) of Revenues over Expenses

The consolidated statements of operations includes “Excess (Deficit) of Revenues over Expenses” which is the performance indicator for the Organization. Changes in unrestricted net assets which are excluded from this performance indicator, consistent with industry practice, include releases of restricted funds for capital purposes, and contributions, gifts, and bequests for capital purposes.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the accompanying 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, if any, 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid instruments such as certificates of deposit and other money market instruments which have maturities of three months or less at the date of purchase.

Investments

The Organization has classified its entire investment portfolio as trading. Unrealized gains and losses on unrestricted, temporarily restricted, and permanently restricted investments are reported as unrestricted, temporarily or permanently restricted, as appropriate (see Note 5).

Investments include U.S. and foreign equity and debt securities, which are held at financial institutions. These investments are carried at fair value with gains and losses, interest and dividends reported as changes in net assets. The cost of securities sold is based on the average cost method.

Accounts Receivable

The Organization uses the allowance method to account for uncollectible accounts. The allowance is based on management's estimate of potential bad debts, historical collection history, by considering residents' financial and credit history, and the general economic conditions. When all collection efforts have been exhausted, the account is written off against the related allowance. At December 31, 2016 and 2015, the allowance for doubtful accounts was approximately \$792,191 and \$1,631,187, respectively.

Pledges Receivable

Pledges for future contributions that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts have been deemed by the Organization to be immaterial and, therefore, no discount is recorded.

The Organization provides an allowance for uncollectible pledges using management's judgment. Pledges are individually analyzed for collectability and written off on a case by case basis. In addition, an allowance is estimated for other accounts based on historical experience of the Wesley Homes Foundation. At December 31, 2016 and 2015, the allowance for doubtful pledges was approximately \$36,254 and \$24,250, respectively.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use

The assets limited as to use section of the consolidated balance sheet consists of donor-restricted and board-designated assets, as well as trustee-held funds. The funds on deposit with the trustee are limited to use in accordance with the requirements of the Indenture. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

Property, Buildings, and Equipment

Property, buildings, and equipment are stated at cost and are depreciated using the straight-line method over estimated lives of 3 to 40 years beginning with the month the asset is placed into service. The Organization capitalizes fixed assets with a cost of greater than \$1,000. Maintenance and repairs are charged to expense as incurred.

Construction in Progress

Construction in progress costs have been deferred until the projects have been completed. Once the planned projects are completed, the costs are depreciated over the life of the project. If the projects are cancelled, the construction and development costs are expensed during that period.

Interest Capitalization

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, and depreciated over the estimated useful lives by the straight-line method of depreciation. The amount of interest capitalized was \$189,215 and \$160,175 in the years ended December 31, 2016 and 2015, respectively.

Unamortized Financing Costs

Original financing costs of \$3,423,362 are being amortized over the life of the Series 2016 Bonds using the straight-line method which approximates the effective interest method. Accumulated amortization on the financing costs totaled approximately \$8,225 and \$238,000 as of December 31, 2016 and 2015, respectively. Amortization expense was approximately \$34,000 and \$39,000 for the years ended December 31, 2016 and 2015.

Subsidies to Residents

The Organization provides a subsidy to certain residents, based on their income levels, to reduce the charges for rents and services. Because the Organization does not pursue collection of amounts determined to qualify as charitable services, they are not reported as revenue. During the years ended December 31, 2016 and 2015, the amount of subsidies provided to residents was approximately \$374,000 and \$396,000, respectively.

Intangible Assets

The Organization maintains a license to provide Home Health services under Medicare. The Organization reviews this intangible asset for impairment on an annual basis. Management believes there is currently no impairment to this asset.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gift Annuities

The gift annuities account was established for the purpose of paying beneficiary(s) a monthly annuity for the rest of a beneficiary(s) life. When a donor establishes a gift annuity, a lump-sum payment is received by the Organization and invested separately. The gift annuity liability is the actuarial present value of the anticipated cash flow of annuity payments, which is based on the actuarial life expectancy of the annuitant upon executing agreement. The discount rates used range from 4.25% to 7%. On the date the annuity is established, the difference between the gifted amount and the annuity liability is recorded as revenue. Upon death of the beneficiary(s), the remaining funds revert to the Organization and are recognized as income. The change in present value of the gift annuities for the years ended December 31, 2016 and 2015 was \$(63,184) and \$(125,073), respectively.

Income Taxes

The Organization is a nonprofit corporation, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Foundation has been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Accordingly, no provision has been made for income taxes in the consolidated financial statements.

The Organization's income tax returns are subject to review and examination by federal, state, and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The tax returns for the years 2012 to 2015 are open to examination by federal, local, and state authorities.

Resident/Client Services Revenue

Resident/client services revenue includes room charges and ancillary services for residents of the retirement communities and health services provided to those individuals served in the greater community. Health services revenue is recorded at established rates, net of contractual adjustments, resulting from agreements with third-party payers.

Resident Entrance Fees

Residents enter into an agreement (resident agreement) with the Organization upon entering a community. Generally, entrance fee deposits are collected from residents entering into resident agreements. The Organization offers both refundable and nonrefundable resident agreements.

Nonrefundable entrance fees are amortized to revenue over the actuarially computed life expectancy of the residents using the straight-line method. Refundable portions of the entrance fees are not amortized to revenue, rather the liability is recorded on the consolidated balance sheet in resident entrance fees. Upon voluntary or involuntary termination, all entrance fees not otherwise subject to refund under the above provisions are retained by the Organization and recognized as income.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resident Entrance Fees (Continued)

Refunds are paid at the earlier of reoccupancy or 120 days; however, there is an annual limit of exposure for payment of refunds, net of new entrance fees collected, per year, per campus.

Obligation to Provide Future Services to Current Residents

The Organization is required to accrue a liability in the consolidated financial statements to cover future services for current residents if deferred residency fees plus future anticipated income are not sufficient to cover these costs. Management has determined that no such accrual is required in the accompanying consolidated financial statements.

Third-Party Reimbursement Agreements

The Organization provides services to patients under contractual arrangements with Centers for Medicare and Medicaid Services (CMS). Under the terms of these contracts, the Organization receives payments at certain interim rates. The difference between interim rates and the final settlement, based upon an annual cost report, is subject to audit by the payer.

