



**Aldersgate United Methodist Retirement Community, Inc.**  
**Annual Financial Information Disclosure Package**  
**For the Year Ended December 31, 2016 (FY2016)**

Relating to:

\$38,025,000 Retirement Facilities First Mortgage Revenue Refunding Bonds  
(Aldersgate) Series 2013

&

\$49,240,000 Retirement Facilities First Mortgage Revenue Bonds  
(Aldersgate) Series 2015

CUSIP Numbers:

65820YKE5 65820YKF2 65820YKG0 65820YKH8

65820YLK0 65820YLL8 65820YLM6

In accordance with the North Carolina Care Commission Health Care Facilities Revenue Bonds (Series 2013 and Series 2015) for Aldersgate United Methodist Retirement Community, Inc. (the "Obligated Group"), you will find the following information for the year ended December 31, 2016 filed on the Municipal Securities Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) website, the official source for municipal disclosures and market data. <http://emma.msrb.org>.

This annual package includes the following documents as required under §5.10 of the Series 2013 & 2015 Loan Agreement and §3.10 of the Series 2013 & 2015 Master Trust Indenture ("MTI"):

- |  |   |
|--|---|
| ▪ Loan Agreement §5.10(a) and MTI §3.10(a) | Audited Financial Statements            |
| ▪ Loan Agreement §5.10(b)                  | Appendix A Update                       |
| ▪ Loan Agreement §5.10(c) and MTI §3.10(b) | Financial Ratios Calculations (audited) |
| ▪ MTI §3.10(b)                             | Officer's Certificate                   |

If you have questions, please contact Michael Sulhan, Chief Financial Officer at (704) 532-5300 or [mikes@aldersgateccrc.com](mailto:mikes@aldersgateccrc.com). The date of this disclosure is April 27, 2017.

**ALDERSGATE UNITED METHODIST  
RETIREMENT COMMUNITY, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Aldersgate United Methodist Retirement Community, Inc.  
Charlotte, North Carolina

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Aldersgate United Methodist Retirement Community, Inc. (a nonprofit corporation), 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.



### ***Opinion***

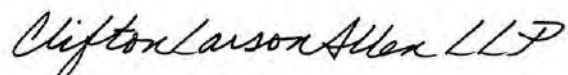
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aldersgate United Methodist Retirement Community, Inc. as of December 31, 2016 and 2015, its operations, and the changes in its net assets and its cash flows for 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, Aldersgate United Methodist Retirement Community, Inc. adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities 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. Our opinion is not modified with respect to this matter.

### ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



**CliftonLarsonAllen LLP**

Charlotte, North Carolina  
April 26, 2017

**ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 525,362	\$ 2,372,752
Investments	15,065,835	12,883,463
Accounts Receivable, Net of Allowance for Doubtful Accounts of Approximately \$254,000 in 2016 and \$730,000 in 2015	2,084,073	1,851,609
Entrance Fees Receivable	478,195	212,210
Prepaid Expenses and Other Current Assets	675,209	520,349
Total Current Assets	<u>18,828,674</u>	<u>17,840,383</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, NET</b>	85,476,387	56,955,106
<b>ASSETS LIMITED AS TO USE</b>		
Designated for Statutory Operating Reserve	7,534,232	6,452,491
Held Under Bond Agreements	24,387,170	49,323,200
Board Designated	696,135	696,135
Donor Restricted	984,928	1,881,284
Total Assets Limited as to Use	<u>33,602,465</u>	<u>58,353,110</u>
<b>OTHER ASSETS</b>		
Deferred Marketing Costs, Net	80,861	153,681
Other	176,721	151,351
Total Other Assets	<u>257,582</u>	<u>305,032</u>
 Total Assets	 <u><u>\$ 138,165,108</u></u>	 <u><u>\$ 133,453,631</u></u>



	2016	2015
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 5,068,497	\$ 4,099,708
Construction and Retainage Payable	3,786,955	2,232,661
Entrance Fee Deposits on Unoccupied Units	1,776,747	855,047
Current Portion of Long-Term Debt	1,480,000	1,725,000
Total Current Liabilities	12,112,199	8,912,416
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	83,088,766	83,625,542
<b>OTHER LONG-TERM LIABILITIES</b>	500	170,987
<b>DEFERRED ENTRANCE FEES, NET</b>	14,518,480	12,143,678
<b>REFUNDABLE ENTRANCE FEES</b>	29,120,638	28,235,825
Total Liabilities	138,840,583	133,088,448
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	(2,356,538)	(2,212,236)
Board Designated	696,135	696,135
Total Unrestricted	(1,660,403)	(1,516,101)
Temporarily Restricted	351,449	1,253,596
Permanently Restricted	633,479	627,688
Total Net Assets	(675,475)	365,183
Total Liabilities and Net Assets	\$ 138,165,108	\$ 133,453,631

**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>		
Net Resident Service Revenue	\$ 26,717,100	\$ 25,278,766
Amortization of Deferred Entrance Fees	2,160,478	1,557,122
Investment Income, Net	681,726	1,131,918
Other Support	550,797	351,981
Net Assets Released from Restrictions for Use in Operations	1,244,110	765,185
Unrestricted Contributions	517,441	488,711
Total Revenue, Gains, and Other Support	<u>31,871,652</u>	<u>29,573,683</u>
<b>EXPENSES</b>		
Nursing and Related Services	10,420,566	10,043,340
Dietary	4,247,965	3,617,371
Housekeeping and Laundry	1,259,634	1,281,227
Plant Operations	3,179,481	3,060,507
Administration	7,036,488	6,826,443
Interest Expense	2,184,993	2,186,109
Amortization	114,306	123,116
Depreciation	4,017,597	4,034,246
Total Expenses	<u>32,461,030</u>	<u>31,172,359</u>
<b>OPERATING LOSS</b>	(589,378)	(1,598,676)
<b>OTHER NON-OPERATING LOSS</b>		
Loss on Extinguishment of Debt	<u>(37,149)</u>	<u>-</u>
<b>DEFICIT OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES</b>	(626,527)	(1,598,676)
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS</b>		
Change in Net Unrealized Gains (Losses) on Investments	482,225	(1,422,441)
Net Assets Released from Restrictions for the Purchase of Property and Equipment	-	58,605
Impairment Loss on Land and Improvements	-	(472,070)
Total Other Changes in Unrestricted Net Assets	<u>482,225</u>	<u>(1,835,906)</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ (144,302)</u>	<u>\$ (3,434,582)</u>

