Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Eskaton and Subsidiaries

As of and for the year ended December 31, 2012

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CONTENTS

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ANNUAL REPORT CHECKLIST
for
FISCAL YEAR ENDED:
2012

PROVIDER: Eskaton
FACILITY(IES): Eskaton Village-Carmichael

CONTACT PERSON: Eduard Boogaard
TELEPHONE NO.: (916) 334-0810

Your complete annual report must consist of **2 copies** of all of the following:

- ☒ This cover sheet.
- ☒ Annual Provider Fee in the amount of: $ 15,510.00
- ☒ Certification by the provider's chief *executive* officer that:
  - The reports are correct to the best of his/her knowledge.
  - Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - The provider is maintaining the required liquid reserve and refund reserve , if applicable.
- ☒ Evidence of the provider's fidelity bond.
- ☒ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ☒ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ☒ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community.

REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors of
Eskaton and Subsidiaries
Carmichael, California

We have audited the accompanying financial statements of Eskaton and Subsidiaries, which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Eskaton and Subsidiaries as of and for the year ended December 31, 2012, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

MOSS-ADAMS LLP

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Eskaton and Subsidiaries on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and management of Eskaton and Subsidiaries and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
April 26, 2013

CONTINUING CARE LIQUID RESERVE SCHEDULES

FORM 5-1
LONG-TERM DEBT INCURRED
IN PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1		See attachment	to Form 5-1		$0
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$4,963,000	$1,046,000	$0	$6,009,000
					(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Eskaton

ATTACHMENT TO FORM 5-1
LONG-TERM DEBT INCURRED
IN PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	7/28/1999	$ 900,000	$ 123,000		$ 1,023,000
2	3/6/2000	-	-		-
3	5/1/2000	$20,000	-		$20,000
4	3/29/2002	$68,000	$110,000		$178,000
5	12/21/2006	$1,815,000	$271,000		$2,086,000
6	3/1/2007	$14,000	$83,000		$97,000
7	3/1/2007	$185,000	$48,000		$233,000
8	4/1/2008	$700,000	$35,000		$735,000
9	5/1/2008	$1,096,000	$72,000		$1,168,000
10	3/31/2011	-	$18,000		$18,000
11	3/31/2011	$165,000	$286,000		$451,000
12					$0
13					$0
14					$0
	TOTAL:	$4,963,000	$1,046,000	$0	$6,009,000

PROVIDER: Eskaton

FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	12/31/2012	$27,000	$39,000	12	$468,000
2	12/31/2012	$890,000	$237,000	12	$2,844,000
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$917,000	$276,000	24	$3,312,000

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Eskaton

FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$6,009,000
2	Total from Form 5-2 bottom of Column (e)	$3,312,000
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$9,321,000

PROVIDER: Eskaton

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$19,877,000
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$1,022,000	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$79,000	
	c.	Depreciation	$3,028,000	
	d.	Amortization	$70,000	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$860,000	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$5,059,000
4		Net Operating Expenses		$14,818,000
5		Divide Line 4 by 365 and enter the result.		$41,000
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve		$3,075,000

PROVIDER: Eskaton
COMMUNITY: Eskaton Village - Carmichael

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ESKATON AND SUBSIDIARIES
FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Eskaton
Fiscal Year Ended: 31-Dec-12

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

		Amount
[1]	Debt Service Reserve Amount	$9,321,000
[2]	Operating Expense Reserve Amount	$3,075,000
[3]	**Total Liquid Reserve Amount:**	$12,396,000

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description		Amount Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents		$2,396,000		$8,473,000
[5]	Investment Securities		$0		$3,053,000
[6]	Equity Securities		$0		$35,563,000
[7]	Unused/Available Lines of Credit		$0		$0
[8]	Unused/Available Letters of Credit		$0		$0
[9]	Debt Service Reserve		$6,925,000		(not applicable)
[10]	Other: (describe qualifying asset)				$4,374,000
	Total Amount of Qualifying Assets		$9,321,000	[12]	$51,463,000
	Reserve Obligation Amount:	[13]	$9,321,000	[14]	$3,075,000
	Surplus/(Deficiency):	[15]	$0	[16]	$48,388,000

Signature:
(Authorized Representative)

Date: April 26, 2013

Chief Executive Officer
(Title)

SUPPLEMENTARY SCHEDULES

ESKATON VILLAGE CARMICHAEL
STATEMENT OF CASH FLOWS - DIRECT METHOD
DECEMBER 31, 2012
(Dollars in thousands)

Cash flows from operating activities:		
Cash received from independent residents	$	13,763
Cash received from ALU contract residents		2,502
Cash received from SNF contract residents		3,517
Cash received from non-contract residents		673
Cash received from guest services		177
Cash received from other revenue		4,695
Cash received from investment income used for capital purchases		(630)
Cash received from other investment income		650
Cash paid to suppliers and employees		(16,820)
Net cash provided by operating activities		8,527
Cash flows from investing activities:		
Purchases of assets limited as to use		(102,682)
Proceeds from sale of assets limited as to use		95,356
Purchases of investments		(238)
Proceeds from sale of investments		681
Expenditures for capital maintenance		(2,107)
Net cash used in investing activities		(8,990)
Cash flows from financing activities:		
Proceeds from appreciation on resold CCRC memberships		(4,307)
Change in deposits on unoccupied CCRC units		78
Proceeds from borrowings of long-term debt		39,890
Principal payments on long-term debt		(33,152)
Debt issuance costs		(961)
Payment on settlement of terminated swaps		(3,674)
Change in due from related party - current year cash flow		2,589
Net cash provided by financing activities		463
Net change in cash		-
Cash and cash equivalents at December 31, 2011		2
Cash and cash equivalents at December 31, 2012	$	2
Supplemental Disclosures:		
Cash paid for interest (net of amount capitalized)	$	1,022

Interest paid during fiscal year (per financial schedules)		$ 3,757,000
Less:		
Finance fees - 1999 bonds	12,000	
Finance fees - 2006 bonds	262,000	
Finance fees - 2007 EVP bonds	147,000	
Finance fees - 2007 ELGB bonds	200,000	
Finance fees - 2008A bonds	333,000	
Finance fees - 2008B bonds	835,000	
Finance fees - 2012 bonds	5,000	
Total interest expense adjustment		1,794,000
Total long term interest paid during the year ended December 31, 2012		$ 1,963,000
Form 5-1		
Total column (c) interest paid during fiscal year		$ 1,046,000
Form 5-2		
Total column (b) interest paid during fiscal year		917,000
Less:		
Capitalized interest		-
Total long term interest paid during the year ended December 31, 2012		$ 1,963,000

Principal payments made during fiscal year (per Cash Flow)	$	49,569,000
less refunded debt:		(44,740,000)
add discount on refunded debt:		967,000
Total principal payments made for the year ended December 31, 2012	$	5,796,000

Form 5-1

Total column (b) principal paid during fiscal year	$	4,963,000
Note #1 principal paid on debt incurred during fiscal year		833,000
Total principal payments made for the year ended December 31, 2012	$	5,796,000

Total Resident Revenue	$	23,030,000
Less: Reimbursements for services to residents		22,170,000
Reimbursements for services to non-residents	$	860,000
Assisted Living services to non-residents	$	286,000
Skilled Nursing services to non-residents		397,000
Guest Meals		140,000
Guest Room Meals		37,000
Reimbursements for services to non-residents	$	860,000

