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PANORAMA CITY 1967

PANORAMA CITY AND THE STOCKHOLDER

Panorama City, Inc., as a development and investment company with diversified holdings, looks forward to the greatest year of growth in its history. During 1968 alone the living units and resident population of Panorama City retirement community is expected to nearly double. Our extensive real estate holdings, located throughout the West, continue to increase in value daily. With a portion of these holding located in 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, and with freeways nearing completion, making the area readily accessible from other metropolitan locations, Thurston County is bracing itself for the establishment of progressive industrial and business growth.

Panorama City, Inc., has already established a record of outstanding growth. During the first five years of its existence, the corporation's fixed

assets have grown from \$300,000 to \$9,282,233 as of February 29, 1968.

As a growing corporation, we have been faced with the need for long-term financing. During the first few years of our development, our major financing was obtained through the traditional commercial loans through financial institutions and through our private financing source, the Panorama Fund.

To date, the Panorama City Fund, which is created by the deposits of the residents who move into Panorama City retirement community, is in excess of \$4,400,000. Each resident, who is an investor in the Fund, currently receives interest on all of his deposit over \$2,000. The trustees for the Fund, in turn, have re-invested a major portion of this Fund in Panorama City, Inc.

In addition, the corporation has negotiated a large loan with a syndicate of savings and loan associations, assuring ample funds to meet construction needs for its progressive expansion program.

As a proven, growing investment company located in the heart of concentrated activity and development, Panorama City, Inc. will continue to provide the investor with even greater opportunity for personal growth and profit in the decades ahead.



PACIFIC
Stack



THE CHALET

Panorama City's proudest accomplishment to date is the first of a series of multiple-story apartment buildings.

The Chalet was officially dedicated on the 14th of July, 1968. Playing an active role in the ceremonies, as guest speakers, were Governor Daniel J. Evans and U. S. Senator Warren G. Magnuson.



LEGEND

- *1 OLYMPUS
- 2 CHALET
- *3 TAHOMA
- *4 ISSAQUAH
- 5 C & R CENTER
- 6 PANORAMA HALL
- *7 QUINAULT
- *8 CHINOOK
- *9 TILLICUM

**Projected*





THE PRESIDENT'S MESSAGE

TO OUR STOCKHOLDERS . . .

A year of solid accomplishments! As I review Panorama City, 1967, I have to call it that kind of year. During the fiscal year ended November 30, 1967, substantial increases were recorded in all operating results and financial strength indices. These increases and accomplishments have continued on into the current fiscal year, assuring us that the year 1968 will be a year of even greater growth and accomplishment.

We have now seen the conclusion of Stage I of our construction program. The past year saw the completion of the 60-unit "Chalet" and 97 units in Panorama Park (formerly called Leisure Way). These units were completed for a total of approximately \$2.8 million, generating over \$2.5 million in new deposits to the Panorama City Fund and designed to produce a gross annual income of approximately \$500,000.

The Company has now launched the second stage of its construction development. Under way are 171 units in Panorama Park-West and 160 units in the first of two five-story high-rise apartment buildings. These projects are designed to cost approximately \$5.2 million, to generate an estimated \$5.6 million in new deposits to the Fund, and to produce a projected gross income of \$1,000,000 annually. Of equal importance is the fact that the high-rise unit, containing the Lodge facilities and the Panorama health club, rounds out the total service program necessary to the residents and to the retirement community.

Because of the solid growth shown during 1967, the Company was able to successfully negotiate the largest mortgage loan in the history of the Olympia area. From nine participating savings and loan associations, a loan commitment was obtained for \$12 million, five million of which has been funded and the balance to be funded in the future based on additional growth requirements. We are very much indebted to Evergreen First Federal Savings & Loan Association, Lacey; Lifetime Federal Savings & Loan Association, Tacoma; First Federal Savings & Loan Association of Bremerton; Portland First Federal Savings & Loan Association, Portland; Guaranty Federal Savings & Loan Association, Longview; West Coast Federal Savings & Loan Association, Centralia; Thurston County Federal Savings & Loan Association, Olympia; Washington Federal Savings & Loan Association, Seattle; and Metropolitan Federal Savings & Loan Association, Seattle, for their outstanding display of confidence in the Panorama City program and management.

Because of this growth, the assets of the Company have been re-

examined by Harold Starkey, M.A.I. He has assured the nine participating savings and loan associations that, in his opinion, the value of the retirement community alone is in excess of \$16,000,000, exclusive of other holdings of the Company, such as the Lacey Village Shopping Center, real estate for resale, and real estate held for later development. When these are included, the total appraised value of all assets is nearly \$20 million, representing nearly \$100.00 per share of outstanding stock.

People Make the Difference

What has accounted for this continuing success? Is it the uniqueness of the program offered? Is it the quality of the construction? Is it the fact that success breeds success? Yes, it is all of these things but it is also much more. It is the people at Panorama City that make the difference. I am extremely indebted to the excellent men who compose our Board of Directors. Never before have I had the opportunity and pleasure to work with such a talented, unselfish and dedicated group of men. Their contributions have been invaluable. Through their leadership and guidance, the corporate officers, departments heads and staff members have continued to grow, in stature as well as in experience. With the commencement of the Panorama Lodge facility, the total program of service became complete. From this point forward, the emphasis will be on growth and operation. New programs will be added as the demand arises. Flexibility will be the key word.

That which makes Panorama City different is also what is making it successful. We believe our success is directly related to our dedication to building lasting values. For the stockholder—growth in value and in potential earnings per share. For the employee—incentive, recognition and fair remuneration. For the customer and the resident—superior service at a competitive price. For the communities in which our company operates—increased employment and the exercise of good corporate citizenship.

As attuned as it is to the moment, Panorama City is, at the same time, "future-oriented". It is continually expanding its programs as a need is anticipated. It is presently exploring the feasibility of expanding its concept in the field of health services and research development. The Company is constantly on the alert for expansion programs that will develop new sources of income, ever mindful that such programs must fit into the total concept of service and growth. Each year has been a record year. 1967 was no exception. Neither will 1968 nor other years to follow.



CHARLES C. COLE, a former mayor of Shelton, Washington, is the President of C. C. Cole and Sons, a wholesale distributor for Standard Oil Company of California. He is a director and the President of L-M Hyak Lumber Company, and a director of Sunset Life Insurance Company. A resident of Panorama City, he was elected a director of Panorama City, Inc. in February, 1966.

Mr. Cole is currently serving as Chairman of the Board and Chairman of the Executive Committee.

A MESSAGE FROM THE CHAIRMAN OF THE BOARD

STATEMENT OF C.C. COLE,

Chairman of the Board of Directors

The past year saw outstanding performance in all areas—planning, sales, construction and operations—and this in spite of rising interest rates and tightness in the money market.

The principal accomplishment, I believe, was the successful conclusion of negotiations for a \$12-million "open end" mortgage loan commitment by a group of nine Northwest savings and loan associations, who united in a "joint venture" for this purpose. This achievement, backing up the Panorama City Fund, practically assures us of adequate financing for the remainder of our building program.

