VIRGINIA BAPTIST HOMES, INCORPORATED
D/B/A LIFESPIRE OF VIRGINIA
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION

YEARS ENDED DECEMBER 31, 2016 AND 2015

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
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YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Virginia Baptist Homes, Incorporated
d/b/a LifeSpire of Virginia and Subsidiaries
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Baptist Homes, Incorporated d/b/a LifeSpire of Virginia and Subsidiaries (VBH), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets (deficit) 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
Virginia Baptist Homes, Incorporated
d/b/a LifeSpire of Virginia and Subsidiaries

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Baptist Homes, Incorporated d/b/a LifeSpire of Virginia and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations, changes in their net assets (deficit) and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, VBH adopted a recently issued accounting standard related to the accounting for deferred financing costs. The new standard requires entities to present deferred financing costs as a direct deduction from the face amount of the related borrowings, amortize deferred financing costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
April 7, 2017

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 25,788,250	$ 26,153,688
Current Portion of Assets Whose Use is Limited	2,170,027	3,318,389
Accounts Receivable, Net of Allowance for Doubtful Accounts of Approximately $628,000 and $458,000 at December 31, 2016 and 2015, Respectively	2,536,783	2,014,648
Notes Receivable	3,727,779	3,683,931
Interest Receivable	28,040	18,716
Prepaid Expenses	634,562	636,112
Deposits and Other	1,037,186	533,936
Total Current Assets	35,922,627	36,359,420
INVESTMENTS	19,204,075	16,616,458
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	8,116,653	8,074,136
ASSETS WHOSE USE IS LIMITED		
Externally Restricted Under Bond Indenture Agreement (Held by Trustee)	11,154,129	13,527,386
Less: Amounts Available for Current Liabilities	(2,170,027)	(3,318,389)
Total Assets Whose Use is Limited	8,984,102	10,208,997
PROPERTY, PLANT AND EQUIPMENT, NET	122,891,418	123,784,841
OTHER ASSETS		
Deferred Marketing Costs, Net of Accumulated Amortization of Approximately $7,275,000 in 2016 and $7,209,000 in 2015	40,491	106,333
Other Assets	-	9,884
Total Other Assets	40,491	116,217
Total Assets	$ 195,159,366	$ 195,160,069

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS (DEFICIT)	2016	2015
CURRENT LIABILITIES		
Accounts Payable	$ 3,620,315	$ 3,987,874
Salaries and Wages	3,295,392	3,117,773
Interest Payable	1,446,447	1,818,469
Deferred Revenue	258,220	159,231
Annuities Payable	119,784	134,319
Deposits from Prospective Residents	673,064	340,243
Current Portion of Long-Term Debt	3,231,448	3,573,425
Advance Fee Refund Liability	2,886,923	2,803,659
Total Current Liabilities	15,531,593	15,934,993
ADVANCE FEE REFUND LIABILITY, LESS CURRENT PORTION	14,889,801	12,530,577
DEFERRED REVENUE FROM ADVANCE FEES	75,272,201	75,814,090
ANNUITIES PAYABLE	557,828	663,998
LONG-TERM DEBT, LESS CURRENT PORTION	124,511,886	124,415,627
Total Liabilities	230,763,309	229,359,285
NET ASSETS (DEFICIT)		
Unrestricted	(52,196,926)	(50,854,877)
Temporarily Restricted	4,345,148	4,703,984
Permanently Restricted	12,247,835	11,951,677
Total Net Assets (Deficit)	(35,603,943)	(34,199,216)
Total Liabilities and Net Assets (Deficit)	$ 195,159,366	$ 195,160,069

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Residential Services, Including Amortization of Deferred Revenue from Advance Fees of $12,104,324 and $12,424,924 in 2016 and 2015, Respectively	$ 48,320,061	$ 46,662,958
Health Care Services	18,015,074	16,049,878
Net Assets Released from Restrictions Used for Operations	855,955	210,006
Unrestricted Gifts and Donations:	478,161	556,676
Investment Income	1,032,804	1,620,242
Other	1,946,123	1,913,010
Total Revenue, Gains, and Other Support	70,648,178	67,012,770
OPERATING EXPENSES		
Salaries, Wages and Professional Fees	33,254,122	33,494,537
Provisions for Depreciation and Amortization	10,387,792	10,345,558
Interest	7,207,872	7,314,270
Other	19,567,039	19,174,024
Total Operating Expenses	70,416,825	70,328,389
OPERATING INCOME (LOSS)	231,353	(3,315,619)
NONOPERATING INCOME (LOSS):		
Loss on Extinguishment of Debt	(1,903,178)	-
Other-than-temporary Decline in Value of Investment	(75,000)	-
Loss on Disposal of Assets Held for Sale	-	(149,347)
Total Non-Operating Income (Loss)	(1,978,178)	(149,347)
DEFICIENCY OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(1,746,825)	(3,464,966)

See accompanying Notes to Consolidated Financial Statements.

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS (CONTINUED)		
Deficiency of Revenues, Gains, and Other Support Over Expenses	$ (1,746,825)	$ (3,464,966)
Other Changes in Unrestricted Net Assets:		
Change in Unrealized Gains (Losses) on Investments	404,776	(774,564)
Net Assets Released from Restrictions for Acquisition of Property, Plant and Equipment	-	200,804
Decrease in Unrestricted Net Assets	(1,342,049)	(4,038,726)
TEMPORARILY RESTRICTED NET ASSETS		
Gifts, Grants and Bequests	596,888	385,250
Investment Income	35,573	57,093
Change in Value of Annuity Obligations	(135,342)	50,269
Net Assets Released from Restrictions	(855,955)	(410,810)
Increase (Decrease) in Temporarily Restricted Net Assets	(358,836)	81,802
PERMANENTLY RESTRICTED NET ASSETS		
Gifts, Grants and Bequests	337,788	2,376,349
Change in Value of Annuity Obligations	(17,045)	(33,822)
Change in Present Value of Perpetual Trust Funds	(24,585)	(323,502)
Increase in Permanently Restricted Net Assets	296,158	2,019,025
DECREASE IN NET ASSETS	(1,404,727)	(1,937,899)
Net Assets (Deficit) - Beginning of Year	(34,199,216)	(32,261,317)
NET ASSETS (DEFICIT) - END OF YEAR	$ (35,603,943)	$ (34,199,216)

See accompanying Notes to Consolidated Financial Statements.

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (1,404,727)	$ (1,937,899)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Amortization of Deferred Revenue from Advance Fees	(12,104,324)	(12,424,924)
Proceeds from Advance Fees and Deposits	16,460,000	19,820,567
Amortization of Deferred Marketing Costs	65,842	410,085
Amortization of Deferred Financing Costs	156,398	237,776
Amortization of Bond Discount	39,571	39,573
Amortization of Bond Premium	(67,662)	-
Loss on Sale of Assets Held for Sale	-	149,347
Loss on Extinguishment of Debt	1,903,178	-
Other-than-temporary Decline in Value of Investment	75,000	
Provision for Bad Debts	170,231	143,677
Provision for Depreciation	10,321,950	9,935,472
Increase (Decrease) in Annuity Obligations	(120,705)	63,518
Proceeds from Contributions Restricted for Long-Term Investment	(934,676)	(2,761,599)
Net Realized and Unrealized (Gains) Losses on Long-Term Investments	(620,728)	631,430
Change in Present Value of Trust Funds	(24,585)	(323,502)
Decrease (Increase) in Operating Assets:		
Accounts Receivable	(692,366)	(644,126)
Interest Receivable	(9,324)	30,633
Prepaid Expenses	1,550	(50,461)
Notes Receivable	(43,848)	(284,494)
Other Current Assets	(493,366)	26,042
Beneficial Interest in Perpetual Trust	(67,102)	(2,266,128)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	884,097	413,219
Deferred Revenue	98,989	35,289
Salaries and Wages	177,619	(195,929)
Interest Payable	(372,022)	107,740
Deposits from Prospective Residents	382,551	60,578
Net Cash Provided by Operating Activities	13,781,541	11,215,884

See accompanying Notes to Consolidated Financial Statements.