See accompanying Notes to Consolidated Financial Statements.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>UNRESTRICTED NET ASSETS</b>		
Deficit of Revenues, Gains, and Other Support		
Over Expenses	\$ (626,527)	\$ (1,598,676)
Change in Net Unrealized Gains (Losses) on Investments	482,225	(1,422,441)
Net Assets Released from Restrictions for the Purchase of		
Property and Equipment	-	58,605
Impairment Loss on Land and Improvements	-	(472,070)
	<u>                    </u>	<u>                    </u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	(144,302)	(3,434,582)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	253,218	696,834
Net Assets Released from Restrictions	(1,244,110)	(823,790)
Investment Income, Net	68,521	79,878
Change in Net Unrealized Gains (Losses) on Donor Restricted Investments	20,224	(61,394)
	<u>                    </u>	<u>                    </u>
<b>DECREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	(902,147)	(108,472)
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Contributions	2,494	2,385
Investment Income, Net	3,297	4,356
	<u>                    </u>	<u>                    </u>
<b>INCREASE IN PERMANENTLY RESTRICTED NET ASSETS</b>	5,791	6,741
<b>DECREASE IN NET ASSETS</b>	(1,040,658)	(3,536,313)
Net Assets - Beginning of Year	<u>365,183</u>	<u>3,901,496</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ (675,475)</u></u>	<u><u>\$ 365,183</u></u>

**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in Net Assets	\$ (1,040,658)	\$ (3,536,313)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	4,017,597	4,034,246
Amortization of Deferred Marketing Costs	72,820	79,159
Amortization of Bond Discount	41,486	38,256
Amortization of Debt Issuance Costs	114,285	70,449
Bad Debt Expense	130,440	438,211
Gain on the Disposal of Assets	-	(350)
Impairment Loss on Land and Improvements	-	472,070
Amortization of Deferred Entrance Fees	(2,160,478)	(1,557,122)
Net Unrealized (Gains) Losses on Investments	(502,449)	1,483,835
Net Realized Gains on Investments	(242,802)	(648,889)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(362,904)	(574,639)
Prepaid Expenses and Other Current Assets	(154,860)	(193,877)
Other Assets	(25,370)	(6,625)
Accounts Payable and Accrued Expenses	(81,334)	(897,279)
Other Long-Term Liabilities	(170,487)	(11,500)
Net Cash Used by Operating Activities	(364,714)	(810,368)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property, Plant, and Equipment	(31,488,755)	(8,224,356)
Construction and Retainage Payable	1,554,294	-
Sales of Investments and Assets Limited as to Use	44,390,907	3,715,755
Purchases of Investments and Assets Limited as to Use	(21,077,383)	(47,399,387)
Net Cash Used by Investing Activities	(6,620,937)	(51,907,988)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	(4,175,000)	(1,635,000)
Proceeds from the Issuance of Long-Term Debt	3,555,642	50,215,610
Bond Issue Discount on Issuance of Long-Term Debt	-	(114,907)
Cash Paid for Debt Issuance Costs	(318,189)	(1,193,841)
Proceeds from Entrance Fees	8,616,960	8,606,409
Entrance Fees Refunded	(2,541,152)	(2,708,407)
Net Cash Provided by Financing Activities	5,138,261	53,169,864
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,847,390)	451,508
Cash and Cash Equivalents - Beginning of Year	2,372,752	1,921,244
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 525,362</u>	<u>\$ 2,372,752</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest, Excluding Amounts Capitalized	<u>\$ 1,180,096</u>	<u>\$ 1,855,490</u>
Purchases of Property, Plant, and Equipment included in Accounts Payable, Including Retainage	<u>\$ 3,786,955</u>	<u>\$ 2,736,832</u>

See accompanying Notes to Consolidated Financial Statements.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Aldersgate United Methodist Retirement Community, Inc. (Aldersgate UMRC) is a North Carolina nonprofit corporation operated in cooperation with the Western North Carolina Conference of The United Methodist Church (the Conference). Aldersgate UMRC is a continuing care retirement community located in Charlotte, North Carolina. Its campus includes independent living apartments and cottages, assisted living apartments including memory-support, and a skilled nursing facility offering long-term care and Medicare-certified skilled nursing and rehabilitation services.

Aldersgate UMRC has neither stockholders or owners. It is governed by an independent board of directors that includes two voting residents of Aldersgate UMRC.

Aldersgate Holdings, Inc. (Holdings), a nonprofit corporation, is consolidated with Aldersgate UMRC as Aldersgate UMRC has an economic interest in Holdings and common control exists. Holdings holds land for the sole support of Aldersgate UMRC.

The Conference has no management control, financial obligations, or contractual duties to Aldersgate UMRC or its residents. The Conference contributed approximately \$7,500 to Aldersgate UMRC for the years ended December 31, 2016 and 2015.

**Principles of Consolidation**

The consolidated financial statements include the accounts of Aldersgate UMRC and Holdings (collectively, Aldersgate). Significant intercompany balances and transactions between the consolidated organizations have been eliminated.

**Basis of Presentation**

Aldersgate reports in accordance with the industry audit and accounting guide for Health Care Entities issued by the American Institute of Certified Public Accountants. These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America to present balances and transactions according to the existence or absence of donor-imposed restrictions. This is accomplished by classification of net assets and transactions into three classes which are permanently restricted, temporarily restricted, or unrestricted.

*Permanently Restricted Net Assets* — Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by Aldersgate. Generally, the donor of these assets will permit Aldersgate to use all or part of the income earned on related investments for general or specific purposes.

*Temporarily Restricted Net Assets* — Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met by actions of Aldersgate and/or the passage of time.

*Unrestricted Net Assets* — Unrestricted net assets are net assets which represent resources generated from operations, contributions received without donor-imposed restrictions, and contributions with donor-imposed restrictions that have been met by actions of Aldersgate and/or the passage of time.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates made by Aldersgate relate primarily to the life expectancies used to amortize deferred revenue from entrance fees, the collectability of accounts receivable and the economic lives of depreciating assets. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Aldersgate considers all cash, money market funds, and highly liquid investments with a stated maturity of three months or less when purchased to be cash and cash equivalents unless classified as assets limited as to use.

**Allowance for Doubtful Accounts**

The carrying amount of accounts receivable has been reduced by an allowance using management's estimate of the amounts that will not be collected. Payment for services is required upon receipt of invoice or claim submitted. Aldersgate analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate amount to reserve for its allowance.

During 2016, Aldersgate re-evaluated the methodology for estimating the allowance for doubtful accounts. The current methodology is based on actual cash receipts as a percentage of the previous month's ending accounts receivable balance. Aldersgate believes all receivables net of the allowance for doubtful accounts are collectible as of December 31, 2016.

**Investments**

Investments are held as available for sale and are stated at fair value in the consolidated balance sheets. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess (deficit) of revenues, gains, and other support over expenses unless restricted by donors or law. Unrealized gains and losses on investments, if any, are excluded from investment income and included as changes in unrestricted or temporarily restricted net assets, as appropriate.

