

PANORAMA CITY 1966 ANNUAL REPORT

PACIFIC

*Russell
Stack*

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The size and the facilities of the Lacey Village Shopping Center is continually being expanded and all indications are that it will enjoy 100% occupancy by the end of 1967. Elsewhere, our holdings in the booming Lacey area and in the popular Hood Canal region continue to grow in value to the corporation and its stockholders.

Today, the corporation is in the best financial position it has ever enjoyed. The monthly revenue has increased from \$97,000 in November, 1966 to \$184,500 as of April 30, 1967. The land and buildings owned by the corporation were appraised by Harold Starkey, M. A. I. in October of 1966. The fair market value of the assets as indicated by this appraisal is currently in excess of \$7,000,000.00. By the end of this year this value will show an increase to more than \$8,000,000.00. The only major increase in liabilities will be to the Panorama City Fund.

We have moved into 1967 (and the future) with a confidence based on recent accomplishment and future potential. I would like to share with you my confidence that, under the direction of our strong management team, the future will continue to hold new records and even greater accomplishments. We have the product. We have the people.

I wish to thank those responsible for their trust and assistance during the past year; our residents, our customers, our suppliers and you, our stockholders.

BOARD OF DIRECTORS



*Left, Charles C. Cole,
Chairman
President C. C. Cole
& Sons*



*Right, Sydney C.
Selden, Sr.
President, Selden's,
Tacoma*

OFFICERS

*Morris J. Loveless
President*

*Fred G. Thunberg
Exec. Vice President*

*James L. McAllister
Treasurer & Comptroller*

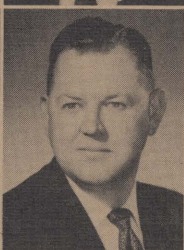
*Thomas C. Adams, Jr.
Secretary*

*Charles E. Todd
Vice President—Planning*

*Earl Joy
Vice President—Construction
& Maintenance*



*Left, August
vonBoecklin
President, Pierce
County Federal
Savings & Loan,
Tacoma*



*Right, James Gribbon
Vice President,
Puget Sound
National Bank, Tacoma*



*Left, Morris J. Loveless
President,
Panorama City, Inc.,
Olympia*



*Right, Robert Coluccio
President,
Pacific Sand & Gravel,
Centralia*



*Irving Peterson
Owner Peterson's
Food Town, Olympia*

*Russell
Stack*

THE PRESIDENT'S MESSAGE

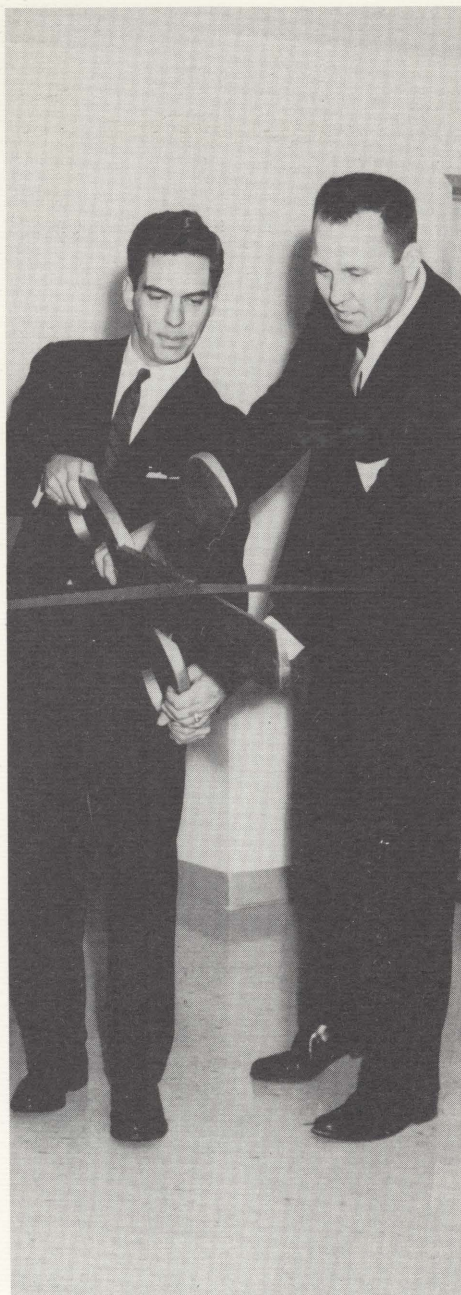
It is extremely gratifying for me, as one of the founders of Panorama City, Incorporated, to present this annual report to you. The year past, 1966, was a milestone in our company history for two important reasons: our company took significant strides forward in development, and it laid the foundation for an era of the greatest growth and development in our history.

As a development and investment company with wide and varied holdings, Panorama City, Inc. showed impressive growth both through vigorous internal development and in every area of corporate endeavor.

During 1966 we were fortunate to add two outstanding executives to our Board of Directors. The new board members are Mr. James Gribbon, Vice-President of Puget Sound National Bank, and Mr. August von-Boecklin, President of Pierce County Savings and Loan in Tacoma.

The last year also brought about the successful registration of your corporation with the Securities and Exchange Commission, which allows us to offer our stock to the public and broaden the base of our corporation even more in the years ahead.

Our corporation's foremost endeavor, the Panorama City retirement community, showed continued growth during 1966, and from all in-



dications, will nearly double its size during 1967.

The size and the facilities of the Lacey Village Shopping Center is continually being expanded and all indications are that it will enjoy 100% occupancy by the end of 1967. Elsewhere, our holdings in the booming Lacey area and in the popular Hood Canal region continue to grow in value to the corporation and its stockholders.

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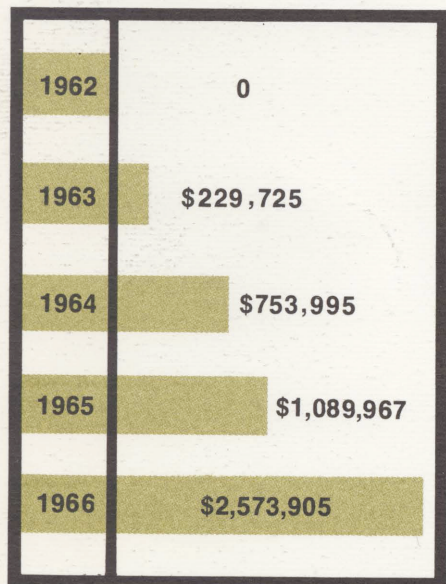
I wish to thank those responsible for their trust and assistance during the past year; our residents, our customers, our suppliers and you, our stockholders.