The Board of Directors, which is responsible for the overall policy and direction of the Company, is well balanced—with men experienced in banking, in construction, in business management and in real estate and promotion. It also includes one member, myself, who is a resident of Panorama City.

The staff has been strengthened and streamlined, and your Company is very fortunate in the level of capability of its people and the spirit in which they approach their work. Human resources are our most important asset.

There are two sides to our program: the business side or "dollars and cents" approach (we must make a profit), and the "heart" or "soul" side, which we endeavor to promote through our comprehensive health plan, the visiting nurse service, the T.L.C. (tender loving care) in the Convalescent Center, the concern which all of the staff shows about the welfare of the residents, the financial security afforded through the Trust Fund, the Panorama City bus service for residents and friends, the recreation facilities and dining room, the complete lack of regimentation.

Backed up by our refundable deposit Trust Fund, Panorama City offers a program which is unique among retirement communities—a way of life that is not regimented, yet includes a maximum of personal service with a minimum of interference with your personal life. Ambitious goals have been set for future growth, and we are confident that we can achieve these goals.



CHARLES C. COLE, a former mayor of Shelton, Washington, is the President of C. C. Cole and Sons, a wholesale distributor for Standard Oil Company of California. He is a director and the President of L-M Hyak Lumber Company, and a director of Sunset Life Insurance Company. A resident of Panorama City, he was elected a director of Panorama City, Inc. in February, 1966.

Mr. Cole is currently serving as Chairman of the Board and Chairman of the Executive Committee.



SYDNEY C. SELDEN, SR. is the President and a director of Selden's, Inc. and an officer and director of Selden's of Olympia, Inc., retailers of furniture, furnishings and floor coverings. He has an interest in a furniture manufacturing company and in various real estate holdings. He has been active in the Retail Trade Bureau, the Tacoma Chamber of Commerce and other civic organizations.

A member of the Board of Directors since 1963, Mr. Selden has served as its Chairman. He is currently Chairman of the Commercial Properties Committee.



AUGUST vonBOECKLIN is a graduate of the University of Notre Dame, magna cum laude, holding a degree of Bachelor of Philosophy and Commerce. He is President of the Lifetime Federal Savings & Loan Association, President of Sampson, Inc., Director of the National Bank of Washington, Hillhaven, Inc., and Lumbermans Improvement Co., a director of the Tacoma Chamber of Commerce, and past president of the United Good Neighbors of Tacoma. Mr. vonBoecklin is a director of the Federal Home Loan Bank Board, serving for a two-year term which will expire in 1968.

Formerly a trustee of the Panorama City Fund, Mr. vonBoecklin accepted an appointment to the Board in 1966. He is currently serving as Chairman of the Finance Committee.



JAMES M. GRIBBON has been associated with the Puget Sound National Bank since 1946 and currently is the Vice President and a member of the Senior Loan Committee. He has attended New York University and the University of Washington. He has been active in the Tacoma Chamber of Commerce, United Good Neighbors and the Tacoma Vocational School.

Named a director in 1966, Mr. Gribbon has served as a member of the Long Range Planning Committee, the Finance Committee, and the Executive Committee.



MORRIS J. LOVELESS, President of Panorama City, Inc., has been in business, real estate and property management in the Olympia, Washington area for many years. From 1960 to 1962 he was Vice President of Relco, Inc., a real estate development company which built and operated bowling alleys and a shopping center during that period. During 1961 and 1962, Mr. Loveless was President of Thurston Development Co., Inc., a company which constructed and operated the Capital City Golf Course at Lacey, Washington. As one member of a partnership, he has participated in the construction of other commercial property in Lacey, which includes a bowling alley, service station and tavern. As President of the Puget Development Company, the predecessor of Panorama City, Inc., Mr. Loveless engaged in the development and sale of residential properties in the Olympia area. He is an active member of the Olympia Chamber of Commerce and the Lacey Area Chamber of Commerce.



ROBERT P. COLUCCIO is the former President of Pacific Sand & Gravel Company and spent 22 years with that company. He is a director of West Coast Savings & Loan Association and Washington Commonwealth Corporation. He attended Washington State University where he studied civil engineering. He is a past President of the Association of General Contractors of the state of Washington, of the Asphalt Paving Association of Washington, and of the Centralia Chamber of Commerce.

Mr. Coluccio was elected to the Board in 1967. He has served as Chairman of the Long Range Planning Committee.



IRVING M. PETERSON has been the owner and operator of Peterson's Foodtown Supermarkets since 1940. He attended the University of South Dakota and is a past President of the Olympia Chamber of Commerce, of Toastmasters Club, and of the Olympia Country and Golf Club; and is a director of the Washington State Food Dealers Association. Prior to operating his own business, he spent 10 years with Safeway, Inc., during seven years of which he was the store manager.

As a director of the Company, elected in 1967, Mr. Peterson is serving as a member of the Commercial Properties and the Long Range Planning Committees.

A LOOK AT THE PAST

Every valid product is a response to a need.

In the years prior to 1963 the Company increasingly recognized the need for an improved, modern plan of living for those who had reaped time in which to live. It saw the need for a place where the retired person does not permanently relinquish a major portion of his life's savings, where he can live in a favorable climate, be secure, and be among companions.

With a totally unique plan, Panorama City was begun in the fall of 1963. The location was 95 forested and golf-course acres fronting on Chambers Lake, near Lacey, Washington. In the years since, the ever-increasing demand and the widening market have abundantly proven the need for the Panorama City concept.

Even before the end of that initial year of operation, four living units had been completed and were occupied. At the close of 1964 the total completed living units reached 42. By 1965 patronage was gaining momentum and a total of 122 units were completed and occupied within the community. By the end of 1966 the total had grown to 172. At the close of 1967, as success was compounding success, 310 units were completed and occupied, and additional requests for residency were increasing each week. Now, in the spring of 1968, the first 12 units of the Lodge facility are taking form, with occupancy to begin in July. These units are a part of, and represent the actual beginning of, a 160-unit, 5-story apartment building referred to as the Quinault.

Lacey Village, long an integral part of Panorama City, Inc., is located in the heart of the Lacey business district. Construction during several years has brought the area to its present 63,500 square feet of retail space and two service stations. A 7-11 Speedy Mart was completed during this past year and is now open. A new restaurant, Wilson's Chuck Wagon, opened in mid-June, and the Wigwam Department Store, occupying 16,500 square feet, is scheduled to open by August 1. Additional land is available for further expansion.

During this period of time, the gross annual income of the Company rose from \$289,000 in 1964 to \$1,660,000 in 1967. And as of February, 1968, the Panorama City Fund was \$4,473,381.

Hand in hand with the physical progress has gone the maturing of the administrative procedures. We have continually upgraded the accounting processes because of the volume of work required in maintaining any company such as Panorama City which has multiple operations. Efficiency was increased tremendously when IBM machine accounting was instituted in 1966. The Company has continued to upgrade its accounting procedures by expanded use of this equipment. Because of this increased efficiency, the Company now realizes more current data and statistics of the kind necessary in everyday operations. We are contemplating a further conversion to a computer-type system within the next two years.