Management continually reviews its investments 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, the recommendation of investment advisors and the length of time and extent to which the market value has been less than cost. At December 31, 2016 and 2015, Aldersgate determined that no provision for other-than-temporary decline was necessary.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**Assets Limited as to Use**

Assets limited as to use are stated at fair value in the consolidated balance sheets and include assets required by statute, held under bond agreements, held under donor restrictions or designated by the board of directors for financial assistance to residents. The board may, at its discretion, subsequently use assets it has designated for other purposes.

**Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost, net of accumulated depreciation. Assets contributed to Aldersgate are recorded at fair market value at the date of contribution.

Expenditures which materially increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 40 years.

**Debt Issuance Costs**

Debt issuance costs have been incurred in connection with the issuance of Aldersgate's long-term debt. These costs are amortized based on the effective interest method over the term of the bonds. Debt issuance costs are net of accumulated amortization of approximately \$254,000 and \$134,000 at December 31, 2016 and 2015, respectively.

Aldersgate has adopted the accounting guidance in 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 effect of adopting the new standard decreased the debt liability by \$1,845,280 as of December 31, 2015. The adoption of the standard has no effect on previously reported net assets and is retrospectively applied. Aldersgate adopted this change in accounting principle as of January 1, 2016.

**Deferred Marketing Costs**

Deferred marketing costs have been incurred in the initial marketing of continuing care resident contracts. These costs are being amortized over the average life of the residents' contracts. Deferred marketing costs are net of accumulated amortization of approximately \$2,078,000 and \$2,005,000 at December 31, 2016 and 2015, respectively.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**Entrance Fees**

Entrance fees represent initial payments made by residents in exchange for membership at Aldersgate. Membership includes the use and privileges of amenities at the community and discounted fees when using health care accommodations. Entrance fees are based upon the accommodation chosen by the member. Aldersgate offers three types of lifecare residency agreements distinguished by the extent to which the entrance fee is refundable:

*Standard Contract* – Entrance fees are refundable less a processing fee and less 2% per month for each of the first 50 months of residency.

*90% Refundable Contract* – Entrance fees are refundable less a processing fee and less 10%.

*50% Refundable Contract* – Entrance fees are refundable less a processing fee and less 50%.

The defined health care benefit for these contracts is an equalized rate that residents would pay while in either assisted living or nursing, regardless of the type of independent unit they occupy.

The refundable portion of entrance fees is recorded as Refundable Entrance Fees until such time as the agreement is terminated. The non-refundable portion of entrance fees is recorded as Deferred Entrance Fee Revenue and amortized into income using the straight-line method over the remaining life of the member, actuarially adjusted annually, beginning with the date of each member's occupancy.

Qualifying new residents may defer payment of their entrance fee for up to six months after moving in. Such deferrals are reflected as an Entrance Fees Receivable in the accompanying consolidated balance sheets.

**Financial Assistance**

Aldersgate has a financial assistance policy to identify residents who are unable to pay and use certain funds designated for financial assistance to subsidize the entrance fees and services provided to those residents. A resident who enters Aldersgate and later becomes unable to pay some or all of their charges after receiving care, may apply for financial assistance from Aldersgate's Financial Assistance Program. The policy governing this program has established a committee consisting of management and members of the board of directors to accept and consider applications for assistance.



**ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**Financial Assistance (Continued)**

Aldersgate has estimated its direct and indirect costs of providing financial assistance under its Financial Assistance Program. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the cost to provide services to residents and amounts charged to residents. The cost-to-charge ratio is applied to the charges foregone to calculate the estimated direct and indirect cost of providing financial assistance. Using this methodology, Aldersgate has estimated the costs for services under Aldersgate's financial assistance policy to be approximately \$713,000 and \$791,000 for the years ended December 31, 2016 and 2015, respectively.

Aldersgate received approximately \$209,000 and \$691,000 to subsidize the costs of providing financial assistance under its policy for the years ended December 31, 2016 and 2015, respectively.

**Donor-Restricted Contributions**

Conditional promises to give and indications of intentions to give cash and other assets to Aldersgate are reported at fair value at the date the contribution is received. The contributions 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 are reported in the consolidated statements of operations as net assets released from restrictions if used for services, and are reported as changes in unrestricted net assets if used for purchase of property and equipment. Donor-restricted contributions, whose restrictions are met within the same year as received, are reported as other income in the accompanying consolidated statements of operations.

**Operating Indicator**

Aldersgate's operations include all unrestricted revenue, gains, other support, expenses and losses for the reporting period except for contributions of long-lived assets, net assets released from restrictions for the purchase of property and equipment, change in net unrealized gains and losses on investments, and impairment losses. Nonoperating losses include losses on the extinguishment of debt and gains or losses on the disposal of capital assets, if any.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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

**Income Taxes**

Aldersgate UMRC and Holdings are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, Aldersgate UMRC and Holdings have made no provision for income taxes in the consolidated financial statements.

Aldersgate UMRC and Holdings are not aware of any activities that would jeopardize their tax-exempt status. Aldersgate UMRC and Holdings follow accounting guidance regarding recognition and measurement of uncertain tax positions. As of December 31, 2016 and 2015, management is not aware of any uncertain tax positions.

**Fair Value of Financial Instruments**

Aldersgate uses fair value measurements to record certain assets and liabilities. Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under the Fair Value Measurements and Disclosures standard. Aldersgate 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 Aldersgate 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 may be 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.

The Fair Value Option Standard for Financial Assets and Financial Liabilities allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for eligible financial assets and liabilities on an instrument-by-instrument basis. Aldersgate has not elected to measure any existing financial assets or financial liabilities at fair value under this option.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Accounting and Reporting Requirements**

During the year ended December 31, 2016, the Organization early adopted a provision of FASB ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The 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, the Organization 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 the entity's financial position or results of operations.

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 Aldersgate for the year ended December 31, 2018. Management has not completed its evaluation of the impact of the adoption of this standard for Aldersgate 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 consolidated financial statements.

**Reclassifications**

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation for comparative purposes with no effect on the previously reported excess (deficit) of revenues, gains, and other support over expenses or net assets.

**Subsequent Events**

In preparing these consolidated financial statements, Aldersgate has evaluated events and transactions for potential recognition or disclosure through April 26, 2017, the date the consolidated financial statements were available to be issued.