Nursing facilities licensed for participation in the Medicare and Medicaid programs are subject to annual licensure renewal. If it is determined that a nursing facility is not in substantial compliance with the requirements of participation, CMS may impose sanctions and penalties during the period of noncompliance.

Concentration of Credit Risk

The Organization maintains cash balances in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits.

The Organization has a concentration of revenue from Medicaid and Medicare of approximately \$11,612,232 or 33%, and \$9,093,000 or 22% of total revenue recognized for the years ended December 31, 2016 and 2015, respectively.

Management does not anticipate any adverse effect on the Organization's financial position as a result of these concentrations.

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and various committee assignments.

Reclassifications

Amounts in the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, have been reclassified to conform to the 2016 classification.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

During the year ended December 31, 2016, the entity adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, Interest–Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of the standard had no effect on previously reported net assets.

Fair Value of Financial Instruments

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include 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 financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write down of individual assets.

The Organization adopted the policy of valuing certain financial instruments at fair value. This accounting policy allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 ACCOUNTS RECEIVABLE, NET

The allocation of accounts receivable balances as of December 31 was as follows:

	2016	2015
Medicaid	\$ 477,036	\$ 909,610
Commercial	805,273	1,197,965
Medicare	695,274	945,064
Private	545,798	1,170,509
Other	263,457	49,528
Subtotal	2,786,838	4,272,676
Less: Allowance for Doubtful Accounts	792,191	1,631,187
Total	<u>\$ 1,994,647</u>	<u>\$ 2,641,489</u>

NOTE 3 PLEDGES RECEIVABLE, NET

The allocation of pledges receivable balances as of December 31 was as follows:

	2016	2015
Capital - Unrestricted	\$ 25,474	\$ 42,873
Capital - Temporarily Restricted	183,663	329,819
Other Program Funds	739,825	425,735
Subtotal	948,962	798,427
Less: Allowance for Doubtful Pledges	36,254	24,250
Pledges Receivable	<u>\$ 912,708</u>	<u>\$ 774,177</u>

NOTE 4 RESIDENT ENTRANCE FEES RECEIVABLE

The Organization enters into payment plans from new residents for resident entrance fees. The payment terms are over one to five years, and bear interest at prime plus 2% (5.25% as of December 31, 2016 and 2015). The interest rate is adjusted annually on January 1 for any changes in the prime rate. No amounts are past due as of December 31, 2016 and collection is fully expected.

Future payments to be received are as follows:

<u>Year Ending December 31,</u>	<u>Payment Plans</u>
2017	\$ 789,984
2018	64,741
2019	39,341
2020	40,342
2021	22,368
Subtotal	956,776
Less: Current Portion	789,984
Total	<u>\$ 166,792</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 RESTRICTED AND UNRESTRICTED INVESTMENTS

At December 31, the Organization had investments in the following categories:

	2016		
	Undesignated Investments	Assets Limited As To Use	Total
Cash and Cash Equivalents	\$ 54,831	\$ 20,684,074	\$ 20,738,905
Equity Securities	4,677,784	7,416,854	12,094,638
Mutual Funds	2,030,310	2,911,731	4,942,041
Fixed Income	3,296,841	4,304,492	7,601,333
Accrued Interest	27,488	35,561	63,049
Total	<u>\$ 10,087,254</u>	<u>\$ 35,352,712</u>	<u>\$ 45,439,966</u>

	2015		
	Undesignated Investments	Assets Limited As To Use	Total
Cash and Cash Equivalents	\$ 1,313,723	\$ 3,345,777	\$ 4,659,500
Equity Securities	4,681,694	6,695,110	11,376,804
Mutual Funds	2,396,156	3,678,991	6,075,147
Fixed Income	2,961,179	4,548,832	7,510,011
Guaranteed Investment Contract	-	3,528,850	3,528,850
Accrued Interest	26,392	40,680	67,072
Total	<u>\$ 11,379,144</u>	<u>\$ 21,838,240</u>	<u>\$ 33,217,384</u>

Net investment income for the years ended December 31 consisted of the following:

	2016	2015
Interest and Dividend Income	\$ 596,180	\$ 954,766
Investment Fees	(116,122)	(108,258)
Net Realized Gain on Sale of Investments	346,591	3,899,942
Net Unrealized Gain (Loss) on Investments	771,772	(4,209,348)
Net Investment Income	<u>\$ 1,598,421</u>	<u>\$ 537,102</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 RESTRICTED AND UNRESTRICTED INVESTMENTS (CONTINUED)

The Organization is required to hold funds in various accounts based upon terms in the Indenture, agreements and restrictions of donors, and resident funds held in trust. In addition, the boards of the Organization have designated funds for various purposes. Restricted investments classified as assets limited as to use as of December 31 are as follows:

	2016	2015
Donor-Restricted:		
Foundation Endowment	\$ 2,340,399	\$ 2,194,737
Capital Campaigns	209,742	610,632
Other	2,961,156	2,707,608
Total Donor-Restricted	<u>5,511,297</u>	<u>5,512,977</u>
Trustee-Held Funds and Restricted Investments:		
Gift Annuities	1,520,644	1,442,044
Bond Fund - Available for Payment of Principal and Interest on Bonds	703,771	2,331,017
Bond Fund - Bradley Park Construction Funds	11,702,951	-
Bond Fund - Des Moines Construction Funds	1,774,636	-
Debt Service Reserve Fund - Available for Payment to Bond Fund in the Event that Sufficient Funds are Not Available to Meet Debt Service Requirements	5,226,656	4,296,525
Other Trustee-Held Funds	144,414	154,315
Total Trustee-Held Funds and Restricted Investments	<u>21,073,072</u>	<u>8,223,901</u>
Board-Designated	<u>8,768,343</u>	<u>8,101,362</u>
Total Assets Limited as to Use	35,352,712	21,838,240
Less: Current Portion of Assets Limited as to Use	1,107,193	4,522,332
Assets Limited as to Use, Net of Current Portion	<u>\$ 34,245,519</u>	<u>\$ 17,315,908</u>

NOTE 6 PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at December 31 consisted of the following:

	2016	2015
Land	\$ 8,383,473	\$ 8,383,473
Land Improvements	1,861,715	1,886,919
Buildings and Cottages	114,305,367	105,190,262
Building Equipment and Furnishings	14,217,489	12,877,294
Vehicles	536,357	529,569
Construction in Progress - Lea Hill	175,531	9,410,726
Construction in Progress - Des Moines	4,559,020	1,021,322
Construction in Progress - Bradley Park	5,426,542	1,769,063
Subtotal	<u>149,465,493</u>	<u>141,068,629</u>
Less: Accumulated Depreciation	70,141,733	66,091,777
Property, Buildings, and Equipment, Net	<u>\$ 79,323,760</u>	<u>\$ 74,976,852</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 PROPERTY, BUILDINGS, AND EQUIPMENT (CONTINUED)

Construction in Progress

In the summer of 2016, Wesley Homes capitalized a new skilled nursing facility at the Organization's Lea Hill campus. The total capitalized cost of the new building was \$9,244,349.