A LOOK AT THE PAST: 1963-66

Every product must have a market, and during its years of existence, Panorama City has established and proven the need for its unique and outstanding retirement program in an ever expanding market area.

Panorama City first broke ground on its 95 acre, wooded site in the fall of 1963, and it ended its initial year of operation with completion of four living units, all of which were occupied. By the end of 1964, the total completed living units reached 42 and in 1965, as the fame

P C FUND

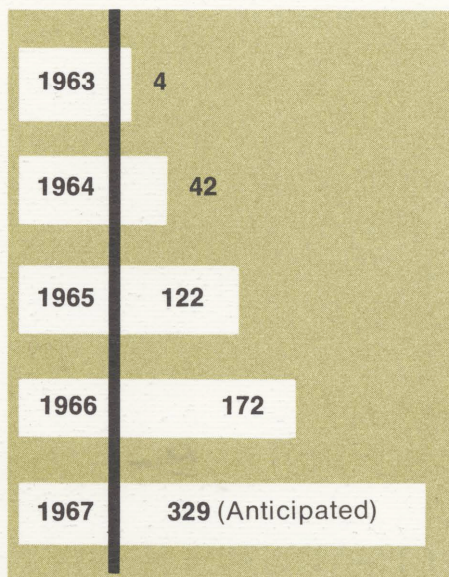


and beauty of the retirement community spread, a total of 122 units were completed and occupied within the community. By the end of 1966 this total had grown to 172.

For 1967, plans have been completed and financing secured for a total of 157 additional living units, which are now under construction.

From its inception, Panorama City promised its new residents a full

UNITS

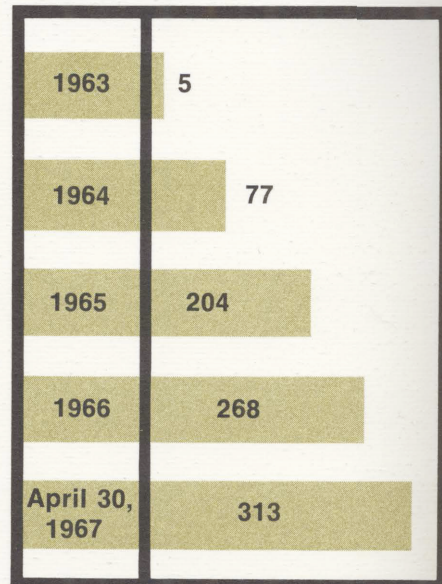


spectrum of facilities and services, many of which have taken time to produce.

Among the outstanding services enjoyed by Panorama City residents is the modern Convalescent and Rehabilitation Center with a capacity of 104 beds. The Convalescent Cen-

ter's staff includes a professional administrator, and a staff of 40 trained personnel. Opened in February, 1965, it now operates at close to 97% capacity and has been approved as an extended care facility under the Medicare program. Within the Convalescent and Rehabilitation Center, Panorama City provides extended care facilities for those patients who may require such services. Although placed in operation primarily for the use of the retirement community's residents, it has proved extremely popular with the general public and is used and recommended by the doctors of the area.

RESIDENTS





At the center of the community is beautiful Panorama Hall, the social-recreation hub and nerve center of Panorama City. This beautiful, circular, two story building with basement, contains the community's 24-hour switchboard. The first floor currently houses the community's administrative offices, includes a large public lounge, reading areas, television room, barber shop, beauty shop and small meeting rooms for the convenience of the residents. The second floor provides complete restaurant and dining facilities for 370 and is served by a kitchen which also provides full food services to the Convalescent and Rehabilitation Center. The dining room, elegantly designed and appointed for the use of the residents and their guests, is also open to the general public. Other attractive rooms on the second floor are available for special banquets and social and recreational events such as movies, dances, lectures and table games.

Full physical and occupational therapy units were begun in the fall of 1966 and are now completed. Registered physical and occupational therapists are in charge, and although primarily for the use of the residents, this area will be opened to the general public as well.

Another outstanding addition to the Panorama City landscape during the fall of 1966 was a 9-hole, Par 3, pitch and putt golf course, right in the heart of the community. This is

available to residents and their guests this year at no additional cost. Bowling on the green and an outdoor shuffleboard will also be ready for use midway in 1967.

Other vital parts of the Panorama City program, which have continued to grow since the inception of the community, are the many social and recreational activities organized by a staff of capable personnel, dedicated to their work of keeping the retired residents active and happy.



Included in these many services are excursions on the community's beautiful excursion yacht, social functions outside on the beautiful grounds and a host of field trips for a wide variety of purposes to the innumerable travel and tourist spots within easy reach here in the beautiful Northwest.



The impressive growth of Panorama City is also reflected by a review of the growth of the Panorama City Fund. Residents invest in the Panorama Fund when they first move to Panorama City by means of a minimum deposit required for the particular living unit which they choose. These deposits vary from \$6,000 to \$35,000. Interest is paid on these deposits to the residents, thereby reducing their monthly payment. The residents may add to their personal deposits at any time they wish. At the end of 1963 equity ownership in the fund totaled \$229,725. By the end of 1964 it had grown to \$753,995. And by the end of 1965 it had grown to \$1,089,967. At April 30, 1967, it had in excess of \$3,000,000.00.

This Fund not only continually grows to provide increasing security for the residents of Panorama City, but points out the continued confidence in the unique retirement program conceived and developed here at the Northwest's outstanding retirement community.



A LOOK AT THE FUTURE

The past year, 1966, was to Panorama City, just like most other profit-making corporations, one of severe trial. However, the storms of 1966 are past, and the corporation, its residents and its stockholders, are currently in the midst of the greatest growing period in Panorama City's history.

During 1967 it is anticipated that Panorama City will exceed the growth of the past three years of its existence. At the end of 1966, 172 individual living units were completed within the community. By the end of 1967 more than 157 additional living units are expected to be completed within this unique retirement city. In terms of resident growth, the figures are just as exciting. The population of 268 residents at the end of 1966 will be swelled by an anticipated growth of 207 for a total of 475.