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant and Equipment	$ (10,680,183)	$ (5,654,570)
Proceeds from Sale of Property, Plant and Equipment	-	390,824
Change in Investments and Assets Whose Use is Limited:		
Change in Cash and Cash Equivalents	4,297,380	(250,954)
Net Sales (Purchases) of Investments	1,282,564	(1,297,849)
Net Cash Used in Investing Activities	(5,100,239)	(6,812,549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Long-Term Investment	934,676	2,761,599
Refunds of Advance Fees and Deposits	(2,504,807)	(2,226,139)
Increase in Deferred Financing Costs	(1,385,295)	(112,672)
Proceeds from Line of Credit	2,304,663	7,283,186
Proceeds from Bond Funds Used for Redemption	(5,199,406)	-
Issuance of Long-Term Debt	85,505,000	-
Bond Issue Premium on Long-Term Debt	5,954,243	-
Early Repayment of Long-Term Debt	(90,957,388)	-
Payments on Long-Term Debt	(3,698,426)	(3,467,454)
Net Cash Provided by (Used in) Financing Activities	(9,046,740)	4,238,520
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(365,438)	8,641,855
Cash and Cash Equivalents - Beginning of Year	26,153,688	17,511,833
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 25,788,250	$ 26,153,688
SUPPLEMENTAL CASH FLOWS INFORMATION		
Property and Equipment Additions in Accounts Payable	$ 535,267	$ 1,786,923

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Virginia Baptist Homes, Incorporated d/b/a LifeSpire of Virginia (VBH) is a not-for-profit corporation founded in 1946 as an agency of the Baptist General Association of Virginia (BGAV). VBH operates retirement communities in Culpeper, Richmond, Newport News, and Roanoke, Virginia which provide diversified residential and health care services to retirement community residents. In February 2016, VBH began doing business as LifeSpire of Virginia; this change did not affect VBH's underlying corporate identity or the identities or business names of its affiliates.

VBH operates its retirement communities under arrangements whereby residents enter into agreements which require payment of a one-time advance fee and a monthly maintenance fee. Generally, these payments entitle residents to the use and privileges of VBH for life, including certain nursing services provided in VBH's nursing facilities. The occupancy agreement does not entitle the residents to an interest in the real estate or other property owned by VBH.

Culpeper Baptist Retirement Community, Inc. (doing business as The Culpeper), Newport News Baptist Retirement Community, Inc. (doing business as The Chesapeake), Lakewood Manor Baptist Retirement Community, Inc. (Lakewood), The Glebe, Inc. (The Glebe) and Virginia Baptist Homes Foundation, Inc. (Foundation) are wholly-owned, not-for-profit subsidiaries of VBH.

Use of Estimates

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

Basis for Consolidation

The consolidated financial statements include the accounts of VBH and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

VBH considers cash and cash equivalents to include cash on hand and all highly liquid investments with a maturity of three months or less when purchased.

VBH maintains cash balances at several financial institutions located within its market area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC). At times, deposits may exceed FDIC amounts.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable

Notes receivable is comprised of amounts due to VBH for advance fees due from residents who have moved into the facility but have not yet paid the full amount of the contractually agreed upon advance fee. The notes vary in length from 4 to 12 months, bear interest at varying rates, up to 4%, and are collateralized by the resident's personal investments.

Allowance for Doubtful Accounts

VBH provides an allowance for doubtful accounts using management's judgment. Residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of invoice or claim submitted. Accounts past due are individually analyzed for collectability. In addition, an allowance is estimated for other accounts based on the historical experience of VBH. The allowance for doubtful accounts was approximately $628,000 and $458,000 at December 31, 2016 and 2015, respectively.

Beneficial Interest in Perpetual Trusts

VBH holds a beneficial interest in several Perpetual Trusts. These trusts are administered by independent trustees and generally consist of cash and cash equivalents, mutual funds, and debt and equity securities, which are carried at fair value. Under the terms of the trusts, the donors have established and funded the trusts with specified distributions to be made to VBH. Under the terms of several of the trusts, distributions of income are to be made in perpetuity. Because the trusts are perpetual, these funds are reported as permanently restricted net assets.

Income distributions from these trusts are recorded as investment income in the consolidated statements of operations and changes in unrestricted net assets (deficit), while any appreciation (depreciation) in the trust value is recorded as a change in permanently restricted net assets, in accordance with donor restrictions. Under the terms of some of the trusts, distributions of income and/or principal are made at the discretion of the trustee. Due to this restriction, these funds are reported as temporarily restricted net assets. Distributions from these trusts are recorded as other revenue, while any appreciation (depreciation) in the trust value is recorded as a change in temporarily restricted net assets, in accordance with donor restrictions.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments with readily determinable market values are carried at fair value, with the exception of certain investments in absolute return strategy investments or hedge funds whose fair value is not readily determinable and whose investment is less than 3 percent. Such investments are accounted for using the lower of cost or market method. Other hedge fund investments whose investment is greater than 3 percent are accounted for under the equity method. Investments are comprised of stocks, mutual funds and hedge funds. The fair values of marketable equity securities, bonds and mutual funds are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Eight of the hedge funds are not considered liquid; however, they intend to have distributions made within 3 years and extend no longer than 10 years. Realized gains and losses are reported as unrestricted activity.

Unrealized gains (losses) are excluded from excess (deficiency) of revenues, gains and other support over expenses and are reported as other changes in unrestricted net assets. The cost of securities sold is based on the specific identification method, adjusted for other-than-temporary declines in the value of investments.

VBH periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to the length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future earnings potential, the near term prospects for recovery of the fair value of a security, and the intent and ability of VBH to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are included in the accompanying consolidated statements of operations and changes in net assets (deficit) as nonoperating losses.

Assets Whose Use is Limited

Assets whose use is limited include assets held by a trustee under bond indenture agreements. Amounts required to meet current liabilities have been reclassified as current assets. Assets whose use is limited are carried at fair value.

Property, Plant and Equipment

Property, plant and equipment are reported on the basis of cost. Donated items are recorded at fair market value at the date of contribution. VBH capitalizes all assets over $1,000 with a useful life greater than one year.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (Continued)

Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives. The general range of estimated useful lives for buildings and land improvements is 20 to 40 years and the general range for equipment is 4 to 20 years. VBH performs a review of its long-lived assets (including property and equipment) for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. If an indication of impairment is present, VBH determines recoverability of its long-lived assets by evaluating the probability that undiscounted future cash flows will be less than the carrying amount of the assets. If future estimated undiscounted cash flows are less than the carrying amount of the long-lived assets, then such assets are written down to their estimated fair value. The fair value is determined based on valuation techniques such as comparison to fair values of similar assets or using a discounted cash flow analysis. Management believes that there are no impairments to long-lived assets in 2016 and 2015.

Deferred Financing Costs

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the related indebtedness.

VBH has adopted the accounting guidance in 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 deferred financing costs as a direct deduction from the face amount of the related borrowings, amortize deferred financing costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt liability by $2,996,452 as of January 1, 2015. The adoption of the standard had no effect on previously reported net assets and is retrospectively applied. VBH adopted this change in accounting principle as of January 1, 2016.

Deferred Marketing Costs

Deferred marketing expenses associated with acquiring initial residential contracts are deferred and amortized using the straight-line method over the estimated life expectancy of the initial residents.

Advance Fees

Advance fees represent the payments received at the time a resident is admitted to one of the communities. The non-refundable portion of advance fees is recorded as deferred revenue from advance fees and is amortized into income over the estimated life expectancy of the residents, or couples, adjusted annually. The refundable portion of advance fees received is presented on the consolidated balance sheets as a refundable advance fee liability. The refundable portion of advance fees is not amortized to income. Upon the death of a sole surviving resident, any remaining unamortized portion of the non-refundable advance fee is recognized as operating revenue.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advance Fees (Continued)

The residency agreements at certain of VBH's communities provide for a declining refund upon termination by the residents during the first 50 months of occupancy. Refunds are generally payable the sooner of, one year or upon resale of the unit; however, beginning in 2016, residency agreements do not include the one year requirement. These amounts are included as an advance fee refund liability. VBH has estimated the current portion of this liability based on actual refunds paid over a ten-year period.

Obligation to Provide Future Services

VBH annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from advance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from advance fees, a liability is recorded (obligation to provide future services). The obligation is discounted at 5.5% in both 2016 and 2015, based on the expected long-term rate of return on investments. Increases or decreases in the obligation are charged or credited to operations, respectively. As of December 31, 2016 and 2015, VBH had no future service obligation.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by VBH has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by VBH in perpetuity.

Charity Care and Community Benefit

The mission of VBH is to provide “Dignity in Living” for senior adults who reside in the Planned Services Communities owned and managed by Virginia Baptist Homes, Inc. VBH employs a uniform financial qualification process for all prospective residents and will, under certain circumstances, provide housing and care to residents regardless of their ability to pay for those services.

VBH defines and measures its community benefit primarily through the benevolence it provides to residents who cannot cover the full cost of their care. All residents are financially qualified at admission using actuarial life expectancies and the projected ability of the residents’ income and assets to cover the estimated cost of future health care. VBH provides care to residents who meet certain criteria under its financial assistance policy at a reduced rate. Key elements used to determine eligibility include a resident’s demonstrated inability to pay due to increasing acuity of care, increasing costs of care and/or increasing longevity.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care and Community Benefit (Continued)

VBH has estimated its direct and indirect costs of providing charity care under its financial assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the direct and allocated expenses by level of care to the corresponding revenues charged on an annual basis. The cost-to-charge ratio is applied to the charity care charges foregone to calculate the estimated cost of providing charity care. Using this methodology, VBH has estimated the costs for services and supplies furnished under VBH's financial assistance policy to be approximately $1,120,000 and $1,090,000 for the years ended December 31, 2016 and 2015, respectively.

