ACTS Retirement Services, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information

December 31, 2017 and 2016

BAKER TILLY

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ACTS Retirement Services, Inc. and Subsidiaries

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Independent Auditors' Report

Board of Directors
ACTS Retirement Services, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ACTS Retirement Services, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the 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 auditor's 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 ACTS Retirement Services, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information for 2017 on pages 30 to 33 is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
April 30, 2018

ACTS Retirement Services, Inc. and Subsidiaries

Consolidated Balance Sheet
December 31, 2017 and 2016
(In Thousands)

	2017	2016
Assets		
Cash and cash equivalents	$ 10,353	$ 16,060
Investments	315,026	317,106
Accounts receivable, entrance fee receivables, and other receivables, net	19,985	20,723
Prepaid expenses, inventory, and deposits	8,658	8,027
Property and equipment, net	1,164,119	1,059,439
Goodwill	27,477	22,551
Deferred costs, net	1,938	1,826
Total assets	$ 1,547,556	$ 1,445,732
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 78,576	$ 84,483
Short-term indebtedness	59,000	27,050
Construction loan payable	36,085	47,479
Long-term indebtedness	561,740	582,044
Charitable gift annuity obligations	2,529	2,709
Entrance fee deposits	6,688	11,783
Refundable portion of entrance fees	24,362	23,901
Deferred revenue from entrance fees	664,046	571,662
Accumulated loss on investment contracts	9,574	11,236
Total liabilities	1,442,600	1,362,347
Net Assets		
Unrestricted	80,817	61,758
Temporarily restricted	20,928	18,509
Permanently restricted	3,211	3,118
Total net assets	104,956	83,385
Total liabilities and net assets	$ 1,547,556	$ 1,445,732

See notes to consolidated financial statements

ACTS Retirement Services, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Operating Revenue		
Resident services revenue, net of amortization of entrance fees	$ 308,947	$ 281,001
Patient revenue from third-party payors	33,570	31,358
Investment income	7,304	6,628
Net assets released from restrictions to provide resident services	2,410	2,164
Other revenue	8,029	7,581
Total operating revenue before amortization of entrance fees	360,260	328,732
Amortization of entrance fees	88,014	82,283
Total operating revenue	448,274	411,015
Operating Expenses		
Salaries, wages, and benefits	222,620	201,842
Contracted services	23,917	23,205
Utilities	22,862	22,357
Food	22,512	21,519
Supplies	17,870	15,929
Real estate taxes	10,915	10,175
Insurance	5,562	5,022
Other	17,005	16,179
Total operating expenses before depreciation, amortization, and interest	343,263	316,228
Depreciation and amortization	71,913	65,515
Interest, net	19,303	20,361
Total operating expenses	434,479	402,104
Operating income	13,795	8,911

See notes to consolidated financial statements

ACTS Retirement Services, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (continued)
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Unrestricted Net Assets		
Operating income	$ 13,795	$ 8,911
Net unrealized gain on investments and investment contracts	4,870	2,164
Loss on early extinguishment of debt	-	(17,790)
Net operating income (loss)	18,665	(6,715)
Net assets released from restrictions to acquire property and equipment	394	337
Increase (decrease) in unrestricted net assets	19,059	(6,378)
Temporarily Restricted Net Assets		
Contributions:		
Family of Charitable Funds	2,027	2,830
Other	1,687	1,599
Investment income	881	460
Net unrealized gain on investments	696	318
Change in split interest agreements	(114)	(137)
Changes in temporarily restricted net assets resulting from membership affiliation	46	-
Net assets released from restrictions to:		
Provide resident services	(2,410)	(2,163)
Acquire property and equipment	(394)	(337)
Increase in temporarily restricted net assets	2,419	2,570
Permanently Restricted Net Assets		
Changes in permanently restricted net assets resulting from membership affiliation	93	-
Increase (decrease) in net assets	21,571	(3,808)
Net Assets, Beginning	83,385	87,193
Net Assets, Ending	$ 104,956	$ 83,385

See notes to consolidated financial statements

ACTS Retirement Services, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 21,571	$ (3,808)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	71,913	65,515
Amortization of entrance fees	(88,014)	(82,283)
Amortization of bond discount and premium, net	(3,134)	(1,713)
Amortization of deferred financing costs	635	650
Entrance fees and deposits from non-refundable resale contracts	140,142	125,364
Refunds of non-refundable entrance fees and deposits from resale contracts	(10,207)	(10,416)
Administrative fee included in gross entrance fees	(9,135)	(6,074)
Net realized and unrealized gain on investments	(4,145)	(46)
Change in fair value of investment contracts	(1,662)	(1,976)
Loss on early extinguishment of debt	-	17,790
Changes in assets and liabilities:		
Decrease in accounts receivable	68	399
(Increase) decrease in prepaid expenses, inventory, and deposits	(537)	80
Increase in accounts payable and accrued expenses	232	2,633
Net cash provided by operating activities	117,727	106,115
Cash Flows from Investing Activities		
Membership affiliation	(16,075)	-
Purchase of property and equipment	(126,017)	(153,622)
Increase in deferred marketing costs	(498)	(270)
Decrease (increase) in investments	6,358	(25,924)
Net cash used in investing activities	(136,232)	(179,816)
Cash Flows from Financing Activities		
Entrance fee deposits from initial sale contracts	43,894	2,746
Refunds of entrance fees and deposits from initial sale contracts	(1,787)	(1,663)
Entrance fees from refundable contracts	76	-
Refunds of refundable entrance fees	(3,968)	(3,471)
Payment of accounts payable, construction	(27,988)	(17,371)
Proceeds from short-term indebtedness	64,184	59,700
Proceeds from construction loan payable	26,032	36,181
Proceeds from long-term indebtedness	-	38,730
Increase in deferred financing costs	(34)	(1,971)
Increase in charitable gift annuity obligations	556	610
Payments on charitable gift annuity obligations	(736)	(849)
Payments on short-term indebtedness	(32,234)	(24,200)
Payments on construction loan payable	(37,426)	-
Payments on long-term indebtedness	(17,771)	(11,897)
Net cash provided by financing activities	12,798	76,545
Net (decrease) increase in cash and cash equivalents	(5,707)	2,844
Cash and Cash Equivalents, Beginning	16,060	13,216
Cash and Cash Equivalents, Ending	$ 10,353	$ 16,060
Supplemental Disclosure of Cash Flow Information		
Interest paid, net of amounts capitalized	$ 21,834	$ 21,284
Supplemental Disclosure of Noncash Investing and Financing Activities		
Obligations incurred for the acquisition of property and equipment	$ 19,690	$ 27,988
Proceeds from long-term debt to repay short-term debt	$ -	$ 24,350
Proceeds from long-term debt to repay long-term debt	$ -	$ 195,251

See notes to consolidated financial statements

1. Organization

ACTS Retirement Services, Inc. ("ARS") is a not-for-profit Pennsylvania corporation that serves as the parent organization providing the highest level of governance and control over all of its controlled entities.