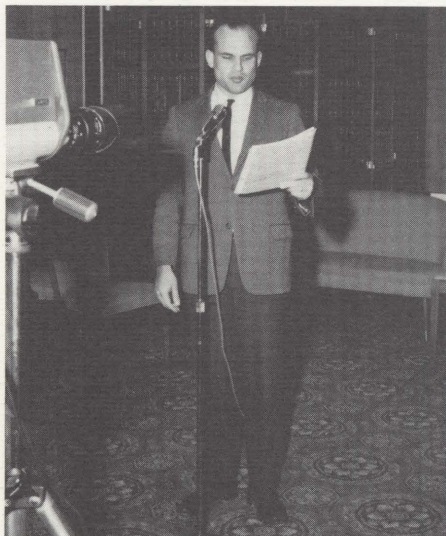
In truth, Panorama City has turned the corner in its development and growth. Through the organization of a trained management group and by the understanding and trust in the Panorama City concept that has been built within the corporation's many diverse market areas, the community and the corporation, looks forward to an unparalleled era of growth and expansion.

The orderly development of Panorama City, the retirement community and medical complex, has been programmed over an 8-year period from 1967 to 1974.

This program is divided into three stages.

Stage 1, to be completed in 1967, includes completion of 157 individual living units. Included within this ambitious program is the completion of Leisure Way, 97 ground level 1 and 2 bedroom units in multiplexes located near Chambers Lake and the Chalet, a swept wing, 60 apartment structure near Panorama Hall.

Stage 2, spanning four years from 1968 to 1971, will include construction of the Lodge, a 40 unit building adjacent to the Convalescent Center that will offer room and board, maid and nurse service in its program;



and two 100 unit 4-story apartment units immediately adjacent to Panorama Hall, to be called TriArm North and TriArm South. In addition another single-story one and two-bedroom multiplex development similar to Leisure Way called Westview Apartments will be constructed as well as a multi-use recreational building, a recreational marina and the first 10-story Hi-Rise unit.

The final stage, Stage 3 from 1971 through 1974, will see the completion of two additional 10-story Hi-Rise units and all entrance and recreational areas within the community.

The advancement from one stage to another, while planned in an orderly manner, will be predicated upon the conclusion of each previous stage and sufficient demand for immediate occupancy for each succeeding stage of development.

Upon completion of the final stage of development in 1974, the projected population of Panorama City will be 2,256 with 1,671 occupied living units. The corporate assets as estimated will be over \$30 million at that time, assuming no additional undertakings, while the Panorama City Fund will have an anticipated ownership equity of over \$24 million.

At the end of 1966 income from the Retirement Community and from investments was near to sustaining the corporation.



A MESSAGE FROM THE COMPTROLLER

It is appropriate to preface this comptroller's message with a brief review of the conditions under which this corporation operated during the critical year past.

During the final weeks of 1965, the Federal Reserve Board, observing that economic activity was increasing rapidly after almost five

years of continuing rise, and that the future outlook tended to be more expansive with increasing inflationary tendencies, moved to curtail any unhealthy inflationary spiralling. To effect this curbing, the Federal Reserve Board authorized increases in the discount rate and in the interest rate banks were permitted to pay.

As a result, a more restrictive money policy was initiated in order to maintain price stability and continue the balance in the economy's continued growth.

Interest rates during 1966 moved to their highest level in 40 years, and a tremendous demand for loans and the increasingly restrictive monetary policy of nearly all lending agencies caught our young, growing corporation in a tenuous situation.

As a young corporation, dependent upon our own rapid growth, we were equally dependent upon the financial support of the area's lending institutions. At this time, because of their own shortage of lending funds, they in turn were unable to give the continued enthusiastic support of the past. Without construction funds, countless pre-leased living units remained incomplete. Moves in to the community slowed to a trickle.

Coupled with the tight money problems of 1966, our corporation was in the midst of still another important ordeal. Registration with

the Securities and Exchange Commission was underway. All advertising and promotion was slowed to a point where it was practically nonexistent, in order to prevent any impediment to final registration of Panorama City and its stock with the SEC.

Probably no other young, growing corporation has had to face so many practically insurmountable obstacles in such a short period of time.

We did. We rode out the storm of those trying days of 1966.

And, in fact, turned it into the springboard of the greatest growth period in our corporate history.

On July 28, 1966, Panorama City's registration of an issue of common stock with the Securities and Exchange Commission became a fact, allowing us to begin to sell our stock to the countless people who had indicated a willingness to invest in the exciting future of Panorama City.

In the latter part of the year the "tight money" market broke, and we were finally able to leap into the construction of the stockpile of pre-leased living units within the retirement community.

The coming year, 1967, will witness the greatest, unparalleled growth in our corporate history. We will nearly double our living unit size by the end of 1967. Our Panorama City Fund is expected to increase to a figure in excess of \$4,500,000.00.



P C & THE ACTIVELY RETIRED

Panorama City is the product of a completely new concept in retirement living. Conceived and established by its founders, the Panorama City retirement program is based

upon its residents living longer, healthier lives under the guidance and care of a staff of the community. It has proved that a public, tax-paying corporation can provide wider and finer services to the benefit of the resident, than most tax-exempt retirement organizations.

Briefly, Panorama City offers a home for life with complete maintenance and care of all facilities during each stage of retired living.

FOR THE ACTIVELY RETIRED, there is the choice of many types of retirement living, ranging from individual home to Chalet-styled apartments. The active, pulsing life of the community more than provides enough activity and excitement with its 9-hole golf course, its lawn bowling, its countless excursions and social events. And, nestled within the vacation hub of the Pacific Northwest, there are more than enough exciting areas outside the community to give a full lifetime of enjoyment.

FOR THE CONVALESCING RESIDENT, Panorama City provides a full spectrum of services and facilities. For the resident who is in need of medical care, or for the new Medicare patient, Panorama City's modern Convalescent and Rehabilitation Center provides the most modern and complete services in the Northwest. Within the community's medical complex, physical and occupational therapy areas are available at all times. Intensive care units are

also available upon request. Whatever their age or needs, the resident rests secure at Panorama City, knowing that 24 hours of every day a full, professional staff is on hand to serve them. A staff whose first concern is for the well being of the resident and operating a program aimed towards keeping them happy, healthy and well.

One simple monthly payment (determined by the amount of deposit made into the Panorama City Fund) provides rent, heat, light, phone, water, garbage disposal, Telecable, window washing, general maintenance and repairs, lawn care and landscaping and closed-circuit T.V. Included also is our basic health plan with our complete medical program which ties in with Medicare and the use of our own medical and health services.

It's no sales slogan when we say a way of life awaits the new resident at Panorama City, offering the opportunity to participate in the growth and development of the nation's first non-regimented, profit-making retirement community. Here is a retirement system where individualism is a must and where everyone can still employ all of his or her talents gained from a lifetime of experience. Where the resident is still self-supporting, dependent on no charitable institutions or organizations, and where he can continue to support himself in an independent and dignified manner.