Primarily through the support of the Virginia Baptist Homes Foundation, VBH received approximately $1,112,000 and $1,149,000 to subsidize the costs of providing charity care under its financial assistance policy for the years ended December 31, 2016 and 2015, respectively.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets (deficit) as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted gifts and donations in the accompanying consolidated financial statements.

Net Patient and Resident Service Revenue

VBH has agreements with third-party payers that provide for payments at amounts different from its established rates. Net patient and resident service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered.

Operating Indicator

VBH's operations include all unrestricted revenue, gains, expenses and losses for the reporting period except for contributions of long-term assets, changes in unrealized gains (losses) on investments and net assets released from restrictions for acquisition of property, plant, and equipment.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Indicator (Continued)

The Board of Trustees designates VBH's investment income for support of current operations, consisting primarily of interest, dividend and realized gains and losses on investments related to funded depreciation and escrowed advance fees from residents. In addition, other activities not related to VBH's mission are considered to be nonoperating. Nonoperating gains and losses also include other-than-temporary decline in value of investments, loss on disposal of property, plant and equipment, changes in obligation to provide future services and use of facilities to current residents, and items related to the refinancing of long-term debt.

Income Taxes

VBH and each of its subsidiaries are not-for-profit organizations exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3).

VBH and each of its subsidiaries file as tax-exempt organizations. Management is not aware of any activities that would jeopardize the tax-exempt status of any of the entities. Management is not aware of any significant activities that are subject to tax on unrelated business income or excise or other taxes for VBH or its subsidiaries.

VBH and each of its subsidiaries follow guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance has had no impact on VBH’s consolidated financial statements.

Professional Liability Insurance

VBH has obtained general and professional liability insurance issued by Virginia Senior Care RRG, a Washington, DC risk retention group. VBH’s professional liability is on the claims-made basis. Under a claims-made policy, determination of coverage is triggered by the date the insured first becomes aware and notifies the insurer of a claim or potential claim.

Fair Value Measurements

VBH categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

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

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 VBH's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, VBH may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

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 bonds. Level 2 inputs include deferred annuity obligations due from VBH. Assets valued using Level 3 inputs include alternative investments and beneficial interests in perpetual trusts.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. VBH follows the policy to value certain financial instruments at fair value; however, VBH has not elected to measure any existing financial instruments at fair value. VBH may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncement

During the year ended December 31, 2016, VBH early adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. As such, VBH has omitted this disclosure for the years ended December 31, 2016 and 2015. The early adoption of this provision did not have an impact on VBH's financial position or results of operations.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these consolidated financial statements, VBH has evaluated events and transactions for potential recognition or disclosure through April 7, 2017, the date the consolidated financial statements were issued.

NOTE 2 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Investments and assets whose use is limited are summarized as follows as of December 31:

	2016	2015
Investments and Assets Whose Use is Limited		
Cash and Short-Term Investments	$ 1,755,015	$ 6,052,395
Bonds	11,670,994	9,705,016
Mutual Funds	103,644	91,525
Real Estate Fund	5,140,388	3,740,391
Absolute Return Strategy Investments/Hedge Funds (Liquidity within One Year)	2,000,000	1,000,000
Absolute Return Strategy Investments/Hedge Funds (Liquidity in Excess of a Year)	2,394,871	2,684,749
Equity Method Securities	1,081,430	993,014
Alternative Investments - Global/Foreign Equity	6,211,862	5,876,754
Total	$ 30,358,204	$ 30,143,844

At December 31, the assets held by the trustee under various bond agreements are as follows:

	2016	2015
Bond Sinking Fund	$ 76	$ 383,567
Debt Service Reserve Fund	9,158,496	10,902,630
Costs of Issuance Fund	49,821	-
Principal Fund	321,784	316,797
Interest Fund	1,623,952	1,924,392
Total	$ 11,154,129	$ 13,527,386

NOTE 2 INVESTMENTS AND ASSETS WHOSE USE IS LIMITED (CONTINUED)

Under VBH's reserve spending policy, dividends, interest and realized gains and losses generated by the portion of the investment pool related to funded depreciation and escrowed advance fees from residents are appropriated to support current operations. The following schedule summarizes investment income:

	2016	2015
Dividends and Interest	$ 891,852	$ 1,477,108
Net Realized Gains	140,952	143,134
Total Investment Income	$ 1,032,804	$ 1,620,242

Marketable equity and debt securities and other investments are carried at fair value based on quoted market prices. Realized gains and losses on the sale of investments are determined based on the cost of specific investment sold, adjusted for any other-than-temporary declines in the fair value of investments.

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the fair value was less than cost. VBH engages professionals to manage its investment portfolio within the guidelines of VBH's Board approved investment policy. An other-than-temporary impairment of $75,000 was recognized during the year ended December 31, 2016 and is included in non-operating losses on the consolidated statement of operations. No other-than-temporary impairments were recognized during the year ended December 31, 2015.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31:

	2016	2015
Land and Land Improvements	$ 21,801,775	$ 21,667,457
Buildings and Fixed Equipment	212,372,394	206,851,604
Vehicles	1,336,097	1,255,899
Movable Equipment	27,558,807	27,245,146
Construction in Progress	6,347,990	3,014,718
	269,417,063	260,034,824
Less: Accumulated Depreciation	146,525,645	136,249,983
	$ 122,891,418	$ 123,784,841

Capitalized interest totaled approximately $246,000 for the year ended December 31, 2016. No interest was capitalized during the year ended December 31, 2015.

Construction in progress at December 31, 2016 and 2015 was related to expansion projects at several of the facilities, as well as apartment renovations and improvements to common areas.

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of the following as of December 31:

	2016	2015
Peninsula Ports Authority of Virginia Residential Care Facility Revenue Refunding Bonds Series 2006C (Series 2006C Bonds):		
Serial Bonds, due in graduated annual installments ranging from $620,000 in 2015 to $2,545,000 in 2016 and bear interest at varying rates ranging from 4.265% to 5.2%.	$ -	$ 2,545,000
Term bond, due December 1, 2021. Interest is payable semiannually at a rate of 5.250%.	-	15,020,000
Term bond, due December 1, 2026. Interest is payable semiannually at a rate of 5.375%.	-	19,925,000
Term bond, due December 1, 2033. Interest is payable semiannually at a rate of 5.4%.	-	33,805,000
Economic Development Authority of Henrico County, Virginia Residential Care Facility Revenue Bonds Series 2006A Fixed Rate Bonds (Series 2006A Bonds):		
Serial bonds, due in graduated annual installments ranging from $290,000 in 2015 to $370,000 in 2020 and bear interest at varying rates ranging from 4.5% to 5.2%.	-	1,650,000
Term bond, due July 1, 2025. Interest is payable semiannually at a rate of 5.25%.	-	2,160,000
Term bond due July 1, 2030. Interest is payable semiannually at a rate of 5.4%.	-	2,770,000
Term bond due July 1, 2038. Interest is payable semiannually at a rate of 5.5%.	-	6,300,000
Note Payable with an unrelated party due from Lakewood Manor, Interest and principal payments due annually. Due in annual installments of $22,520. Interest is paid annually at a rate of 5%. Note matures in August 2017. Note is unsecured.	21,447	41,874
Note Payable with an unrelated party due from Virginia Baptist Homes, Inc. Interest and principal payments due annually. Due in annual installments of $63,000. Interest is paid annually at a rate of 4.5%. Note matured in October 2016.	-	63,000
Economic Development Authority of the City of Newport News, Virginia Residential Care Facilities Revenue Refunding Bonds (LifeSpire of Virginia), Series 2016:		
Serial bonds, due in graduated annual installments ranging from $2,550,000 in 2017 to $3,520,000 in 2026 and bear interest at varying rates ranging from 1.9% to 5%.	29,325,000	-
Term bond, due December 1, 2029. Interest is payable semiannually at a rate of 3.5%.	9,095,000	-
Term bond due December 1, 2031. Interest is payable semiannually at a rate of 5.0%.	10,530,000	-
Term bond due December 1, 2038. Interest is payable semiannually at a rate of 5.0%.	36,430,000	-

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE (CONTINUED)

	2016	2015
Industrial Development Authority of Botetourt County, Virginia Residential Care Facility Revenue Refunding Bonds Series 2014A (Glebe Series 2014A Bonds):		
Serial bond, matures June 30, 2044. Interest is payable semiannually at a variable rate between 3% and 6%. Principal payments began January 1, 2015. The Series 2014A Bonds are secured by a first priority lien on the real estate and improvements of The Glebe and substantially all of The Glebe's assets.	$ 37,315,000	$ 37,910,000
Industrial Development Authority of Botetourt County, Virginia Residential Care Facility Revenue Refunding Bonds Series 2014B Adjustable Rate Bonds (Glebe Series 2014B Bonds):		
Serial bond, matures June 30, 2044. Interest is payable semiannually at a rate of 4.5%. Principal payments began July 1, 2015. The Series 2014B Bonds are secured by a first priority lien on the real estate and improvements of The Glebe and substantially all of The Glebe's assets.	2,615,000	2,660,000
Line of Credit entered into May 2015 with a maximum draw of $10 million. Monthly payments of interest began June 15, 2015 at a variable interest rate of 30-day LIBOR plus 2.5% (2.9275% as of December 31, 2015). All unpaid principal and interest is due May 29, 2019.	-	7,283,186
	125,331,447	132,133,060
Less: Current Portion	(3,231,448)	(3,573,425)
Less: Unamortized Deferred Financing Costs	(2,366,709)	(2,996,452)
Plus: Unamortized Bond Premium	5,886,581	-
Less: Unamortized Bond Discount	(1,107,985)	(1,147,556)
	$ 124,511,886	$ 124,415,627

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE (CONTINUED)

In January 2003, VBH issued a note in the amount of $100,585,000 to refund the outstanding Series 2000 Bonds and to fund the construction and equipping of a new apartment building, the renovation of existing apartments, and the construction and equipping of new cottages at The Chesapeake. During 2015, the remaining outstanding Series 2003 Serial Bonds were paid in full.