ESKATON AND SUBSIDIARIES
SUPPLEMENTARY FORM 5-5
DESCRIPTION OF RESERVES UNDER SB 1212

Total Qualifying Assets as Filed:		
Cash and Cash Equivalents	$ 8,473,000	Cash and short-term investments
Equity Securities	35,563,000	Equity securities and mutual funds
Fixed Income Securities	3,053,000	Government securities and corporate debt
Alternative Investments	4,374,000	Other
Total Qualifying Assets as Filed for Operating Reserve	51,463,000	
Cash and Cash Equivalents for Debt Service Reserve	2,396,000	Cash and short-term investments
Total Qualifying Assets as Filed	53,859,000	
Reservations and Designations:		
Workers' Compensation	7,897,000	Self-insured Workers' Compensation Plan
Deposits	241,000	Refundable deposits
Tail Exposure - Professional Liability Insurance	1,334,000	Claims-made professional liability insurance
Eskaton Health Plan	1,298,000	Self-insured Employee Health Plan
Unfunded Pension Obligation	6,481,000	Defined benefit cash balance pension plan
Remaining Liquid Reserves	$ 36,608,000	

FORM 1-1
RESIDENT POPULATION

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Continuing Care Residents

[1]	Number at beginning of fiscal year	419
[2]	Number at end of fiscal year	376
[3]	Total Lines 1 and 2	795
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	398

All Residents

[6]	Number at beginning of fiscal year	423
[7]	Number at end of fiscal year	389
[8]	Total Lines 6 and 7	812
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	406
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (rounded to two decimal places).	0.98

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service-interest only)		19,877,000
[a]	Depreciation	3,028,000	
[b]	Debt Service (Interest Only)	1,022,000	
[2]	Subtotal (add Line 1a and 1b)		4,050,000
[3]	Subtract Line 2 from Line 1 and enter result		15,827,000
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		0.98
[5]	Total Operating Expense of Continuing Care Residents (multiply Line 3 by Line 4)		15,510,000
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		15,510

PROVIDER: Eskaton
COMMUNITY: Eskaton Village - Carmichael

ESKATON
Calculation of Nonresident Reimbursement
December 31, 2012

	Independent	Assisted	Skilled	Total
Contract Residents @ 12/31/11	338	47	34	419
Contract Residents @ 12/31/12	305	42	29	376
Total	643	89	63	795
Mean	321.5	44.5	31.5	397.5
All Residents @ 12/31/11	338	50	35	423
All Residents @ 12/31/12	305	49	35	389
Total	643	99	70	812
Mean	321.5	49.5	35	406
% Contract Residents to Total Residents	100.00%	89.90%	90.00%	97.91%
% Nonresidents to Total Residents	0.00%	10.10%	10.00%	2.09%

2012 OPERATING REVENUES

Assisted Living (Contract Residents)		2,542,000	
Assisted Living (Nonresidents)		**286,000**	
Less: Bad Debt Expense		-	
Net Assisted Living (Nonresidents)		**286,000**	
Total		2,828,000	
Skilled Nursing (Contract Residents)			3,573,000
Skilled Nursing (Nonresidents)			**397,000**
Less: Bad Debt Expense			-
Net Skilled Nursing (Nonresidents)			**397,000**
Total Skilled Nursing (without Bad Debt adj)			3,970,000
Total NonResidents Revenues	**683,000**		

ATTACHMENT TO FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES
EXPLANATION FOR INCREASE IN MONTHLY SERVICE FEES

Monthly service fees were increased in 2012 by 2.77% to 3.00% to offset expected increases in costs for labor, food, supplies, contractor support, etc.. There were also higher expected increases in the cost of employee health insurance.

PROVIDER NAME: Eskaton
COMMUNITY NAME: Eskaton Village - Carmichael

ESKATON VILLAGE
STATEMENT OF RECEIPTS AND DISBURSEMENTS WORKSHEET
12/31/2012
(In thousands)

	Per Audited Stmt of Operations	Adjustments Dr.	Cr.	Cash Basis
Revenues:				
Net Independent resident revenue net of prov for Bad Debt)	16,232	524	265	15,973
deposits on unoccupied units		78		(78)
Amortization of Deferred revenue		2,132	-	(2,132)
Net ALU contract resident revenue net of prov for Bad Debt)	2,542	82	42	2,502
Net SNF contract resident revenue net of prov for Bad Debt)	3,573	115	59	3,517
Net ALU non-contract resident revenue net of prov for Bad Debt)	286	9	5	282
Net SNF non-contract resident revenue net of prov for Bad Debt)	397	13	7	391
Sub-total	23,030			20,455
Reimbursements for services to non-residents	177			177
Unrestricted contributions				-
Other operating revenue	740	552	4,507	4,695
Sub-total	917			
Investment income used for capital purchases	-	630		(630)
Other Investment income (net of unrealized)	931	281		650
Sub-total	931			
Change in unrealized gains	-			-
Other non operating income	(145)	145		0
Restricted Contributions	-			-
Change in temporarily restricted net assets	-			-
Change in fair value of derivative activities	-			-
Net assets released from restriction used for operations				-
Total Revenue	24,733	4,561	4,885	25,347
Expenses :				
Salaries and wages	5,655	700	439	5,916
Employee benefits	1,764			1,764
Professional Fees	42			42
Supplies	234	64	47	251
Purchased services	5,122	606	587	5,141
Ancillary costs	293			293
Utilities	1,416			1,416
Insurance & Other	911	162	273	800
Depreciation and amortization	3,028		3,028	-
Interest	1,412	24	239	1,197
Swap payments/receipts	-			-
Other Financing Fees	-			-
Provision for (reversal of) uncollectible accounts				-
Total Expense	19,877	1,556	4,613	16,820
	19,877			
Total of Cash Operating Expenses				16,820
Net Cash Provided By Operating Activities	4,856			8,527

[illegible] VILLAGE
STATEMENT OF RECEIPTS AND DISBURSEMENTS WORKSHEET
12/31/2012

Village B/S:

	2012	2011	$ Change
Cash	2	2	-
Current ALATU	16,348	8,719	(7,629)
A/R	756	396	(360)
Allowance for doubtful accounts	(12)	(18)	(6)
Other receivables	552	200	(352)
Due from related parties		-	-
Due from Gov't Agencies		-	-
Receivable from government agencies		-	
Current portion of notes receivable		-	-
Inventory	47	46	(1)
Deposits & Prepaids	273	162	(111)
ALATU	3,597	3,646	49
PP&E	30,907	31,829	922
Other Assets	5,741	6,242	501
	58,211	51,224	(6,987)
Current portion of LTD	1,222	1,084	(138)
Current portion of deferred revenue	2,132	2,132	-
Deposits on unoccupied units	226	149	(77)
A/P	361	457	96
Due to Gov't Agencies		-	-
Accrued Liab.:		-	-
Payroll & related taxes	160	144	(16)
Vacation	184	188	4
Interest	239	24	(215)
Other	95	368	273
SWAP liabilities		3,674	
Other Liabilities	4,593	4,949	356
LTD	43,118	37,483	(5,635)
Deferred revenue from amort mem fees	15,455	17,587	2,132
Fund Balance	(9,574)	(17,015)	(7,441)
	58,211	51,224	(10,661)