PANORAMA CITY, INC.
OLYMPIA, WASHINGTON

We have examined the balance sheet of Panorama City, Inc. as of November 30, 1966 and the related statement of operations and deficit in earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the company for the eleven-month period ended November 30, 1965. However, a substantial change in the company's classification of expense accounts during the year makes it inappropriate to present on a comparative basis the details of costs and expenses for the eleven-month period ended November 30, 1965, as explained in Note 9.

In our opinion, subject to (1) completion by the company of its building program and its ability to rent its retirement facilities at rentals adequate to recover its investment therein, and (2) the contingencies referred to in Note 7 relating to Village Department Stores, Inc., the accompanying financial statements present fairly the financial position of Panorama City, Inc. at November 30, 1966 and 1965, the results of its operations for the year ended November 30, 1966 and its income, total costs and expenses and loss for the eleven-month period ended November 30, 1965 in conformity with generally accepted accounting principles applied on a consistent basis.
LYBRAND, ROSS BROS.
& MONTGOMERY
Seattle, Washington
March 3, 1967

PANORAMA CITY, INC.

ASSETS	1966	1965
Investments in land, buildings, land improvements and equipment at cost (Note 1):		
Retirement units	\$3,679,800	\$2,578,256
Nursing home	503,072	501,719
Lacey Village Shopping Center.....	665,192	613,875
	4,848,064	3,693,850
Less accumulated depreciation	190,840	84,380
	<u>4,657,224</u>	<u>3,609,470</u>
Buildings and equipment, at cost (Note 1):		
Buildings	12,311	15,885
Furniture and equipment	76,376	54,366
Vehicles	22,692	20,067
	111,379	90,318
Less accumulated depreciation.....	15,109	13,139
	96,270	77,179
Construction in progress (Note 1).....	346,925	491,878
Undrawn construction funds	75,000	50,916
Real estate for sale, at cost, net of depreciation of \$4,044 at November 30, 1966 (Note 2).....	552,047	397,083
Notes and contracts receivable (Note 3).....	267,267	335,293
Long-term receivable from tenant for construction....	42,650	—
Deferred charges and prepaid expenses.....	270,528	245,238
Cash (includes savings and loan deposits of \$5,872 and \$1,101, respectively, of which \$2,851 and \$1,101, respectively, were pledged in connection with sale of contract receivable).....	7,404	21,145
Accounts receivable (Note 5).....	77,310	68,102
Other assets	5,491	6,035
	<u>\$6,398,116</u>	<u>\$5,302,339</u>

BALANCE SHEETS
NOVEMBER 30, 1966-1965

LIABILITIES	1966	1965
Mortgages payable (Note 6).....	\$3,243,130	\$2,739,715
Construction loans (Note 6).....	550,000	562,000
Notes and contracts payable (Note 6).....	418,630	480,499
Mortgage notes payable to Panorama City Fund (Note 6).....	1,840,000	939,500
Accounts payable Panorama City Fund (Note 6).....	266,313	—
Deposit for tenant's leasehold improvements.....	—	25,000
Lease deposits	28,000	88,000
Accounts payable, trade	469,318	494,570
Accrued taxes, interest, payroll, etc.	59,980	46,570
Other liabilities	754	12,722
Deferred income	46,850	—
Commitments and contingencies (Note 7).....	<u>6,922,975</u>	<u>5,388,576</u>
DEFICIT IN CAPITAL		
Common stock, \$10 par, authorized 600,000 shares, issued 203,731 shares and 200,000 shares, respectively	2,037,310	2,000,000
Less excess of par value of stock issued over book value of assets received in mergers (Note 1).....	(1,785,700)	(1,785,700)
	<u>251,610</u>	<u>214,300</u>
Capital stock subscribed, net of stock subscriptions receivable of \$4,319.....	381	—
Capital in excess of par value (Note 8).....	—	560
Deficit in earnings	(772,570)	(296,817)
	(520,579)	(81,957)
Treasury stock, 428 shares at cost.....	(4,280)	(4,280)
	(524,859)	(86,237)
	<u>\$6,398,116</u>	<u>\$5,302,339</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS AND DEFICIT IN EARNINGS

for the year ended November 30, 1966 and
the eleven-month period ended November 30, 1965

	1966	1965
Income:		(Note 7)
Tenant income:		
Retirement units	\$ 358,014	\$ 209,376
Nursing home	273,299	135,692
Lacey Village Shopping Center	79,966	67,066
	<u>711,279</u>	<u>412,134</u>
Restaurant sales	43,552	—
Sales of real estate and manufactured fixtures	447,625	671,617
Other income	19,377	21,589
	<u>1,221,833</u>	<u>\$1,105,340</u>
Costs and Expenses:		
Cost of real estate and manufactured fixtures sold	418,206	
Food cost, restaurant and nursing home	46,892	
Salaries and wages	362,488	
Interest and amortized loan expense	349,719	
Depreciation	120,527	
Repairs and maintenance	26,733	
Telephone and utilities	96,511	
Taxes—excise, property and payroll	60,427	
Advertising and promotion	70,453	
Medical insurance	24,458	
Other insurance	16,153	
Other	105,019	
	<u>\$1,697,586</u>	<u>\$1,333,910</u>
Loss for the period (\$2.37 and \$1.15 per share)	475,753	228,570
Deficit in earnings:		
Beginning of year	296,817	68,247
End of year	<u>\$ 772,570</u>	<u>\$ 296,817</u>

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NOTES TO FINANCIAL STATEMENTS

1. Property and Equipment:

Property, plant and equipment has been classified herein to differentiate between income producing fixed assets (investments in land, buildings, land improvements and equipment) and non income producing fixed assets. The latter includes construc-

tion in progress, construction and office equipment and facilities, and vehicles used primarily for promotional activities related to rental units not yet completed. Construction in progress includes costs for (a) income producing properties, (b) non income producing properties, and (c) the account of tenants.

No revaluation of property is reflected in the accompanying financial statements. However, when capital stock was issued in connection with mergers prior to December 1, 1965 (treated as poolings of interest) there were taken into consideration (a) the appraised values of real estate in excess of cost (as permitted by the laws of the State of Washington), and (b) the elimination of capital in excess of par value at the time of merger. The difference between these amounts is deducted on the balance sheet from the par value of the capital stock issued.