In May 2006, VBH defeased $70,380,000 of the outstanding $100,585,000 Series 2003 bonds by issuing a note for $81,545,000 in relation to Peninsula Ports Authority of Virginia Residential Care Facility Revenue Refunding Bonds Series 2006C Fixed Rate Bonds (Series 2006C Bonds). The Series 2006C Bonds were collateralized by a deed of trust of certain facilities of the VBH Obligated Group as well as a security interest in inventory, accounts, documents, instruments, other moneys, chattel paper and general intangibles. The related agreements also contained certain covenants, including a requirement that days cash on hand (as defined) be in excess of 150 days, that the long-term debt service coverage ratio be in excess of 1.20, and that the operating and net operating ratios (as defined) meet certain quarterly targets. At December 31, 2016 and 2015, approximately $0 and $71,915,000, respectively, of the refunded bonds were outstanding. During the year ended December 31, 2011, VBH bought back $2,890,000 par value of the outstanding Series 2006C Bonds.

In January 2006, VBH issued a note in the amount of $32,275,000 to fund the project costs of the Lakewood renovations in relation to Economic Development Authority of Henrico County, Virginia Residential Care Facility Revenue Refunding Bonds Series 2006A Fixed Rate Bonds (Series 2006A Bonds) and Series 2006B Adjustable Rate Bonds (Series 2006B Bonds). The Series 2006A Bonds and Series 2006B Bonds were collateralized by a deed of trust of certain facilities of the VBH Obligated Group (VBH, The Culpeper, The Chesapeake and Lakewood) as well as a security interest in inventory, accounts, documents, instruments, other monies, chattel paper and general intangibles. The related agreements also contained certain covenants, including a requirement that the long-term debt service coverage ratio be in excess of 1.20, and that the operating and net operating ratios (as defined) meet certain quarterly targets.

On January 23, 2009, VBH called and paid the balance of the Series 2006A Term Bonds in the amount of $8,675,000. On July 1, 2010, VBH called and paid the balance of the Series 2006B Fixed Rate Bonds in the amount of $7,530,000.

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE (CONTINUED)

In May 2015, VBH entered into a line of credit with a financial institution with a maximum draw of $10,000,000. Monthly payments of interest began June 15, 2015. All unpaid principal and interest was due May 29, 2019.

In October 2016, VBH defeased the outstanding Series 2006A and 2006C Bonds and the outstanding amounts drawn on the line of credit by issuing a note for $85,505,000 in relation to Economic Development Authority of the City of Newport News, Virginia Residential Care Facilities Revenue Refunding Bonds Series 2016 (Series 2016 Bonds). The Series 2016 Bonds are collateralized by a deed of trust of certain facilities of the VBH Obligated Group as well as a security interest in inventory, accounts, documents, instruments, other moneys, chattel paper and general intangibles. The related agreements also contain certain covenants, including a requirement that days cash on hand (as defined) be in excess of 120 days and that the long-term debt service coverage ratio be in excess of 1.20. Management believes VBH is in compliance with these covenants as of December 31, 2016. In connection with the refunding of the Series 2006A and 2006C Bonds, VBH recognized a loss on extinguishment of $1,903,178 related to the write-off of deferred financing costs. At December 31, 2016, approximately $85,380,000 of the refunded bonds were outstanding.

In June 2014, The Glebe issued two new notes totaling $41,155,000 in relation to the Industrial Development Authority of Botetourt County, Virginia Residential Care Facility Revenue Refunding Bonds (Series 2014A Bond) and Industrial Development Authority of Botetourt County, Virginia Residential Care Facility Revenue Refunding Bonds (Series 2014B). The Glebe Series 2014A and 2014B Bonds were used to refund the outstanding Virginia Small Business Financing Authority Residential Care Facility Revenue Refunding Bonds (Series 2012A Bonds). The Virginia Small Business Financing Authority Residential Care Facility Subordinated Taxable Bonds Series 2012B Bonds (Series 2012B) were also refunded through this issuance; however, a portion of the Series 2012B Bonds were forgiven in accordance with the provisions of the Series 2012 Bonds. At that time, The Glebe Series 2012A and 2012B Bonds were cancelled and extinguished, and were no longer considered outstanding. The Series 2014A and 2014B Bonds are collateralized by a deed of trust of certain facilities of The Glebe as well as a security interest in certain other assets and property.

The related agreements also contain certain covenants, including a requirement that the long-term debt service coverage ratio be in excess of 1.20, a requirement that the day's cash on hand (as defined) be in excess of 150 days and that the operating and net operating ratios (as defined) meet certain quarterly targets. Management believes The Glebe is in compliance with these covenants as of December 31, 2016.

NOTE 4 LONG-TERM DEBT AND NOTES PAYABLE (CONTINUED)

Each member of the VBH Obligated Group under the Master Trust Indenture dated January 1, 2003 and the Amended and Restated Master Trust Indenture dated October 1, 2016 is jointly and severally liable for the payment of all VBH Obligated Group Long-Term Debt; however, the individual VBH Obligated Group members are not liable for any other claims against the other VBH Obligated Group members. In addition, no VBH Obligated Group member is responsible for the payment of The Glebe's Series 2014 Bonds. Similarly, The Glebe is the sole member of The Glebe Obligated Group created pursuant to a separate Master Trust Indenture dated January 1, 2003 and Amended and Restated Master Trust Indenture dated July 1, 2014, and is not liable for any other claims against the VBH Obligated Group members.

Accordingly, no VBH entity is liable for any indebtedness of any other VBH entity other than the limited cross liability of the VBH Obligated Group for the VBH Long-Term Debt as discussed above. The Foundation is not a member of either the VBH Obligated Group or The Glebe Obligated Group.

Scheduled sinking fund and principal repayments of long-term debt are as follows:

Year Ending December 31,	
2017	$ 3,231,448
2018	3,280,000
2019	3,355,000
2020	3,465,000
2021	3,610,000
Thereafter	108,389,999
	$ 125,331,447

During 2016 and 2015, VBH paid approximately $6,723,000 and $6,197,000, respectively, for interest, net of amounts capitalized. Capitalized interest totaled approximately $246,000 for the year ended December 31, 2016. No interest was capitalized during the year ended December 31, 2015.

NOTE 5 ADVANCE FEES AND DEPOSITS

A refundable deposit of $1,000 of the advance fee is made at the time a priority list agreement for The Culpeper, The Chesapeake, Lakewood, or The Glebe is executed. Advance fees received from residents are subject to the refund provisions of Residents' Agreements. Refunds expire ratably over a 10 to 50-month period starting from the resident’s date of entrance. At December 31, 2016 and 2015, the portion of advance fees subject to refund provisions amounted to approximately $43,661,000 and $43,438,000, respectively. Amounts expected to be refunded to current residents, based on VBH's experience, are approximately $2,887,000 and $2,804,000 at December 31, 2016 and 2015, respectively.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Residential Services:		
Purchase of Equipment	$ 510,327	$ 497,725
Benevolent Care of Residents	3,090,307	3,397,095
Annuity Trust Agreements	744,514	809,164
	$ 4,345,148	$ 4,703,984

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS

Interpretation of Relevant Law

The state of Virginia adopted the Virginia Prudent Management of Institutional Funds Act (the Act). The Board of Trustees of VBH has interpreted the Act 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, VBH classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment and (2) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted Endowment Fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by VBH in a manner consistent with the standard of prudence prescribed in the Act.