**NOTE 2 STATUTORY OPERATING RESERVE**

Regulations of the North Carolina Department of Insurance (Department) require Aldersgate to maintain an operating reserve equal to a percentage of the total operating costs projected for the 12-month period following the period covered by the most recent annual statement filed with the Department. As of December 31, 2016 and 2015, Aldersgate has reserved approximately \$7,534,000 and \$6,452,000, respectively, in compliance with these regulations.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 RISKS AND UNCERTAINTIES**

**Concentrations of Credit Risks**

Financial instruments, which potentially subject Aldersgate to concentration of credit risk, consist principally of cash equivalents, investments, assets limited as to use, and receivables. Aldersgate limits the amount of credit exposure to each individual financial institution and places its temporary cash and investments with high credit quality financial institutions. At times, such cash and investments may be in excess of Federal Deposit Insurance Corporation limits. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

**Regulatory Matters**

Aldersgate 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, Medicare program participation requirements and reimbursement for patient services, and Medicare fraud and abuse.

**Insurance**

Aldersgate purchases commercial insurance policies for general and professional liability, director and officer, workers' compensation, property, and other general business coverage with minimal deductibles. Adequate provision has been made for amounts expected to be paid under each policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

On July 1, 2016, Aldersgate changed from a fully insured health insurance plan for its employees to a self-insured arrangement. From the employee perspective, the elements of the self-insured plan are identical to what had been in place under the fully insured plan, but the risk for payment of all claims is now borne by Aldersgate rather than an insurance company. Aldersgate has engaged Blue Cross Blue Shield of NC (BCBSNC) as Third Party Administrator, giving employee's access to the BCBSNC network and negotiated provided fees. Aldersgate also has purchased specific stop loss protection from BCBSNC for all claims over \$75,000, and aggregate stop loss protection for aggregated claims which exceed \$1.2 million over the policy period of 12 months.

**NOTE 4 INVESTMENTS**

Investments consist of the following as of December 31:

	2016	2015
Cash and Cash Equivalents	\$ 2,023,518	\$ 276,561
Equity Securities	5,458,000	4,467,783
Mutual Funds	3,351,917	4,122,676
Exchange Traded Funds	714,282	-
Alternative Funds	3,518,118	4,016,443
	<u>\$ 15,065,835</u>	<u>\$ 12,883,463</u>



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 INVESTMENTS (CONTINUED)**

Realized gains and losses on sales of investments are calculated using the specific identification method. Investment income included in net assets is comprised of the following:

	2016			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues, Gains, and Other Support:				
Interest and Dividends	\$ 510,742	\$ 438,924	\$ 68,521	\$ 3,297
Realized Net Gains on Investments	242,802	242,802	-	-
	<u>753,544</u>	<u>681,726</u>	<u>68,521</u>	<u>3,297</u>
Other Changes in Net Assets:				
Unrealized Net Gains on Investments	502,449	482,225	20,224	-
	<u>502,449</u>	<u>482,225</u>	<u>20,224</u>	<u>-</u>
Total Investment Return	<u>\$ 1,255,993</u>	<u>\$ 1,163,951</u>	<u>\$ 88,745</u>	<u>\$ 3,297</u>
	2015			
	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Revenues, Gains, and Other Support:				
Interest and Dividends	\$ 567,263	\$ 466,323	\$ 95,818	\$ 5,122
Realized Net Gains (Losses) on Investments	648,889	665,595	(15,940)	(766)
	<u>1,216,152</u>	<u>1,131,918</u>	<u>79,878</u>	<u>4,356</u>
Other Changes in Net Assets:				
Unrealized Net Losses on Investments	(1,483,835)	(1,422,441)	(61,394)	-
	<u>(1,483,835)</u>	<u>(1,422,441)</u>	<u>(61,394)</u>	<u>-</u>
Total Investment Return	<u>\$ (267,683)</u>	<u>\$ (290,523)</u>	<u>\$ 18,484</u>	<u>\$ 4,356</u>

**NOTE 5 PROPERTY, PLANT, AND EQUIPMENT**

The components of property, plant, and equipment at December 31 were as follows:

	2016	2015
Land and Improvements	\$ 8,179,333	8,099,808
Buildings and Improvements	88,693,614	83,279,993
Furniture, Fixtures, and Equipment	12,057,600	10,916,747
Vehicles	834,070	790,403
Capitalized Interest	3,927,871	1,531,026
	<u>113,692,488</u>	<u>104,617,977</u>
Less: Accumulated Depreciation	(61,598,777)	(57,581,180)
	<u>52,093,711</u>	<u>47,036,797</u>
Construction in Progress	33,382,676	9,918,309
Property and Equipment, Net	<u>\$ 85,476,387</u>	<u>\$ 56,955,106</u>



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 5 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)**

Depreciation expense for the years ended December 31, 2016 and 2015 totaled approximately \$4,018,000 and \$4,034,000, respectively. The majority of the construction in progress at December 31, 2016 and 2015 related to new memory support suites, town center renovation, new commons area, and new replacement nursing care facility.

The first phase of the new memory support suites and town center renovation project officially began construction in June 2015 and consists of 16 memory support suites and town center renovation project (the "Town Center"). Construction of the Town Center was completed in February 2016, and construction of the memory support suites was completed in March 2016. Construction began in October 2015 on a new replacement nursing care facility and occupancy is expected in summer 2017. In September 2016, construction began on a new approximately 14,000 square foot community center as well as the renovation of approximately 29,000 square feet of the adjacent Ray Hall Community Center (collectively, the "New Community Center"). The New Community Center will serve the entire Community and construction is anticipated to be completed in the fourth quarter of 2017. Each of the contracts contains payments that will be based on specific milestones outlined in each contract or monthly retainers. The total of construction costs are expected to be approximately \$56,400,000.

**NOTE 6 ASSETS LIMITED AS TO USE**

Assets limited as to use are stated at fair value and consist of cash and cash equivalents and mutual funds at December 31, 2016 and 2015.

**NOTE 7 LONG-TERM DEBT**

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

	2016	2015
North Carolina Medical Care Commission:		
Retirement Facilities Revenue Bonds, Series 2013	\$ 34,280,000	\$ 35,705,000
Retirement Facilities Revenue Bonds, Series 2015	49,240,000	49,240,000
Bank Loan	3,555,642	2,750,000
	<u>87,075,642</u>	<u>87,695,000</u>
Less: Current Portion	(1,480,000)	(1,725,000)
Less: Bond Discount	(457,692)	(499,178)
Less: Unamortized Debt Issuance Costs	(2,049,184)	(1,845,280)
	<u>\$ 83,088,766</u>	<u>\$ 83,625,542</u>

In October 2013, the North Carolina Medical Care Commission issued its \$38,025,000 Retirement Facilities First Mortgage Revenue Refunding Bonds Series 2013 (the 2013 Bonds). The proceeds of the 2013 Bonds were used to refund the then outstanding 2009 and 2010 Bonds, to fund a debt service reserve fund, and to pay certain costs incurred in



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 7    LONG-TERM DEBT (CONTINUED)**

connection with the authorization and issuance of the 2013 Bonds. Principal payments on the 2013 Bonds began in July 2014 and extend through July 2035. Interest on the 2013 Bonds is paid semi-annually with interest rates ranging from 2% to 6.25%. A loss of approximately \$296,000 was recognized on the refunding for the year ended December 31, 2013, which primarily related to the write-off of unamortized debt issuance costs related to the refunded bonds.