The following is a listing of ARS' controlled entities:

ACTS Management Services, Inc. ("AMS"), a not-for-profit Pennsylvania corporation providing management, marketing, and development services to ACTS and affiliated entities.

ACTS Signature Community Services, Inc. ("ASCS"), a not-for-profit Pennsylvania corporation providing home and community based services to ACTS and affiliated entities.

ACTS Legacy Foundation, Inc. ("ALF"), a not-for-profit Delaware corporation that provides fundraising, supports all charitable programs, and manages the donor restricted funds for ACTS and affiliated entities.

ACTS Retirement-Life Communities, Inc. ("ACTS"), a not-for-profit Pennsylvania corporation that, along with the affiliates (as herein defined), provides residential, assisted living, and skilled care services to senior adults in its 22 continuing care retirement communities ("CCRCs"), located in Alabama (2), Delaware (3), Florida (4), Georgia (1), Maryland (1), North Carolina (2), Pennsylvania (8), and South Carolina (1). ACTS operates 19 CCRCs as divisions within the legal entity of ACTS, and 3 CCRCs within separate, related legal entities (the "Affiliates"). ACTS is also the sole member of ACTS Acquisition Company, LLC ("AAC"), a Florida limited liability company that engages in acquisition related activity on behalf of ACTS. The Affiliates are as follows:

Heron Point of Chestertown, Inc. ("HP"), a not-for-profit Maryland corporation which operates a CCRC located in Chestertown, Maryland.

Park Pointe Village, Inc. ("PPV"), a not-for-profit South Carolina corporation which operates a CCRC located in Rock Hill, South Carolina.

Presbyterian Retirement Corporation, Inc. ("PRC"), a not-for-profit Alabama corporation which operates Westminster Village a CCRC located in Spanish Fort, Alabama.

ARS, AMS, ASCS, ALF, ACTS, HP, PPV, and PRC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on their exempt income under Section 501(a) of the Code. AAC, as a single member limited liability company, is considered a "disregarded entity" for federal tax purposes. Because ACTS is exempt from federal income tax under Section 501(a) of the Code, as a charitable organization described in Section 501(c)(3) of the Code, and because AAC is a disregarded entity for federal tax purposes, AAC is considered exempt under Section 501(a) of the Code as a charitable organization described in Section 501(c)(3) of the Code.

Principles of Consolidation

The consolidated financial statements include the accounts for ARS, AMS, ASCS, ALF, ACTS, AAC, HP, PPV, and PRC (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated.

2. Transfer of Membership

Effective May 1, 2017, PRC became an affiliate of ACTS through a transfer of sole corporate membership. PRC remains a separate not-for-profit organization. Commensurate with the affiliation, AMS has entered into separate management and marketing agreements with PRC whereby AMS serves as manager of PRC.

The assets and liabilities of PRC were recorded at fair value as of the date of the affiliation as follows:

	(In Thousands)
Cash and cash equivalents	$ 1,814
Investments	133
Accounts receivable	808
Prepaid expenses, inventory, and deposits	94
Property and equipment	30,500
Accounts payable and accrued expense	(2,197)
Note payable	(17,750)
Entrance fee deposits	(60)
Refundable portion of entrance fees	(6,845)
Deferred revenue from entrance fees	(11,284)
Restricted net assets	(139)
Goodwill	$ 4,926

The transfer of membership was accounted for using the acquisition method. The contractual amounts of accounts receivable approximate fair value. The accompanying consolidated statements of operations and changes in net assets, and cash flows include the activities of PRC from May 1, 2017 through December 31, 2017. Net operating income increased $768,000 as a result of the acquisition during 2017. If the results of operations of PRC, as summarized below, were combined with the operations of the Company the results would appear as follows:

	Unaudited	
	2017	2016
	(In Thousands)	
Total operating revenue	$ 453,981	$ 429,649
Increase (decrease) in unrestricted net assets	19,454	(8,546)
Increase in restricted net assets	2,368	2,543

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include working capital accounts invested in highly liquid instruments purchased with an original maturity of three months or less.

Investments and Investment Risk

Investments with readily determinable fair values are measured at fair value in the consolidated balance sheet. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in net operating income (loss) in the consolidated statement of operations and changes in net assets unless the income is restricted by donor or law. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Company's investments are comprised of a variety of financial instruments. The fair values reported in the consolidated balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported on the consolidated balance sheet could materially change in the near term.

Investments include unrestricted assets and restricted assets. Unrestricted assets represent assets that are available for the general use and purposes of the Company. Restricted assets include amounts held in trust to meet statutory and debt reserve requirements and amounts restricted by donors for specific purposes or time periods.

Accounts Receivable, Entrance Fee Receivables, and Other Receivables

The Company establishes an allowance for uncollectible accounts to reduce its accounts receivable to net realizable value. The allowance is estimated by management based on general factors such as payor mix, aging of the accounts receivable, and historical collection experience. Accounts are written off through bad debt expense when the Company has exhausted all collection efforts and accounts are deemed uncollectible.

Entrance fee receivables and other receivables are evaluated for collectability based on specific identification. The terms and conditions of each entrance fee receivable are determined when a resident agreement is executed.

Property and Equipment

Property and equipment are stated at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Land improvements	10 to 25 years
Building and improvements	8 to 50 years
Furniture, fixtures, and equipment	3 to 10 years

When assets are sold or retired, the asset values and related accumulated depreciation are eliminated from the accounts and any gain or loss is included in the consolidated statement of operations and changes in net assets. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Gifts of long-lived assets such as land, buildings, or equipment are reported as other revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation expense was $71,527,000 in 2017 and $65,049,000 in 2016.

Interest is capitalized for assets that require a period of time to be constructed or to prepare them for their intended use. The amount of interest capitalized was $3,515,000 in 2017 and $2,041,000 in 2016.

Goodwill

In connection with the recording of the assets and liabilities of HP and PRC as part of the affiliation with ACTS in May 2010 and 2017, respectively, the fair value of the assets was less than the fair value of the liabilities. As a result, goodwill of $22,551,000 and $4,926,000 was recorded in connection with these transactions, respectively.

The Company evaluates goodwill for impairment on an annual basis. The Company assesses qualitative and quantitative factors (events and circumstances) to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of HP and PRC is less than its carrying amount, including goodwill. If the assessment of qualitative factors results in a conclusion that it is more likely than not that the fair value of HP and PRC is less than its carrying amount, including goodwill, the Company is required to perform additional testing to identify potential impairment and, if necessary, to measure the amount of impairment loss, if any, as required by authoritative guidance. Based on the assessment of various qualitative and quantitative factors as of December 31, 2017, the Company concluded that it is more likely than not that the fair value of HP and PRC exceeded its carrying amount, including goodwill. Therefore, additional testing to identify potential impairment was unnecessary.