ESKATON VILLAGE CARMICHAEL ASSISTED LIVING - FY 2012 BUDGET

ROUTINE REVENUE - ASSISTED LIVING

Line Ref.	Account Number				Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
					31	29	31	30	31	30	31	31	30	31	30	31	366
		Number of Units Available															
		One Bedroom			7	7	7	7	7	7	7	7	7	7	7	7	
		Studio			31	31	31	31	31	31	31	31	31	31	31	31	
		Total Units Available			38	38	38	38	38	38	38	38	38	38	38	38	
		Number of Units Occupied															
		One Bedroom			6.82	6.82	6.82	6.82	6.82	6.82	6.82	6.82	6.82	6.82	6.82	6.82	
		Studio			30.18	30.18	30.18	30.18	30.18	30.18	30.18	30.18	30.18	30.18	30.18	30.18	
		Total Units Occupied			37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	
		Percent Occupancy			97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	97.37%	
		Resident Day Payor Type Percentage															
		Private Pay			59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	59.46%	
		Met Life			40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	40.54%	
					100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
		Resident Day By Payor Type	(@ 6/1/11)	# Units													
		Private Pay	25	22.0	682	638	682	660	682	660	682	682	660	682	660	682	8,052
		Met Life	12	15.0	465	435	465	450	465	450	465	465	450	465	450	465	5,490
		Extra days due to Respite			-	-	-	-	-	-	-	-	-	-	-	-	
		Extra days due to Flexible Respite			-	-	-	-	-	-	-	-	-	-	-	-	-
			37	37.0	1,147	1,073	1,147	1,110	1,147	1,110	1,147	1,147	1,110	1,147	1,110	1,147	13,542
		Room Rates	*2011*	*Increase*													
		One Bedroom	$ 4,834	3.00%	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	$ 4,980	
		Studio	$ 4,046	3.00%	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	$ 4,168	
		Average Monthly Unit Rate			$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	$ 4,318	
	2011	*Daily Rates*	*Increase*														
$	175	Respite	3.00%		$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	$ 180	
$	-	Flexible Respite	3.00%		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
		Gross Revenue by Payor Type															
		Private Pay			(150,450)	(151,050)	(150,450)	(150,750)	(150,450)	(150,750)	(150,450)	(150,450)	(150,750)	(150,450)	(150,750)	(150,450)	(1,807,200)
		Met Life	Per day:	$ 20	(9,300)	(8,700)	(9,300)	(9,000)	(9,300)	(9,000)	(9,300)	(9,300)	(9,000)	(9,300)	(9,000)	(9,300)	(109,800)
		Total Gross Revenue			(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(1,917,000)
		Combined Routine Revenues															
	02-3001-000	Monthly Service Fees			(150,450)	(151,050)	(150,450)	(150,750)	(150,450)	(150,750)	(150,450)	(150,450)	(150,750)	(150,450)	(150,750)	(150,450)	(1,807,200)
	02-3001-010	Respite Care			-	-	-	-	-	-	-	-	-	-	-	-	-
	02-3001-020	Flexible Respite			-	-	-	-	-	-	-	-	-	-	-	-	-
	02-3001-030	Met Life Revenue			(9,300)	(8,700)	(9,300)	(9,000)	(9,300)	(9,000)	(9,300)	(9,300)	(9,000)	(9,300)	(9,000)	(9,300)	(109,800)
1		Total Routine Revenues			(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(159,750)	(1,917,000)

RECEIVED
APR 2 6 2013
CONTINUING CARE
CONTRACTS BRANCH

ESKATON VILLAGE CARMICHAEL MEMORY CARE UNIT - FY 2012 BUDGET

ROUTINE REVENUE - MEMORY CARE

Line Ref.	Account Number		2011	Increase / (@ 6/1/11)	31 Jan	29 Feb	31 Mar	30 Apr	31 May	30 Jun	31 Jul	31 Aug	30 Sep	31 Oct	30 Nov	31 Dec	366 Total
		Number of Units Available			20	20	20	20	20	20	20	20	20	20	20	20	
		Number of Units Occupied		(@ 6/1/11)													
		Private Pay		12	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	
		Met Life		3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	
				15	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	
		Percent Occupancy			95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	95.00%	
		Care Level Mix Percentage															
		Level 1			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
		Level 2			57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	57.00%	
		Level 3			37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	37.00%	
		Level 4			6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	
					100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
		Average Level of Care		(@ 6/1/11) 2.87	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	
		Resident Days by Care Level															
		Level 1			-	-	-	-	-	-	-	-	-	-	-	-	-
		Level 2			283	264	283	274	283	274	283	283	274	283	274	283	3,341
		Level 3			184	172	184	178	184	178	184	184	178	184	178	184	2,172
		Level 4			30	28	30	29	30	29	30	30	29	30	29	30	354
		Met Life			93	87	93	90	93	90	93	93	90	93	90	93	1,098
		Extra days due to Respite			-	-	-	-	-	-	-	-	-	-	-	-	-
		Extra days due to Flexible Respite			-	-	-	-	-	-	-	-	-	-	-	-	-
					590	551	590	571	590	571	590	590	571	590	571	590	6,965
		Monthly Rent by Care Level	2011	*Increase*													
		Level 1	$ 5,488	3.00%	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	$ 5,653	
		Level 2	$ 6,016	3.00%	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	$ 6,197	
		Level 3	$ 6,548	3.00%	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	$ 6,745	
		Level 4	$ 7,080	3.00%	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	$ 7,293	
		Daily Rates	2011	*Increase*													
		Respite	$ 187	3.00%	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	$ 193	
		Flexible Respite	$ -	3.00%	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
		Met Life	$ 20	0.00%	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	
		Private Revenue by Care Level															
		Level 1			-	-	-	-	-	-	-	-	-	-	-	-	-
		Level 2			(66,054)	(66,122)	(66,054)	(66,088)	(66,054)	(66,088)	(66,054)	(66,054)	(66,088)	(66,054)	(66,088)	(66,054)	(792,852)
		Level 3			(46,729)	(46,773)	(46,729)	(46,751)	(46,729)	(46,751)	(46,729)	(46,729)	(46,751)	(46,729)	(46,751)	(46,729)	(560,880)
		Level 4			(8,202)	(8,210)	(8,202)	(8,206)	(8,202)	(8,206)	(8,202)	(8,202)	(8,206)	(8,202)	(8,206)	(8,202)	(98,448)
		Total Private Revenue			(120,985)	(121,105)	(120,985)	(121,045)	(120,985)	(121,045)	(120,985)	(120,985)	(121,045)	(120,985)	(121,045)	(120,985)	(1,452,180)
		Combined Routine Revenues															
	04-3001-000	Monthly Service Fees			(120,985)	(121,105)	(120,985)	(121,045)	(120,985)	(121,045)	(120,985)	(120,985)	(121,045)	(120,985)	(121,045)	(120,985)	(1,452,180)
	04-3001-010	Respite Care			-	-	-	-	-	-	-	-	-	-	-	-	-
	04-3001-020	Flexible Respite			-	-	-	-	-	-	-	-	-	-	-	-	-
	04-3001-030	Met Life Revenue			(1,860)	(1,740)	(1,860)	(1,800)	(1,860)	(1,800)	(1,860)	(1,860)	(1,800)	(1,860)	(1,800)	(1,860)	(21,960)
1		Total Routine Revenues			(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(122,845)	(1,474,140)