2. Real Estate Held for Sale or Development, at Cost:

Real estate held for sale consists primarily of residential houses and unimproved lots taken over by the company as an accommodation to residents of the retirement community. Panorama City, Inc. takes title to the resident's equity in residential or other property, giving the resident credit on the rental agreement for the appraised fair market value of the equity in the property, less an agreed amount to cover the estimated costs of selling the property.

Real estate held for development consists of property contiguous to the retirement community, acquired because of its potential as an addition ultimately to the retirement community but for which there are no present specific plans.

3. Notes and Contracts Receivable:

Notes and contracts receivable bear interest at rates of from 6% to 7½% (including at November 30, 1965 a note receivable from an officer of \$2,750), except that \$40,270 receivable from an officer and director, at November 30, 1966 and 1965 bears no interest. The notes arose principally from the sale of real estate and are receivable principally in long-term installments, but may be sold or used to satisfy certain obligations.

4. Deferred Charges and Prepaid Expenses:

Included in deferred charges and prepaid expenses at November 30, 1966 and 1965 are (1) unamortized advertising and promotion expenses of \$111,580 and \$131,283, respectively, which are being amortized over a three-year period from the date of completion of the retirement units advertised, and (2) unamortized debt expenses of \$70,888 and \$63,396, respectively, which are being amortized over the lives of the related mortgages.

5. Accounts Receivable:

Accounts receivable at November 30, 1966 and 1965 include \$2,871 and \$5,024, respectively, from Panorama City Fund and \$1,270 and \$4,848 respectively from officers and employees. The accounts receivable are net of an allowance for doubtful accounts of \$6,000 and \$1,000, respectively.

6. Mortgages, Construction Loans, Notes and Contracts Payable:

The mortgages payable at November 30, 1966 bear interest at rates from 5¼% to 7½% per annum, are applicable to the land and buildings, and are payable over remaining terms ranging from 2 to 25 years. The mortgages are payable in uniform monthly amounts applied first to interest and then to principal. Payments required in the reduction of mortgage principal are approximately as follows:

Year ending November 30,	
1967	\$ 262,966(a)
1968	99,861
1969	101,265
1970	108,100
1971	115,397
Thereafter	2,555,541
	<u>\$3,243,130</u>

(a) Includes \$170,000 due in connection with a one-year extension of mortgage principal.

The construction loan of \$550,000 at November 30, 1966 is covered by a first mortgage on related buildings under construction and bears interest at 6¾%. When the buildings are completed it is expected that the related construction loan will be paid from the proceeds of a long-term mortgage.

Notes and contracts payable at November 30, 1966 and 1965 include \$22,300 and \$14,184, respectively, payable to an officer and bear interest at rates of from 4½% to 8%. The notes and contracts at November 30, 1966 are payable over various terms but substantially before 1971, as follows:

Year ending November 30,	
1967	\$288,903
1968	21,548
1969	14,626
1970	11,600
1971	10,951
Thereafter	71,002
	<u>\$418,630</u>

The mortgage notes payable to Panorama City Fund of \$1,840,000 at November 30, 1966 (\$939,500 at November 30, 1965) are evidenced by a second mortgage on certain land and fixed improvements owned by Panorama City, Inc., bear interest at 6¼% and 6½% and mature in 1984, 1985 and 1986 which is 20 years from date of issue. There is presently no provision for periodic repayment of the principal of these mortgage notes.

Accounts payable to Panorama City Fund of \$266,313 as of November 30, 1966 (no balance as of November 30, 1965) were converted to mortgage notes in February 1967. These mortgage notes bear interest at 6¼% and mature in 1987. There is no provision for periodic repayment.

At November 30, 1966 the first and second mortgages (including the blanket mortgages) and construction loans related to the following land and buildings:

	Mortgages		Construction Loans
	First	Second	
Shopping center and underlying land			\$550,000
Retirement units and underlying land —completed and under construction ...	\$1,611,856	(b)	
Nursing home building and underlying land	257,869	(b)	
Land, roads and utilities and Panorama Hall	990,311(a)	(b)	
Other real estate for sale	383,094	—	
	<u>\$3,243,130</u>	<u>\$1,840,000</u>	<u>\$550,000</u>

(a) The base or blanket first mortgage is on the land in and around the basic retirement community complex excluding certain specified parcels on which construction had occurred prior to the date of the base mortgage. However, as further construction takes place on parcels of land such parcels are released from the base mortgage and added to a new mortgage pertaining to such building and underlying land.

(b) The blanket second mortgage is on the land in the retirement community complex and as improvements are made thereon, such as roads, utilities and buildings, the second mortgage applies to such facilities.

Subsequent to November 30, 1966 a blanket second mortgage on the shopping center was registered as additional collateral for the notes payable to Panorama City Fund.

7. Commitments and Contingencies

The Company may be obligated under a stock subscription agreement to purchase certain shares of the capital stock of Village Department Stores, Inc. for a maximum of \$25,020 plus interest thereon at 6% from March 1, 1965. The company may be obligated as guarantor for up to one-half the rentals under a lease expiring in 1985 with a minimum annual rental of \$20,952, pertaining to one store location leased by Village Department Stores, Inc., if that company is unable to pay such rentals. The company may also be obligated as guarantor of one-half of the indebtedness of Village Department Stores, Inc. to Star Finance Company. This indebtedness at November 30, 1966 consisted of a note in the amount of \$225,000 plus unpaid accrued interest. In addition, the company may be contingently liable for other obligations of Village Department Stores, Inc. in amounts not presently ascertainable, since the company has a 25% voting interest in Village Department Stores, Inc. (This investment was written off as of November 30, 1965.)

Claims and liens aggregating \$115,738 have been filed against the company. Settlement negotiations are in process.

Expenditures for buildings and improve-

ments during 1967 are expected to approximate \$2,000,000; however, purchase commitments in connection therewith are negligible.

The company has transferred certain real estate at appraised values as payment for obligations to creditors. In this connection, the company is contingently liable for any losses suffered by each of such creditors upon the ultimate disposition of the real estate. Such losses to date have not been material.

8. Common Stock and Capital in Excess of Par Value:

No shares of the company's stock are held by Panorama City Fund; no shares are reserved for officers and employees or for options, warrants, conversions and other rights.

An analysis of capital in excess of par value is as follows:

Balance, January 1, 1965	—
Excess over par value received from issuance of 112 shares of common stock	\$ 560
Balance, November 30, 1965	560
Add: Excess over par value received from issuance of 3,731 shares of common stock	37,266
Less: Registration expenses charged to capital surplus	37,826
Balance, November 30, 1966	—

9. Reclassification of Costs and Expenses:

The company's fiscal year was changed in 1965 to November 30, resulting in an eleven-month period ended on that date. For the year ended November 30, 1966 the company reclassified its cost and expense accounts. Consequently the individual costs and expenses for the eleven-month period ended November 30, 1965 are not comparable with such costs and expenses for the year ended November 30, 1966.