Deferred Costs

Deferred costs include certain sales and marketing costs associated with selling resident agreements that provide for the occupancy of independent living units that have not been previously occupied. These are amortized using the straight-line method over the average life expectancy of the residents.

Deferred costs are net of accumulated amortization of $3,797,000 as of December 31, 2017 and $3,411,000 as of December 31, 2016. Amortization expense was $386,000 in 2017 and $466,000 in 2016.

Deferred Financing Costs

The deferred financing costs are amortized straight-line over the terms of the related debt, which approximates using the effective interest method and are classified net with the related debt. Amortization expense, which is included as a component of interest expense, was $635,000 in 2017 and $650,000 in 2016. Accumulated amortization was $7,671,000 and $7,036,000 at December 31, 2017 and 2016, respectively.

Derivative Financial Instruments

The Company uses interest rate swap agreements which are considered derivative financial instruments, to manage its interest rate risk on its long-term debt. The interest rate swap agreements are reported at fair value in the consolidated balance sheet and related changes in fair value are reported on the consolidated statement of operations and changes in net assets as a component of net unrealized gain (loss) on investments and investment contracts.

Deferred Revenue from Entrance Fees

Under a continuing care contract ("resident agreement") for a residential living unit, the Company receives entrance fee payments in advance. The Company offers both nonrefundable and refundable resident agreements. As of December 31, 2017 and 2016, substantially all of the Company’s resident agreements are nonrefundable.

Under the majority of nonrefundable resident agreements, residents who terminate their contracts will generally be entitled to a full refund less an administrative fee of up to 5%, and less 1%-2% (based on the resident agreement) of the remaining entrance fee per month of residency. Under refundable resident agreements, the entrance fee is reduced to no less than the guaranteed refund, as specified in the resident agreement and refunds to residents are generally paid by the Company after a new resident occupies the residential living unit vacated by the former resident.

The nonrefundable portion of entrance fees is amortized to revenue over the actuarially computed life expectancy of the residents using the straight-line method and is classified as deferred revenue from entrance fees on the consolidated balance sheet. The guaranteed refundable portion of entrance fees is classified as refundable portion of entrance fees on the consolidated balance sheet and is not amortized to revenue.

The gross contractual refund obligations under existing resident agreements were approximately $327,974,000 and $282,659,000 at December 31, 2017 and 2016, respectively.

Under the majority of existing resident agreements, residential living residents are entitled to assisted living or skilled care services, as needed, with no increases in the current monthly service fees as a result of transferring to a higher level of care.

Obligation to Provide Future Services

The Company engages an independent actuary once every three years to calculate the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. Based upon the last calculation performed (as of December 31, 2017), the present value of the net cost of future services and the use of facilities, based on a discount rate of 5%, did not exceed the balance of deferred revenue from entrance fees. Based upon this calculation, and the analysis of management, no liability for the obligation to provide future services has been recorded at December 31, 2017 and 2016.

Donor-Restricted Contributions

The Company reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. Donated assets include contributions to the Family of Charitable Funds which primarily provides financial assistance to residents and resident services; and contributions for purchases of property and equipment and other restricted purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the consolidated statement of operations and changes in net assets as net assets released from restrictions.

Charitable Gift Annuity Obligations

The Company entered into arrangements with certain donors whereby the donor contributes assets to the Company and, in return, is entitled to receive a series of annuity payments. Under the terms of the arrangements, the estimated liability is to be held in a segregated fund or account until the death of the donor. Upon receipt, the contribution is recorded as a restricted asset, and the present value of the future annuity payments is recorded as a liability. The difference between the asset and the liability is reported as a temporarily restricted contribution or directly to other revenue on the consolidated statement of operations and changes in net assets if the gift is designated for an unrestricted purpose.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of contributions whose use by the Company is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Company pursuant to those stipulations.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is temporarily restricted.

Resident Services and Patient Revenues

Resident services and patient revenues are reported at the estimated net realizable amounts from residents and third-party payors. Patient revenues are recorded at rates established by the respective third-party in the period during which the service is provided. The Company records appropriate contractual allowances for Medicare and Medicaid revenue.

Income Taxes

ARS, AMS, ASCS, ALF, ACTS, HP, PPV and PRC are not-for-profit corporations and AAC is a limited liability company. Each is exempt from federal income taxes on exempt income under Section 501(a) of the Code and other income taxes under similar statutes. Accordingly, no provision for income taxes has been recorded in the consolidated financial statements.

Net Operating Income (Loss)

The performance indicator is identified on the consolidated statement of operations and changes in net assets as net operating income (loss). Changes in unrealized gains and losses on investments and investment contracts and the loss on extinguishment of debt are included in net operating income (loss). Contributions of long-lived assets are included in changes in unrestricted net assets.

Use of Estimates

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

Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through April 30, 2018, the date the consolidated financial statements were issued.

4. Investments, Fair Value Measurements, and Financial Instruments

Investments

The classification of the Company's investments as of December 31, 2017 and 2016 is set forth in the following table:

	2017	2016
	(In Thousands)	
Unrestricted assets	$ 206,029	$ 192,689
State required liquid reserves	52,992	47,251
Donor restricted funds	26,668	24,336
Other debt related reserves	18,137	41,678
Debt service reserve funds	11,200	11,152
Total	$ 315,026	$ 317,106

Investment performance is as follows:

	2017	2016
	(In Thousands)	
Unrestricted:		
Interest and dividend income	$ 7,063	$ 7,088
Net realized gain (loss) on investments	241	(460)
Total investment income	7,304	6,628
Net unrealized gain on investments	3,208	188
Temporarily restricted:		
Interest and dividend income	881	460
Net unrealized gain on investments	696	318
Total investment return	$ 12,089	$ 7,594

Fair Value Measurements

The Company measures its investments and derivative financial instruments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The fair value of the Company's cash and cash equivalents, investments (including alternative investments at cost), short-term indebtedness, construction loan payable, long-term indebtedness, and derivative financial instruments was measured using the following inputs at December 31, 2017 and 2016:

	2017			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)
	(In Thousands)			
Instruments measured and reported at fair value:				
Investments:				
U.S. government securities	$ 85,727	$ -	$ 85,727	$ -
Corporate debt securities	81,705	-	81,705	-
Money market funds	53,838	53,838	-	-
Mutual and exchange traded funds - fixed income	36,269	36,269	-	-
Equities	22,170	22,170	-	-
Other	11,996	-	11,996	-
Guaranteed investment contracts	10,372	-	-	10,372
Cash and cash equivalents	7,196	7,196	-	-
Municipal bonds	5,221	-	5,221	-
Alternative investments	532	-	-	532
Total	$ 315,026	$ 119,473	$ 184,649	$ 10,904
Liabilities,				
Accumulated loss on investment contracts	$ 9,574	$ -	$ 9,574	$ -
Instruments disclosed at fair value:				
Assets,				
Cash and cash equivalents	$ 10,353	$ 10,353	$ -	$ -
Liabilities:				
Short-term indebtedness	$ 59,000	$ -	$ 59,000	$ -
Construction loan payable	36,085	-	36,085	-
Long-term indebtedness	562,826	-	562,826	-
Total	$ 657,911	$ -	$ 657,911	$ -

	2016			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Other Unobservable Inputs (Level 3)
	(In Thousands)			
Instruments measured and reported at fair value:				
Investments:				
U.S. government securities	$ 73,702	$ -	$ 73,702	$ -
Corporate debt securities	78,546	-	78,546	-
Money market funds	84,094	84,094	-	-
Mutual and exchange traded funds - fixed income	32,201	32,201	-	-
Equities	15,593	15,593	-	-
Other	10,651	-	10,651	-
Guaranteed investment contracts	9,841	-	-	9,841
Cash and cash equivalents	6,555	6,555	-	-
Municipal bonds	5,020	-	5,020	-
Alternative investments	903	-	-	903
Total	$ 317,106	$ 138,443	$ 167,919	$ 10,744
Liabilities,				
Accumulated loss on investment contracts	$ 11,236	$ -	$ 11,236	$ -
Instruments disclosed at fair value:				
Assets,				
Cash and cash equivalents	$ 16,060	$ 16,060	$ -	$ -
Liabilities:				
Short-term indebtedness	$ 27,050	$ -	$ 27,050	$ -
Construction loan payable	47,479	-	47,479	-
Long-term indebtedness	568,917	-	568,917	-
Total	$ 643,446	$ -	$ 643,446	$ -

The Company's guaranteed investment contracts increased $531,000 in 2017 and decreased $11,068,000 in 2016, due to net deposits and withdrawals and the dissolution of certain debt service reserve funds.

The Company's alternative investments decreased $371,000 in 2017 and $352,000 in 2016 due to distributions received, net of additional capital contributions made. The Company's alternative investments represent ownership interests in three funds that invest primarily in limited partnerships. The limited partnerships invest in hedge funds, real estate funds, private equity/venture capital funds, and distressed debt funds. These investments represent less than 3% ownership in the limited partnerships and are recorded at cost. As part of these alternative investments, ACTS has committed additional capital of $619,000 to the funds. The capital can be called at any time, and is expected to be funded by future distributions from the funds.

Financial Instruments

The carrying amount of cash and cash equivalents and money market funds approximates fair value due to the short-term nature of these instruments.

Mutual funds and exchange traded funds and equities are valued based on quoted market prices in active markets which are considered Level 1 inputs. U.S. government securities, corporate debt securities, other investments, and municipal bonds are generally valued using quoted market prices of similar securities, which are considered Level 2 inputs.

The fair values of the Company's short-term indebtedness and construction loan payable approximate the carrying amounts before deferred financing fees. The carrying amount of the short-term indebtedness was $59,000,000 and $27,050,000 at December 31, 2017 and 2016, respectively. The carrying amount of the construction loan payable was $36,085,000 and $47,479,000 at December 31, 2017 and 2016, respectively. The fair values are based on quoted market prices for the same or similar issues.

The fair value of the Company's variable rate long-term indebtedness (including variable rate demand revenue bonds, taxable term loans, and bonds issued that have interest rate reset dates in the future) approximates the carrying amount before deferred financing fees; the carrying amount of this long-term indebtedness was $203,117,000 and $211,433,000 at December 31, 2017 and 2016, respectively. The carrying amount of the Company's fixed rate long-term indebtedness was $323,270,000 and $332,725,000 at December 31, 2017 and 2016, respectively. The estimated fair value of the Company's fixed rate long-term indebtedness was $359,709,000 and $357,484,000 at December 31, 2017 and 2016, respectively. The fair values are based on quoted market prices for the same or similar issues.

The guaranteed investment contracts are reported at contract value, which approximates fair value, based on the ability of the counterparties to pay the guaranteed claims in accordance with the terms of the contracts. The credit ratings of the counterparties as of the measurement date uphold the guaranteed investment contracts ability to meet obligations set forth in the contracts. Contract value is the aggregation of contributions, plus interest, less withdrawals. Contract value approximates a discounted cash flow value calculated using an appropriate risk-adjusted market discount rate which correlates closely with the counterparties historical crediting rates. The guaranteed investment contracts have redemption restrictions based on the terms of the underlying contracts. The redemption restrictions do not have a material impact on the contract value of the guaranteed investment contracts.

The Company measures its accumulated loss on investment contracts at fair value based on proprietary models of an independent third-party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instruments and considers the credit risk of the counterparty to the agreements and the Company. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instruments and discounts these payments using an appropriate discount rate. The value represents the estimated exit price the Company would pay to terminate the agreements.

5. Accounts Receivable, Entrance Fee Receivables, and Other Receivables

Accounts receivable, entrance fee receivables, and other receivables are comprised of the following at December 31, 2017 and 2016:

	2017	2016
	(In Thousands)	
Resident monthly fees	$ 3,756	$ 3,775
Resident entrance fees	6,993	8,297
Third party accounts	7,820	7,057
Other	2,103	2,424
Total receivables	20,672	21,553
Allowance for uncollectible accounts	(687)	(830)
Accounts receivable, entrance fee receivables, and other receivables, net	$ 19,985	$ 20,723

6. Property and Equipment

Property and equipment is comprised of the following at December 31, 2017 and 2016:

	2017	2016
	(In Thousands)	
Land and improvements	$ 100,663	$ 94,749
Building and improvements	1,640,467	1,432,917
Furniture, fixtures, and equipment	140,527	130,487
Construction in progress	41,534	108,358
Total property and equipment	1,923,191	1,766,511
Accumulated depreciation	(759,072)	(707,072)
Property and equipment, net	$ 1,164,119	$ 1,059,439

7. Short-Term Indebtedness

ACTS has an available $15,000,000 revolving line of credit with a financial institution allowing for cash advances and providing support for the issuance of direct pay letters of credit. Interest is calculated monthly based on changes to the LIBOR Flex Rate, as defined. There were no borrowings at December 31, 2017 and 2016. Letters of credit issued in connection with the line of credit were $8,766,000 at December 31, 2017 and $8,579,000 at December 31, 2016.