In accordance with the Act, VBH considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of VBH and the Donor-Restricted Endowment Fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of VBH
- The investment policy of VBH

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Funds with Deficiencies

It is VBH's policy to maintain the corpus amounts of each individual Donor-Restricted Endowment Fund received. If the fair value of assets associated with Individual Donor-Restricted Endowment Funds were to fall below the level that the donor or the Act requires VBH to retain as a fund of perpetual duration, in accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

VBH has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that VBH must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, VBH 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). Management targets a diversified asset allocation that meets VBH's long-term rate of return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

Spending Policy and How the Investment Objectives Relate to Spending Policy

VBH's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Permanently restricted net assets of approximately $12,248,000 and $11,952,000 at December 31, 2016 and 2015, respectively, are restricted to investment in perpetuity, the income some of which is unrestricted and is expendable primarily to support residential services. Of this total, approximately $8,117,000 and $8,074,000 relates to split interest agreements that are administered and managed by third parties as trustees at December 31, 2016 and 2015, respectively. VBH does not have the ability to make any investing decisions related to these funds. The remaining $4,131,000 and $3,878,000 of permanently restricted net assets are managed by VBH at December 31, 2016 and 2015, respectively. VBH had no board designated endowment funds for the years ended December 31, 2016 and 2015.

The permanently restricted assets include beneficial interest in charitable remainder trusts, as well as other investments which are pooled with VBH's unrestricted investment portfolio with the objectives of providing long-term growth of capital, maximizing the return on assets over the long-term while diversifying investments within asset classes to reduce the impact of losses in single investments.

A summary of the permanently restricted net assets activity is as follows:

	2016	2015
Permanently Restricted Net Assets, Beginning of Year	$ 11,951,677	$ 9,932,652
Gifts, Grants and Bequests	337,788	2,376,349
Change in Value of Annuity Obligations	(17,045)	(33,822)
Change in Present Value of Perpetual Trust Funds	(24,585)	(323,502)
Permanently Restricted Net Assets, End of Year	$ 12,247,835	$ 11,951,677

NOTE 7 PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

The following is the change in endowment net assets managed by VBH for the years ended December 31, 2016 and 2015:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of the Year	$ (55,452)	$ 1,153,112	$ 3,877,541	$ 4,975,201
Realized Gains and Change in Unrealized Gains on Investments	-	35,573	-	35,573
Change in Value of Annuity Obligations	-	-	(17,045)	(17,045)
Contributions	-	-	270,686	270,686
Endowment Net Assets, End of Year	$ (55,452)	$ 1,188,685	$ 4,131,182	$ 5,264,415

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of the Year	$ (55,452)	$ 1,096,019	$ 3,801,142	$ 4,841,709
Realized Gains and Change in Unrealized Gains on Investments	-	57,093	-	57,093
Change in Value of Annuity Obligations	-	-	(33,822)	(33,822)
Contributions	-	-	110,221	110,221
Endowment Net Assets, End of Year	$ (55,452)	$ 1,153,112	$ 3,877,541	$ 4,975,201

NOTE 8 ANNUITY PLAN

All employees of VBH are eligible to participate in the Southern Baptist Protection Program Annuity Plan (the Plan). The Plan provides retirement, disability and death benefits. In the past, for those employees completing six months of service and a minimum of 500 hours of service during a six-month period, VBH contributed a non-matched contribution of 5% of the participant's compensation. Vesting for the non-matched contribution was based on completed years of service. The policy on non-matched contributions was eliminated effective January 1, 2009. VBH will continue to match eligible employees' contributions. The match is determined as a percentage of the participant's compensation, not to exceed 2% in 2016 and 2015. The participant is fully vested in the matching contribution. VBH may also make discretionary contributions. Participants may make voluntary contributions, not to exceed the lesser of $16,500 or 20%, with certain exceptions, of their annual compensation during the plan year.

Contributions by VBH approximated $381,000 and $340,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 FUNCTIONAL EXPENSES

VBH provides residential services to the residents of its facilities. These facilities include independent living, assisted living, and certain nursing services. Expenses related to providing these services are as follows:

	2016	2015
Residential Services	$ 65,353,855	$ 65,602,321
General and Administrative	5,062,970	4,726,068
	$ 70,416,825	$ 70,328,389

NOTE 10 FAIR VALUE MEASUREMENTS

VBH uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. All assets have been valued using a market approach, except for Level 3 alternative investments and beneficial interests in perpetual trusts. Alternative funds held by VBH seek long-term capital appreciation and reduction of overall portfolio risk through investing in hedge funds of funds, real estate investment trusts, or commodities. VBH established alternative investment valuation procedures in which Management validates the fair value reported by the third party investment manager. For additional information on how VBH measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of the assets and liabilities of VBH measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Whose Use is Limited and Investments:				
Bonds	$ 11,670,994	$ -	$ -	$ 11,670,994
Mutual Funds	103,644	-	-	103,644
Real Estate Fund	5,140,388	-	-	5,140,388
Alternative Investments - Global/Foreign Equity	-	-	6,211,862	6,211,862
Beneficial Interest in Perpetual Trust Funds	-	-	8,116,653	8,116,653
Total Assets	$ 16,915,026	$ -	$ 14,328,515	$ 31,243,541
Liabilities:				
Annuities Payable	$ -	$ 677,612	$ -	$ 677,612
Total Liabilities	$ -	$ 677,612	$ -	$ 677,612

	2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets Whose Use is Limited and Investments:				
Bonds	$ 9,705,016	$ -	$ -	$ 9,705,016
Mutual Funds	91,525	-	-	91,525
Real Estate Fund	3,740,391	-	-	3,740,391
Alternative Investments - Global/Foreign Equity	-	-	5,876,754	5,876,754
Beneficial Interest in Perpetual Trust Funds	-	-	8,074,136	8,074,136
Total Assets	$ 13,536,932	$ -	$ 13,950,890	$ 27,487,822
Liabilities:				
Annuities Payable	$ -	$ 798,317	$ -	$ 798,317
Total Liabilities	$ -	$ 798,317	$ -	$ 798,317

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

The tables above include all assets whose use is limited and investments with the exception of cash and short-term investments and absolute return strategy investments/hedge funds and equity method investments as these investments are measured at cost at December 31, 2016 and 2015.

The following table presents changes in assets measured at fair value using Level 3 inputs on a recurring basis for the year ending December 31:

	Alternative Investments	Beneficial Interests
Balance at January 1, 2015	$ 5,542,376	$ 6,131,510
Total Gains or Losses (Realized or Unrealized) for the Year Included in Operating Profit	334,378	(323,502)
Purchases, Sales, Issuances, and Settlements, Net	-	2,266,128
Balance at December 31, 2015	5,876,754	8,074,136
Total Gains or Losses (Realized or Unrealized) for the Year Included in Operating Profit	335,108	42,517
Purchases, Sales, Issuances, and Settlements, Net	-	-
Balance at December 31, 2016	$ 6,211,862	$ 8,116,653

Certain alternative investments held by VBH calculate net asset value per share (or its equivalent). The following tables set forth additional disclosures for the fair value measurement of these investments that calculate net asset value per share for the years ended December 31, 2016 and 2015:

	2016			
	Net Asset Value	Unfunded Commitments	Frequency (If Currently Eligible)	Redemption Notice Period
TIFF Partners V-US	$ 114,191	$ 62,357	Quarterly	10 Business Days
MAP 2004	484,932	-	Short-term	10 Business Days
Metro. RE Partners II	74,976	23,074	Quarterly	10 Business Days
Metro. RE Partners III	96,206	21,250	Quarterly	10 Business Days
Commonfund Int'l Partners V	177,645	73,500	Quarterly	10 Business Days
Venture Investment Assoc. V	417,379	20,000	Quarterly	10 Business Days
SFM Opportunities, L.P.	242,822	-	Quarterly	5 Business Days
MAP 2006	483,384	-	Short-term	10 Business Days
SFM Private Equity I, L.P.	563,447	-	Quarterly	5 Business Days
MAP 2009	500,000	-	Short-term	10 Business Days
SFM Opportunities V, L.P.	277,426	727,993	Quarterly	5 Business Days
Total	$ 3,432,408	$ 928,174		

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	Net Asset Value	Unfunded Commitments	Frequency (If Currently Eligible)	Redemption Notice Period
TIFF Partners V-US	$ 174,825	$ 62,357	Quarterly	10 Business Days
MAP 2004	500,000	-	Short-term	10 Business Days
Metro. RE Partners II	95,296	23,074	Quarterly	10 Business Days
Metro. RE Partners III	127,742	21,250	Quarterly	10 Business Days
Commonfund Int'l Partners V	208,959	73,500	Quarterly	10 Business Days
Venture Investment Assoc. V	570,414	20,000	Quarterly	10 Business Days
SFM Opportunities, L.P.	421,964	-	Quarterly	5 Business Days
MAP 2006	500,000	-	Short-term	10 Business Days
SFM Private Equity I, L.P.	750,293	-	Quarterly	5 Business Days
MAP 2009	500,000	-	Short-term	10 Business Days
SFM Opportunities V, L.P.	150,020	847,993	Quarterly	5 Business Days
Total	$ 3,999,513	$ 1,048,174		

The investment funds are valued at the net asset value (NAV) of units, which are based on market prices of the underlying investments, held by VBH at year end. TIFF Partners' investment objective is to invest in domestic private equity investment partnerships and to maintain endowment purchasing power for its' investors by generating returns greater than those provided by the broader United States' stock market. MAP 2004 and MAP 2009 invest in direct and indirect interests in natural gas and oil royalty interests associated with some of the largest, long-life gas fields in the U.S. Metro RE Partners II and III's investment objective is to achieve annual investment returns of between 13% and 15% while focusing on preservation of capital. Commonfund International Partners V invests in approximately 15 to 20 top-tier international private equity and venture capital funds. Venture Investment Associates V was formed to provide investors with significant long-term appreciation through investment in private equity partnerships. SFM Opportunities, L.P. and SFM Opportunities V, L.P. invest in non-marketable limited partnership interests in private equity partnerships that invest in the energy sector or other national resources. MAP 2006 invests in direct and indirect royalty interests and entering derivatives in order to reduce the risk associated with the investments. SFM Private Equity I, L.P. invests in non-marketable limited partnership interests in private equity partnerships with the objective to generate long-term returns greater than those available through traditional public equity investing.