10. Federal Income Taxes:

Credits from net operating loss carryforwards, which may be available to reduce future income tax provisions in the event that income prior to their expiration is sufficient to permit their being utilized, aggregate approximately \$409,000 and expire as follows:

Fiscal Years Ended November 30,	Amount of Tax Credit Expiring
1967	\$ 2,000
1968	21,000
1969	62,000
1970	108,000
1971	216,000

There are differences between book and tax income primarily because certain charges deferred on the books have been expensed for tax purposes.

In addition to the credits from net operating loss carryforwards the company has available certain, presently undetermined amounts of investment credits.

TO THE
BOARD OF TRUSTEES
PANORAMA CITY FUND
OLYMPIA, WASHINGTON

We have examined the balance sheet of Panorama City Fund as of February 28, 1967 and the related statements of income and changes in ownership equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Fund for the fiscal year ended February 28, 1966.

Subject to the collectibility of the notes receivable from Panorama City, Inc. which is dependent upon the completion by Panorama City, Inc. of its building program and its ability to operate sufficiently profitably to meet its obligations, in our opinion the accompanying balance sheets and statements of income and changes in ownership equity present fairly the financial position of Panorama City Fund at February 28, 1967 and 1966, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. LYBRAND, ROSS BROS. & MONTGOMERY
Seattle, Washington
April 17, 1967

PANORAMA CITY FUND BALANCE SHEETS
FEBRUARY 28, 1967 - 1966

ASSETS	1967	1966
Current assets:		
Cash (Note 1)	\$ 140,892	\$ 69,476
Accounts receivable	931	3,230
Other notes and contracts receivable, current portion	2,683	656
Deposits receivable, current portion (Note 12)...	201,920	—
Prepaid insurance and taxes	234	489
Total current assets	\$ 346,660	\$ 73,851
Restricted cash—pledged (Note 6).....	7,500	8,002
Accounts receivable—Panorama City, Inc. (Note 8)	32,529	137
Notes receivable—Panorama City, Inc. (Note 8)	2,119,000	975,000
Deposits receivable, long-term (Note 12).....	28,000	—
Other notes and contracts receivable, less current portion and less allowance for doubtful accounts of \$1,000	54,067	6,495
Real estate owned, less valuation allowances of \$4,924 in 1966 (Notes 9 and 11).....	88,839	133,639
Rental property, less valuation allowance of \$2,418 (Notes 9 and 11)	67,804	37,582
Less accumulated depreciation	(3,450)	(1,200)
Other assets, principally unamortized registration expense	36,716	7,667
	<u>\$2,777,665</u>	<u>\$1,241,173</u>

LIABILITIES	1967	1966
Current liabilities:		
Notes payable—current	\$ 31,363	
Mortgages payable, amount due within one year (Note 10)	2,939	\$ 2,487
Accounts payable, trade	21,251	962
Accounts payable, Panorama City, Inc.	7,960	3,634
Accrued interest payable	1,162	320
Total current liabilities	\$ 64,675	\$ 7,403
Other liabilities:		
Deferred property settlements (Note 5).....	15,544	31,032
Mortgages payable, less amounts due within one year (Note 10).....	106,308	94,598
Total liabilities	<u>\$ 186,527</u>	<u>\$ 133,033</u>
Deferred loan service fee income (Note 7).....	16,755	17,695
OWNERSHIP EQUITY		
Deposits (equity of trustors):		
Noninterest bearing	352,500	174,000
Interest bearing	1,882,240	933,662
Deposits in process (Note 12).....	355,920	—
	<u>2,590,660</u>	<u>1,107,662</u>
Less deferred loan service fee income (Note 7)	16,755	17,695
	<u>2,573,905</u>	<u>1,089,967</u>
Reserve for excess annuitant payments	478	478
Total equity of trustors (Note 3).....	<u>\$2,574,383</u>	<u>\$1,090,445</u>
	<u>\$2,777,665</u>	<u>\$1,241,173</u>

The accompanying notes
are an integral part of
the financial statements.

STATEMENT OF CHANGES IN OWNERSHIP EQUITY

for the years ended February 28, 1967 and 1966

	1967	1966
Balance at beginning.....	\$1,089,967	\$ 753,996
Add:		
Lifetime annuity deposits (Note 3):		
Cash	—	6,000
Transfer from lifetime lease deposits	5,000	—
Lifetime lease deposits:		
Cash	1,338,915	332,500
Property	—	3,000
Transfer to lifetime annuity deposits	(5,000)	—
Deposits receivable (Note 12)	229,920	—
	<u>2,658,802</u>	<u>1,095,496</u>
Deduct:		
Termination of deposits— lifetime lease plan	85,300	—
Annuity plans corpus reduction (Note 3)	537	350
	<u>2,572,965</u>	<u>1,095,146</u>
Add:		
Net income	77,172	36,318
Less amounts paid for trustors (Note 2)	(76,232)	(41,497)
	<u>940</u>	<u>(5,179)</u>
Balance at end	<u>\$2,573,905</u>	<u>\$1,089,967</u>
Consisting of:		
Noninterest bearing deposits...\$	352,500	\$ 174,000
Interest bearing deposits	1,882,240	933,662
Deposits in process (Note 12)...	355,920	—
Deferred loan service fee income (Note 7)	(16,755)	(17,695)
	<u>\$2,573,905</u>	<u>\$1,089,967</u>

The accompanying notes
are an integral part of
the financial statements.