Construction in progress as of December 31, 2016, relates to construction of a redevelopment project and various improvements to the Organization's Des Moines campus, and costs related to the development of Bradley Park Puyallup land.

The Organization anticipates the Des Moines redevelopment project to incur a total cost of approximately \$26,500,000 and is expected to be completed in two stages: Phase 1A to be completed in August 2017, and Phase 1B is expected to be completed in summer 2018. During 2016, the Organization issued debt of \$25,000,000 to be disbursed as needed (see Note 8). Capitalized interest totaled approximately \$20,500 for the year ended December 31, 2016.

Costs associated with Bradley Park project include planning and interest expense incurred to start the construction process. The cost of the original land purchase is reported as land at a cost of approximately \$4,200,000. The Bradley park project includes the acquisition, construction and equipping of a portion of the first phase of a retirement community, consisting of 131 independent living units, 50 assisted living units, and 17 memory care units located on an approximately 15-acre campus in Puyallup, Washington. The project is in phase one of a two-phase planned redevelopment which is expected to be completed in 2018 at a total cost of approximately \$83,000,000. In 2016, the Organization issued debt of \$83,030,000 to be disbursed as needed (see Note 8). The project is expected to start in early 2017 with phase one to be completed 18 months after the start date. Capitalized interest totaled approximately \$100,090 for the year ended December 31, 2016.

All other projects are routine capital improvements and are expected to be completed in early 2017.

NOTE 7 LINE OF CREDIT

The Organization entered into a \$1,000,000 revolving line of credit in January 2014. The line of credit bears interest at the bank base rate plus 0.5% and is unsecured. No amounts are outstanding as of December 31, 2016. The line was renewed in June of 2016 and expires in June of 2017.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 LONG-TERM DEBT

Total long-term debt outstanding as of December 31 was as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Series 2016 (Lea Hill) bond payable, payable in semiannual installments plus interest. Maturity dates ranging from July 1, 2021 to July 1, 2051 with interest rates ranging from 3.2% to 5.0% Secured by a deed of trust.	\$ 51,360,000	\$ -
Series 2016 (Des Moines) bond payable, payable in semiannual installments plus interest. Maturity dates ranging from July 1, 2021 to July 1, 2049 with interest rates ranging from 4.72% to 5.75% Secured by a deed of trust.	2,600,000	-
Series 2016 (Bradley Park) bond payable, payable in semiannual installments plus interest. Maturity dates ranging from July 1, 2021 to July 1, 2049 with interest rates ranging from 5.91% to 6.94% Secured by a deed of trust.	17,390,000	-
Series 2007 A Bonds payable, payable in semiannual installments plus interest. The bonds mature at 10-, 15-, 20-, and 30-year increments. The coupon rates for each range from 5.375% at December 31, 2008 to 6.2% in 2035. Secured by a deed of trust.	-	41,425,000
Series 2014 Bond payable, to be disbursed up to \$10,000,000. Interest only payments until May 1, 2016, at the rate of 1.85% plus 70% of one-month LIBOR. Starting May 1, 2016 monthly principal payments are required. Matures October 1, 2039. Secured by a deed of trust.	-	8,583,485
Term Loan, principal of \$2,200,000 and nonrevolving line of credit in maximum principal amount of \$11,800,000. Proceeds used to pay off the promissory note. Matures March 1, 2020, interest payments due monthly at variable rate of 2.5% plus greater of 30-daily LIBOR or 0.15%. Principal payments will be made in monthly installments beginning on April 1, 2016 with total outstanding principal due upon maturity.	-	2,145,000
Total Long-Term Debt	71,350,000	52,153,485
Add: Unamortized Bond Premium	2,908,394	3,229,716
Less: Unamortized Financing Costs	(3,415,426)	(743,299)
Carrying Amount of Long-Term Debt	70,842,968	54,639,903
Less: Current Portion of Principal Payments	-	1,306,114
Long-Term Debt, Net of Current Portion	<u>\$ 70,842,968</u>	<u>\$ 53,333,789</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 LONG-TERM DEBT (CONTINUED)

Lea Hill Tax-Exempt Bond Refinancing

On September 1, 2016, the Organization secured \$51,360,000 of financing through the issuance of Washington State Housing Finance Commission Nonprofit Housing Revenue Bonds (Wesley Homes at Lea Hill Projects), Series 2016. During the fiscal year, the proceeds were used to refund the Series 2007A bonds, the Series 2014 bonds and 2015 promissory notes. The Organization deposited reserve funds under an escrow agreement in an amount sufficient to pay future principal, interest, and redemption premiums on the bonds. The Series 2016 bonds were issued at a premium of \$2,941,691 with financing costs of \$1,143,324. The bonds begin to mature starting July 1, 2018 and end July 1, 2051 and have interest rates ranging from 3.2% to 5.0%. Obligations under the loan agreement are secured by a pledge of Wesley Homes Lea Hill, LLC's assets under a deed of trust.

The Series 2007A bonds, Series 2014 bonds, promissory notes payable, and the associated unamortized issue costs, bond premium, and accrued interest payable were removed from the books of the Organization and the Series 2016 bonds and bond premium were recognized, net of issuance costs. This transaction resulted in a loss on refinancing of \$476,641 which is included in the consolidated statement of operations as other income (loss) for the year ended December 31, 2016.