NOTE 11 COMMITMENTS AND CONTINGENCIES

As an agency of the BGAV, VBH receives certain additional support which approximated $34,000 and $56,000 during the years ended December 31, 2016 and 2015, respectively.

VBH is subject to legal proceedings and claims which arise in the course of providing health care services. VBH maintains liability insurance coverage for claims made during the policy year. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

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, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased 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.

Liability Insurance

VBH, together with other similar retirement communities in the state of Virginia, is a shareholder of Virginia Senior Care Group, a limited liability corporation whose primary purpose is that of obtaining general liability and professional insurance for its shareholders. Under the terms of the policy, the risk for these entities is pooled and a potential liability for this coverage is actuarially determined. Premiums paid represent a portion of the potential liability, as actuarially determined for the group. In addition, VBH maintains a loss fund deposit in the event that claims exceed the premiums. The policy also provides for umbrella coverage, which functions as an extension of the primary limit. The policy is written on a claims first made basis and has a component of reinsurance. Management has not recorded any liabilities related to this policy as it is not aware of any underfunding within the pool.

Health Insurance

During 2012, VBH began to self-insure its employees' health plan by joining the Heritage Group Health Program, with the exception of The Glebe which joined in 2016. This program, on behalf of VBH and other similar retirement communities in the state of Virginia, has contracted with an administrative service company to supervise and administer the program and act as its representative. Provisions for expected future payments are accrued based on VBH's experience and include amounts for claims filed and claims incurred but not reported. VBH insures for excessive and unexpected health claims and is liable for claims not to exceed $50,000 for each employee per plan year and an aggregate amount of $1,000,000 per plan year.

NOTE 12 FUTURE ACCOUNTING AND REPORTING REQUIREMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which was further codified under Accounting Standards Codification (ASC) 606-10. The standard attempts to create a global, consistent revenue recognition model to be applied to all industries, including health care. Future implementation of this standard could significantly alter the timing and recognition of revenue from both entrance fees and monthly fees collected.

The amendments in the ASU are currently effective for VBH for the year ending December 31, 2018. Management has not completed its evaluation of the impact of the adoption of this standard for VBH as the industry is currently working on implementation guidance for continuing care retirement communities. Management has not yet determined the impact this standard could have on the consolidating financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The FASB standard attempts to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows.

The ASU is currently effective for VBH for the year ending December 31, 2018. Management has not yet determined the impact this standard could have on the consolidated financial statements.

ACCOMPANYING INFORMATION

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INDEPENDENT AUDITORS' REPORT
ON ACCOMPANYING INFORMATION

Board of Trustees
Virginia Baptist Homes, Incorporated
d/b/a LifeSpire of Virginia and Subsidiaries
Richmond, Virginia

We have audited the consolidated financial statements of Virginia Baptist Homes, Incorporated d/b/a LifeSpire of Virginia and Subsidiaries as of and for the year ended December 31, 2016 and our report thereon dated April 7, 2017 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information and combining information for the Obligated Group as listed under "Accompanying Information" on the table of contents are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies or the Obligated Group, and they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and combining 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 consolidating information and combining information for the Obligated Group are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
April 7, 2017

A member of Nexia International

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

ASSETS	Consolidated	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated	The Glebe, Incorporated	Virginia Baptist Homes Foundation, Incorporated
CURRENT ASSETS								
Cash and Cash Equivalents	$ 25,788,250	$ -	$ (9,476,907)	$ 4,372,274	$ 7,675,112	$ 11,063,231	$ 11,281,220	$ 873,320
Assets Whose Use is Limited	2,170,027	-	375,954	-	-	10	1,794,063	-
Accounts Receivable	2,536,783	-	-	343,569	675,832	1,143,821	373,561	-
Notes Receivable	3,727,779	-	-	-	535,800	1,975,500	1,213,500	2,979
Interest Receivable	28,040	-	3	-	384	-	27,653	-
Prepaid Expenses	634,562	-	541,639	-	9,849	7,101	74,075	1,898
Due from Affiliates	-	(61,736,956)	33,806,337	539,970	330,819	26,192,759	312,777	554,294
Deposits and Other	1,037,186	-	695,621	-	-	341,565	-	-
Total Current Assets	35,922,627	(61,736,956)	25,942,647	5,255,813	9,227,796	40,723,987	15,076,849	1,432,491
INVESTMENTS	19,204,075	-	619,034	31,250	1,171,102	12,590,209	-	4,792,480
BENEFICIAL INTEREST IN PERPETUAL TRUST	8,116,653	-	3,185,533	718,399	539,908	1,339,583	2,333,230	-
ASSETS WHOSE USE IS LIMITED								
Under Bond Indenture Agreement	11,154,129	-	6,784,991	-	-	10	4,369,128	-
Less: Amounts Available for Current Liabilities	(2,170,027)	-	(375,954)	-	-	(10)	(1,794,063)	-
Total Assets Whose Use Is Limited	8,984,102	-	6,409,037	-	-	-	2,575,065	-
PROPERTY, PLANT AND EQUIPMENT, NET	122,891,418	-	1,131,980	4,378,778	36,225,728	42,539,092	38,613,331	2,509
OTHER ASSETS								
Deferred Marketing Costs	40,491	-	-	-	-	40,491	-	-
Total Other Assets	40,491	-	-	-	-	40,491	-	-
Total Assets	$ 195,159,366	$ (61,736,956)	$ 37,288,231	$ 10,384,240	$ 47,164,534	$ 97,233,362	$ 58,598,475	$ 6,227,480

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2016

LIABILITIES AND NET ASSETS (DEFICIT)	Consolidated	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated	The Glebe, Incorporated	Virginia Baptist Homes Foundation, Incorporated
CURRENT LIABILITIES								
Accounts Payable	$ 3,620,315	$ -	$ 221,347	$ 283,592	$ 1,289,387	$ 1,097,032	$ 727,635	$ 1,322
Salaries and Wages	3,295,392	-	628,510	448,743	749,627	1,060,120	408,392	-
Interest Payable	1,446,447	-	312,035	-	-	349	1,134,063	-
Deferred Revenue	258,220	-	-	21,802	78,643	76,489	81,286	-
Annuities Payable	119,784	-	-	-	-	-	-	119,784
Deposits from Prospective Residents	673,064	-	-	7,600	81,000	483,882	100,582	-
Due to Affiliates	-	(61,736,956)	21,720,209	12,376,349	19,954,731	5,887,506	243,283	1,554,878
Current Portion of Long-Term Debt	3,231,448	-	176,175	63,337	1,771,856	560,080	660,000	-
Advance Fee Refund Liability	2,886,923	-	-	-	791,508	1,018,235	1,077,180	-
Total Current Liabilities	15,531,593	(61,736,956)	23,058,276	13,201,423	24,716,752	10,183,693	4,432,421	1,675,984
ADVANCE FEE REFUND LIABILITY, LESS CURRENT PORTION	14,889,801	-	-	-	8,666,399	755,444	5,467,958	-
DEFERRED REVENUE FROM ADVANCE FEES	75,272,201	-	-	4,734,386	21,001,226	31,728,080	17,808,509	-
ANNUITIES PAYABLE	557,828	-	-	-	-	-	-	557,828
LONG-TERM DEBT, LESS CURRENT PORTION	124,511,886	-	10,216,392	2,057,337	57,554,036	17,496,048	37,188,073	-
Total Liabilities	230,763,309	(61,736,956)	33,274,668	19,993,146	111,938,413	60,163,265	64,896,961	2,233,812
NET ASSETS (DEFICIT)								
Unrestricted	(52,196,926)	-	522,084	(11,664,429)	(65,415,663)	32,671,310	(8,660,650)	350,422
Temporarily Restricted	4,345,148	-	1,000	1,337,124	44,165	1,979,856	21,318	961,685
Permanently Restricted	12,247,835	-	3,490,479	718,399	597,619	2,418,931	2,340,846	2,681,561
Total Net Assets (Deficit)	(35,603,943)	-	4,013,563	(9,608,906)	(64,773,879)	37,070,097	(6,298,486)	3,993,668
Total Liabilities and Net Assets (Deficit)	$ 195,159,366	$ (61,736,956)	$ 37,288,231	$ 10,384,240	$ 47,164,534	$ 97,233,362	$ 58,598,475	$ 6,227,480