STATEMENT OF INCOME

for the years ended February 28, 1967 and 1966

	1967	1966
Income:		
Interest	\$93,907	\$65,324
Rentals	1,950	1,800
Loan service fees (Note 7)	940	1,371
Total income	<u>\$96,797</u>	<u>\$68,495</u>
Expenses:		
Operating and administrative expenses	10,909	15,559
Interest expense	9,293	12,888
Discount on contracts sold	—	3,436
Total expenses	<u>20,202</u>	<u>31,883</u>
Income from operations	<u>76,595</u>	<u>36,612</u>
Other income:		
Sales of property	54,400	41,562
Cost of property sold (Note 13)	53,823	41,856
Gain (or loss) on property sold	577	(294)
Net income (Note 4)	<u>\$77,172</u>	<u>\$36,318</u>
Total distributions (distributable) for trustors (Note 2):		
Net income or loss, as above	\$77,172	\$36,318
Treating loan service fees as income in year of receipt	—	6,550
Less loan service fees amortized as above	(940)	(1,371)
Net distributions (distributable)	<u>\$76,232</u>	<u>\$41,497</u>

NOTES TO FINANCIAL STATEMENTS

1. Cash and Liquidity Factor (Liquid Fund):

As at February 28 cash is composed of:

	1967	1966
Liquidity factor—		
unpledged savings		
accounts	\$130,833	\$65,384
Checking account		
and cash	10,059	4,092
Total unrestricted		
cash	<u>\$140,892</u>	<u>\$69,476</u>

The trust agreement provides that liquid assets shall be maintained at least equal to 5% of the total assets of the Fund. At February 28, 1967 and 1966 the liquid assets, as defined, were \$130,833 or 4.71% of the total assets and \$65,384 or 5.27% of the total assets, respectively. During the past year the liquidity factor was frequently less than 5%.

During March 1967 savings accounts in the amount of \$99,000 were pledged as collateral for short-term bank loans (90 days or less) of \$100,000, and the proceeds were loaned to Panorama City, Inc. on a 20 year 6¼% note receivable with collateral consisting of a second mortgage on certain properties of the City (See Note 8). This transaction, if given effect to as of February 28, 1967, reduces the liquidity factor to 1.11% of the total assets. The bank loan was repaid on April 17, 1967 and the pledged collateral released.

2. Distribution for Trustors:

The agreement for residency provides that the Fund shall distribute 4.8% or 5.5% (as determined by the residency agreement) of

the trustors' deposit in excess of the first \$2,000 or the net earnings (which were computed on a cash basis with respect to loan service fee income) of the deposit, whichever is the greater. Since the net earnings of the deposit exceeded the required percentage (4.8% or 5.5%), the larger amount was distributed for the trustor residents to Panorama City, Inc. for both the fiscal years ended February 28, 1967 and 1966. Payments for trustors are made at varying rates. Minimum deposits earn 4.8% on the amount deposited in excess of the first \$2,000 of such deposit. On May 27, 1966 the Board of Trustees of the Fund approved a resolution that the interest rates on deposits in the Fund be increased from 4.8% to 5.5% per annum provided, however, that a depositor, in order to qualify for the increased rate, be required to deposit in the Fund an amount equal to 10% of the minimum deposit that had been required of such resident for the unit then being occupied. Payments on lifetime annuity deposits are made at the rate of 5% of the balance of the deposit in excess of the first \$2,000, or in one instance on the balance of the deposit in excess of the first \$1,000. The effective rates of interest (without consideration of distribution of excess earnings of the Fund—see Note 4) vary accordingly as follows:

Rate	Minimum deposit of	Effective rate
4.8%	\$ 6,000	3.20%
4.8%	15,000	4.16%
5.5%	6,600	3.83%
5.5%	16,500	4.83%

Net income of the Fund is distributed for the benefit of trustor-residents at the end of the Fund's fiscal year.

3. Invasion of Corpus:

The trust agreement provides that the corpus of the Fund may be used for any purpose of the Fund that the trustees deem advisable. During the year ended February 28, 1965, the trustees paid over to Panorama City, Inc. the sum of \$489 for a trustor for rental and other charges. This invasion of corpus is expected to be repaid by the

trustor. During the fiscal year ended February 28, 1966, one trustor-resident completed the payment into the Fund of a deposit of \$6,000 under the annuity plan, and during the fiscal year ended February 28, 1967 one trustor-resident transferred a \$5,000 lease plan deposit to the annuity plan. Monthly payments have been made by the trustees for the trustors under this plan (which is applied to their monthly rental), reducing the corpus of the annuity deposits in the amounts of \$350 and \$537 in the fiscal years ended February 28, 1966 and 1967, respectively. Included in the amounts paid for these trustors is the 5% earned on the excess over \$2,000 and \$1,000 respectively, computed monthly on a diminishing deposit balance as the deposit is invaded. Further invasions of these deposits will occur as subsequent payments are made to Panorama City, Inc. for the benefit of the trustor-residents. Should the resident outlive the assumed life expectancy on which the amount of his deposit is calculated, the Fund continues to be obligated to make the agreed payments for his lifetime. In this case, the deposits of all depositors under either plan represent a fund from which such payments must be made.

4. Income Tax Status of Fund:

No provision for income taxes has been reflected in the financial statements of the Fund. The agreement for residency provides that in the event the Fund has aggregated net earnings in excess of 4.8% or 5.5% of such portions of the respective deposits in any fiscal year after required reserves then such excess shall be paid over to Panorama City, Inc. to be credited to the accounts of the respective residents per capita as additional rent paid in the preceding year. Each trustor should include his portion of the net earnings in his taxable income for federal income tax purposes. For this purpose, loan service fees are treated as income in the year of receipt although reported on the accrual basis in the financial statements.

5. Deferred Property Settlements:

The Fund has accepted real estate in payment of deposits. The excess value of the net allowance for the real estate over the

amount of the "deposit" is placed in the "deferred property settlements" account and is paid to the depositor after the property is sold or otherwise liquidated.

6. Pledged Savings Account:

A savings account in the amount of \$7,500 and \$8,002 at February 28, 1967 and 1966, respectively, is held as collateral in connection with the sale of a real estate contract by the Fund. This savings account will be released to the Fund when the real estate contract has been substantially reduced (See Note 1).

7. Deferred Loan Service Fee Income:

A 2% charge was collected from Panorama City, Inc. on certain notes executed. For statement purposes these fees are taken into income over the lives of the related notes receivable, but in the records of the Fund and for purposes of distributions to the trustors (and their related tax liability) are regarded as income in the year of receipt.

8. Notes Receivable, Panorama City, Inc. and Real Estate Contracts Receivable:

These are long-term promissory notes of Panorama City, Inc. with collateral consisting of a second mortgage on certain land and fixed improvements situated within the Panorama City Retirement Community complex and on certain land and fixed improvements known as Lacey Village Shopping Center, which is owned and operated by Panorama City, Inc. They bear interest at the rates of 6½% or 6¼% and have a life of twenty years. The notes presently held will mature on varying dates in 1984 through 1987 according to the date of issue. The mortgage does not require or provide for amortization of principal and no payments were received in 1967. Accounts receivable from Panorama City, Inc. of \$32,529 at February 28, 1967 were converted to long-term notes receivable subsequent to year end.