We have undergone an in-depth study of our internal operation and have implemented procedures to meet the new demands facing the Company. We have rearranged the organization of the Construction Department, necessary to meet the needs of the larger, expanded construction program. We have expanded the Resident Relations Department in order to meet the growing needs of the increasing numbers of residents. We have reorganized our Sales Department to handle the volume of the accelerated residency sales program. During this past year, we have acquired and are operating our own bus. We have set up an advertising department, and have improved upon the closed-circuit TV programming. We have acquired the status of a major taxpayer and of one of the largest employers in this particular area, now employing 180 persons. The increase in employees is occasioned by the dynamics of producing more income.

PANORAMA CITY — COMMUNITY CONSCIOUS

The future of Panorama City, Inc., like that of other industries, depends largely upon the sound development of organized communities. As a company, we are becoming increasingly involved in a program of community participation. Not only are our facilities being made available for public service use, but our personnel are being encouraged to participate in civic functions. An officer of the Company and a resident-stockholder are both members of the Lacey City Council. Another officer of the Company has been appointed to the Lacey Planning Commission. A Panorama City resident has been appointed Judge of municipal court. A department head has been designated to represent the Company as a member of the Citizens' Advisory Committee to the North Thurston School District. He is also on the North Thurston Library Board. The Company is well represented in the local civic organizations. Another staff member is a Past President of the Lacey Area Chamber of Commerce and is presently Chairman of its Board of Directors.

Of significant importance is the appointment of Mr. Morris J. Loveless, President of Panorama City, Inc., to the Governor's Council on Aging. This Council, acting as an advisory group to the executive branch of the government, has far-reaching influence on the total concept of retirement planning. Our Company is once again in a position of contributing leadership and applying the concept of private industry to the thinking in this rapidly expanding area of public responsibility.

Panorama City is a leader in its community, not only because of its growing magnitude, but also because it is our policy to integrate into the community. This policy, we are confident, will strongly energize and support a widening practical program in urban affairs.

P C FUND

1963	0
1964	\$229,725
1965	\$753,995
1966	\$1,089,967
1967	\$2,573,905
1968	\$4,473,381

UNITS

1963	4
1964	42
1965	122
1966	172
1967	310
1968	440 (anticipated)

RESIDENTS

1963	5
1964	77
1965	204
1966	268
1967	313
1968	625

THE 1980's

FORECAST

From the viewpoint of an organization that systematically plans for the future of many Northwesterners, the 1980's are just a peek around the corner. When we consider that, already, the bulk of current Panorama City mortgage financing matures in that decade and later, it is a fact that we are already dealing with the period.

What is the outlook for our region in the mid-80's? Experience to date has shown that our resident depositors, with few exceptions, have previously resided in the states of Washington, Oregon and north Idaho. Growth in the Puget Sound Basin area, in which Panorama City is located, will be by far the most dramatic in this decade, being compared to the California population explosion of the past. This expansion is particularly important to Panorama City. Naturally enough, the highest share of our resident depositors in the future, as in the past, can be expected to have resided in this eleven-county area.

The Pacific Northwest, like the nation as a whole, will add large numbers of young persons to its population in the next two decades. While great attention is focused on this work force, the numbers and percentages of future retirees are only a whisper less startling. According to Pacific Northwest Bell Telephone Company projections, the number of people over 65 in the region will increase by more than 110,000 between 1965 and 1975, a 22% gain. And for the 20-year period 1965-1985, the projection is for a 52%, 265,000-person increase. This may, of course, be only a partial reflection of the increased demand for the services of Panorama City. By 1985 the "normal" retirement age may well be 60 years, rather than 65. According to the study, the Pacific Northwest region we serve will have, by 1985, virtually twice as many persons over 60 as we now have above age 65. The increase will be more than 450,000 persons in this category,

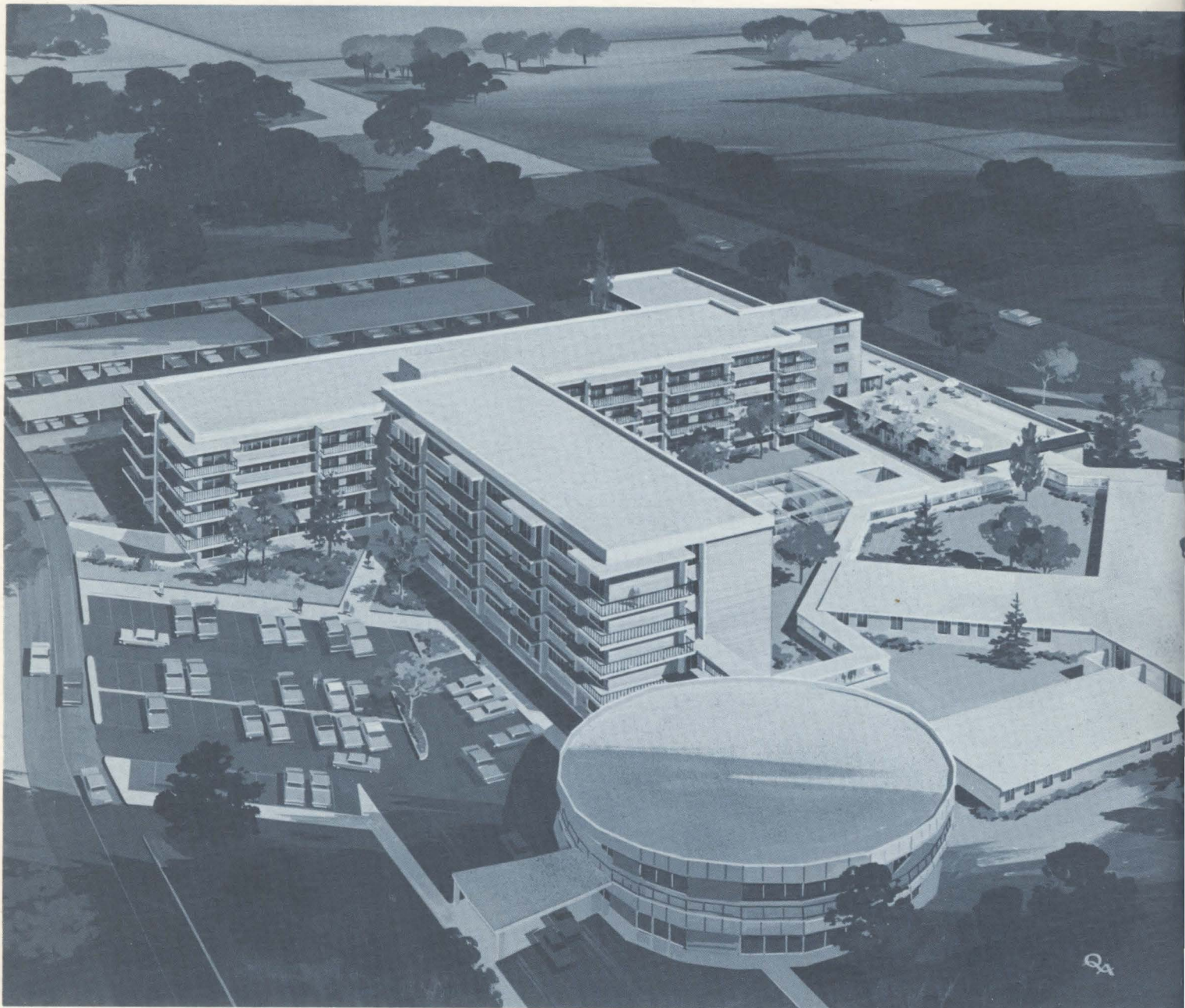
in only 17 years. Certainly the challenge of planning and building for this market, of forecasting the physical and social facilities it will demand, is virtually boundless.