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED DECEMBER 31, 2016

	Consolidated	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated	The Glebe, Incorporated	Virginia Baptist Homes Foundation, Incorporated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT								
Residential Services	$ 48,320,061	$ -	$ -	$ 4,187,647	$ 15,187,221	$ 18,159,248	$ 10,785,945	$ -
Health Care Services	18,015,074	-	-	3,725,439	4,860,491	6,762,553	2,666,591	-
Net Assets Released from Restrictions Used for Operations	855,955	-	568,365	850	101,846	128,325	21,270	35,299
Unrestricted Gifts and Donations	478,161	(475,965)	-	339,645	153,030	29,465	195,717	236,269
Investment Income	1,032,804	-	236,302	69,049	137,200	376,158	154,312	59,783
Other	1,946,123	(5,706,482)	5,406,279	158,219	775,312	367,589	455,637	489,569
Total Revenue, Gains, and Other Support	70,648,178	(6,182,447)	6,210,946	8,480,849	21,215,100	25,823,338	14,279,472	820,920
EXPENSES								
Salaries, Wages and Professional Fees	33,254,122	-	2,853,383	5,046,301	8,704,180	11,050,882	5,346,720	252,656
Provisions for Depreciation and Amortization	10,387,792	-	180,039	479,371	3,444,311	3,603,090	2,679,988	993
Interest	7,207,872	-	389,192	143,996	3,296,035	1,026,232	2,352,417	-
Other	19,567,039	(6,182,447)	2,195,452	2,958,619	8,140,194	8,068,221	4,031,040	355,960
Total Operating Expenses	70,416,825	(6,182,447)	5,618,066	8,628,287	23,584,720	23,748,425	14,410,165	609,609
Operating Income (Loss)	231,353	-	592,880	(147,438)	(2,369,620)	2,074,913	(130,693)	211,311
NON OPERATING LOSS								
Loss on Extinguishment of Debt	(1,903,178)	-	(166,617)	(39,221)	(1,097,215)	(600,125)	-	-
Other-than-temporary Decline in Value of Investment	(75,000)	-	(1,632)	-	(4,736)	(51,150)	-	(17,482)
Total Non-Operating Loss	(1,978,178)	-	(168,249)	(39,221)	(1,101,951)	(651,275)	-	(17,482)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(1,746,825)	-	424,631	(186,659)	(3,471,571)	1,423,638	(130,693)	193,829

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

	Consolidated	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated	The Glebe, Incorporated	Virginia Baptist Homes Foundation, Incorporated
UNRESTRICTED NET ASSETS								
Excess (Deficiency) of Revenues, Gains and Other Support Over Expenses	$ (1,746,825)	$ -	$ 424,631	$ (186,659)	$ (3,471,571)	$ 1,423,638	$ (130,693)	$ 193,829
Change in Unrealized Gains (Losses) on Investments	404,776	-	(91,198)	-	37,846	426,685	(105,987)	137,430
Net Assets Released from Restrictions for Acquisition of Property, Plant, and Equipment	-	-	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	(1,342,049)	-	333,433	(186,659)	(3,433,725)	1,850,323	(236,680)	331,259
TEMPORARILY RESTRICTED NET ASSETS								
Gifts, Grants and Bequests	596,888	-	-	6,082	61,338	489,779	13,103	26,586
Investment Income	35,573	-	-	-	-	-	-	35,573
Change in Value of Annuity Obligations	(135,342)	-	-	-	-	-	-	(135,342)
Net Assets Released from Restrictions	(855,955)	-	(568,365)	(850)	(101,846)	(128,325)	(21,270)	(35,299)
Increase (Decrease) in Temporarily Restricted Net Assets	(358,836)	-	(568,365)	5,232	(40,508)	361,454	(8,167)	(108,482)
PERMANENTLY RESTRICTED NET ASSETS								
Gifts, Grants and Bequests	337,788	-	-	-	1,150	50	67,102	269,486
Change in Value of Annuity Obligations	(17,045)	-	-	-	-	-	-	(17,045)
Change in Present Value of Perpetual Trusts	(24,585)	-	79,812	(9,772)	(62,912)	(31,713)	-	-
Increase (Decrease) in Permanently Restricted Net Assets	296,158	-	79,812	(9,772)	(61,762)	(31,663)	67,102	252,441
INCREASE (DECREASE) IN NET ASSETS	(1,404,727)	-	(155,120)	(191,199)	(3,535,995)	2,180,114	(177,745)	475,218
Net Assets (Deficit) - Beginning of Year	(34,199,216)	-	4,168,683	(9,417,707)	(61,237,884)	34,889,983	(6,120,741)	3,518,450
NET ASSETS (DEFICIT) - END OF YEAR	$ (35,603,943)	$ -	$ 4,013,563	$ (9,608,906)	$ (64,773,879)	$ 37,070,097	$ (6,298,486)	$ 3,993,668

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING BALANCE SHEET OF OBLIGATED GROUP
DECEMBER 31, 2016

ASSETS	Combined	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated
CURRENT ASSETS						
Cash and Cash Equivalents	$ 13,633,710	$ -	$ (9,476,907)	$ 4,372,274	$ 7,675,112	$ 11,063,231
Assets Whose Use is Limited	375,964	-	375,954	-	-	10
Accounts Receivable	2,163,222	-	-	343,569	675,832	1,143,821
Notes Receivable	2,511,300	-	-	-	535,800	1,975,500
Interest Receivable	387	-	3	-	384	-
Prepaid Expenses	558,589	-	541,639	-	9,849	7,101
Due from Affiliates	931,090	(59,938,795)	33,806,337	539,970	330,819	26,192,759
Other	1,037,186	-	695,621	-	-	341,565
Total Current Assets	21,211,448	(59,938,795)	25,942,647	5,255,813	9,227,796	40,723,987
INVESTMENTS	14,411,595	-	619,034	31,250	1,171,102	12,590,209
BENEFICIAL INTEREST IN PERPETUAL TRUST	5,783,423	-	3,185,533	718,399	539,908	1,339,583
ASSETS WHOSE USE IS LIMITED						
Under Bond Indenture Agreement	6,785,001	-	6,784,991	-	-	10
Less: Amounts Available for Current Liabilities	(375,964)	-	(375,954)	-	-	(10)
Total Assets Whose Use is Limited	6,409,037	-	6,409,037	-	-	-
PROPERTY, PLANT AND EQUIPMENT, NET	84,275,578	-	1,131,980	4,378,778	36,225,728	42,539,092
OTHER ASSETS						
Deferred Marketing Costs	40,491	-	-	-	-	40,491
Total Other Assets	40,491	-	-	-	-	40,491
Total Assets	$ 132,131,572	$ (59,938,795)	$ 37,288,231	$ 10,384,240	$ 47,164,534	$ 97,233,362

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING BALANCE SHEET OF OBLIGATED GROUP (CONTINUED)
DECEMBER 31, 2016

LIABILITIES AND NET ASSETS (DEFICIT)	Combined	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated
CURRENT LIABILITIES						
Accounts Payable	$ 2,891,358	$ -	$ 221,347	$ 283,592	$ 1,289,387	$ 1,097,032
Salaries and Wages	2,887,000	-	628,510	448,743	749,627	1,060,120
Interest Payable	312,384	-	312,035	-	-	349
Deferred Revenue	176,934	-	-	21,802	78,643	76,489
Deposits from Prospective Residents	572,482	-	-	7,600	81,000	483,882
Due to Affiliates	-	(59,938,795)	21,720,209	12,376,349	19,954,731	5,887,506
Current Portion of Long-Term Debt	2,571,448	-	176,175	63,337	1,771,856	560,080
Advance Fee Refund Liability	1,809,743	-	-	-	791,508	1,018,235
Total Current Liabilities	11,221,349	(59,938,795)	23,058,276	13,201,423	24,716,752	10,183,693
ADVANCE FEE REFUND LIABILITY, LESS CURRENT PORTION	9,421,843	-	-	-	8,666,399	755,444
DEFERRED REVENUE FROM ADVANCE FEES	57,463,692	-	-	4,734,386	21,001,226	31,728,080
LONG-TERM DEBT, LESS CURRENT PORTION	87,323,813	-	10,216,392	2,057,337	57,554,036	17,496,048
Total Liabilities	165,430,697	(59,938,795)	33,274,668	19,993,146	111,938,413	60,163,265
NET ASSETS (DEFICIT)						
Unrestricted	(43,886,698)	-	522,084	(11,664,429)	(65,415,663)	32,671,310
Temporarily Restricted	3,362,145	-	1,000	1,337,124	44,165	1,979,856
Permanently Restricted	7,225,428	-	3,490,479	718,399	597,619	2,418,931
Total Net Assets	(33,299,125)	-	4,013,563	(9,608,906)	(64,773,879)	37,070,097
Total Liabilities and Net Assets (Deficit)	$ 132,131,572	$ (59,938,795)	$ 37,288,231	$ 10,384,240	$ 47,164,534	$ 97,233,362