In July 2014, Aldersgate entered into a term loan agreement for an amount not to exceed \$3,000,000 with a financial institution. Advances on the term loan were disbursed provided that no more than one advance was made during any month. Amounts repaid on the term loan were not re-borrowed. The term loan was payable in 28 monthly principal installments of \$25,000. Interest was payable monthly at a rate equal to LIBOR plus 2.00%. The balance was paid from the proceeds related to the issuance of the new bank loan in September 2016. A loss of approximately \$37,000 was recognized on the refunding for the year ended December 31, 2016, which related to the write-off of unamortized debt issuances costs.

In November 2015, the North Carolina Medical Care Commission issued its \$49,240,000 Retirement Facilities First Mortgage Revenue Bonds Series 2015 (the 2015 Bonds). The proceeds of the 2015 Bonds are for the purpose of providing funds to Aldersgate United Methodist Retirement Community, Inc. to be used to finance the cost of an approximately 140,000 square foot replacement 125 bed nursing home, to refinance the cost of the completion of, and the additions and improvements to, the existing memory care support facility, renovation and reconfiguration of the existing memory support town center, and to pay certain expenses incurred in connection with the issuance of the Series 2015 Bonds. Principal payments on the 2015 Bonds begin in July 2032 and extend through July 2045. Interest on the 2015 Bonds is paid semi-annually with interest rates ranging from 4.7% to 5%.

In September 2016, Aldersgate entered into a loan agreement with a financial institution for an amount not to exceed \$16,400,000. An initial advance of approximately \$2,878,000 was provided at closing to refund the outstanding 2014 bank loan. Additional advances on the loan are made by the financial institution at the request of Aldersgate as needed for construction. Interest is payable monthly beginning October 2016 at a rate of LIBOR plus a credit spread (ranging from 2.2% to 2.9%) depending on Aldersgate's debt to capitalization ratio. The interest rate at December 31, 2016 was 3.02%. Principal is payable in equal monthly installments beginning October 2018 with the balance due in full on September 14, 2026. Assuming no events of default and prior to a pre-determined date, under the terms of the loan agreement, Aldersgate has the option to convert the loan into a tax-exempt bond issued by the North Carolina Medical Care Commission. At December 31, 2016, the outstanding balance was approximately \$3,560,000.

The terms of the agreements related to the bank loan and the 2013 and 2015 Bonds require, among other provisions, a debt coverage ratio (as defined) greater than or equal to 1.2. At December 31, 2016 and 2015, management believes Aldersgate was in compliance with these requirements as well as all other financial covenants contained in its bond agreements.



**ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Scheduled annual principal maturities of long-term debt are as follows:

Maturity Date	Principal Amount
2017	\$ 1,480,000
2018	1,613,462
2019	2,068,603
2020	2,157,325
2021	2,261,467
Thereafter	77,494,785
	<u>\$ 87,075,642</u>

**NOTE 8 ENTRANCE FEES**

Deferred entrance fee revenue by contract type as of December 31 was as follows:

	2016	2015
Standard	\$ 9,815,725	\$ 8,615,334
90% Refundable	1,271,711	1,337,481
50% Refundable	3,431,044	2,190,863
	<u>\$ 14,518,480</u>	<u>\$ 12,143,678</u>

Refundable entrance fees by contract type as of December 31 were as follows:

	2016	2015
90% Refundable	\$ 25,039,961	\$ 25,717,478
50% Refundable	4,080,677	2,460,343
	<u>\$ 29,120,638</u>	<u>\$ 28,177,821</u>

**NOTE 9 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	2016	2015
Financial Assistance to Residents	\$ 241,597	\$ 715,908
Asbury Care Center Assistance	-	534,079
Employee Training	6,283	3,609
Columbarium Fund	15,000	-
Art Fund	88,569	-
Total Temporarily Restricted Net Assets	<u>\$ 351,449</u>	<u>\$ 1,253,596</u>



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 10 PERMANENTLY RESTRICTED AND BOARD DESIGNATED NET ASSETS**

Permanently restricted net assets are restricted to investment in perpetuity, all or a portion of the income from which is expendable to support the following:

	2016	2015
Financial Assistance to Residents	\$ 374,655	\$ 372,161
General Purposes	208,824	205,527
Employee Training and Education	50,000	50,000
Total Permanently Restricted Net Assets	<u>\$ 633,479</u>	<u>\$ 627,688</u>

Aldersgate complies with the North Carolina Uniform Prudent Management of Institutional Funds Act (the Act). Aldersgate has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. Aldersgate classifies as permanently restricted net assets the original value of permanently restricted gifts and the portion of income derived from the gift, if any, that the donor requires to be kept in perpetuity. The portion of income derived from the gift, if any, that the donor does not require to be kept in perpetuity is classified in the balance sheet as temporarily restricted net assets until those amounts are appropriated for expenditure by Aldersgate in a manner consistent with the donor's stipulation and the standard of prudence prescribed in the Act. Unless a donor explicitly stipulates otherwise, unrealized net appreciation in market value of the original gift is maintained as temporarily restricted net assets until those amounts are appropriated for expenditure by Aldersgate in a manner consistent with the donor's stipulation and the standard of prudence prescribed in the Act. Any unrealized net depreciation that causes total market value to decline below the amount of the original gift is reported in unrestricted net assets.

**Return Objectives and Risk Parameters**

Aldersgate has adopted an investment policy for permanently restricted gifts that attempts to provide a predictable stream of funding. Such assets are invested in a manner that is intended to maximize income while preserving capital, strive for consistent absolute returns, and preserve purchasing power by striving for returns which exceed fees and inflation without putting the principal value at imprudent risk. Management targets an asset allocation that diversifies investments consistent with commonly accepted industry standards to minimize the risk of large losses and meet Aldersgate's return objectives. Imprudent concentrations in any single asset class or investment vehicle are prohibited.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 10 PERMANENTLY RESTRICTED AND BOARD DESIGNATED NET ASSETS  
(CONTINUED)**

**Spending Policy**

Aldersgate spends income generated from endowment assets according to stipulations of the donors. Aldersgate's spending policy preserves the value of the original gift of the endowment assets held in perpetuity.