What will the Panorama City resident of the future want and need, in order to maintain a vibrant outlook on life? What kind of total environment will be most desirable? How will the business and social experiences of the past have molded our man and woman of the 1980's? Will they be more, or less, dependent upon the community for physical and social services? What experiences and skills must we rely upon in order to anticipate, plan and facilitate the demands of this ever-present future we will serve?

The Panorama City planning of today, the next year, and a decade from now, will be the outgrowth of constant probing for the answers to these questions. It will be dedicated, we feel sure, to the root concept that has guided us to our present success. Experience has proven that a privately financed, tax-paying organization, because it must be responsive to the motive of reasonable profit, is most sensitive to the demands of the public it serves. And success can be generated only from such a sensitive approach, such a daily interest in properly planning for the achievements of the future.

The 1980's, and the years intervening, will be years of challenge and satisfaction for Panorama City, Inc. As opportunities for diversification and change are presented, they will be analyzed with a background of dynamic planning, then acted upon in keeping with established corporate principles and objectives. We expect these changing opportunities to be demanding, exciting and rewarding. And we feel confident that the staff of the Company, in every department, is and will be keenly attuned to the needs and challenges dictated by the unprecedented growth of the region which we serve.

NEW PROJECTS UNDER CONSTRUCTION

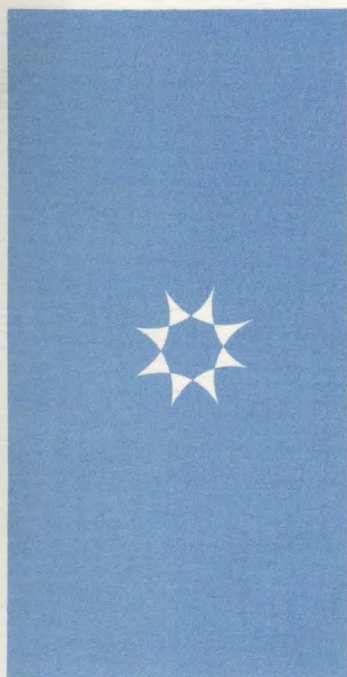


The Quinault, the Chinook and the Tillicum are multi-storied apartment buildings to be built in the near future at Panorama City. Already begun, the Quinault will consist of 160 one-bedroom, two-bedroom and studio apartments. It will connect, under cover, with the Convalescent and Rehabilitation Center, with swimming and therapeutic pools, and with Panorama Hall. Atop one section will be a 12,000-square-foot roof garden, with artistic plantings, game areas, a greenhouse, and patio sitting areas.

The main, five-story tri-arm section of the Quinault will contain a chapel, a library, meeting rooms, space for hobbies and classes, one of the major recreation areas of Panorama City, and an auditorium with seating for 900.

The Chinook is a three-story, 60-unit apartment building to be located at the north end of Panorama Park West. Consisting of one-bedroom apartments, it is designed primarily for the active single person who seeks economical living in the security of an apartment house. Featured will be a central day room, planned and decorated by professional designers.

The two-story Tillicum, to be built south of the Chinook, will contain 22 one-and two-bedroom apartments.



RETIREMENT IN PANORAMA CITY TODAY

Panorama City, Inc., as a matter of corporate policy pursues simultaneously two means toward stability and continued growth.

THE FIRST IS THE DEDICATION TO THE UNIQUENESS OF CONCEPT established by its founders. The foremost endeavor is the operation of the retirement community, Panorama City,—unique in itself. The refundable deposit system, the variety of retirement plans, the independence as well as security, and the emphasis placed on recreational, active retirement make it so. Panorama City offers a home for life, with complete maintenance and attention to needs during any stage of retired living.

The Actively Retired choose from several types of retirement living, ranging from individual homes to Chalet or hi-rise apartments. The comradeship, recreation facilities, the planned excursions and social events provide for scope and vitality. Panorama City, located in a favorable climate and at the vacation hub of the Pacific Northwest, is just next door to enough exciting areas outside the community to provide a full lifetime of enjoyment. Hobby and reading facilities beckon residents to employ all the talents gained from a lifetime of experience and to develop more.

For Those Seeking Catered Care in their own residences, the Quinault five-story tri-arm apartment house provides a variety of modes of life, from the most active and unregimented to the most protected. Catered meals, housekeeping and laundry services are available in addition to the maintenance, utilities and 24-hour switchboard service furnished with all Panorama City residencies. The Quinault concept of living, by making available these additional services, bridges the former gap between the individualized accommodations and the care in the Convalescent and Rehabilitation Center.

For the Resident Who Is in Need of Medical Care, the Convalescent and Rehabilitation Center provides the most modern and complete service in the Northwest. Medicare-approved for extended care, this 104-bed facility provides a permanent, 40-person staff including registered nurses, practical nurses and orderlies, 24-hour supervision, intensive care units, and occupational and physical therapy facilities.

Panorama City's Visiting Nurse Service is available to all its residents during convalescence or in emergencies . . . at the touch of the dial or the drop of the telephone receiver. A modern health spa, an adjunct to the physical therapy program, will be constructed this year and will be available as an extra service. It is to include a swimming pool, a mineral whirlpool bath, sauna, eucalyptus oil steam room and an ultra-violet ray room in addition to other facilities. The Panorama City bus tours the grounds and transports residents to shopping centers and on excursions. In all facets of the retirement program a skilled, professional staff is at hand to serve—a staff dedicated to the happiness, well-being and health of those in the retirement community.

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 TV. Included also, and very important, is the Panorama City comprehensive medical program, which ties in with Medicare and our own Convalescent and Rehabilitation Center.

An Additional Corporate Endeavor is the operation of Lacey Village Shopping Center, located in Southwest Washington's fastest growing area, Lacey, Washington, close to the retirement community. It operates as a decided shopping convenience to those at Panorama City because of its diversity and proximity.

THE SECOND FACTOR STRUCTURING STABILITY AND CONTINUED GROWTH is the policy of attracting and capitalizing on expert management personnel. Effective use is made of the strong management skills on an inter-divisional basis, furthering corporate stability and acceleration. Panorama City, Inc., is demonstrating that a public, tax-paying corporation can provide wider and finer services to its clients than most tax-exempt retirement organizations.

Creative planning for today and tomorrow, vital people who find a challenge in their work and enjoy doing it, the corporation's concern for and participation in community life, are building now the Company's dynamic future.





1 Individual shops for wood-working, ceramics, weaving, lapidary work and other crafts permit residents to pursue their favorite hobbies.