03-3111 CERTIFIED DISTINCT PART

ESKATON VILLAGE CARMICHAEL SKILLED NURSING - FY 2012 BUDGET

Line Ref.	Account Number				31 Jan	29 Feb	31 Mar	30 Apr	31 May	30 Jun	31 Jul	31 Aug	30 Sep	31 Oct	30 Nov	31 Dec	366 Total
		Number of Beds Available															
		Private Room			6	6	6	6	6	6	6	6	6	6	6	6	
		Semi-Private Room			29	29	29	29	29	29	29	29	29	29	29	29	
					35	35	35	35	35	35	35	35	35	35	35	35	
		Number of Beds Occupied															
		Private Room			6	6	6	6	6	6	6	6	6	6	6	6	
		Semi-Private Room			28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	
					34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	
		Percent Occupancy			98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	98.29%	
		Patient Day Payor Type Percentage															
		Private Pay			57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	57.56%	
		Managed Care			4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	
		Medicare			4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	4.94%	
		Medi-Cal			0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%	
		Met Life			31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	
		Total Percentage			100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
		Patient Day By Payor Type	*(YTD 7/1/11)*	# Units													
		Private Pay	20.36	19.80	614	574	614	594	614	594	614	614	534	614	594	614	7,268
		Managed Care	1.86	1.60	50	46	50	48	50	48	50	50	48	50	48	50	590
		Medicare	1.93	1.70	53	49	53	51	53	51	53	53	51	53	51	53	626
		Medi-Cal	0.39	0.30	9	9	9	9	9	9	9	9	9	9	9	9	108
		Met Life	9.83	11.00	341	319	341	330	341	330	341	341	330	341	330	341	4,037
		Total Patient Days	34.37	34.40	1,067	997	1,067	1,032	1,067	1,032	1,067	1,067	1,032	1,067	1,032	1,067	12,626
		Room Rates	*2011*	*Increase*													
		Private Room	$ 344.00	3.00%	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	$ 354.00	
		Semi-Private Room	$ 288.00	3.00%	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	$ 297.00	
		Routine Revenue															
		Private Room			(65,844)	(61,596)	(65,844)	(63,720)	(65,844)	(63,720)	(65,844)	(65,844)	(63,720)	(65,844)	(63,720)	(65,344)	(777,384)
		Semi-Private Room			(261,479)	(244,609)	(261,479)	(253,044)	(261,479)	(253,044)	(261,479)	(261,479)	(253,044)	(261,479)	(253,044)	(261,479)	(3,087,138)
					(327,323)	(306,205)	(327,323)	(316,764)	(327,323)	(316,764)	(327,323)	(327,323)	(316,764)	(327,323)	(316,764)	(327,323)	(3,864,522)
		Gross Revenue by Payor Type															
	03-3111-000	Private Pay			(188,401)	(176,245)	(188,401)	(182,323)	(188,401)	(182,323)	(188,401)	(188,401)	(182,323)	(188,401)	(182,323)	(188,401)	(2,224,344)
	03-3111-010	Managed Care			(15,224)	(14,242)	(15,224)	(14,733)	(15,224)	(14,733)	(15,224)	(15,224)	(14,733)	(15,224)	(14,733)	(15,224)	(179,742)
	03-3111-040	Medicare			(16,176)	(15,133)	(16,176)	(15,654)	(16,176)	(15,654)	(16,176)	(16,176)	(15,654)	(16,176)	(15,654)	(16,176)	(190,981)
	03-3111-050	Medi-Cal			(2,854)	(2,670)	(2,854)	(2,762)	(2,854)	(2,762)	(2,854)	(2,854)	(2,762)	(2,854)	(2,762)	(2,854)	(33,696)
1	03-3100-030	Met Life			(104,668)	(97,915)	(104,668)	(101,292)	(104,668)	(101,292)	(104,668)	(104,668)	(101,292)	(104,668)	(101,292)	(104,668)	(1,235,759)
		Total Gross Revenue			(327,323)	(306,205)	(327,323)	(316,764)	(327,323)	(316,764)	(327,323)	(327,323)	(316,764)	(327,323)	(316,764)	(327,323)	(3,864,522)
		Contractual Allowances	*Jan-July Per Diem*	*Aug-Dec Per Diem*													
		Managed Care	$ 555.00	$ 555.00	(12,526)	(11,288)	(12,526)	(11,907)	(12,526)	(11,907)	(12,526)	(12,526)	(11,907)	(12,526)	(11,907)	(12,526)	(146,598)
		Medicare	$ 493.97	$ 493.97	(10,004)	(9,072)	(10,004)	(9,538)	(10,004)	(9,538)	(10,004)	(10,004)	(9,538)	(10,004)	(9,538)	(10,004)	(117,252)
		Medi-Cal	$ 210.47	$ 210.47	960	776	960	868	960	868	960	960	868	960	868	960	10,968
		Met Life	$ 171.01	$ 171.01	46,354	43,363	46,354	44,859	46,354	44,859	46,354	46,354	44,859	46,354	44,859	46,354	547,277
		Total Contractuals			24,784	23,779	24,784	24,282	24,784	24,282	24,784	24,784	24,282	24,784	24,282	24,784	294,395
		Net Revenue by Payor Type															
		Private Pay			(188,401)	(176,245)	(188,401)	(182,323)	(188,401)	(182,323)	(188,401)	(188,401)	(182,323)	(188,401)	(182,323)	(188,401)	(2,224,344)
		Managed Care			(27,750)	(25,530)	(27,750)	(26,640)	(27,750)	(26,640)	(27,750)	(27,750)	(26,640)	(27,750)	(26,640)	(27,750)	(326,340)
		Medicare			(26,180)	(24,205)	(26,180)	(25,192)	(26,180)	(25,192)	(26,180)	(26,180)	(25,192)	(26,180)	(25,192)	(26,180)	(308,233)
		Medi-Cal			(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(1,894)	(22,728)
		Met Life			(58,314)	(54,552)	(58,314)	(56,433)	(58,314)	(56,433)	(58,314)	(58,314)	(56,433)	(58,314)	(56,433)	(58,314)	(688,482)
		Total Net Revenue			(302,539)	(282,426)	(302,539)	(292,482)	(302,539)	(292,482)	(302,539)	(302,539)	(292,482)	(302,539)	(292,482)	(302,539)	(3,570,127)
		Bad Debt		*Monthly*													
15	03-7700-700	Coverage for Private Bad Debt		$ -	-	-	-	-	-	-	-	-	-	-	-	-	-

ESKATON VILLAGE - CARMICHAEL

MONTHLY MAINTENANCE FEE SCHEDULE (W/O METLIFE)