**Permanently Restricted and Board Designated Net Assets Activity**

The following are the changes in endowment net assets managed by Aldersgate for the years ended December 31, 2016 and 2015:

	2016			
	Temporarily Restricted	Permanently Restricted	Board Designated	Total
Endowment Net Assets, Beginning of the Year	\$ 4,064	\$ 627,688	\$ 696,135	\$ 1,327,887
Contribution - Income	67,152	2,494	-	69,646
Distributions	(67,252)	-	-	-
Realized Gains/Losses and Change in Unrealized Gains/ Losses on Investments	-	3,297	-	3,297
Endowment Net Assets, End of the Year	<u>\$ 3,964</u>	<u>\$ 633,479</u>	<u>\$ 696,135</u>	<u>\$ 1,400,830</u>
	2015			
	Temporarily Restricted	Permanently Restricted	Board Designated	Total
Endowment Net Assets, Beginning of the Year	\$ -	\$ 620,947	\$ 696,135	\$ 1,317,082
Contributions - Income	95,071	2,385	-	97,456
Distributions	(91,007)	-	-	-
Realized Gains/Losses and Change in Unrealized Gains/ Losses on Investments	-	4,356	-	4,356
Endowment Net Assets, End of the Year	<u>\$ 4,064</u>	<u>\$ 627,688</u>	<u>\$ 696,135</u>	<u>\$ 1,418,894</u>

Aldersgate had board designated endowment funds of \$696,135 for the years ended December 31, 2016 and 2015. These board designated endowment funds are included as a component of unrestricted net assets.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 NET RESIDENT SERVICES REVENUE**

Residents pay a monthly services fee, which varies with the type of residence and with the level of health care the resident receives. This monthly services fee is subject to change by resolution of the board of directors.

Gross resident service charges are recorded when services are provided. Aldersgate bills residents at the gross standard charge for the specific service provided less any discounts that apply based on the resident's particular contract. Discounts are reflected as reductions in net resident service revenue in the accompanying consolidated statements of operations.

Aldersgate offers a renewable lease agreement to qualifying individuals. The lease agreement does not require an entrance fee; however, its monthly services fee is higher than the monthly fees paid by members. The lease provides access to all services and amenities with the exception of discounted health care services. As of December 31, 2016 and 2015, there were 5 and 13 residences under this plan, respectively.

Aldersgate offers Medicare-certified skilled nursing and rehabilitation services to members and the public for which it receives prospectively determined per diem rates. Revenues from the Medicare program accounted for approximately 24.8% and 26.4% of Aldersgate's net resident service revenue for the years ended December 31, 2016 and 2015, respectively.

Net resident service revenue is reported at net realizable value and consists of the following for the years ended December 31:

	2016	2015
Gross Resident Service Charges	\$ 28,528,922	\$ 27,096,885
Contractual Adjustments and Charity Care	(1,811,822)	(1,818,119)
Net Resident Service Revenue	<u>\$ 26,717,100</u>	<u>\$ 25,278,766</u>

**NOTE 12 BENEFIT PLAN**

Aldersgate has a defined contribution retirement plan that covers all employees of Aldersgate with one year of service whose annual compensated hours exceed 1,000. Employees shall be eligible to receive a discretionary annual contribution of a percentage of base pay subject to approval by the board of directors, depending on the financial performance of Aldersgate. Aldersgate matches fifty percent of employee contributions up to a maximum of one percent of eligible compensation monthly. Employees vest in employer contributions on a graded scale over a six-year period.

There were no discretionary contributions made to the plan by Aldersgate during the years ended December 31, 2016 and 2015.



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 FAIR VALUE MEASUREMENTS**

Aldersgate 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 funds which are valued based on a net asset value per share (or its equivalent). Alternative funds held by Aldersgate seek long-term capital appreciation and reduction of overall portfolio risk through investing in directional and non-directional hedge funds of funds, hedged equity or low beta alternatives, convertible bonds, real estate investment trusts, or commodities. Aldersgate has an alternative investment valuation procedure in which management validates the fair value reported by the third-party investment manager.

For additional information on how Aldersgate 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 Aldersgate measured at fair value on a recurring basis as of December 31, 2016 and 2015:

		2016			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Investments					
Equity Securities	\$	5,458,000	\$ -	\$ -	\$ 5,458,000
Mutual Funds		3,351,917	-	-	3,351,917
Exchange Traded Funds		714,282	-	-	714,282
Alternative Funds		-	-	3,518,118	3,518,118
Assets Limited as to Use					
Mutual Funds		9,215,295	-	-	9,215,295
Total Assets Measured at Fair Value		<u>\$ 18,739,494</u>	<u>\$ -</u>	<u>\$ 3,518,118</u>	<u>\$ 22,257,612</u>

		2015			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Investments					
Equity Securities	\$	4,467,783	\$ -	\$ -	\$ 4,467,783
Mutual Funds		4,122,676	-	-	4,122,676
Alternative Funds		-	-	4,016,443	4,016,443
Assets Limited as to Use					
Mutual Funds		9,029,910	-	-	9,029,910
Total Assets Measured at Fair Value		<u>\$ 17,620,369</u>	<u>\$ -</u>	<u>\$ 4,016,443</u>	<u>\$ 21,636,812</u>



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table presents changes in alternative investments measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2016 and 2015:

<b>Balance at December 31, 2014</b>	<b>\$ 3,787,206</b>
Net Purchases and Sales	-
Change in Net Unrealized Gains/Losses	<u>229,237</u>
<b>Balance at December 31, 2015</b>	<b>4,016,443</b>
Net Purchases and Sales	(309,000)
Change in Net Unrealized Gains/Losses	<u>(189,325)</u>
<b>Balance at December 31, 2016</b>	<b><u>\$ 3,518,118</u></b>

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

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Aurora Offshore Fund Ltd II	\$ 320,157	\$ -	Quarterly	95 Days
Marshall Wace Fund	2,178,048	-	Monthly	30 Days
Paloma International Fund	1,019,913	-	Quarterly	90 Days
Total Alternative Funds	<u>\$ 3,518,118</u>	<u>\$ -</u>		

	2015			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Aurora Offshore Fund Ltd II	\$ 1,880,563	\$ -	Quarterly	95 Days
Marshall Wace Fund	2,135,880	-	Monthly	30 Days
Total Alternative Funds	<u>\$ 4,016,443</u>	<u>\$ -</u>		

The alternative investment funds are valued at the net asset value (NAV) of units, which are based on market prices of the underlying investments, held by Aldersgate at year-end.

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

Aldersgate is subject to potential litigation arising in the ordinary course of business. Management is currently not aware of any such litigation.