Des Moines Series 2016 Bonds

On November 2, 2016, the Organization secured \$25,000,000 of financing through the issuance of Washington State Housing Finance Commission Nonprofit Housing Revenue Bonds (Wesley Homes at Des Moines Projects), Series 2016, to finance the acquisition, demolition, construction and equipping of a portion of the first phase of the redevelopment of its senior living campus. The funds can be drawn up to \$25,000,000 and at December 31, 2016, the Organization had drawn \$2,600,000. The Organization deposited reserve funds under an escrow agreement in an amount sufficient to pay future principal, interest, and redemption premiums on the bonds. Financing costs to issue the bonds totaled \$661,554. Obligations under the loan agreement are secured by a pledge of Wesley Homes Des Moines, LLC's assets under a deed of trust.

The bonds consist of Series 2016A (long-term fixed rate), 2016B (long-term adjustable rate) and 2016C (short-term fixed, or Entrance Fee) bonds. Subject to the optional and mandatory redemption provisions, the Series 2016A Bonds shall mature on (i) July 1, 2026 with respect to \$1,290,000 principal amount thereof, (ii) July 1, 2036 with respect to \$2,525,000 principal amount thereof and (iii) July 1, 2049 with respect to \$6,190,000 principal amount thereof; the Series 2016B Bonds shall mature on July 1, 2049; and the Series 2016C Bonds shall mature on July 1, 2021. Interest rates on the Series 2016 bonds range from 4.72% to 5.75%.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 LONG-TERM DEBT (CONTINUED)

Bradley Park Series 2016 Bonds

On December 8, 2016, the Organization secured \$83,030,000 of financing through the issuance of Washington State Housing Finance Commission Nonprofit Housing Revenue Bonds (Wesley Homes at Bradley Park Projects), Series 2016, to finance the acquisition construction and equipping of a portion of the first phase of a retirement community. The funds can be drawn up to \$83,030,000 and at December 31, 2016, the Organization had drawn \$17,390,000. The Organization deposited reserve funds under an escrow agreement in an amount sufficient to pay future principal, interest, and redemption premiums on the bonds. Financing costs to issue the bonds totaled \$1,618,773. Obligations under the loan agreement are secured by a pledge of Wesley Homes Bradley Park, LLC's assets under a deed of trust.

The bonds consist of Series 2016A (long-term fixed rate), 2016B (long-term adjustable rate) and 2016C (short-term fixed, or Entrance Fee) bonds. Subject to the optional and mandatory redemption provisions, the Series 2016A Bonds shall mature on (i) July 1, 2026 with respect to \$2,970,000 principal amount thereof, (ii) July 1, 2036 with respect to \$6,410,000 principal amount thereof and (iii) July 1, 2049 with respect to \$17,530,000 principal amount thereof; the Series 2016B Bonds shall mature on July 1, 2046; and the Series 2016C Bonds shall mature on July 1, 2021. Interest rates on the Series 2016 bonds range from 5.91% to 6.94%.

Maturities for the Series 2016 bonds are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ -
2018	635,000
2019	1,705,000
2020	1,795,000
2021	3,590,000
Thereafter	63,625,000
Total	<u>\$ 71,350,000</u>

Restrictive Covenants

The provisions of the bond indentures contain various financial covenants. As of December 31, 2016 and 2015, management was not aware of any violations in relation to these covenants.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 9 RESIDENT ENTRANCE FEES

As of December 31, resident entrance fees consisted of the following:

	2016	2015
Refundable Entrance Fees	\$ 14,445,557	\$ 14,271,399
Deferred Revenue from Nonrefundable Resident Entrance Fees	13,034,293	14,003,271
Resident-Funded Improvements, Net of Amortization	63,334	73,424
Total Resident Entrance Fees	<u>\$ 27,543,184</u>	<u>\$ 28,348,094</u>

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Earnings from Endowment Investment for Circle of Concern	\$ 2,823,219	\$ 2,677,601
Capital Campaigns	2,885,360	3,039,593
Des Moines Circle of Concern	41,353	32,600
Lea Hill Circle of Concern	26,688	19,661
Other	228,841	247,537
Total Temporarily Restricted Net Assets	<u>\$ 6,005,461</u>	<u>\$ 6,016,992</u>

Permanently Restricted Net Assets

At December 31, permanently restricted (Endowment) net assets consisted of the following:

	2016	2015
Grace Wilson Endowment Fund	\$ 1,500,000	\$ 1,500,000
Circle of Concern Endowment Funds	528,438	513,014
Fred and Arlene Brandes Endowment Fund	100,000	100,000
Other	170,625	170,350
Total Endowment	2,299,063	2,283,364
Less: Unrestricted Net Assets	-	-
Permanently Restricted Net Assets	<u>\$ 2,299,063</u>	<u>\$ 2,283,364</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Interpretation of Relevant Law

The Organization has interpreted the Washington Uniform Prudent Management of Institutional Funds Act (WUPMIFA) 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 unrestricted or 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 WUPMIFA.

Investment Policies and Objectives:

The Organization has adopted investment 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 a donor-restricted fund that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the boards of Wesley Homes and Wesley Homes Foundation, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Consumer Price Index (CPI), while assuming a moderate level of investment risk.

2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 2,677,601	\$ 2,283,364	\$ 4,960,965
Investment Return:				
Investment Income	-	145,618	-	145,618
Contributions	-	-	15,699	15,699
Endowment Net Assets -				
End of Year	<u>\$ -</u>	<u>\$ 2,823,219</u>	<u>\$ 2,299,063</u>	<u>\$ 5,122,282</u>
2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets -				
Beginning of Year	\$ -	\$ 2,601,670	\$ 2,252,302	\$ 5,122,282
Investment Return:				
Investment Income	-	75,931	-	75,931
Contributions	-	-	31,062	31,062
Endowment Net Assets -				
End of Year	<u>\$ -</u>	<u>\$ 2,677,601</u>	<u>\$ 2,283,364</u>	<u>\$ 5,229,275</u>

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 10 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Investment Policies and Objectives (Continued)

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.