2 A popular recreational spot is the nine-hole pitch and putt golf course.

3 Monthly charges include outside window washing on a year-round schedule.

4 Lawn bowling helps keep residents physically trim and active.

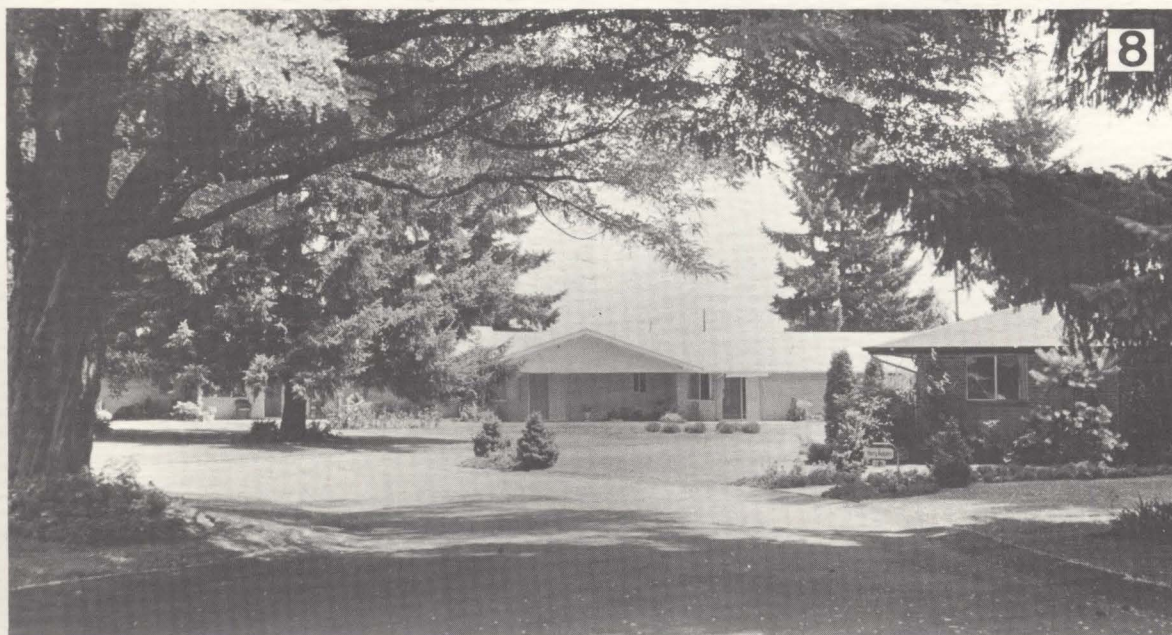


5 Ground crews keep Panorama City's spacious grounds in show-place condition.

6 All major electrical appliances are maintained for life under Panorama City's program of services.

7 Panorama City's physical and occupational therapy program provides daily assistance to residents and non-residents alike.

8 Wide, winding, tree-shaded avenues provide residents and visitors with park-like views.





Having over 65,000 square feet of leasable space, in addition to two service stations, Lacey Village Shopping Center contributes materially to the total income of Panorama City. Located in one of the most rapidly growing areas in the Pacific Northwest, the center has added Wilson's Chuckwagon Restaurant and 7-11 Market to its list of tenants.

Scheduled for opening by August 1, 1968 is the Wigwam Department Store, occupying 16,500 square feet of retail space. Continued expansion of the Center is scheduled as new leases are negotiated. Present tenants include, in addition to the above, Albertsons, Gillette and Guffey Drugs, Coast to Coast Stores, Public Finance Company, A & W Drive In, Village Beauty Shop, Village Barber Shop, Don's Candy, Humble Oil Company and Richfield Oil Company.



PANORAMA CITY FUND

TRUSTEES AND OFFICERS

Officers of the Fund are:

Stanley P. Selden—Chairman of the Board
John T. Greeny—Secretary of the Board

Trustees of the Fund are:

Stanley P. Selden.....	226 Del Monte, Tacoma, Washington
John T. Greeny.....	4813 Richard, Olympia, Washington
Carl Engstrom	2942 South Boundary, Olympia, Washington
Roy H. McGandy	185 Circle Drive, Panorama City, Lacey, Washington
Fred G. Thunberg.....	Rt. 6, Box 328, Olympia, Washington

The Administrator of the Fund is:

Morris J. Loveless.....Rt. 6, Box 331, Olympia, Washington

BIOGRAPHY

Stanley P. Selden attended Stanford University and holds a degree of Bachelor Arts in Business Administration from the University of Puget Sound. He is treasurer of Selden's, Inc., retailer of furnishings, furniture and floor coverings in Tacoma, Washington.

Reverend John T. Greeny holds a Bachelor of Arts degree from Midland College, Fremont, Nebraska, and a Bachelor of Divinity degree from Central Lutheran Theological Seminary of Fremont, Nebraska. He served as a Chaplain in the United States Air Force holding the rank of Major. He is a past treasurer of Riverview Lutheran Retirement Home, Spokane, and has served as a trustee of the Riverview Board of Corporations.

Carl Engstrom is the former district sales manager for Standard Oil Company of California. He was associated with Standard Oil for 38 years, with responsibilities in sales, training, and development of personnel and lease and property purchases.

Roy H. McGandy is retired and a resident of Panorama City. Mr. McGandy was associated with Puget Sound Power and Light Company for over 39 years, serving as its manager in Sumner, Auburn and Chehalis, Washington.

Fred G. Thunberg has had more than 24 years experience in department store operations with J. C. Penney Company, serving in managerships during the last 15 years. He has a partnership interest in a sports and athletic supply company and for several years acted as general manager of The Village Department Stores, Inc., holding the office of Vice-President. He joined Panorama City, Inc., on a full-time basis in February, 1966 as Vice-President in charge of Customer Relations. Mr. Thunberg is the past President of Young Men's Business Group, Arlington Chamber of Commerce and Lions Club. He has been active in the Boy Scouts of America and served three terms as city councilman for Arlington, Washington.



FINANCIAL STATEMENTS

PANORAMA CITY, INC.
LACEY, WASHINGTON

To the Board of Directors
and the Shareholders
Panorama City, Inc.
Lacey, Washington

We have examined the balance sheet of Panorama City, Inc., as of November 30, 1967 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 year ended November 30, 1966.

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, (See Note 11) and (2) the contingencies referred to in Note 8 relating to Village Department Stores, Inc., the accompanying financial statements present fairly the financial position of Panorama City, Inc. at November 30, 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 except for the changes, in which we concur, referred to in Note 2.