ACTS also has an available $65,000,000 revolving line of credit with a financial institution allowing for cash advances. Interest on amounts outstanding on the line of credit ranges from 2.79% to 2.85% at December 31, 2017. Interest is calculated monthly based on changes to the LIBOR Rate, as defined. Borrowings were $59,000,000 at December 31, 2017 and $27,050,000 at December 31, 2016. A draw of $17,750,000 on this line of credit consisted of an advance to AAC related to the affiliation with PRC. Interest on this advance is charged at ACTS' cost of capital on its short-term indebtedness. The line of credit is expected to be repaid upon PRC obtaining permanent financing.

The Company's obligations under the line of credit agreements are secured under the terms of a Master Trust Indenture dated December 1, 1996, as supplemented, on a parity basis by a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined.

8. Construction Loan Payable

ACTS has an available $65,000,000 revolving construction loan with a financial institution to fund construction of an expansion project at one of its CCRCs. The expansion project primarily consists of independent living units and skilled care beds. Construction began in June 2015 upon achieving a predetermined level of pre-sales for the independent living units. Principal payments are made monthly from the collection of the related initial sale entrance fees upon occupancy of the expansion units. Any remaining outstanding principal is payable in full in December 2019. Interest on the amounts outstanding on the loan was 2.84% at December 31, 2017. Interest is calculated monthly based on changes to One-Month LIBOR. The amount outstanding on the loan was $36,085,000 and $47,479,000 at December 31, 2017 and 2016, respectively.

The Company's obligations under the construction loan are secured under the terms of a Master Trust Indenture dated December 1, 1996, as supplemented, on a parity basis by a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined.

9. Long-Term Indebtedness

The Company's long-term indebtedness has been issued under three separate structures.

Acts Obligated Group ("ACTS OG")

A Master Trust Indenture dated December 1, 1996, as supplemented, secures the obligations of the ACTS OG and includes a pledge of gross revenues (as defined), a covenant not to create or allow to exist upon its property any lien except for permitted liens, and a promise to deliver mortgages and/or deeds of trust granting liens upon and security interest on its facilities to the Master Trustee if certain events occur, as defined. ACTS OG is required to maintain certain reserves with a trustee. Such reserves are included in investments. ACTS OG includes ACTS, AMS, and ASCS under the terms of the Master Trust Indenture.

HP

HP's long-term indebtedness has been issued under a Master Trust Indenture, as supplemented, dated September 1, 2013 which includes a Deed of Trust Agreement including a lien on the underlying property and assignment of pledged revenues, as defined.

PPV

A Master Trust Indenture dated February 1, 2012 secures the obligations of PPV and includes a Mortgage and Security Agreement, including a lien on the underlying property and assignment of pledged revenues, as defined.

The Company is required to meet certain financial covenants under the terms of the respective bond and trust indentures. As of December 31, 2017 and 2016, the Company was in compliance with all financial covenants.

The Company's long-term indebtedness consists of the following:

	2017	2016
	(In Thousands)	
ACTS OG:		
Taxable Notes dated August 1, 2016. The interest rates range from 1.85% to 2.47%. Principal matures in varying amounts through 2019 (yield to maturity 2.69% at December 31, 2017).	$ 10,620	$ 19,245
Montgomery County Industrial Development Authority (PA) Retirement Communities Revenue Bonds Series 2016. The interest rate is 5% and principal matures in varying amounts from 2033 through 2036 (yield to maturity 4.08% at December 31, 2017).	97,165	97,165
Palm Beach County Health Facilities Authority (FL) Retirement Communities Revenue Bonds Series 2016. The interest rates range from 3% to 5% and principal matures in varying amounts from 2019 through 2032 (yield to maturity 3.83% at December 31, 2017).	105,585	105,585
Gainesville and Hall County Development Authority (GA) Retirement Community Revenue Refunding Bonds Series 2016. The interest rates range from 4% to 5% and principal of $435,000 and $6,755,000 matures in 2032 and 2033, respectively (yield to maturity 3.57% at December 31, 2017).	7,190	7,190
Taxable Term Loan dated December 19, 2013. The interest rate is 2.56%. Principal is anticipated to mature in varying amounts through November 2038. However, the Company must request an extension of the initial maturity date (December 2018) to formally extend the term loan. The initial maturity date will be considered extended only if the bank provides written notice of the extension.	22,402	23,208
Taxable Term Loan dated December 19, 2013. The interest rate is 3.20% and resets in December 2018 and every five years thereafter. Principal matures in varying amounts through 2038.	13,810	14,120
Taxable Term Loan dated December 16, 2013. The interest rate is 2.54% at December 31, 2017 and may be adjusted annually, as defined. Principal matures in varying amounts through 2020.	7,405	9,810

	2017	2016
	(In Thousands)	
ACTS OG:		
Montgomery County Industrial Development Authority (PA) Retirement Communities Revenue Refunding Bonds Series 2012. The interest rate is 5% and principal matures in varying amounts from 2023 through 2029 (yield to maturity 3.00% at December 31, 2017).	$ 80,465	$ 80,465
Palm Beach County Health Facilities Authority (FL) Retirement Communities Revenue Refunding Bonds Series 2012. The interest rate is 5% and principal of $5,735,000 and $7,595,000 matures in 2022 and 2023, respectively (yield to maturity 2.57% at December 31, 2017).	13,330	13,330
Gainesville and Hall County Development Authority (GA) Retirement Community Revenue Refunding Bonds Series 2012. The interest rates range from 4% to 5% and principal matures in varying amounts through 2022 (yield to maturity 3.04% at December 31, 2017).	8,915	9,745
Delaware Economic Development Authority Variable Rate Demand Revenue Bonds Series 2007A. The interest rate is fixed at 1.87% and resets in December 2018 on $33,675,000 of the bonds, and variable at 1.80% at December 31, 2017 on $14,000,000 of the bonds. Principal matures in varying amounts from 2021 through 2037.	47,675	47,675
Gainesville and Hall County Development Authority (GA) Senior Living Facility Variable Rate Demand Revenue Bonds Series 2003B. The interest rate was 2.43% at December 31, 2017. Principal matures in varying amounts through 2033. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	30,930	31,995
Escambia County Health Facilities Authority (FL) Healthcare Facilities Variable Rate Revenue Refunding Bonds Series 2003B. The interest rate was 2.43% at December 31, 2017. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	22,525	23,985