The Organization's endowments consist of seven individual funds established for a variety of purposes. Its endowments are donor-restricted endowment funds. The named endowment funds generally benefit resident benevolence. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 11 PENSION PLAN

The Organization has a defined contribution plan (the "Plan") for all eligible employees. Employees of the Organization are eligible to participate in the Plan upon the date of hire. The only requirement to receive employer contributions is that the employee must be at least 18 years of age. Participants are vested immediately in their contributions plus actual earnings thereon. For the Organization portion of the contributions, the Plan follows a five-year vesting schedule. The Organization contributes a dollar for dollar match up to 4% of a participant's contribution. The Organization contributed \$502,000 and \$331,000 to the plan for the years ended December 31, 2016 and 2015, respectively.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Industry Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Organization is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Medical Malpractice Insurance

The Organization maintains medical malpractice insurance coverage through “claims made” type policies for the benefit of its clinical employees and the Organization. Should the “claims made” policies not be renewed or replaced with equivalent insurance, claims related to occurrences during their terms, but reported subsequent to their termination, may be uninsured.

Accounting principles generally accepted in the United States of America require that a health care facility disclose the estimated costs of malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated.

Management is unable to reasonably estimate the range of future costs, if any, of unasserted medical malpractice claims arising from incidents in current and prior periods.

Litigation

The Organization may be involved from time to time in legal actions relating to the ownership and operations of its properties. In management’s opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Organization.

NOTE 13 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value, refer to Note 1 – Summary of Significant Accounting Policies.

The following methods were used to estimate the fair value of assets and liabilities.

Cash and Cash Equivalents

The carrying amount approximates fair value.

WESLEY HOMES AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Limited as to Use and Undesignated Investments

The fair values of the assets limited as to use and undesignated investments are estimated based on quoted market prices for those or similar investments.

The following tables present the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31:

	2016			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 12,094,638	\$ -	\$ -	\$ 12,094,638
Mutual Funds	4,942,041	-	-	4,942,041
Fixed Income Funds	7,601,333	-	-	7,601,333
Total	<u>\$ 24,638,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,638,012</u>

	2015			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 11,376,804	\$ -	\$ -	\$ 11,376,804
Mutual Funds	6,075,147	-	-	6,075,147
Fixed Income Funds	7,510,011	-	-	7,510,011
Total	<u>\$ 24,961,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,961,962</u>

Trading Securities

Trading securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities, private collateralized mortgage obligations, municipal bonds, mutual funds, and corporate debt securities that are traded by dealers or brokers in active over-the-counter markets.

NOTE 14 FUNCTIONAL EXPENSES

The functional allocation of expenses was as follows for the years ended December 31:

	2016	2015
Program	\$ 33,110,690	\$ 29,433,932
General and Administrative	10,050,211	9,725,009
Fundraising	529,970	724,418
Total Functional Expenses	<u>\$ 43,690,872</u>	<u>\$ 39,883,359</u>

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Board of Trustees
Wesley Homes and Subsidiaries
Des Moines, Washington

We have audited the consolidated financial statements of Wesley Homes and Subsidiaries as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated April 12, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in the accompanying pages is presented for the 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 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**

Bellevue, Washington
April 12, 2017

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	\$ -	\$ 771,218	\$ 344,515	\$ 598,577	\$ 918,945	\$ -	\$ -	\$ -	\$ 2,633,255
Current Portion of Assets Limited as to Use	-	248,965	-	-	858,228	-	-	-	1,107,193
Undesignated Investments	-	6,045,053	2,936,650	-	1,105,551	-	-	-	10,087,254
Accounts Receivable, Net	(14,690)	1,119,669	45,557	614,222	-	-	250,000	(20,111)	1,994,647
Current Portion of Resident Entrance Fees Receivable	-	278,970	511,014	-	-	-	-	-	789,984
Other Current Assets	303,175	194,137	49,286	1,459	43,865	-	25,000	-	616,922
Related-Party Receivable (Payable)	(5,377,128)	8,004,928	1,679,914	(1,428,863)	1,019,042	(1,280,919)	(2,616,974)	-	-
Total Current Assets	(5,088,643)	16,662,940	5,566,936	(214,605)	3,945,631	(1,280,919)	(2,341,974)	(20,111)	17,229,255
ASSETS LIMITED AS TO USE									
Board-Designated Investments	-	6,307,096	-	-	2,461,247	-	-	-	8,768,343
Restricted Investments	-	-	-	-	7,031,941	-	-	-	7,031,941
Trustee Held Funds	108,250	2,157,468	3,797,291	-	30,155	-	13,459,264	-	19,552,428
Total Assets Limited as to Use	108,250	8,464,564	3,797,291	-	9,523,343	-	13,459,264	-	35,352,712
Less: Current Portion Assets Limited as to Use	-	248,965	-	-	858,228	-	-	-	1,107,193
Noncurrent Assets Limited as to Use	108,250	8,215,599	3,797,291	-	8,665,115	-	13,459,264	-	34,245,519
PROPERTY, BUILDINGS, AND EQUIPMENT, Net									
	4,803,132	20,763,611	47,274,771	3,623	-	1,274,750	5,230,009	(26,136)	79,323,760
OTHER ASSETS									
Resident Entrance Fees Receivable, Net of Current Portion	-	166,792	-	-	-	-	-	-	166,792
Pledges Receivable	-	-	-	-	1,133,330	-	-	(220,622)	912,708
Intangible Assets	-	-	-	350,000	-	-	-	-	350,000
Total Other Assets	-	166,792	-	350,000	1,133,330	-	-	(220,622)	1,429,500
Total Assets	<u>\$ (177,261)</u>	<u>\$ 45,808,942</u>	<u>\$ 56,638,998</u>	<u>\$ 139,018</u>	<u>\$ 13,744,076</u>	<u>\$ (6,169)</u>	<u>\$ 16,347,299</u>	<u>\$ (266,869)</u>	<u>\$ 132,228,034</u>