VIRGINIA BAPTIST HOMES, INCORPORATED D/BA LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) OF OBLIGATED GROUP
YEAR ENDED DECEMBER 31, 2016

	Combined	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT						
Residential Services	$ 37,534,116	$ -	$ -	$ 4,187,647	$ 15,187,221	$ 18,159,248
Health Care Services	15,348,483	-	-	3,725,439	4,860,491	6,762,553
Net Assets Released from Restrictions Used for Operations	799,386	-	568,365	850	101,846	128,325
Unrestricted Gifts and Donations	46,175	(475,965)	-	339,645	153,030	29,465
Investment Income	818,709	-	236,302	69,049	137,200	376,158
Other	1,453,612	(5,253,787)	5,406,279	158,219	775,312	367,589
Total Revenue, Gains, and Other Support	56,000,481	(5,729,752)	6,210,946	8,480,849	21,215,100	25,823,338
EXPENSES						
Salaries, Wages and Professional Fees	27,654,746	-	2,853,383	5,046,301	8,704,180	11,050,882
Provisions for Depreciation and Amortization	7,706,811	-	180,039	479,371	3,444,311	3,603,090
Interest	4,855,455	-	389,192	143,996	3,296,035	1,026,232
Other	15,632,734	(5,729,752)	2,195,452	2,958,619	8,140,194	8,068,221
Total Expenses	55,849,746	(5,729,752)	5,618,066	8,628,287	23,584,720	23,748,425
Operating Income (Loss)	150,735	-	592,880	(147,438)	(2,369,620)	2,074,913
NON OPERATING LOSS						
Loss on Extinguishment of Debt	(1,903,178)	-	(166,617)	(39,221)	(1,097,215)	(600,125)
Other-than-temporary Decline in Value of Investment	(57,518)	-	(1,632)	-	(4,736)	(51,150)
Total Non-Operating Loss	(1,960,696)	-	(168,249)	(39,221)	(1,101,951)	(651,275)
EXCESS (DEFICIENCY) OF REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(1,809,961)	-	424,631	(186,659)	(3,471,571)	1,423,638

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) OF OBLIGATED GROUP (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

	Combined	Eliminations	Virginia Baptist Homes, Incorporated	Culpeper Baptist Retirement Community, Incorporated	Newport News Baptist Retirement Community, Incorporated	Lakewood Manor Baptist Retirement Community, Incorporated
UNRESTRICTED NET ASSETS						
Excess (Deficit) of Revenues, Gains and Other Support Over Expenses	$ (1,809,961)	$ -	$ 424,631	$ (186,659)	$ (3,471,571)	$ 1,423,638
Unrealized Gains (Losses) on Investments	373,333	-	(91,198)	-	37,846	426,685
Net Assets Released from Restrictions for Acquisition of Property, Plant, and Equipment	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	(1,436,628)	-	333,433	(186,659)	(3,433,725)	1,850,323
TEMPORARILY RESTRICTED NET ASSETS						
Gifts, Grants and Bequests	557,199	-	-	6,082	61,338	489,779
Net Assets Released from Restrictions	(799,386)	-	(568,365)	(850)	(101,846)	(128,325)
Increase (Decrease) in Temporarily Restricted Net Assets	(242,187)	-	(568,365)	5,232	(40,508)	361,454
PERMANENTLY RESTRICTED NET ASSETS						
Gifts, Grants and Bequests	1,200	-	-	-	1,150	50
Change in Present Value of Perpetual Trusts	(24,585)	-	79,812	(9,772)	(62,912)	(31,713)
Increase (Decrease) in Permanently Restricted Net Assets	(23,385)	-	79,812	(9,772)	(61,762)	(31,663)
INCREASE (DECREASE) IN NET ASSETS	(1,702,200)	-	(155,120)	(191,199)	(3,535,995)	2,180,114
Net Assets (Deficit) at Beginning of Year	(31,596,925)	-	4,168,683	(9,417,707)	(61,237,884)	34,889,983
NET ASSETS (DEFICIT) AT END OF YEAR	$ (33,299,125)	$ -	$ 4,013,563	$ (9,608,906)	$ (64,773,879)	$ 37,070,097

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING STATEMENT OF CASH FLOW
YEAR ENDED DECEMBER 31, 2016

	Obligated Group	Non-Obligated Group	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	$ (1,702,200)	$ 297,473	$ (1,404,727)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:			
Amortization of Deferred Revenue from Advance Fees	(9,363,169)	(2,741,155)	(12,104,324)
Proceeds from Advance Fees and Deposits	10,819,921	5,640,079	16,460,000
Amortization of Deferred Marketing Costs	45,292	20,550	65,842
Amortization of Deferred Financing Costs	121,614	34,784	156,398
Amortization of Bond Discount	-	39,571	39,571
Amortization of Bond Premium	(67,662)	-	(67,662)
Loss on Extinguishment of Debt	1,903,178	-	1,903,178
Other-than-temporary Decline in Value of Investment	75,000	-	75,000
Provision for Bad Debts	159,813	10,418	170,231
Provision for Depreciation	7,661,519	2,660,431	10,321,950
Increase (Decrease) in Annuity Obligations	-	(120,705)	(120,705)
Proceeds from Contributions Restricted for Long-Term Investment	(934,676)	-	(934,676)
Net Realized and Unrealized (Gains) Losses on Long-Term Investments	(589,285)	(31,443)	(620,728)
Change in Present Value of Trust Funds	(24,585)	-	(24,585)
Decrease (Increase) in Operating Assets:			
Accounts Receivable	(707,002)	14,636	(692,366)
Interest Receivable	18,329	(27,653)	(9,324)
Prepaid Expenses	66,586	(65,036)	1,550
Notes Receivable	38,930	(82,778)	(43,848)
Other Current Assets	(103,766)	(389,600)	(493,366)
Beneficial Interest in Perpetual Trust	-	(67,102)	(67,102)
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	659,241	224,856	884,097
Deferred Revenue	69,123	29,866	98,989
Salaries and Wages	143,472	34,147	177,619
Interest Payable	(362,085)	(9,937)	(372,022)
Deposits from Prospective Residents	424,752	(42,201)	382,551
Net Cash Provided by Operating Activities	8,352,340	5,429,201	13,781,541

VIRGINIA BAPTIST HOMES, INCORPORATED D/B/A LIFESPIRE OF VIRGINIA AND SUBSIDIARIES
COMBINING STATEMENT OF CASH FLOW (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

	Obligated Group	Non-Obligated Group	Total
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Property, Plant and Equipment	$ (8,677,757)	$ (2,002,426)	$ (10,680,183)
Change in Investments and Assets Whose Use is Limited:			
Change in Cash and Cash Equivalents	4,704,411	(407,031)	4,297,380
Net Sales (Purchases) of Investments	1,401,714	(119,150)	1,282,564
Net Cash Used in Investing Activities	(2,571,632)	(2,528,607)	(5,100,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Contributions Restricted for Long-Term Investment	934,676	-	934,676
Refunds of Advance Fees and Deposits	(1,057,449)	(1,447,358)	(2,504,807)
Increase in Deferred Financing Costs	(1,385,295)	-	(1,385,295)
Proceeds from Line of Credit	2,304,663	-	2,304,663
Net Withdrawals from Bond Funds	(5,199,406)	-	(5,199,406)
Issuance of Long-Term Debt	85,505,000	-	85,505,000
Bond Issue Premium on Long-Term Debt	5,954,243	-	5,954,243
Early Repayment of Long-Term Debt	(90,957,388)	-	(90,957,388)
Payments on Long-Term Debt	(3,058,426)	(640,000)	(3,698,426)
Net Cash Provided by (Used in) Financing Activities	(6,959,382)	(2,087,358)	(9,046,740)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,178,674)	813,236	(365,438)
Cash and Cash Equivalents - Beginning of Year	14,812,384	11,341,304	26,153,688
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,633,710	$ 12,154,540	$ 25,788,250
SUPPLEMENTAL CASH FLOWS INFORMATION			
Property and Equipment Additions in Accounts Payable	$ 472,315	$ 62,952	$ 535,267