2012 Budget - 10/14/11

	Units	Number of Units	1992 and Prior Monthly Fee	1993 Monthly Fee	1994 Monthly Fee	1995 Monthly Fee	1996 Monthly Fee	1997 Monthly Fee	1998 Monthly Fee	1999 Monthly Fee	2000 Monthly Fee	2001 Monthly Fee	2002 Monthly Fee	2003 Monthly Fee	2004 Monthly Fee	2005 Monthly Fee	2006 Monthly Fee	2007 Monthly Fee	2008 Monthly Fee	2009 Monthly Fee	2010 Monthly Fee	2011 Monthly Fee	Budget 2012 Monthly Fee	Cumulative 2012 Monthly Fee
				5.7% Increase	7.4% Increase	11.3% Increase	6.7% Increase	8.7% Increase	6.5% Increase	2.0% Increase	2.0% Increase	5.75% Increase	3.75% Increase	5.00% Increase	5.00% Increase	5.00% Increase	4.25% Increase	4.50% Increase	4.00% Increase	4.75% Increase	2.75% Increase	2.60% Increase	3.00% Increase	
Apartments:																								
B	One bedroom, one bath	5	1,138	1,206	1,304	1,456	1,556	1,693	1,806	1,842	1,879	1,987	2,062	2,165	2,273	2,386	2,488	2,600	2,704	2,832	2,910	2,991	3,081	15,405
BM	One bedroom, one bath	17	1,138	1,206	1,304	1,456	1,556	1,693	1,806	1,842	1,879	1,987	2,062	2,165	2,273	2,386	2,488	2,600	2,704	2,832	2,910	2,991	3,081	52,377
BN	One bedroom, one bath	1	1,138	1,206	1,304	1,456	1,556	1,693	1,806	1,842	1,879	1,987	2,062	2,165	2,273	2,386	2,488	2,600	2,704	2,832	2,910	2,991	3,081	3,081
C	One bedroom, one bath	23	1,238	1,311	1,412	1,574	1,682	1,829	1,950	1,989	2,029	2,145	2,226	2,337	2,454	2,577	2,686	2,808	2,920	3,059	3,143	3,231	3,328	76,544
CM	One bedroom, one bath	7	1,238	1,311	1,412	1,574	1,682	1,829	1,950	1,989	2,029	2,145	2,226	2,337	2,454	2,577	2,686	2,808	2,920	3,059	3,143	3,231	3,328	23,296
CL	One bedroom, one bath	8	1,238	1,311	1,412	1,574	1,682	1,829	1,950	1,989	2,029	2,145	2,226	2,337	2,454	2,577	2,686	2,808	2,920	3,059	3,143	3,231	3,328	26,624
D	One bedroom, den, 1-1/2 baths	24	1,338	1,416	1,521	1,694	1,809	1,967	2,095	2,137	2,180	2,305	2,391	2,511	2,637	2,768	2,886	3,016	3,137	3,286	3,377	3,471	3,575	85,800
E	Two bedrooms, two baths	20	1,438	1,521	1,630	1,814	1,936	2,104	2,240	2,285	2,330	2,464	2,557	2,685	2,819	2,960	3,086	3,225	3,354	3,513	3,609	3,711	3,822	76,440
EM	Two bedrooms, two baths	12	1,488	1,573	1,680	1,869	1,994	2,167	2,307	2,353	2,400	2,538	2,633	2,765	2,903	3,048	3,178	3,321	3,454	3,618	3,717	3,821	3,936	47,232
F	Two bedrooms, two baths	29	1,438	1,521	1,630	1,814	1,936	2,104	2,240	2,285	2,330	2,464	2,557	2,685	2,819	2,960	3,086	3,225	3,354	3,513	3,609	3,711	3,822	110,838
G	Two bedrooms, two baths	11	1,663	1,757	1,878	2,087	2,225	2,416	2,571	2,622	2,675	2,829	2,935	3,081	3,236	3,397	3,542	3,701	3,849	4,032	4,143	4,259	4,387	48,257
GM	Two bedrooms, two baths	1	1,663	1,757	1,878	2,087	2,225	2,416	2,571	2,622	2,675	2,829	2,935	3,081	3,236	3,397	3,542	3,701	3,849	4,032	4,143	4,259	4,387	4,387
H	Two bedrooms, two baths	13	1,663	1,757	1,878	2,087	2,225	2,416	2,571	2,622	2,675	2,829	2,935	3,081	3,236	3,397	3,542	3,701	3,849	4,032	4,143	4,259	4,387	57,031
J	Two bedroom, den, two baths	14	1,738	1,836	1,977	2,196	2,340	2,541	2,703	2,757	2,812	2,974	3,085	3,240	3,402	3,572	3,724	3,892	4,048	4,240	4,357	4,479	4,613	64,582
N	Two bedroom, den, two baths	11	1,738	1,836	1,977	2,196	2,340	2,541	2,703	2,757	2,812	2,974	3,085	3,240	3,402	3,572	3,724	3,892	4,048	4,240	4,357	4,479	4,613	50,743
P	Two bedroom, den, two baths	1	1,438	1,521	1,630	1,814	1,936	2,104	2,240	2,285	2,330	2,464	2,557	2,685	2,819	2,960	3,066	3,225	3,354	4,240	4,357	4,479	4,613	4,613
P	Two bedroom, den, two baths	4	1,743	1,841	1,977	2,196	2,340	2,541	2,703	2,757	2,812	2,974	3,085	3,240	3,402	3,572	3,724	3,892	4,048	4,240	4,357	4,479	4,613	18,452
Cottages:																								
K	One bedroom, one bath	5	1,488	1,573	1,680	1,869	1,994	2,167	2,307	2,353	2,400	2,538	2,633	2,765	2,903	3,048	3,178	3,321	3,454	3,618	3,717	3,821	3,936	19,680
L	Two bedroom, two baths	49	1,638	1,731	1,858	2,065	2,202	2,391	2,545	2,596	2,648	2,800	2,905	3,050	3,203	3,363	3,506	3,664	3,811	3,992	4,102	4,217	4,344	212,856
M	Three bedroom, two baths	24	1,788	1,888	2,026	2,250	2,398	2,603	2,769	2,824	2,881	3,047	3,161	3,319	3,485	3,659	3,814	3,987	4,146	4,343	4,463	4,587	4,725	113,400
MM	Three bedroom, two baths	16	1,788	1,888	2,026	2,250	2,398	2,603	2,769	2,824	2,881	3,047	3,161	3,319	3,485	3,659	3,814	3,987	4,146	4,343	4,463	4,587	4,725	75,600
		295																						
																								4,025
	Second Person Fee		238	288	288	388	438	497	538	549	560	655	679	713	749	786	820	857	891	933	959	986	1,016	173
																								4,198

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ESKATON
ESKATON VILLAGE – CARMICHAEL
ATTACHMENT TO DISCLOSURE WORKSHEET

COMMENTS FROM PROVIDER: Eskaton Village was initially accredited by the Continuing Care Accreditation Commission in December 1998. Future rate increases are generally based on the expected increases in costs of services. Independent living rates have increased annually from 2.75% to 5.75% including increases of 4.75% in 2009, 2.75% in 2010, 2.80% in 2011 and 3.00% in 2012. A group long-term care policy provides continuing protection from nursing home cost increases. Upon departure from the Village, depending on the type of contract, residents, or their estates, receive 90% of the initial membership price or resale price, whichever is less, plus 50% of any appreciation, or an unamortized remaining balance of their entrance fee.

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE WORKSHEET
FINANCIAL RATIO FORMULAS (in thousands)
ESKATON

Long-Term Debt to Total Assets Ratio

	2008	2009	2010	2011	2012
Long-Term Debt	157,141	154,244	151,176	152,697	151,028
Less: Current Portion	(2,883)	(3,059)	(4,138)	(36,949)	(6,878)
	154,258	151,185	147,038	115,748	144,150
Divided By:					
Total Assets	225,079	205,376	207,435	210,588	209,290
Long-Term Debt to Total Assets Ratios	**68.54%**	**73.61%**	**70.88%**	**54.96%**	**68.88%**

Operating Ratio

	2008	2009	2010	2011	2012
Total Operating Expenses	98,795	96,189	99,751	104,027	108,259
Less: Depreciation & Amortization	(7,523)	(8,484)	(8,592)	(9,149)	(9,602)
	91,272	87,705	91,159	94,878	98,657
Divided By:					
Total Operating Revenues	94,781	99,732	106,068	108,176	113,446
Less: Amortization of Deferred Revenue	(2,080)	(2,118)	(2,129)	(2,132)	(2,132)
	92,701	97,614	103,939	106,044	111,314
Operating Ratio	**98.46%**	**89.85%**	**87.70%**	**89.47%**	**88.63%**

Debt Service Coverage Ratio

	2008	2009	2010	2011	2012
Total Excess of Revenues over Expenses	(37,097)	17,544	3,457	(3,030)	7,321
Plus: Interest & amortization	9,509	3,846	3,915	3,606	4,398
Depreciation	7,523	8,484	8,592	9,149	9,141
Net Proceeds from Entrance Fees	717	277	49	15	-
Less: Amortization of Deferred Revenue	(2,080)	(2,118)	(2,129)	(2,132)	(2,132)
	(21,428)	28,033	13,884	7,608	18,728
Divided By:					
Annual Debt Service	8,905	4,157	3,899	5,284	9,321
Debt Service Coverage Ratio	(2.41)	6.74	3.56	1.44	2.01