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

LIABILITIES AND NET ASSETS	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
CURRENT LIABILITIES									
Accounts Payable	\$ 183,176	\$ 793,414	\$ 240,645	\$ 54,855	\$ 32,130	\$ -	\$ -	\$ (26,132)	\$ 1,278,088
CIP Payable	160,514	13,795	-	-	-	-	375,677	-	549,986
Accrued Salaries and Related Benefits	666,906	1,040,896	206,556	179,924	41,466	-	4,096	-	2,139,844
Accrued Interest	-	20,539	672,571	-	-	-	57,776	-	750,886
Funds Held for Residents	19,000	41,884	82,000	-	-	-	85,550	-	228,434
Current Portion of Resident Entrance Fees	-	246,754	111,907	-	-	-	-	-	358,661
Current Portion of Long-Term Debt	-	-	-	-	-	-	-	-	-
Total Current Liabilities	1,029,596	2,157,282	1,313,679	234,779	73,596	-	523,099	(26,132)	5,305,899
LONG-TERM DEBT, NET	-	1,938,446	53,133,295	-	-	-	15,771,227	-	70,842,968
OTHER NONCURRENT LIABILITIES									
Gift Annuities	-	-	-	-	912,900	-	-	-	912,900
Resident Entrance Fees	-	14,783,936	12,033,089	-	-	-	582,099	(214,601)	27,184,523
Total Other Noncurrent Liabilities	-	14,783,936	12,033,089	-	912,900	-	582,099	(214,601)	28,097,423
Total Liabilities	1,029,596	18,879,664	66,480,063	234,779	986,496	-	16,876,425	(240,733)	104,246,290
NET ASSETS									
Unrestricted	(1,206,857)	26,929,278	(9,841,065)	(95,761)	4,453,056	(6,169)	(529,126)	(26,136)	19,677,220
Temporarily Restricted	-	-	-	-	6,005,461	-	-	-	6,005,461
Permanently Restricted	-	-	-	-	2,299,063	-	-	-	2,299,063
Total Net Assets	(1,206,857)	26,929,278	(9,841,065)	(95,761)	12,757,580	(6,169)	(529,126)	(26,136)	27,981,744
Total Liabilities and Net Assets	\$ (177,261)	\$ 45,808,942	\$ 56,638,998	\$ 139,018	\$ 13,744,076	\$ (6,169)	\$ 16,347,299	\$ (266,869)	\$ 132,228,034

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	\$ -	\$ 2,226,291	\$ 987,543	\$ 149,085	1,798,069	\$ -	\$ -	\$ -	\$ 5,160,988
Current Portion of Assets Limited as to Use	-	622,515	3,012,129	-	887,688	-	-	-	4,522,332
Undesignated Investments	-	1,168,787	9,363,635	-	846,722	-	-	-	11,379,144
Accounts Receivable, Net	28,741	1,635,770	7,382	991,340	-	-	-	(21,744)	2,641,489
Current Portion of Resident Entrance Fees Receivable	-	309,258	107,415	-	-	-	-	-	416,673
Other Current Assets	320,730	187,608	79,353	40,790	46,265	-	-	-	674,746
Related-Party Receivable (Payable)	(5,469,446)	7,902,548	530,480	(646,650)	673,486	(1,263,749)	(1,726,669)	-	-
Total Current Assets	(5,119,975)	14,052,777	14,087,937	534,565	4,252,230	(1,263,749)	(1,726,669)	(21,744)	24,795,372
ASSETS LIMITED AS TO USE									
Board-Designated Investments	-	5,853,141	-	-	2,248,221	-	-	-	8,101,362
Restricted Investments	-	-	-	-	7,058,271	-	-	-	7,058,271
Trustee Held Funds	-	5,271	6,627,542	-	45,794	-	-	-	6,678,607
Total Assets Limited as to Use	-	5,858,412	6,627,542	-	9,352,286	-	-	-	21,838,240
Less: Current Portion Assets Limited as to Use	-	622,515	3,012,129	-	887,688	-	-	-	4,522,332
Noncurrent Assets Limited as to Use	-	5,235,897	3,615,413	-	8,464,598	-	-	-	17,315,908
PROPERTY, BUILDINGS, AND EQUIPMENT, Net									
	4,860,377	19,646,250	47,638,020	11,061	-	1,257,721	1,589,559	(26,136)	74,976,852
OTHER ASSETS									
Resident Entrance Fees Receivable, Net of									
Current Portion	-	233,400	-	-	-	-	-	-	233,400
Pledges Receivable	-	-	-	-	1,005,127	-	-	(230,950)	774,177
Intangible Assets	-	-	-	350,000	-	-	-	-	350,000
Total Other Assets	-	233,400	-	350,000	1,005,127	-	-	(230,950)	1,357,577
Total Assets	\$ (259,598)	\$ 39,168,324	\$ 65,341,370	\$ 895,626	\$ 13,721,955	\$ (6,028)	\$ (137,110)	\$ (278,830)	\$ 118,445,709

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES									
Accounts Payable	\$ 165,871	\$ 612,842	\$ 189,842	\$ 42,844	\$ 18,412	\$ -	\$ -	\$ (21,744)	\$ 1,008,067
CIP Payable	146,847	140,210	968,329	-	-	-	-	-	1,255,386
Accrued Salaries and Related Benefits	575,546	961,009	130,469	254,828	35,906	-	-	-	1,957,758
Accrued Interest	3,995	-	1,262,068	-	-	-	-	-	1,266,063
Funds Held for Residents	-	25,146	81,000	-	-	-	36,750	-	142,896
Current Portion of Resident Entrance Fees	-	79,101	96,118	-	-	-	-	-	175,219
Current Portion of Long-Term Debt	79,444	-	1,226,670	-	-	-	-	-	1,306,114
Total Current Liabilities	971,703	1,818,308	3,954,496	297,672	54,318	-	36,750	(21,744)	7,111,503
LONG-TERM DEBT, Net	2,065,556	-	51,268,233	-	-	-	-	-	53,333,789
OTHER NONCURRENT LIABILITIES									
Gift Annuities	-	-	-	-	995,875	-	-	-	995,875
Resident Entrance Fees	-	16,779,343	11,624,482	-	-	-	-	(230,950)	28,172,875
Other Noncurrent Liabilities	-	-	-	-	-	-	-	-	-
Total Other Noncurrent Liabilities	-	16,779,343	11,624,482	-	995,875	-	-	(230,950)	29,168,750
Total Liabilities	3,037,259	18,597,651	66,847,211	297,672	1,050,193	-	36,750	(252,694)	89,614,042
NET ASSETS									
Unrestricted	(3,296,857)	20,570,673	(1,505,841)	597,954	4,371,406	(6,028)	(173,860)	(26,136)	20,531,311
Temporarily Restricted	-	-	-	-	6,016,992	-	-	-	6,016,992
Permanently Restricted	-	-	-	-	2,283,364	-	-	-	2,283,364
Total Net Assets	(3,296,857)	20,570,673	(1,505,841)	597,954	12,671,762	(6,028)	(173,860)	(26,136)	28,831,667
Total Liabilities and Net Assets	<u>\$ (259,598)</u>	<u>\$ 39,168,324</u>	<u>\$ 65,341,370</u>	<u>\$ 895,626</u>	<u>\$ 13,721,955</u>	<u>\$ (6,028)</u>	<u>\$ (137,110)</u>	<u>\$ (278,830)</u>	<u>\$ 118,445,709</u>