LYBRAND, ROSS BROS.
& MONTGOMERY
Seattle, Washington
April 6, 1968

PANORAMA CITY INC. BALANCE SHEETS

ASSETS	NOVEMBER 30	
	1967	1966
Investments in land, building, land improvements and equipment at cost (Notes 1 and 7):		
Retirement units	\$4 463 866	\$3 679 800
Nursing home	638 514	503 072
Lacey Village Shopping Center.....	666 109	665 192
	<u>5 768 489</u>	<u>4 848 064</u>
Less accumulated depreciation.....	319 195	190 840
	<u>5 449 294</u>	<u>4 657 224</u>
Buildings and equipment, at cost (Notes 1 and 7):		
Buildings	12 311	12 311
Furniture and equipment.....	83 275	76 376
Vehicles	21 392	22 692
	<u>116 978</u>	<u>111 379</u>
Less accumulated depreciation.....	24 958	15 109
	<u>92 020</u>	<u>96 270</u>
Construction in progress (Notes 1 and 7)	1 265 432	346 925
Undrawn construction funds.....	7 550	75 000
Real estate held for sale or development at cost, net of depreciation of \$4,328 (\$4,044 in 1966) (Notes 3 and 7)	548 002	552 047
Notes and contracts receivable (Note 4):		
Trade	96 415	226 997
Officers and director.....	51 428	40 270
Long-term receivable from tenant-shareholder for construction	42 650	42 650
Deferred charges and prepaid expenses (Notes 2 and 5)	274 794	270 528
Cash (includes savings and loan deposits of \$2,900 and \$2,851, respectively, pledged in connection with sale of contract receivable)	11 267	7 404
Marketable securities at cost (market value \$7,265)	7 270	
Accounts receivable (Note 6)	124 044	77 310
Other assets	6 778	5 491
	<u>\$7 976 944</u>	<u>\$6 398 116</u>

LIABILITIES	NOVEMBER 30	
	1967	1966
Capitalization:		
Shareholder's capital deficiency:		
Common stock \$10 par value, authorized 600,000 shares, issued 210,728 shares (203,731 shares 1966) (Notes 8 and 9) ...	\$2 107 280	\$2 037 310
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>321 580</u>	<u>251 610</u>
Capital stock subscribed, net of stock subscriptions receivable of \$53,088 (\$4,319 in 1966)	12 312	381
Capital in excess of par value (Note 9)	35 107	
Deficit in earnings	(1 198 123)	(772 570)
	<u>(829 124)</u>	<u>(520 579)</u>
Treasury stock, 428 shares at cost.....	(4 280)	(4 280)
Total shareholder's capital deficiency.	<u>(833 404)</u>	<u>(524 859)</u>
Long-term debt (Note 7):		
Mortgage payable	3 517 120	3 243 130
Construction loans	500 000	550 000
Mortgage notes payable to Panorama City Fund	3 637 550	1 840 000
	<u>7 654 670</u>	<u>5 633 130</u>
Less installments due within one year.....	121 870	92 966
	<u>7 532 800</u>	<u>5 540 164</u>
Total capitalization	<u>\$6 699 396</u>	<u>\$5 015 305</u>
Long-term debt, installments due within one year..	121 870	92 966
Notes and contracts payable (Note 7)	530 998	418 630
Accounts payable:		
Panorama City Fund.....	7 267	266 313
Trade	445 195	469 318
Accrued taxes, interest, payroll, etc.....	106 738	59 980
Other liabilities		754
Deferred income	65 480	46 850
Lease deposits		28 000
Commitments and contingencies (Note 8)		
	<u>\$7 976 944</u>	<u>\$6 398 116</u>

The accompanying notes are a part of the financial statements.

STATEMENT OF OPERATIONS AND DEFICIT IN EARNINGS

Income:	1967	1966
Tenant income:		
Retirement units (Note 2)	\$ 543 992	\$ 358 014
Nursing Home (Note 8)	394 460	273 299
Lacey Village Shopping Center	59 703	79 966
	<u>998 155</u>	<u>711 279</u>
Restaurant sales	111 795	43 552
Sales of real estate and manufactured fixtures	512 750	447 625
Other income	37 063	19 377
Total income	<u>\$1 659 763</u>	<u>\$1 221 833</u>
Cost and expenses:		
Cost of real estate and manufactured fixtures sold	491 776	418 206
Food cost, restaurant and nursing home	85 795	46 892
Salaries and wages	416 918	362 488
Interest and amortized loan expense	424 459	349 719
Depreciation (Notes 1 and 2)	110 862	120 527
Repairs and maintenance	82 424	26 733
Telephone and utilities	122 770	96 511
Taxes—excise, property and payroll	91 385	60 427
Advertising and promotion	74 050	70 453
Medical insurance	35 432	24 458
Other insurance	36 773	16 153
Other	112 672	105 019
Total costs and expenses	<u>\$2 085 316</u>	<u>\$1 697 586</u>
Loss for the year (Notes 2 and 10) (\$2.08 and \$2.37 per share based upon average shares outstanding) ..	425 553	475 753
Deficits in earnings:		
Beginning of the year	772 570	296 817
End of year	<u>\$1 198 123</u>	<u>\$ 772 570</u>

The accompanying notes are a part of the 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 construction 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.

The company provides depreciation on a straight-line basis and the amounts charged to expense aggregated \$110,862 for 1967 and

\$120,527 for 1966. Refer to Note 2 for description of policy to defer depreciation charges related to certain common retirement facilities and to Note 3 concerning depreciation policy relating to other assets.

2. Changes in Accounting Principles:

On December 1, 1966 the company adopted the policy to defer depreciation charges on certain common retirement facilities, such as Panorama Hall (the recreation center which houses the restaurant) roads, sewers and water mains. These common facilities have been constructed to accommodate full occupancy of the retirement community of approximately 2,200 persons. Prior to November 30, 1966 depreciation of these facilities was charged against income. The policy from December 1, 1966 of expensing depreciation on these facilities will be based upon the ratio of tenants in residence at Panorama City on November 30 of each year to total occupancy of 2,200 tenants, the balance to be deferred and amortized, over a twelve-year period commencing with the earlier of (1) substantially full occupancy, or (2) December 1, 1971. The result of this change in accounting for depreciation of common facilities is to defer \$29,707 of depreciation expense and reduce the loss for the year ended November 30, 1967 by an equal amount.

The residency agreement of Panorama City, Inc. states that in the event Panorama City Fund has aggregate net earnings, after required reserves, in excess of payments to trustees such excess will be paid over to Panorama City, Inc. as additional rent, after the end of the Fund's fiscal year. The company has adopted the policy effective December 1, 1966, of accruing such excess earnings proportionately over its fiscal year. The effect of this accrual is to increase tenant income-retirement by \$14,658 for the year ended November 30, 1967.

3. 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 cost of selling the property.

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

Residential houses, when rented, are depreciated by the straight-line method.

4. Notes and Contracts Receivable:

Notes and contracts receivable bear interest at rates of from 5½% to 8% per annum, except that \$40,270 receivable from M. J. Loveless, an officer and director, at November 30, 1967 and 1966 bears no interest. The notes arose principally from the sale of real estate and are receivable principally in long-term installments.

5. Deferred Charges and Prepaid Expenses:

Included in deferred charges and prepaid expenses at November 30, 1967 and 1966 are (1) unamortized advertising and promotion expenses of \$82,395 and \$111,580, respectively, which are being amortized over a three-year period from the date of completion of the re-

irement units advertised, (2) unamortized debt expenses of \$78,684 and \$70,888, respectively, which are being amortized over the lives of the related mortgages and (3) deferred depreciation charges on common retirement facilities of \$29,707 to be amortized as explained in Note 2.

6. Accounts Receivable:

Accounts receivable at November 30, 1967 and 1966 include \$35,867 and \$2,871, respectively, from Panorama City Fund and \$5,646 and \$1,270, respectively, from officers and employees. The accounts receivable are net of an allowance for doubtful accounts of \$7,500 and \$6,000, respectively.