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE WORKSHEET
FINANCIAL RATIO FORMULAS (in thousands)
ESKATON

Statement 4

Days Cash On Hand Ratio

	2008	2009	2010	2011	2012
Cash & Cash Equivalents	12,526	14,506	16,409	16,819	7,703
Investments	31,721	38,194	42,631	42,116	46,179
Unrestricted Cash & Investments	44,247	52,700	59,040	58,935	53,882
Divided By:					
Operating Expenses	98,795	96,189	99,751	104,027	108,259
Less: Depreciation & Amortization	(7,523)	(8,484)	(8,592)	(9,149)	(9,602)
	91,272	87,705	91,159	94,878	98,657
Divided By:	366	365	365	365	366
Operating Expenses per Day	249.38	240.29	249.75	259.94	269.54
Days Cash On Hand Ratio	**177**	**219**	**236**	**227**	**200**

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STATEMENT 4

CONTINUING CARE RETIREMENT COMMUNITY DISCLOSURE WORKSHEET
ESKATON

	2010	2011	2012	
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME(excluding amortization of entrance fee income)	103,939	106,044	111,314	
LESS OPERATING EXPENSES(excluding depreciation, amortization and interest)	87,244	91,272	94,720	
NET INCOME FROM OPERATIONS	16,695	14,772	16,594	
LESS INTEREST EXPENSE	3,915	3,606	3,937	
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	(2,860)	(7,179)	2,134	
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	9,920	3,987	14,791	
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	49	15	-	See Cash Flow

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
ABAG Variable Rate Demand Bonds	20,050,000	Variable	Apr-08	2029	21 years
ABAG Variable Rate Demand Bonds	19,435,000	Variable	Dec-06	2037	31 years
ABAG Variable Rate Demand Bonds	11,470,000	Variable	May-07	2038	31 years
ABAG Variable Rate Demand Bonds	43,625,000	Variable	May-08	2035	27 years
CSCDA Fixed Rate Bonds	37,895,000	1.40% - 1.5%	May-12	2034	22 years
Other (see attached)	17,390,859				

FINANCIAL RATIOS (see next page for ratio formulas)

	2003 CCAC Medians 50th percentile (optional)	2010	2011	2012
DEBT TO ASSET RATIO	41.50%	70.04%	70.04%	68.88%
OPERATING RATIO	102.94%	87.70%	87.70%	88.63%
DEBT SERVICE COVERAGE RATIO	2.64%	3.56	3.56	2.01
DAYS CASH-ON-HAND RATIO	201	236.40	236.40	199.90

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2010	%	2011	%	2012	%
STUDIO	N/A		N/A		N/A	
ONE BEDROOM	3,146	2.74	3,331	5.88	3,331	3.00
TWO BEDROOM	3,923	2.78	4,160	3.17	4,160	3.17
COTTAGE/HOUSE	4,235	2.77	4,484	3.01	4,484	3.01
ASSISTED LIVING	4,069	4.00	4,191	3.00	4,191	3.00
SKILLED NURSING	8,400	4.09	8,910	2.77	8,910	2.77
SPECIAL CARE	5,791	2.01	5,965	3.01	5,965	3.01

COMMENTS FROM PROVIDER: Please see attached disclosure worksheet.

Eskaton
Statement 4 Supporting Calculations
Consolidated $000's

	2010	2011	2012
Net patient revenues	43,950	44,655	48,899
Net resident revenues	49,333	53,975	55,630
Less amort of entrance fees	(2,129)	(2,132)	(2,132)
Other	12,785	9,546	8,917
Income from ongoing operations	**103,939**	**106,044**	**111,314**
Total expenses	99,751	104,027	108,259
Less depreciation and amortization	(8,592)	(9,149)	(9,602)
Less Interest	(3,915)	(3,606)	(3,937)
Operating expenses	**87,244**	**91,272**	**94,720**
Net income from operations	**16,695**	**14,772**	**16,594**
Interest expense	**(3,915)**	**(3,606)**	**(3,937)**
Non Operating Income	**(2,860)**	**(7,179)**	**2,134**
NI before entrance fees, depr and amort	**9,920**	**3,987**	**14,791**

Continuing Care Retirement Community Disclosure Worksheet
General Information

FACILITY NAME: Eskaton Village Carmichael

ADDRESS: 3939 Walnut Avenue ZIP CODE: 95608 PHONE: 916/974-2000

FACILITY OWNER: Eskaton FACILITY OPERATOR: Eskaton

RELATED FACILITIES: See attached RELIGIOUS AFFILIATION: N/A

YEAR OPENED: 1992 NO. OF ACRES: 37 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: X

MILES TO SHOPPING CTR: one mile MILES TO HOSPITAL: MSJ four miles

NUMBER OF UNITS:

INDEPENDENT LIVING	
APARTMENTS – STUDIO	0
APARTMENTS – 1 BDRM	85
APARTMENTS – 2 BDRM	116
COTTAGES/HOUSES	94
% OCCUPANCY AT YEAR END	98.6%

HEALTHCARE	
ASSISTED LIVING	38
SKILLED NURSING	35
MEMORY CARE	20

DESCRIBE MEMORY CARE: Secured perimeter unit for care of residents with Alzheimer's or related dementia.

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TYPE OF OWNERSHIP: X NOT FOR PROFIT ☐ FOR PROFIT **ACCREDITED:** X Y ☐ N BY: CCAC

FORM OF CONTRACT: ☐ LIFECARE X CONTINUING CARE X FEE FOR SERVICE ☐ ASSIGN ASSETS X EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): X 90% ☐ 75% ☐ 50 % X PRORATED TO 0% ☐ OTHER: ___

RANGE OF ENTRANCE FEES: $100,000 TO $350,000 **LONG-TERM CARE INSURANCE REQUIRED?** Y X N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Priority access to ALU, SNF, & MCU (income eligible fee for service)

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: N/A OTHER:

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☐	X
BILLIARD ROOM	X	☐
BOWLING GREEN	☐	☐
CARD ROOMS	X	☐
CHAPEL	X	☐
COFFEE SHOP	☐	X
CRAFT ROOMS	X	☐
EXERCISE ROOM	X	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	X	☐
PUTTING GREEN	X	☐
SHUFFLEBOARD	☐	☐
SPA	X	☐
SWIMMING POOL- INDOOR	X	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	X	☐
OTHER - Painting Studio and Gardening Area	X	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES PER MONTH	4	
NUMBER OF MEALS PER DAY	3	
SPECIAL DIETS AVAILABLE	X	☐
24 HOUR EMERGENCY RESPONSE	X	☐
ACTIVITIES PROGRAM	X	☐
ALL UTILITIES EXCEPT PHONE	X	☐
APARTMENT MAINTENANCE	X	☐
CABLE TV	X	☐
LINENS FURNISHED	X	☐
LINENS LAUNDERED	X	☐
MEDICATION MANAGEMENT	☐	X
NURSING/WELLNESS CLINIC	X	☐
PERSONAL NURSING/HOME CARE	☐	X
TRANSPORTATION-PERSONAL	☐	X
TRANSPORTATION-PREARRANGED	X	☐
OTHER - 24 hour security	X	☐

Participation in this report is voluntary and accuracy of information in not guaranteed. Many communities are part of multi-facility operations, which may influence financial reporting. Consumers are encouraged to ask questions of the CCRC that they are considering and to seek advice from professional advisors if necessary.

We are pledged to the letter and spirit of U.S. policy for the achievement of equal housing opportunity throughout the Nation. We encourage and support an affirmative advertising and marketing program in which there are no barriers to obtaining housing because of race, color, religion, sex, handicap, familial status, or national origin.