	2017	2016
	(In Thousands)	
ACTS OG:		
Montgomery County Industrial Development Authority (PA) Retirement Community Variable Rate Demand Revenue Bonds Series 2002. The interest rate was 2.43% at December 31, 2017. Principal matures in varying amounts through 2029. Security is provided through a bond insurance commitment enhanced by a standby bond purchase agreement.	$ 10,835	$ 11,375
Total ACTS OG	478,852	494,893
HP:		
The Town of Chestertown, Economic Development Project and Refunding Revenue Bond Series 2013A (Taxable). The interest rate was 3.83% at December 31, 2017 and resets monthly. Principal matures in varying amounts through 2021.	3,770	4,645
The Town of Chestertown, Economic Development Project and Refunding Revenue Bond Series 2013B. The interest rate is 2.99% and resets in September 2018. Principal matures in varying amounts from 2022 through 2038.	22,180	22,180
Total HP	25,950	26,825
PPV:		
South Carolina Jobs-Economic Development Authority Health Facilities Economic Development Revenue Bonds Series 2012. The interest rate was 2.47% at December 31, 2017. Principal matures in varying amounts through 2036.	21,585	22,440
Total	526,387	544,158
Unamortized bond premiums and discounts, net	43,334	46,468
Unamortized deferred financing costs, net	(7,981)	(8,582)
Total long-term indebtedness	$ 561,740	$ 582,044

Variable rates are determined based on prevailing market rates and general financial conditions. The variable interest rates above include letter of credit and remarketing fees. The letter of credit fees are subject to change if the rating for ACTS OG changes in the future. Certain debt provisions require the maintenance of the standby bond purchase agreements. Any standby bond purchase agreement used as security, if executed, has a five-year repayment term.

Anticipated principal repayments on long-term indebtedness are as follows:

	(In Thousands)
Years ending December 31:	
2018	$ 18,222
2019	18,735
2020	19,390
2021	20,115
2022	21,525
2023 - 2027	119,440
2028 - 2032	154,550
2033 - 2037	150,545
Thereafter	3,865
Total	$ 526,387

Prior Year Loss on Extinguishment of Debt

During 2016, ACTS OG completed a financing transaction through the issuance of three series of revenue bonds to provide for overall debt service savings, while also establishing a project fund for certain capital projects in the Pennsylvania and Florida CCRCs. The majority of the proceeds of the bonds were used to refund or advance refund the Series 2003A, 2006 (PA), 2006 (FL), 2009 (PA), 2009 (GA) and 2010 (FL) bonds. In conjunction with this transaction, ACTS OG recorded a loss on early extinguishment of debt that is included in the consolidated statement of operations and changes in net assets. The loss consists of the following:

	(In Thousands)
Unamortized bond discounts	$ 1,238
Unamortized deferred financing costs	2,259
Amounts held in escrow for advance refunding	14,293
Total	$ 17,790

10. Derivative Instruments and Hedging Activities

The Company has interest rate swap agreements with financial institutions that are considered derivative financial instruments. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rates on variable rate debt. The swap agreements are contracts to exchange variable rate for fixed rate payments over the terms of the swap agreements without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable amount, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote and that the swap agreements are continuing to function as intended.

The net cash paid or received under the swap agreements is recognized as an adjustment to interest expense. The Company does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

Changes in fair value of the interest rate swap agreements are recorded as a component of net unrealized gain on investments and investment contracts. The change in unrealized gain was $1,662,000 in 2017 and $1,976,000 in 2016.

At December 31, 2017, the Company had the following interest rate swaps in effect:

Debt Series	Notional Amount	Maturity Date	Effective Interest Rate	Accumulated Unrealized Loss
Series 2002 (PA)	$ 10,835,000	2029	3.64%	$ 1,542,000
Series 2003B (GA)	30,930,000	2033	3.54%	5,436,000
Series 2003B (FL)	22,525,000	2029	3.35%	2,494,000
Series 2007A (DE)	12,247,000	2018	3.31%	102,000

The fair value of the interest rate swap agreements was ($9,574,000) and ($11,236,000) at December 31, 2017 and 2016, respectively, and was obtained from an independent third-party valuation specialist.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
	(In Thousands)	
Financial assistance to residents	$ 11,086	$ 10,300
Purchase of property and equipment	3,670	3,498
Resident services	1,266	1,096
Other	4,906	3,615
Total	$ 20,928	$ 18,509

Net assets were released from donor restrictions by incurring costs satisfying the restricted purpose or by occurrence of other events specified by donors.

The income distributions from permanently restricted net assets are available to fund financial assistance to residents and other temporarily restricted purposes.

12. Retirement Plans

The Company participates in a 401(k) Plan (the "ACTS 401(k) Plan") covering substantially all full-time employees. The ACTS 401(k) Plan allows for qualified employees to voluntarily contribute up to the IRS maximum. In accordance with the terms of the ACTS 401(k) Plan, the Company matches up to 100% of the first 3% of the employee's contribution, plus an additional 50% of the next 2% of the employee's contribution. Plan expense was $3,806,000 in 2017 and $3,449,000 in 2016.

PRC participates in a separate 403(b) Plan, in which the employees may participate, and PRC matches up to 50% of the first 6% of the employees' contribution. Plan expense was $20,000 in 2017.

AMS provides a nonqualified Supplemental Executive Retirement Plan ("SERP") to certain members of senior executive management in addition to those benefits available under the ACTS 401(k) Plan. Retirement benefits, as defined in the plan document and amendments, are based on age, years of service, and average compensation during the last five years of employment. SERP expense was $1,889,000 in 2017 and $776,000 in 2016. The SERP liability is included in accounts payable and accrued expenses on the consolidated balance sheet and was $1,884,000 and $3,248,000 at December 31, 2017 and 2016, respectively.

13. Concentrations of Credit Risk

The Company grants credit without collateral to its residents, some of whom are insured under third-party payor arrangements, primarily related to providing residential and healthcare related services.

The Company maintains cash accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses resulting from this, and management believes it is not subject to any significant credit risk related to cash accounts.

14. Commitments and Contingencies

Senior Living Services Industry

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance.

Workers Compensation

The Company maintains a self-insured workers compensation program with a per occurrence retention limit of $500,000. As of December 31, 2017 and 2016, the reserve for workers compensation liability claims was $2,988,000 and $3,202,000, respectively, and is included in accounts payable and accrued expenses on the consolidated balance sheet. Self-insurance reserves are based upon fully developed case reserves that are actuarially determined. These estimates are based on historical loss experience along with certain assumptions about future events. Changes in assumptions for such things as medical costs, as well as changes in actual loss experience could cause these estimates to change in the near term.

Construction Agreements

The Company entered into construction agreements for certain development and renovation activities at various communities. Commitments were approximately $12,326,000 as of December 31, 2017.

Litigation

The Company operates in an industry where various suits and claims arise in the normal course of business. Management is not currently aware of any claims that have been or will be asserted that will, after consideration of applicable insurance coverages, have a material adverse effect on the consolidated financial statements.