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes	Wesley Homes	Wesley Homes	Wesley Homes	Wesley Homes	Wesley Homes	Eliminations	Total
	Des Moines	Lea Hill	CHS	Foundation	Renton	Puyallup			
OPERATING REVENUE									
Resident/Client Services Revenue	\$ -	\$ 25,473,711	\$ 8,599,057	\$ 3,902,052	\$ -	\$ -	\$ -	\$ (16,496)	\$ 37,958,324
Amortization of Resident Entrance Fees	-	2,141,672	29,466	-	-	-	-	-	2,171,138
Other Income	-	215,372	107,860	33,667	-	-	-	-	356,899
Net Assets Released from Restrictions	-	-	-	-	81,798	-	-	-	81,798
Total Operating Revenues	-	27,830,755	8,736,383	3,935,719	81,798	-	-	(16,496)	40,568,159
EXPENSES									
Salaries and Wages	1,685,787	12,297,714	2,687,648	2,641,623	534,163	-	84,080	-	19,931,015
Payroll Taxes and Employee Benefits	256,700	2,450,574	492,566	428,054	85,025	-	10,054	-	3,722,973
Depreciation and Amortization	175,384	3,559,436	1,551,791	7,436	-	-	-	-	5,294,047
Supplies	21,728	2,534,410	711,851	59,064	3,485	-	-	-	3,330,538
Contract Services and Labor	528,172	2,001,905	533,533	860,383	738	-	-	(16,496)	3,908,235
Interest	-	4,529	2,192,355	-	105	-	-	-	2,196,989
Utilities and Maintenance	7,298	1,422,763	568,633	8,513	1,680	141	-	-	2,009,028
Professional Services	183,137	53,973	238	32,341	11,927	-	-	-	281,616
Insurance	19,525	345,140	145,941	18,829	2,633	-	-	-	532,068
Bad Debt Expense	-	587,409	10,000	105,895	12,004	-	-	-	715,308
Leases and Rentals	18,972	63,826	22,753	12,799	1,562	-	-	-	119,912
Licenses, Dues and Taxes	67,042	163,755	57,849	91,821	5,161	-	-	-	385,628
Marketing	80,457	130,973	64,324	61,399	36,053	-	82,757	-	455,963
Resident and Community Programs	-	37,358	8,982	-	285,003	-	-	-	331,343
Other	92,618	112,574	147,061	104,491	12,315	-	7,150	-	476,209
Management Fees	(3,136,820)	2,474,914	465,120	196,786	-	-	-	-	-
Total Operating Expenses	-	28,241,253	9,660,645	4,629,434	991,854	141	184,041	(16,496)	43,690,872
OPERATING INCOME (LOSS)	-	(410,498)	(924,262)	(693,715)	(910,056)	(141)	(184,041)	-	(3,122,713)
OTHER INCOME (EXPENSE)									
Net Investment Income (Loss)	-	552,792	582,522	-	463,107	-	-	-	1,598,421
Contributions, Gifts and Bequests	-	-	-	-	63,585	-	-	-	63,585
Foundation Expenses	-	(311,891)	(43,728)	-	526,844	-	(171,225)	-	-
Change in Fair Value of Charitable Gift Annuity	-	-	-	-	(63,184)	-	-	-	(63,184)
Loss on Refinancing of Long-Term Debt	-	-	(476,641)	-	-	-	-	-	(476,641)
Total Other Income (Expense)	-	240,901	62,153	-	990,352	-	(171,225)	-	1,122,181
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	-	(169,597)	(862,109)	(693,715)	80,296	(141)	(355,266)	-	(2,000,532)
Net Assets Released from Restrictions for Capital	-	-	1,145,087	-	-	-	-	-	1,145,087
Reclassification of Temporarily Restricted Net Assets	-	-	-	-	-	-	-	-	-
Intercompany Transfer	2,090,000	6,528,202	(8,618,202)	-	-	-	-	-	-
Contributions for Capital	-	-	-	-	1,354	-	-	-	1,354
CHANGES IN UNRESTRICTED NET ASSETS	2,090,000	6,358,605	(8,335,224)	(693,715)	81,650	(141)	(355,266)	-	(854,091)
Unrestricted Net Assets - Beginning of Year	(3,296,857)	20,570,673	(1,505,841)	597,954	4,371,406	(6,028)	(173,860)	(26,136)	20,531,311
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ (1,206,857)</u>	<u>\$ 26,929,278</u>	<u>\$ (9,841,065)</u>	<u>\$ (95,761)</u>	<u>\$ 4,453,056</u>	<u>\$ (6,169)</u>	<u>\$ (529,126)</u>	<u>\$ (26,136)</u>	<u>\$ 19,677,220</u>

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED DECEMBER 31, 2016
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
TEMPORARILY RESTRICTED									
OTHER SUPPORT (EXPENDITURES)									
Net Assets Released from Restrictions for Operations	\$ -	\$ -	\$ -	\$ -	\$ (81,798)	\$ -	\$ -	\$ -	\$ (81,798)
Net Assets Released from Restrictions for Capital	-	-	-	-	(1,145,087)	-	-	-	(1,145,087)
Contributions, Gifts and Bequests	-	-	-	-	1,069,695	-	-	-	1,069,695
Interest and Dividend Income	-	-	-	-	47,159	-	-	-	47,159
Net Realized Gain on Sale of Investments	-	-	-	-	23,052	-	-	-	23,052
Net Unrealized Gain on Investments	-	-	-	-	75,448	-	-	-	75,448
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	(11,531)	-	-	-	(11,531)
Temporarily Restricted Net Assets - Beginning of Year	-	-	-	-	6,016,992	-	-	-	6,016,992
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,005,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,005,461</u>
PERMANENTLY RESTRICTED									
Contributions, Gifts and Bequests	\$ -	\$ -	\$ -	\$ -	15,699	\$ -	\$ -	\$ -	15,699
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	15,699	-	-	-	15,699
Permanently Restricted Net Assets - Beginning of Year	-	-	-	-	2,283,364	-	-	-	2,283,364
PERMANENTLY RESTRICTED NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,299,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,299,063</u>