EQUAL HOUSING OPPORTUNITY

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Multi-Facility Owner: General Information Worksheet

CORPORATE NAME: ESKATON

CCRCs	LOCATION (City, State):	PHONE (with area code)
Eskaton Village, Carmichael	Carmichael, CA	916-974-2000
MULTI-LEVEL RETIREMENT COMUNITIES		
Eskaton Village – Grass Valley	Grass Valley, CA	530-273-1778
Eskaton Village Roseville	Roseville, CA	916-789-7831
Eskaton Village Placerville	Placerville, CA	530-295-3400
FREE-STANDING ASSISTED LIVING		
Eskaton Lodge Gold River	Gold River, CA	916-852-7900
Eskaton Lodge Cameron Park	Cameron Park, CA	530-672-8900
Eskaton Lodge Granite Bay	Granite Bay, CA	916-789-0326
Eskaton FountainWood Lodge	Orangevale, CA	916-988-2200
FREE-STANDING SKILLED NURSING		
Eskaton Care Center Manzanita	Carmichael, CA	916-331-8513
Eskaton Care Center Fair Oaks	Fair Oaks, CA	916-965-4663
Eskaton Care Center Greenhaven	Sacramento, CA	916-393-2550

SUBSIDIZED SENIOR HOUSING

Eskaton has been in business since 1968 and owns or operates approximately 30 communities, 14 of which are low income housing communities in the Northern California area.

* PLEASE INDICATE IF THE FACILITY IS LIFECARE.

Statement 5

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CERTIFICATION BY CHIEF EXECUTIVE OFFICER

As required by the Continuing Care Contract Statutes, I hereby certify that:

- The annual reserve reports and any amendments thereto are correct to the best of my knowledge.

- Each continuing care contract form in use or offered to new residents has been approved by the Department.

- As of the date of my certification, the provider is maintaining the required liquid reserve and, if applicable, the required refund reserve.

Dated: April 22, 2013

Todd Murch, Chief Executive Officer

J:\Support Services\Finance\Common\GL FACILITIES\47\Annual Report 2012\Word Docs\Certification by CEO 2012.docx

ALLIED WORLD

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BP
2-8-12

ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
(A member company of Allied World Assurance Company Holdings Ltd.)
225 Franklin Street, Boston, MA 02110 · Tel. (857) 288-6000 · Fax (617) 556-8060

FORCEFIELD℠
CRIME INSURANCE POLICY

POLICY NUMBER: 0307-2195 **RENEWAL OF:**

PLEASE READ THE ENTIRE POLICY CAREFULLY AND DISCUSS THE COVERAGE HEREUNDER WITH YOUR INSURANCE BROKER.

DECLARATIONS

ITEM 1. NAMED INSURED: Eskaton

**ADDRESS: 5105 Manzanita Avenue
Carmichael, CA 95608**

ITEM 2. POLICY PERIOD: Inception Date: January 1, 2012 Expiration Date: January 1, 2013
(12:01 a.m. Standard Time at the address stated in Item 1)

ITEM 3.A. LIMITS OF LIABILITY AND DEDUCTIBLES

Insuring Agreement	Limit of Liability for a Single Loss	Deductible, each Single Loss
Insuring Agreement A "Employee Theft" Coverage	$1,000,000	$25,000
Insuring Agreement B "Forgery or Alteration" Coverage	$1,000,000	$25,000
Insuring Agreement C "Inside the Premises" Coverage	$100,000	$5,000
Insuring Agreement D "In Transit" Coverage	$100,000	$5,000
Insuring Agreement E "Computer Fraud" Coverage	$1,000,000	$25,000
Insuring Agreement F "Funds Transfer Fraud" Coverage	$1,000,000	$25,000
Insuring Agreement G "Money Orders and Counterfeit Currency Fraud" Coverage	$1,000,000	$25,000
Insuring Agreement H "Credit Card Fraud " Coverage	$1,000,000	$25,000

ITEM 3.B. SUBLIMITS OF LIABILITY

Coverage	Sublimit of Liability
Restoration Expenses	$100,000
Authentication Expenses	$100,000

ITEM 3.C. AGGREGATE LIMIT OF LIABILITY

N/A

This Aggregate Limit of Liability set forth above is the maximum Limit of Liability of the Insurer for all loss for which coverage is provided under this policy.

ITEM 4. ADDRESS OF INSURER FOR NOTICES UNDER THIS POLICY

A. **Claim-Related Notices:**
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
ATTN: CLAIMS DEPARTMENT
9 FARM SPRINGS ROAD
FARMINGTON, CT 06032
or
AWACUS.FinancialClaims@awac.com

B. **All Other Notices:**
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
ATTN: PROFESSIONAL LIABILITY UNDERWRITING
199 WATER STREET
NEW YORK, NY 10038

ITEM 5. PREMIUM

$8,672

In Witness Whereof, the **Insurer** has caused this Policy to be executed and attested. This Policy shall not be valid unless countersigned by a duly authorized representative of the **Insurer**.

W Weston Knight

President

Secretary

AUTHORIZED REPRESENTATIVE

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ENDORSEMENT NO. 1

CALIFORNIA AMENDATORY ENDORSEMENT

This Endorsement, effective at 12:01 a.m. on January 1, 2012, forms part of

Policy No.	0307-2195
Issued to	Eskaton
Issued by	Allied World Assurance Company (U.S.) Inc.

This endorsement modifies insurance coverage provided under the CRIME POLICY.

A. It is understood and agreed that Clause XXIV. CANCELLATION AND TERMINATION is deleted in its entirety and replaced by the following:

XXIV. CANCELLATION AND TERMINATION

A. The **Named Insured** may cancel:

(1) this Policy;

(2) a specific Insuring Agreement under this Policy; or

(3) coverage for an **Insured;**

by mailing or delivering written notice of cancellation to the **Insurer**.

B. The **Insurer** may cancel:

(1) this Policy;

(2) a specific Insuring Agreement under this Policy; or

(3) coverage for an **Insured**;

by mailing or delivering to the **Named Insured** written notice of cancellation at least thirty (30) days before the effective date of cancellation, if the **Insurer** cancels for nonpayment of premium; or sixty (60) days before the effective date of cancellation if the **Insurer** cancels for any other reason.

The **Insurer** will mail or deliver the **Insurer's** notice to the **Named Insured** and to the producer of record at their last known mailing addresses. Notice of cancellation will state the effective date of cancellation and the **Policy Period** will end on such date. If this Policy or an Insuring Agreement is cancelled, the **Insurer** will send the **Named Insured** a premium refund due. If either the **Insurer** or **Insured** cancel this Policy, the refund will be the pro-rata amount of the annualized premium. If notice is mailed, proof of mailing will be sufficient proof of notice.

If the **Insurer** decides not to renew this Policy, the **Insurer** will mail or deliver written notice of nonrenewal to the **Insured** and the producer of record at their last known addresses at least sixty (60) days, but less than one-hundred-twenty (120) days before the expiration date of the Policy. Proof of mailing of any notice shall be sufficient proof of notice.

BANKRUPTCY

The bankruptcy or insolvency of the **Insured** will not relieve the **Insurer** from liability under this Policy.

All other terms, conditions and limitations of this Policy shall remain unchanged.

Authorized Representative

C. This Policy terminates:

(1) in its entirety, immediately upon expiration of the **Policy Period**;

(2) in its entirety, immediately upon exhaustion of the Policy Aggregate Limit of Liability, if applicable; provided, that no Policy termination under this Condition shall be effective with respect to a **Sponsored Plan** covered under Insuring Agreement A. (2);

(3) in its entirety immediately upon the voluntary liquidation or dissolution of the **Named Insured**; provided, that no Policy termination under this Condition shall be effective with respect to any **Sponsored Plan** covered under Insuring Agreement A. (2); or

(4) as to any **Subsidiary**, immediately upon a change in the **Management Control** of such **Subsidiary**.