15. Functional Expenses

The Company provides housing, healthcare, and other related services to residents within its geographic locations. Expenses related to providing these services are as follows:

	2017	2016
	(In Thousands)	
Program service	$ 397,184	$ 370,180
Management and general	36,409	31,058
Fundraising	886	866
Total operating expenses	$ 434,479	$ 402,104

16. Subsequent Events

In 2017, ACTS entered into an affiliation agreement pursuant to which The Evergreens ("Evergreens") agreed to become an affiliate of ACTS. The affiliation, through which ACTS (through its affiliate AAC) became the sole corporate member of Evergreens, was effective February 5, 2018. The Evergreens operates a continuing care retirement community located in Moorestown, NJ. Evergreens remains a separate legal entity, and is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code. No cash consideration was paid or received by ACTS to consummate this affiliation. The initial accounting for the business combination is currently incomplete therefore the qualitative description for the factors that make up the goodwill to be recognized and the acquisition-date fair value of the consideration transferred in total or of each major class of consideration is not disclosed.

ACTS Retirement Services, Inc. and Subsidiaries

Consolidating Balance Sheet Schedule
December 31, 2017
(In Thousands)

	ACTS Obligated Group	Park Pointe Village, Inc.	Heron Point of Chestertown, Inc.	Presbyterian Retirement Corporation, Inc.	ACTS Legacy Foundation, Inc.	ACTS Acquisition Company, LLC	Eliminations	Consolidated
Assets								
Cash and cash equivalents	$ 6,931	$ 891	$ 910	$ 1,545	$ 76	$ -	$ -	$ 10,353
Investments	298,209	9,951	4,206	169	24,826	-	(22,335)	315,026
Accounts receivable, entrance fee receivables, and other receivables, net	17,696	547	574	1,168	-	-	-	19,985
Note receivable	17,750	-	-	-	-	-	(17,750)	-
Subordinated note receivable	6,082	-	-	-	-	-	(6,082)	-
Prepaid expenses, inventory, and deposits	8,154	64	284	156	-	-	-	8,658
Property and equipment, net	1,044,831	49,538	40,251	30,596	-	-	(1,097)	1,164,119
Goodwill	-	-	22,551	4,926	-	-	-	27,477
Deferred costs, net	1,699	-	149	90	-	-	-	1,938
Investment in subsidiary	-	-	-	-	-	23,832	(23,832)	-
Due from affiliated organizations	3,771	-	-	-	-	-	(3,771)	-
Total assets	$ 1,405,123	$ 60,991	$ 68,925	$ 38,650	$ 24,902	$ 23,832	$ (74,867)	$ 1,547,556
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	$ 73,701	$ 1,284	$ 1,405	$ 2,187	$ -	$ -	$ (1)	$ 78,576
Short-term indebtedness	59,000	-	-	-	-	-	-	59,000
Note payable	-	-	-	17,750	-	17,750	(35,500)	-
Subordinated note payable	-	-	-	-	-	6,082	(6,082)	-
Construction loan payable	36,085	-	-	-	-	-	-	36,085
Long-term indebtedness	514,942	21,324	25,474	-	-	-	-	561,740
Charitable gift annuity obligations	-	-	39	-	2,490	-	-	2,529
Entrance fee deposits	6,197	191	273	27	-	-	-	6,688
Refundable portion of entrance fees	14,406	94	3,458	6,404	-	-	-	24,362
Deferred revenue from entrance fees	605,304	21,355	26,348	11,039	-	-	-	664,046
Accumulated loss on investment contracts	9,574	-	-	-	-	-	-	9,574
Due to affiliated organizations	-	1,793	1,172	338	468	-	(3,771)	-
Total liabilities	1,319,209	46,041	58,169	37,745	2,958	23,832	(45,354)	1,442,600
Net Assets								
Unrestricted	63,930	14,601	9,087	768	(391)	-	(7,178)	80,817
Temporarily restricted	19,370	349	1,165	44	19,721	-	(19,721)	20,928
Permanently restricted	2,614	-	504	93	2,614	-	(2,614)	3,211
Total net assets	85,914	14,950	10,756	905	21,944	-	(29,513)	104,956
Total liabilities and net assets	$ 1,405,123	$ 60,991	$ 68,925	$ 38,650	$ 24,902	$ 23,832	$ (74,867)	$ 1,547,556

ACTS Retirement Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Schedule
Year Ended December 31, 2017
(In Thousands)

	ACTS Obligated Group	Park Pointe Village, Inc.	Heron Point of Chestertown, Inc.	Presbyterian Retirement Corporation, Inc.	ACTS Legacy Foundation, Inc.	ACTS Acquisition Company, LLC	Eliminations	Consolidated
Operating Revenue								
Resident services revenue, net of amortization of entrance fees	$ 281,708	$ 8,220	$ 11,201	$ 7,818	$ -	$ -	$ -	$ 308,947
Patient revenue from third-party payors	30,403	1,353	614	1,200	-	-	-	33,570
Investment income	6,896	315	84	9	-	-	-	7,304
Net assets released from restrictions to provide resident services	2,235	68	100	7	-	-	-	2,410
Other revenue	10,361	140	286	157	190	-	(3,105)	8,029
Total operating revenue before amortization of entrance fees	331,603	10,096	12,285	9,191	190	-	(3,105)	360,260
Amortization of entrance fees	80,395	2,495	3,370	1,754	-	-	-	88,014
Total operating revenue	411,998	12,591	15,655	10,945	190	-	(3,105)	448,274
Operating Expenses								
Salaries, wages, and benefits	207,995	4,759	6,142	3,724	-	-	-	222,620
Contracted services	19,556	1,820	1,835	3,621	190	-	(3,105)	23,917
Utilities	20,370	764	965	763	-	-	-	22,862
Food	21,127	616	769	-	-	-	-	22,512
Supplies	16,429	388	543	510	-	-	-	17,870
Real estate taxes	10,497	-	418	-	-	-	-	10,915
Insurance	5,229	116	112	105	-	-	-	5,562
Other	15,940	398	328	339	-	-	-	17,005
Total operating expenses before depreciation, amortization, and interest	317,143	8,861	11,112	9,062	190	-	(3,105)	343,263
Depreciation and amortization	66,133	2,376	2,649	788	-	-	(33)	71,913
Interest, net	17,547	573	856	327	-	-	-	19,303
Total operating expenses	400,823	11,810	14,617	10,177	190	-	(3,138)	434,479
Operating income	11,175	781	1,038	768	-	-	33	13,795

ACTS Retirement Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Schedule (continued)
Year Ended December 31, 2017
(In Thousands)