The following tables set forth as of February 28, 1967 and 1966 the amounts of prior liens consisting of first mortgages and certain real estate contracts receivable, and first mortgages underlying such contracts which latter first mortgages are included in "mortgages payable" on the balance sheet.

	1967	1966
Amount of prior liens on:		
Notes receivable, Panorama City, Inc.	\$1,533,023	\$590,421
Real estate contracts receivable	40,009	—
	<u>\$1,573,032</u>	<u>\$590,421</u>
Carrying amount of notes and contracts:		
Notes receivable, Panorama City, Inc.	\$2,119,000	\$975,000
Real estate contracts receivable	49,414	—
	<u>\$2,168,414</u>	<u>\$975,000</u>

9. Real Estate Owned and Rental Property:

The amounts under these captions represent residential and partially developed properties accepted by the Fund from trustor-residents as part, or all, of their deposit. One piece of property was accepted as partial payment for the purchase price of property sold during the fiscal year ended February 28, 1967.

	February 28,	
	1967	1966
Amount of encumbrances (Note 10):		
Real estate owned ..	\$ 33,626	\$ 75,860
Rental property	35,613	21,226
	<u>\$ 69,239</u>	<u>\$ 97,086</u>
Cost to the Fund (Notes 5 and 11):		
Real estate owned ..	\$ 88,839	\$133,639
Rental property	67,804	37,582
	<u>\$156,643</u>	<u>\$171,221</u>

10. Mortgages Payable:

These items represent first mortgages on the real property of the Fund or are related to property sold on contract by the Fund. The mortgages bear interest at rates varying

from 5.5% to 6.6% with repayment terms of 20 to 30 years. Payments applicable to the reduction of principal range upwards from \$2,939 in 1968 to \$3,661 in 1972.

11. Valuation Allowances:

When the Fund accepted residential properties from the trustor-residents as part, or all, of their deposit, certain anticipated selling costs were deducted from the appraised value of the properties to arrive at the amount of credit due the trustor. These estimated amounts are shown as "valuation allowances" on the balance sheet and are deducted from the "real estate owned" and "rental property" amounts to reflect net cost values in the asset section.

When the properties are sold, the related amounts in the "valuation allowances" account are credited to the "cost of property sold" account, offsetting the actual selling costs of the properties.

12. Deposits in Process:

Deposits are accrued at the time of signing the residency agreement and shown as deposits in process. At such time as the resident establishes residency and commences rent payments (and has paid his deposit in full) the deposit is transferred to equity deposits. The deposits in process may or may not bear interest depending upon the terms of the individual agreements. As of February 28, 1967 approximately \$37,000 of the deposits in process were earning interest at the rate of 5.5% per annum.

Deposits receivable long-term are deposits due after one year or more from persons who have signed a residency agreement but do not wish to establish actual residency within the next year.

13. Guaranty by Panorama City, Inc.:

Panorama City, Inc. under a hold harmless agreement dated November 1, 1964 agreed to hold harmless the Fund from any loss occasioned by the sale of certain real estate held by the Fund as at that date. Sales of such property resulted in losses of \$313 during the period ended February 28, 1966 and \$1,678 during the period ended February 28, 1967. The losses have been reimbursed by Panorama City, Inc. and cost of property sold has been reduced accordingly.

PANORAMA CITY AND THE STOCKHOLDER

Panorama City, as a real estate development company, is constantly faced with the need for long term financing. In the past, during the first four years of our development, our major financing was achieved through the traditional commercial loans by commercial banks and savings and loan institutions, and through our own private financing source, the Panorama Fund.

To date, the Panorama Fund, which is created by the deposits of the residents who move into Panorama City, is in excess of \$3,000,000.00. Each resident, who is an investor in Panorama City, currently receives interest on all of his deposit over the first \$2,000. The trustees for the Fund, in turn, have re-invested a major portion of this Fund in Panorama City.

Now, through our successful registration with the Securities and Exchange Commission, Panorama City is making its common stock available to the general public. Sales are made only through a prospectus.

As an investment company, Panorama City has a record of outstand-

ing growth. During the first four years of its existence, the corporation's fixed assets acquired at a cost of \$5,200,000, have grown from \$300,000 to \$7,864,000.00 as of April 30, 1967 based on appraisal, and we have hardly begun.

Individually, Panorama City looks forward to the greatest year of growth in its history. During 1967 alone our living units and resident population is expected to double. Our extensive real estate holdings, located in one of the fastest growing areas in the West, continue to increase in value daily.

As part of the booming Puget Sound and Thurston County area, the growth picture for Panorama City, Inc. is even more attractive. Projected growth figures for Thurston County indicate that this heretofore rural, farming county will probably experience a greater expansion than most of the regions bordering Puget Sound. Already chosen as the site of Washington's first, new four-year state college in the past half-century, Thurston County is bracing itself for the establishment of other industrial and business growth.

As a proven, growing investment and real estate company located in the heart of this great expansion and development, Panorama City, Inc. will continue to provide the investor with even greater opportunities for personal growth and profit in the decades ahead.

CAPTIONS

PAGE 1

Secretary of State A. L. "Lud" Kramer and president Loveless preside at Convalescent Center opening.

PAGE 3

(left) Panorama Hall's spacious lobby (top) The year's construction continues at a record pace. (bottom) President Loveless and Washington Governor Rosellini break ground at Panorama City.

PAGE 4

The community's physical and occupational therapy program provides daily assistance to residents and non-residents alike.

PAGE 5

(left) "Meals on Wheels" brings food piping hot and crispy cold to Convalescent Center patients from the community's own restaurant. (top) A familiar sight as friends get together on the grounds for croquet. (center) The Convalescent Center's closed-circuit TV provides 24-hour attention for constant care patients. (right) PC's Convalescent Center provides the maximum in professional services, 24 hours every day. (bottom) Occupational therapy helps retrain patients in everyday skills.

PAGE 6

Panorama City's own television station (Channel 3) telecasts daily to residents.

PAGE 7

Lovely Panorama Park, another Panorama City real estate development, peeks through the morning mist on the shores of renowned Hood Canal.

PAGE 9

From any view, Panorama City provides the resident and visitor alike with a rare beauty.

PAGE 11

Panorama City residents find a whole new world of activity and excitement at the West's most outstanding retirement community: (left) Digging oysters at Panorama Park on Hood Canal. (center) Playing shuffleboard among Panorama City's sheltering evergreen trees. (right) Enjoying their personal cultural pursuits in the privacy of their own lovely home or apartment.