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
OPERATING REVENUE									
Resident/Client Services Revenue	\$ -	\$ 25,485,122	\$ 7,982,023	\$ 3,463,660	\$ -	\$ -	\$ -	\$ (171,647)	\$ 36,759,158
Amortization of Resident Entrance Fees	-	1,833,318	51,232	-	-	-	-	-	1,884,550
Other Income	-	125,794	121,750	2,159	(52,926)	-	-	-	196,777
Net Assets Released from Restriction	-	-	-	-	68,766	-	-	-	68,766
Total Operating Revenues	-	27,444,234	8,155,005	3,465,819	15,840	-	-	(171,647)	38,909,251
EXPENSES									
Salaries and Wages	1,666,392	11,885,885	1,728,345	2,127,836	529,076	-	-	-	17,937,534
Payroll Taxes and Employee Benefits	278,942	2,151,559	283,453	301,412	84,617	-	-	-	3,099,983
Depreciation and Amortization	161,442	3,040,915	1,311,335	7,436	-	-	-	-	4,521,128
Supplies	26,601	2,615,423	640,079	58,821	15,642	-	-	-	3,356,566
Contract Services and Labor	497,398	2,172,330	399,768	739,609	559	-	-	(171,647)	3,638,017
Interest	-	7,593	2,276,751	-	582	-	-	-	2,284,926
Utilities and Maintenance	6,371	1,437,365	483,827	10,641	1,680	142	-	-	1,940,026
Professional Services	170,099	199,564	97	26,362	8,610	-	-	-	404,732
Insurance	15,963	325,992	145,384	17,993	2,079	-	-	-	507,411
Bad Debt Expense	-	582,751	-	168,194	(28,745)	-	-	-	722,200
Leases and Rentals	28,282	52,036	9,897	14,869	1,943	-	-	-	107,027
Licenses, Dues and Taxes	69,290	146,874	58,454	46,120	3,520	-	-	-	324,258
Marketing	72,520	155,880	34,252	75,758	35,997	-	-	-	374,407
Resident and Community Programs	-	39,781	6,334	-	236,138	-	-	-	282,253
Other	64,857	110,133	108,649	85,998	13,254	-	-	-	382,891
Management Fees	(2,858,157)	2,264,528	421,060	172,569	-	-	-	-	-
Total Operating Expenses	200,000	27,188,609	7,907,685	3,853,618	904,952	142	-	(171,647)	39,883,359
OPERATING INCOME (LOSS)	(200,000)	255,625	247,320	(387,799)	(889,112)	(142)	-	-	(974,108)
OTHER INCOME (EXPENSE)									
Net Investment Income	200,000	79,171	266,190	-	(8,259)	-	-	-	537,102
Contributions, Gifts and Bequests	-	-	-	-	169,527	-	-	-	169,527
Foundation Expenses	-	(307,877)	(242,680)	-	724,417	-	(173,860)	-	-
Change in Fair Value of Charitable Gift Annuity	-	-	-	-	(125,073)	-	-	-	(125,073)
Total Other Income (Expense)	200,000	(228,706)	23,510	-	760,612	-	(173,860)	-	581,556
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	-	26,919	270,830	(387,799)	(128,500)	(142)	(173,860)	-	(392,552)
Net Assets Released from Restrictions for Capital	-	-	61,310	-	-	-	-	-	61,310
Reclassification of Temporarily Restricted Net Assets	-	-	-	-	(356,814)	-	-	-	(356,814)
Contributions for Capital	-	-	-	-	575	-	-	-	575
CHANGE IN UNRESTRICTED NET ASSETS	-	26,919	332,140	(387,799)	(484,739)	(142)	(173,860)	-	(687,481)
Unrestricted Net Assets - Beginning of Year	(3,296,857)	20,543,754	(1,837,981)	985,753	4,856,145	(5,886)	-	(26,136)	21,218,792
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ (3,296,857)</u>	<u>\$ 20,570,673</u>	<u>\$ (1,505,841)</u>	<u>\$ 597,954</u>	<u>\$ 4,371,406</u>	<u>\$ (6,028)</u>	<u>\$ (173,860)</u>	<u>\$ (26,136)</u>	<u>\$ 20,531,311</u>

WESLEY HOMES AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	Wesley Homes	Wesley Homes Des Moines	Wesley Homes Lea Hill	Wesley Homes CHS	Wesley Homes Foundation	Wesley Homes Renton	Wesley Homes Puyallup	Eliminations	Total
TEMPORARILY RESTRICTED									
OTHER SUPPORT (EXPENDITURES)									
Net Assets Released from Restrictions for Operations	\$ -	\$ -	\$ -	\$ -	\$ (68,766)	\$ -	\$ -	\$ -	\$ (68,766)
Net Assets Released from Restrictions for Capital	-	-	-	-	(61,310)	-	-	-	(61,310)
Reclassification of Temporarily Restricted Net Assets	-	-	-	-	356,814	-	-	-	356,814
Contributions, Gifts and Bequests	-	-	-	-	68,828	-	-	-	68,828
Contributions, Gifts, and Bequests for Capital	-	-	-	-	934,987	-	-	-	934,987
Interest and Dividend Income	-	-	-	-	52,233	-	-	-	52,233
Net Realized Gain on Sale of Investments	-	-	-	-	300,058	-	-	-	300,058
Net Unrealized Loss on Investments	-	-	-	-	(297,204)	-	-	-	(297,204)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	-	-	-	-	1,285,640	-	-	-	1,285,640
Temporarily Restricted Net Assets - Beginning of Year	-	-	-	-	4,731,352	-	-	-	4,731,352
TEMPORARILY RESTRICTED NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,016,992</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,016,992</u>
PERMANENTLY RESTRICTED									
Contributions, Gifts and Bequests	\$ -	\$ -	\$ -	\$ -	\$ 31,062	\$ -	\$ -	\$ -	\$ 31,062
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-	-	-	31,062	-	-	-	31,062
Permanently Restricted Net Assets - Beginning of Year	-	-	-	-	2,252,302	-	-	-	2,252,302
PERMANENTLY RESTRICTED NET ASSETS - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,283,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,283,364</u>