## **SUPPLEMENTARY INFORMATION**



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATING BALANCE SHEET**  
**DECEMBER 31, 2016**

	Aldersgate United Methodist Retirement Community, Inc.	Aldersgate Holdings, Inc.	Eliminating Entries	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 525,362	\$ -	\$ -	\$ 525,362
Investments	15,065,835	-	-	15,065,835
Accounts Receivable, Net of Allowance for Doubtful Accounts	2,084,073	-	-	2,084,073
Entrance Fees Receivable	478,195	-	-	478,195
Prepaid Expenses and Other Current Assets	675,209	-	-	675,209
Total Current Assets	<u>18,828,674</u>	<u>-</u>	<u>-</u>	<u>18,828,674</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, NET</b>	85,126,387	350,000	-	85,476,387
<b>ASSETS LIMITED AS TO USE</b>				
Designated for Statutory Operating Reserve	7,534,232	-	-	7,534,232
Held Under Bond Agreement	24,387,170	-	-	24,387,170
Board Designated	696,135	-	-	696,135
Donor Restricted	984,928	-	-	984,928
Total Assets Limited as to Use	<u>33,602,465</u>	<u>-</u>	<u>-</u>	<u>33,602,465</u>
<b>OTHER ASSETS</b>				
Deferred Marketing Costs, Net	80,861	-	-	80,861
Other	176,721	-	-	176,721
Total Other Assets	<u>257,582</u>	<u>-</u>	<u>-</u>	<u>257,582</u>
<b>Total Assets</b>	<u><u>\$ 137,815,108</u></u>	<u><u>\$ 350,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 138,165,108</u></u>

**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**  
**DECEMBER 31, 2016**

	Aldersgate United Methodist Retirement Community, Inc.	Aldersgate Holdings, Inc.	Eliminating Entries	Consolidated
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 5,068,497	\$ -	\$ -	\$ 5,068,497
Construction and Retainage Payable	3,786,955	-	-	3,786,955
Entrance Fee Deposits on Unoccupied Units	1,776,747	-	-	1,776,747
Current Portion of Long-Term Debt	1,480,000	-	-	1,480,000
Total Current Liabilities	<u>12,112,199</u>	<u>-</u>	<u>-</u>	<u>12,112,199</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	83,088,766	-	-	83,088,766
<b>OTHER LONG-TERM LIABILITIES</b>	500	-	-	500
<b>DEFERRED ENTRANCE FEES, NET</b>	14,518,480	-	-	14,518,480
<b>REFUNDABLE ENTRANCE FEES</b>	<u>29,120,638</u>	<u>-</u>	<u>-</u>	<u>29,120,638</u>
Total Liabilities	138,840,583	-	-	138,840,583
<b>NET ASSETS</b>				
Unrestricted				
Undesignated	(2,706,538)	350,000	-	(2,356,538)
Board Designated	696,135	-	-	696,135
Total Unrestricted	<u>(2,010,403)</u>	<u>350,000</u>	<u>-</u>	<u>(1,660,403)</u>
Temporarily Restricted	351,449	-	-	351,449
Permanently Restricted	633,479	-	-	633,479
Total Net Assets	<u>(1,025,475)</u>	<u>350,000</u>	<u>-</u>	<u>(675,475)</u>
Total Liabilities and Net Assets	<u>\$ 137,815,108</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 138,165,108</u>



**ALDRSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2016**

	Aldersgate United Methodist Retirement Community, Inc.	Aldersgate Holdings, Inc.	Eliminating Entries	Consolidated
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>				
Net Resident Service Revenue	\$ 26,717,100	\$ -	\$ -	\$ 26,717,100
Amortization of Deferred Entrance Fees	2,160,478	-	-	2,160,478
Investment Income, Net	681,726	-	-	681,726
Other Support	550,797	-	-	550,797
Net Assets Released from Restrictions for Use in Operations	1,244,110	-	-	1,244,110
Unrestricted Contributions	517,441	-	-	517,441
Total Revenue, Gains, and Other Support	31,871,652	-	-	31,871,652
<b>EXPENSES</b>				
Nursing and Related Services	10,420,566	-	-	10,420,566
Dietary	4,247,965	-	-	4,247,965
Housekeeping and Laundry	1,259,634	-	-	1,259,634
Plant Operations	3,179,481	-	-	3,179,481
Administration	7,036,488	-	-	7,036,488
Interest Expense	2,184,993	-	-	2,184,993
Amortization	114,306	-	-	114,306
Depreciation	4,017,597	-	-	4,017,597
Total Expenses	32,461,030	-	-	32,461,030
<b>OPERATING LOSS</b>	(589,378)	-	-	(589,378)
<b>OTHER NON-OPERATING LOSS</b>				
Loss on Extinguishment of Debt	(37,149)	-	-	(37,149)
<b>DEFICIT OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES</b>	(626,527)	-	-	(626,527)
<b>OTHER CHANGES IN UNRESTRICTED NET ASSETS</b>				
Change in Net Unrealized Gains on Investments	482,225	-	-	482,225
<b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	<u>\$ (144,302)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (144,302)</u>

**Aldersgate URM**  
**Series 2013 and Series 2015: Appendix A - Annual Requirement**  
**For the Year Ended December 31, 2016**



**Historical Occupancy**

**Independent Living**

Available Units	248
Average Annual Occupancy	235
Average Occupancy %	<b>95%</b>

**Assisted Living**

Available Units	47
Average Annual Occupancy	42
Average Occupancy %	<b>89%</b>

**Memory Support\***

Available Units	61
Average Annual Occupancy	47
Average Occupancy %	<b>84%</b>

\* 45 Beds until April and 16 additional added in May - average beds 56

**Skilled Nursing**

Available Units	100
Average Annual Occupancy	88
Average Occupancy %	<b>88%</b>

**Annual Rate Increases**

The table below shows the average entrance fee and monthly fee increases at the community:

	% per month (average)	\$ per month (average)	% per month (average)	\$ per month (average)
	Monthly Fee		Entrance Fee	
<b>Independent Living</b> =====	3.00%	\$ 96	3.00%	
<b>Assisted Living</b> =====	3.00%	\$ 136	n/a	n/a
<b>Memory Support</b> =====	3.00%	\$ 165	n/a	n/a
<b>Skilled Nursing</b> =====	3.00%	\$ 7 *	n/a	n/a

\* average per day

**Gross Revenues by Level of Care**

<u>Level of Care</u>	<u>2016</u>
Independent Living Units	\$ 10,266,508
Assisted Living Units	2,341,769
Assisted Living Units - Memory Care	3,043,676
<u>Health Care Center Beds</u>	<u>10,062,036</u>
<b>Total</b>	<b>\$ 25,713,989</b>

**Percent of Gross Revenues by Level of Care \*\***

<u>Level of Care</u>	<u>2016</u>
Independent Living Units	40%
Assisted Living Units	9%
Assisted Living Units - Memory Care	12%
<u>Health Care Center Beds</u>	<u>39%</u>
<b>Total</b>	<b>100%</b>