	ACTS Obligated Group	Park Pointe Village, Inc.	Heron Point of Chestertown, Inc.	Presbyterian Retirement Corporation, Inc.	ACTS Legacy Foundation, Inc.	ACTS Acquisition Company, LLC	Eliminations	Consolidated
Unrestricted Net Assets								
Operating income	$ 11,175	$ 781	$ 1,038	$ 768	$ -	$ -	$ 33	$ 13,795
Net unrealized gain on investments and investment contracts	4,654	113	103	-	-	-	-	4,870
Net operating income	15,829	894	1,141	768	-	-	33	18,665
Net assets released from restrictions to acquire property and equipment	380	14	-	-	-	-	-	394
Change in unrestricted net assets	16,209	908	1,141	768	-	-	33	19,059
Temporarily Restricted Net Assets								
Contributions:								
Family of Charitable Funds	-	-	35	-	1,992	-	-	2,027
Other	-	-	83	-	1,604	-	-	1,687
Investment income	-	-	46	-	835	-	-	881
Net unrealized gain on investments	-	-	46	-	650	-	-	696
Change in split interest agreements	-	-	(3)	3	(114)	-	-	(114)
Changes in temporarily restricted net assets resulting from membership affiliation	-	-	-	46	-	-	-	46
Net assets released from restrictions to:								
Provide resident services	-	-	(100)	(7)	(2,303)	-	-	(2,410)
Acquire property and equipment	-	-	-	-	(394)	-	-	(394)
Change in beneficial interest in the investments of ALF	2,281	(13)	-	2	-	-	(2,270)	-
Change in temporarily restricted net assets	2,281	(13)	107	44	2,270	-	(2,270)	2,419
Permanently Restricted Net Assets								
Changes in permanently restricted net assets resulting from membership affiliation	-	-	-	93	-	-	-	93
Change in permanently restricted net assets	-	-	-	93	-	-	-	93
Change in net assets	18,490	895	1,248	905	2,270	-	(2,237)	21,571
Net Assets, Beginning	67,424	14,055	9,508	-	19,674	-	(27,276)	83,385
Net Assets, Ending	$ 85,914	$ 14,950	$ 10,756	$ 905	$ 21,944	$ -	$ (29,513)	$ 104,956

ACTS Retirement Services, Inc. and Subsidiaries

Consolidating Statement of Cash Flows Schedule
Year Ended December 31, 2017
(In Thousands)

	ACTS Obligated Group	Park Pointe Village, Inc.	Heron Point of Chestertown, Inc.	Presbyterian Retirement Corporation, Inc.	ACTS Legacy Foundation, Inc.	ACTS Acquisition Company, LLC	Eliminations	Consolidated
Cash Flows from Operating Activities								
Increase (decrease) in net assets	$ 18,490	$ 895	$ 1,248	$ 905	$ 2,270	$ -	$ (2,237)	$ 21,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:								
Depreciation and amortization	66,133	2,376	2,649	788	-	-	(33)	71,913
Amortization of entrance fees	(80,395)	(2,495)	(3,370)	(1,754)	-	-	-	(88,014)
Amortization of bond discount and premium, net	(3,134)	-	-	-	-	-	-	(3,134)
Amortization of deferred financing costs	583	13	39	-	-	-	-	635
Entrance fees and deposits from non-refundable resale contracts	130,120	4,625	3,915	1,482	-	-	-	140,142
Refunds of non-refundable entrance fees and deposits from resale contracts	(9,468)	(246)	(463)	(30)	-	-	-	(10,207)
Administrative fee included in gross entrance fees	(8,669)	(216)	(163)	(87)	-	-	-	(9,135)
Net realized and unrealized loss on investments	(3,146)	(162)	(187)	-	(650)	-	-	(4,145)
Change in fair value of investment contracts	(1,662)	-	-	-	-	-	-	(1,662)
Change in beneficial interest in the investments of ALF	(2,281)	13	-	(2)	-	-	2,270	-
Net change in due from/to affiliated organizations	(499)	108	138	338	(85)	-	-	-
Changes in assets and liabilities:								
Decrease (increase) in accounts receivable	396	(112)	15	(231)	-	-	-	68
(Increase) decrease in prepaid expenses, inventory, and deposits	(493)	34	(16)	(62)	-	-	-	(537)
Increase (decrease) in accounts payable and accrued expenses	955	(137)	(447)	(139)	-	-	-	232
Net cash provided by operating activities	106,930	4,696	3,358	1,208	1,535	-	-	117,727
Cash Flows from Investing Activities								
Membership affiliation	-	-	-	(16,075)	-	-	-	(16,075)
Increase in notes receivable	(17,750)	-	-	-	-	-	17,750	-
Purchase of property and equipment	(120,665)	(3,019)	(1,563)	(770)	-	-	-	(126,017)
Increase in deferred marketing costs	(406)	-	-	(92)	-	-	-	(498)
Increase in investment of subsidiary	-	-	-	-	-	(17,750)	17,750	-
Decrease (increase) in investments	7,547	407	(106)	(34)	(1,456)	-	-	6,358
Net cash used in investing activities	(131,274)	(2,612)	(1,669)	(16,971)	(1,456)	(17,750)	35,500	(136,232)
Cash Flows from Financing Activities								
Entrance fee deposits from initial sale contracts	43,894	-	-	-	-	-	-	43,894
Refunds of entrance fees and deposits from initial sale contracts	(1,787)	-	-	-	-	-	-	(1,787)
Entrance fees from refundable contracts	76	-	-	-	-	-		76
Refunds of refundable entrance fees	(2,947)	(137)	(442)	(442)	-	-	-	(3,968)
Payment of accounts payable, construction	(27,342)	(424)	(222)	-	-	-	-	(27,988)
Proceeds from short-term indebtedness	64,184	-	-	-	-	-	-	64,184
Proceeds from construction loan payable	26,032	-	-	-	-	-	-	26,032
Increase (decrease) in note payable	-	-	-	17,750	-	17,750	(35,500)	-
Increase in deferred financing costs	(10)	(24)	-	-	-	-	-	(34)
Increase in charitable gift annuity obligations	-	-	9	-	547	-	-	556
Payments on charitable gift annuity obligations	-	-	(13)	-	(723)	-	-	(736)
Payments on short-term indebtedness	(32,234)	-	-	-	-	-	-	(32,234)
Payments on construction loan payable	(37,426)	-	-	-	-	-	-	(37,426)
Payments on long-term indebtedness	(16,041)	(855)	(875)	-	-	-	-	(17,771)
Net cash provided by (used in) financing activities	16,399	(1,440)	(1,543)	17,308	(176)	17,750	(35,500)	12,798
Net (decrease) increase in cash and cash equivalents	(7,945)	644	146	1,545	(97)	-	-	(5,707)
Cash and Cash Equivalents, Beginning	14,876	247	764	-	173	-	-	16,060
Cash and Cash Equivalents, Ending	$ 6,931	$ 891	$ 910	$ 1,545	$ 76	$ -	$ -	$ 10,353
Supplementary Disclosure of Cash Flow Information								
Interest paid, net of amounts capitalized	$ 20,155	$ 576	$ 818	$ 285	$ -	$ -	$ -	$ 21,834
Supplemental Disclosure of Noncash Investing and Financing Activities								
Obligations incurred for the acquisition of property and equipment	$ 18,884	$ 317	$ 377	$ 112	$ -	$ -	$ -	$ 19,690