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

The mortgages payable at November 30, 1967 bear interest at rates from 5¼% to 8% 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,	
1968	\$ 121 870
1969	130 096
1970	138 877
1971	148 251
1972	158 258
Thereafter	2 819 768
	<u>\$3 517 120</u>

The construction loan of \$500,000 at November 30, 1967 is covered by a first mortgage on related buildings under construction and bears interest at 8%. 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 including \$74,038 payable to a former director at November 30, 1967 and \$22,300 payable to an officer at November 30, 1966, bear interest at rates of from 4¾% to 7½%. The notes and contracts at November 30, 1967 are payable over various terms but substantially before 1972, as follows:

Year ending November 30	
1968	\$318 580
1969	118 165
1970	10 479
1971	9 670
1972	9 727
Thereafter	64 377
	<u>\$530 998</u>

The mortgage notes payable to Panorama City Fund of \$3,637,550 at November 30, 1967 (\$1,840,000 at November 30, 1966) are evidenced by a second mortgage on the land and fixed improvements situated within the Panorama City retirement community complex and on certain land and fixed improvements of Lacey Village Shopping Center, bear interest at 6% to 6½% and mature from 1994 to 1997 which is 30 years from date of issue. There is presently no provision for periodic repayment of the principal of these mortgage notes.

At November 30, 1967 the first and second mortgages (including the blanket mortgage) and construction loans related to the following land and buildings:

	Mortgages		Construction
	First	Second	Loans
Shopping Center and underlying land.....		(b)	\$500 000
Retirement units and underlying land completed and under construction.....	\$1 535 125	(b)	
Nursing home building and underlying land	249 936	(b)	
Land, roads and utilities and Panorama Hall....	1 477 623 (a)	(b)	
Other—real estate for sale.....	254 436		
	<u>\$3 517 120</u>	<u>\$3 637 550</u>	<u>\$500 000</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 on certain land and fixed improvements of Lacey Village Shopping Center. As improvements are made thereon, such as roads, utilities and buildings, the second mortgage applies to such facilities.

On February 2, 1968 the company completed arrangements for and received a commitment for a refinancing mortgage loan in the amount of \$5,000,000 at 7.45% interest per annum. Existing mortgages in the amount of \$3,890,592 were repaid and the balance was made available for construction, current operations and cost of refinancing. Substantially all of the land, buildings, land equipment of the company are pledged as collateral. Monthly payments of \$37,000 including interest commenced March 15, 1968 with final maturity in 1993.

8. Commitments and Contingencies:

The company may be obligated under a stock subscription agreement to purchase certain shares of the capital stocks 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, 1967 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.)

Expenditures for building and improvements during 1968 are expected to approximate \$5,200,000; purchase commitments in connection therewith amount to approximately \$400,000.

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.

The company has transferred to Panorama City Fund certain real estate contracts receivable subject to mortgages. As of November 30, 1967 the company is contingently liable for the unpaid mortgage balances of approximately \$215,000.

The company may be liable on demand to certain shareholders for approximately \$175,000 at November 30, 1967 arising from capital stock transactions which occurred at a time when a registration statement of the company, under the Securities Act of 1933, was not effective with respect to such transactions.

The statement of operations under Nursing Home income, includes \$134,497 received under the Medicare Program which amount is subject to final determination by the Social Security Administration. The management of the company believes the amounts are reasonable and proper under the cost reimbursement provision of the program.

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

No shares of the company's stock were held by Panorama City Fund at November 30, 1967 or 1966. 495 shares were held at February 29, 1968. 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, December 1, 1965.....	\$ 560
Add excess over par value received from issuance of 3,731 shares of common stock	37 266
Less registration expenses.....	37 826
Balance, November 30, 1966.....	—
Add excess over par value received from issuance of 6,997 shares of common stock	69 970
Less registration expenses.....	34 863
Balance, November 30, 1967.....	<u>\$35 107</u>

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 \$615,000 and expire as follows:

Fiscal Years Ending	Amount of Tax Credit Expiring
November 30	
1968	\$ 21 000
1969	62 000
1970	108 000
1971	217 000
1972	207 000
	<u>\$615 000</u>

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.

11. Financial Statement Presentation:

The financial statements have been prepared on a going-concern basis; consequently amounts are stated at cost and not at values realizable upon sale or liquidation.

PANORAMA CITY FUND
LACEY, WASHINGTON

We have examined the balance sheet of Panorama City Fund as of February 29, 1968 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, 1967.

In our opinion, subject to the collectibility of the notes receivable from Panorama City, Inc. which is dependent upon (a) the completion by Panorama City, Inc. of its building program and its ability to operate sufficiently profitably to meet its obligations, and (b) the contingencies referred to in Note 8 of the financial statements of Panorama City, Inc. relating to Village Department Stores, Inc., the aforementioned financial statements present fairly the financial position of Panorama City Fund at February 29, 1968 and February 28, 1967, 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 6, 1968

PANORAMA CITY FUND BALANCE SHEETS

ASSETS		
	February 29, 1968	February 28, 1967
Current:		
Cash (Note 1)	\$ 289 692	\$ 140 892
Real estate contracts and other notes receivable, current portion	23 737	2 683
Accounts receivable, trade	700	636
Accrued interest receivable:		
Panorama City, Inc.	20 107	
Other	2 970	295
Deposits receivable, current portion (Note 12) ..	218 090	201 920
Prepaid insurance and taxes	118	234
	<u>555 414</u>	<u>346 660</u>
Restricted cash — pledged (Note 6)	64 091	7 500
Common stock — Panorama City, Inc. at cost	9 900	
Accounts receivable—Panorama City, Inc. (Note 8) ..		32 529
Notes receivable—Panorama City, Inc. (Note 8) ..	3 757 058	2 119 000
Deposits receivable, long-term (Note 12)	27 500	28 000
Real estate contracts (\$612,184) and other notes receivable, less current portion (Note 8)	602 250	55 067
Allowance for doubtful amounts	(3 500)	(1 000)
Real estate owned (Note 9)	86 368	88 839
Rental property, less valuation allowance of \$2,418 (Notes 9 and 11)	37 582	67 804
Less accumulated depreciation	(3 600)	(3 450)
Other assets, principally unamortized registration expense	37 444	36 716
	<u>\$5 170 507</u>	<u>\$2 777 665</u>

LIABILITIES		
	February 29, 1968	February 28, 1967
Current:		
Notes payable	\$ 185 333	\$ 31 363
Mortgages payable, amount due within one year (Notes 8, 9 and 10)	17 854	2 939
Accounts payable, trade	14 791	21 251
Accounts payable, Panorama City, Inc.	42 445	7 960
Accrued interest payable	7 818	1 162
Total current liabilities	<u>\$ 268 241</u>	<u>\$ 64 675</u>
Other liabilities:		
Deferred property settlements (Note 5)	3 544	15 544
Mortgages payable, less amounts due within one year (Notes 8, 9 and 10)	410 186	106 308
Sundry	1 381	
Total liabilities	<u>\$ 683 352</u>	<u>\$ 186 527</u>
Deferred loan service fee income (Note 7)	13 296	16 755
Contingent liabilities (Note 14)		
OWNERSHIP EQUITY		
Deposits (equity of trustors):		
Noninterest bearing	559 000	352 500
Interest bearing	3 349 177	1 882 240
Deposits in process (Note 12)	578 500	355 920
	<u>4 486 677</u>	<u>2 590 660</u>
Less deferred loan service fee income (Note 7)	13 296	16 755
	<u>4 473 381</u>	<u>2 573 905</u>
Reserve for excess annuitant payments	478	478
Total equity of trustors (Note 3)	<u>\$4 473 859</u>	<u>\$2 574 383</u>
	<u>\$5 170 507</u>	<u>\$2 777 665</u>

The accompanying notes are a part of the financial statements.