\*\* includes monthly resident fees, net of discounts, and amortization of deferred entrance fee income



**Aldersgate URM**  
**Series 2013 and Series 2015: Appendix A - Annual Requirement**  
**For the Year Ended December 31, 2016**



**Historical Payor Mix - Health Care Center**

Private Pay	65%
Medicare	35%
<b>Total</b>	<b>100%</b>

**Summary of Statement of Operations**

	<u><b>Actual</b></u>
<b><u>Revenues</u></b>	
Net Resident Service Revenue	\$ 26,717,100
Amortization of Entry Fees	2,160,478
Investment Income	681,726
Net Assets Released from Restriction for Use in Operations	1,244,110
<u>Other Support and Unrestricted Contributions</u>	<u>1,068,238</u>
<b>Total Revenues &amp; Support</b>	<b>\$ 31,871,652</b>
<b><u>Expenses</u></b>	
Nursing & Related	\$ 10,420,566
Dietary	4,247,965
Housekeeping & Laundry	1,259,634
Plant Operations	3,179,481
Administration	7,036,488
Interest Expense	2,184,993
<u>Depreciation &amp; Amortization</u>	<u>4,131,903</u>
<b>Total Expenses</b>	<b>\$ 32,461,030</b>
<b>Excess (Deficiency) of Revenues, Gains, and Other Support over Expenses</b>	<b>\$ (589,378)</b>
<b>Loss on Early Extinguishment of Debt</b>	<b>(37,149)</b>
<b>Change in Net Unrealized Gains/Losses on Investments</b>	<b>(482,225)</b>
<b>Equity Transfer</b>	<b>-</b>
<b>Net Assets released for Capital Purchases</b>	<b>-</b>
<b><u>Impairment Loss on Land Improvements</u></b>	<b><u>-</u></b>
<b>Increase (Decrease) in unrestricted net assets:</b>	<b>\$ (144,302)</b>

**Aldersgate URM**  
**Series 2013 and Series 2015 - Annual Requirement**  
**Annual Compliance Ratios**  
**For the Year Ended December 31, 2016**



<b>Long Term Debt Service Coverage Ratio</b>		<b>AUDITED 12/31/2016</b>
Excess (deficiency) of Revenue, Gains and other Support over Expenses	\$	(626,527)
Add:		
Depreciation and Amortization		4,131,903
Interest Expense		2,184,993
Net Proceeds from Entrance Fees <sup>(1)</sup>		6,075,808
Loss on Extinguishment of Debt		37,149
Less		
Amortization of Deferred Entrance Fees		(2,160,478)
Income Available for Debt Services		9,642,848
Maximum Annual Debt Service (2016)	\$	3,473,063
<b>Maximum Annual Debt Service Coverage Ratio</b>		<b>2.78</b>
<b>Covenant <sup>(2)</sup></b>		<b>1.20</b>

(1) Net Proceeds from Entrance Fees includes Proceeds from Entrance Fees (\$8,616,960) & Entrance Fees Refunded (-\$2,541,152).

(2) Under Section 3.07(a) of the Master Trust Indenture (the "MTI") dated as of October 1, 2013 for the Series 2013 Bonds and the MTI dated as of November 5, 2015 between the Obligated Group and the Master Trustee, the Obligated Group is required to calculate the Long Term Debt Service at the end of each Fiscal Year, and will not be less than 1.20.

<b>Days Cash on Hand</b>		<b>AUDITED 12/31/2016</b>
Cash and Cash Equivalents	\$	525,362
Investments - Current		15,065,835
Investments - Designated for Statutory Operating Reserve		7,534,232
Investments - Board-designated funds		696,135
Total Cash on Hand as Defined		23,821,564
Times x 365		365
Numerator for DCOH Calculation	\$	8,694,870,860
Expenses		32,461,030
Less: Depreciation and Amortization		(4,131,903)
Denominator for DCOH Calculation	\$	28,329,127
One days' operating expenses	\$	77,614
<b>Days Cash on Hand</b>		<b>307</b>
<b>Covenant <sup>(1)</sup></b>		<b>120</b>

(1) Under Section 5.11 of the Loan Agreement dated as of October 1, 2013 for the 2013 Bonds and the MTI dated November 5, 2015 for the Series 2015 Bonds between the Obligated Group and the North Carolina Medical Care Commission, the Obligated Group is required to calculate the Days' Cash on Hand on the last day of each Fiscal Year, beginning December 31, 2014 and will not be less day 120 days' cash on hand.

<b>Reserve Ratio</b>		<b>AUDITED 12/31/2016</b>
Cash and Cash Equivalents	\$	525,362
Investments - Current		15,065,835
Designated Statutory Operating Reserve		7,534,232
Held Under Bond Agreement		24,387,170
Board Designated		696,135
Less: Accrued Interest		(2,201,352)
Less: Construction Fund		(14,046,261)
	\$	31,961,121
Outstanding Long Term Indebtedness	\$	83,088,766
<b>Reserve Ratio</b>		<b>0.38</b>
<b>Covenant</b>		<b>N/A</b>



April 27, 2017

To: Bank of New York Mellon Trust Company, N.A.  
Attention: Geovanni Barris  
10161 Centurion Parkway  
Jacksonville, FL 32256

North Carolina Medical Care Commission  
Attention: Crystal Watson-Abbott  
2701 Mail Service Center  
Raleigh, NC 27699-2701

ANNUAL OFFICER'S CERTIFICATE AND CONTINUING DISCLOSURE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

This certificate is being delivered in accordance with the requirements of: (1) Section 3.10 of the Master Trust Indenture (MTI) dated as of October 1, 2013, as amended November 18, 2015 between Aldersgate United Methodist Retirement Community, Inc. (the "Obligated Group") and Bank of New York Mellon Trust Company, N.A. ("Master Trustee") and (2) the requirements of Section 5.04 of the Loan Agreement between the Obligated Group and the North Carolina Medical Care Commission.

We do hereby certify to the best of our knowledge that for the Year Ended December 31, 2016 Aldersgate United Methodist Retirement Community, Inc. was not in violation of any covenants, terms, provisions or conditions of the MTI or Loan Agreement except for those items of noncompliance (if any) set forth herein.

We have also provided you a copy of the auditor's compliance report for the Year Ended December 31, 2016.

As defined in the MTI and/or Loan Agreement, please find the following financial ratios for fiscal year ended December 31, 2016:

- Long term debt service coverage ratio = 2.78.
- Days cash on hand = 307.
- Reserve ratio = 0.38.

ALDERSGATE UNITED METHODIST RETIREMENT COMMUNITY, INC.



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Michael J. Sulhan, CFO & Treasurer, April 27, 2017

Name, Title, Date

CC: Posted to EMMA