STATEMENT OF CHANGES IN OWNERSHIP EQUITY

	For the Years Ended	
	February 29, 1968	February 28, 1967
Balance at beginning of year...	\$2 573 905	\$1 089 967
Add:		
Lifetime annuity deposits (Note 3):		
Transfer from lifetime lease deposits	13 000	5 000
Lifetime lease deposits:		
Cash	1 963 077	1 338 915
Property	42 900	—
Transfer to lifetime annuity deposits	(13 000)	(5 000)
Deposits receivable (Note 12)	—	229 920
Increase in deposits receivable	15 670	—
	<u>4 595 552</u>	<u>2 658 802</u>
Deduct:		
Termination of deposits	123 200	85 300
Annuity plan corpus reduction (Note 3)	1 431	537
Payments out of corpus for rents (Note 3)	1 000	—
	<u>4 469 921</u>	<u>2 572 965</u>
Add:		
Net income	171 681	77 172
Less amounts paid for trustors (Note 2)	168 221	(76 232)
	<u>3 460</u>	<u>940</u>
Balance at end of year	<u>\$4 473 381</u>	<u>\$2 573 905</u>
Consisting of:		
Noninterest bearing deposits..	\$ 559 000	\$ 352 500
Interest bearing deposits	3 349 177	1 882 240
Deposits in process (Note 12)	578 500	355 920
Deferred loan service fee income (Note 7)	(13 296)	(16 755)
	<u>\$4 473 381</u>	<u>\$2 573 905</u>

STATEMENT OF INCOME

	For the Years Ended	
	February 29, 1968	February 28, 1967
Income:		
Interest	\$216 786	\$93 907
Rentals	1 900	1 950
Loan service fees (Note 7)	3 460	940
Total income	<u>\$222 146</u>	<u>\$96 797</u>
Expenses:		
Operating and administrative expenses	33 866	10 909
Interest expense	22 034	9 293
Total expenses	<u>\$ 55 900</u>	<u>\$20 202</u>
Income from operations...	<u>166 246</u>	<u>76 595</u>
Other income:		
Sales of property and securities	89 600	54 400
Cost of property and securities sold (Note 13)	84 165	53 823
Gain (or loss) on property and securities sold	5 435	577
Net income (Note 4)	<u>\$171 681</u>	<u>\$77 172</u>
Total distributions (distributable) for trustors (Note 2):		
Net income as above	\$171 681	\$77 172
Less loan service fees amortized as above	(3 460)	(940)
Net distributions (distributable)	<u>\$168 221</u>	<u>\$76 232</u>

The accompanying notes are a part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Cash and Liquidity Factor (Liquid Fund):

As of year end cash is composed of:

	February 29, 1968	February 28, 1967
Liquidity factor—unpledged		
savings accounts.....	\$285 402	\$130 833
Checking account and cash	4 290	10 059
Total unrestricted cash.	<u>\$289 692</u>	<u>\$140 892</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 29, 1968 and February 28, 1967 the liquid assets, as defined, were \$285,402 or 5.52% of the total assets and \$130,833 or 4.71% of the total assets, respectively. During the past year, the liquidity factor was frequently less than 5%. Whenever the liquidity factor is less than 5% the Fund can no longer make any loans or investments, except to those previously committed, until the liquidity factor has been reestablished.

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 years ended February 29, 1968 and February 28 1967. 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% or 5.5% 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%
5.5%	35 000	5.19%

Net income of the Fund is distributed for the benefit of trustor-residents at the end of the Funds 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 29, 1968, the trustees paid over to Panorama City, Inc., the sum of \$1,000 for a trustor for rental and other charges. This invasion of corpus is not expected to be repaid by the trustor. Monthly payments have been made by the trustees for the trustors under the annuity plan (which is applied to their monthly rental), reducing the corpus of the annuity deposits. Included in the amounts paid for these trustors is the 5% or 5.5% earned on their deposit, 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 to Panorama City, Inc., to be credited to the accounts of the respective residents per capita as additional rent paid. 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 at February 29, 1968, and February 28, 1967, 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.

In addition, savings accounts in the amount of \$56,591 were pledged as collateral on short-term notes payable at February 29, 1968. The notes were subsequently repaid and the collateral released April 4, 1968 (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 6% to 6½% and have a life of thirty years. The notes presently held will mature on varying dates in 1994 through 1998 according to the date of issue. The mortgage does not require or provide for amortization of principal. 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 29, 1968 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.

Amount of prior liens on:

Notes receivable, Panorama City, Inc.....	\$5 000 000
Real estate contracts receivable (Note 10).....	375 195
	<u>\$5 375 195</u>

Carrying amounts of notes
and contracts:

Notes receivable, Panorama City, Inc.....	\$3 757 058
Real estate contracts receivable..	612 184
	<u>\$4 369 242</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.

February 29,
1968

Amount of encumbrances (Note 10):

Real estate owned.....	\$32 949
Rental property	19 896
	<u>\$52 845</u>

Cost to the Fund (Note 11):

Real estate owned.....	\$86 368
Rental property	37 582
	<u>\$123 950</u>

10. Mortgages Payable:

These items represent first mortgages on the real property (\$52,845) of the Fund or are related to property sold on contract (\$375,195). The mortgages bear interest at rates varying from 5.25% to 7% and mature from 1970 to 1996. Payments applicable to the reduction of principal range upwards from \$17,854 in 1969 to \$21,200 in 1973.

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 "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 estab-

lishes residency and commences rent payments (and has paid his deposit in full) the deposit is transferred to equity deposits. The deposits in process at February 29, 1968 bear interest at the rate of 5.5% per annum on the amounts collected.

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 \$702 during the year ended February 29, 1968 and \$1,678 during the year ended February 28, 1967. The losses have been reimbursed by Panorama City, Inc. and cost of property sold has been reduced accordingly.

14. Contingent Liabilities:

The Fund may be liable on demand from certain trustors for deposits aggregating approximately \$1,800,000 at February 29, 1968 which were accepted by the Fund at a time when a registration statement under the Securities Act of 1933 was not effective with respect to such deposits.

The Fund has signed, as guarantor of principal and interest, a mortgage note to a savings and loan association, guaranteeing the indebtedness of Panorama City, Inc. the mortgagor. At February 29, 1968 the balance of the note was \$5,000,000 to be repaid at the rate of \$37,000 per month including interest at 7.45% per annum, with final maturity in 1993.

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