B. It is understood and agreed that the following Clauses are added to the Policy:

ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.

FORCEFIELD℠

Crime Policy

In consideration of payment of the premium and in reliance upon the statements made to the **Insurer** by application, including its attachments and the material incorporated therein, which shall be deemed to be attached to, incorporated into, and made part of this Policy, and subject to the Declarations and this Policy, the **Named Insured**, on behalf of all **Insureds**, and ALLIED WORLD ASSURANCE COMPANY (U.S.) INC. ("the **Insurer**") agree as follows:

I. INSURING AGREEMENTS

Coverage is provided under the following Insurance Agreements, if purchased by the **Insured**, and applies only to loss first **Discovered** during the **Policy Period**, or during any extended period to **Discover** loss in accordance with Section XVI. of this Policy.

A. EMPLOYEE AND FIDUCIARY THEFT OR FORGERY COVERAGE

(1) Employee Theft of Company Property

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss of, or for loss from damage to, **Money**, **Securities** and **Property**, resulting directly from **Theft** or **Forgery** committed by an **Employee**, whether identified or not, acting alone or in collusion with other persons.

(2) Employee Theft of Client Property

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss of, or for loss from damage to, **Money**, **Securities** and **Property** sustained by an **Insured's Client**, resulting directly from **Theft** or **Forgery** committed by an identified **Employee**.

(3) Fiduciary Theft of Plan Property

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss of, or for loss from damage to, **Money**, **Securities** and **Property** that belongs to a **Sponsored Plan**, resulting directly from **Theft** or **Forgery** committed by a **Fiduciary**, whether identified or not, acting alone or in collusion with other persons.

B. FORGERY OR ALTERATION

(1) The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss resulting directly from **Forgery** or alteration of, on or in any written **Financial Instruments**, committed by a **Third Party**.

(b) actual destruction or disappearance of **Money** or **Securities**;

while **In Transit**, or while temporarily within the home of an **Employee**.

(2) The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss resulting directly from:

(a) damage to **Property** by **Robbery** while **In Transit**; or

(b) loss by the unlawful taking of **Property** temporarily within the home of an **Employee** or a partner of the **Insured**;

committed by a **Third Party**.

E. COMPUTER FRAUD

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for an **Insured's** loss of, or an **Insured's** loss from damage to, **Money**, **Securities** or **Property**, resulting directly from **Computer Fraud** committed by a **Third Party**.

F. FUNDS TRANSFER FRAUD COVERAGE

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss of **Money** and **Securities** contained in an **Insured's Transfer Account** on deposit at a financial institution resulting directly from **Funds Transfer Fraud** committed by a **Third Party**.

G. MONEY ORDERS AND COUNTERFEIT CURRENCY FRAUD COVERAGE

The **Insurer** shall reimburse the **Insured**, subject to the Sublimit of Liability set forth in Item 3.A. of the Declarations, for loss sustained by an **Insured** resulting directly from **Money Orders and Counterfeit Currency Fraud** committed by a **Third Party**.

H. CREDIT CARD FRAUD COVERAGE

The **Insurer** shall reimburse the **Insured**, subject to the Limit of Liability set forth in Item 3.A. of the Declarations, for loss sustained by an **Insured** resulting directly from **Credit Card Fraud** committed by a **Third Party**.

II. RESTORATION EXPENSES

The **Insurer** shall reimburse the **Insured**, subject to the Sublimit of Liability set forth in Item 3.B. of the Declarations, for **Restoration Expenses** that an **Insured** incurs to **Restore** its **Computer System** if damaged or destroyed by a **Computer Violation**. Such damage or destruction must be **Discovered** during the **Policy Period** and resulting directly from a **Computer Violation** which occurs as part of a **Single Loss** which is otherwise covered under Insuring Agreements A. or E. of this Policy.

Reimbursement of **Restoration Expenses** will be made to the **Insured** once all processes have been completed to **Restore** the **Insured's Computer System**, and the **Insured** has provided the **Insurer**, in writing, of a description and accounting of all **Restoration Expenses**, together with such detail as the **Insurer** may require.

III. AUTHENTICATION EXPENSES

The **Insurer** shall reimburse the **Insured**, subject to the Sublimit of Liability set forth in Item 3.B. of the Declarations, for **Authentication Expenses**. The amount of covered loss must exceed the **Single Loss** Deductible amount for the Insuring Agreement that is the subject of the claim under this Policy, in order for **Authentication Expenses** to be subject to reimbursement.

Authentication Expenses which are reimbursable under this Policy are part of and not in addition to the Single Loss Limit of Liability for the Insuring Agreement that is the subject of the claim.

Authentication Expenses are payable to the **Insured** at the same time as the payment of the valid and collectible loss under the Insuring Agreement that is the subject of the claim.

IV. DEFINITIONS

A. "**Authentication Expenses**" means reasonable fees, costs and expenses incurred and paid by the **Insured** to retain outside accountants, attorneys, consultants or experts, retained by the **Insured** to establish the existence and amount of covered loss under any Insuring Agreement of this Policy. **Authentication Expenses** shall not include the **Insured's** internal fees, costs (direct or indirect), obligations or any **Employee's** wages, salaries or benefits.

B. "**Banking Premises**" means the interior portion of a building occupied by, or the night depository chute or safe maintained by any bank, trust company or similar depository institution.

C. "**Client**" means a customer of an **Insured** to whom an **Insured** provides goods or services under a written contract or for a fee.

D. "**Computer Fraud**" means the use of any computer to fraudulently cause a transfer of **Money**, **Securities** or **Property**, from inside the **Premises** or **Banking Premises**:

(1) to a person (other than a **Messenger**) outside the **Premises** or **Banking Premises**; or

(2) to a place outside the **Premises** or **Banking Premises**.

E. "**Computer Program**" means a set of related electronic instructions which direct the operations and functions of a **Computer System**, which enables the **Computer System** to receive, process, store, retrieve, send, create or otherwise act upon **Electronic Data**.

F. "**Computer System**" means a computer, including all input, output, processing, storage and communication equipment which is connected to such computer, and which the operating system or application software used by the **Insured** are under the direct operational control of the **Insured**. Off-line libraries are deemed to be part of such **Computer System**.

G. "**Computer Violation**" means an unauthorized:

(1) entry into or deletion of **Electronic Data** from a **Computer System**;

(2) change to data elements or program logic of a **Computer System**, which is kept in machine readable format; or

(3) introduction of instructions, programmatic or otherwise, which propagate themselves through a **Computer System**;

by a natural person and directed against an **Insured**, designed to damage or destroy a **Computer System**.

H. "**Counterfeit**" means an imitation of **Money** that is intended to deceive and to be taken as genuine.

I. "**Credit Card Fraud**" means the **Forgery** or alteration of, on or in, any written instrument required in connection with any credit card which is issued to any **Employee** of the **Insured** at the request of the **Insured**, other than a credit card issued by any **Insured**.

J. "**Data**" means facts or information contained in records, accounts, microfilms, tapes or other records, whether or not contained in a **Computer System**.

K. "**Discover**," "**Discovers**," "**Discovery**" or "**Discovered**" means the point in time at which knowledge is acquired by an **Executive**, which would cause a reasonable person to believe that a covered loss has been sustained or an event has occurred that may subsequently result in a covered loss, even though the exact amount or details of such loss or event are unknown; provided that it shall not include knowledge acquired by an **Executive**, acting alone or in collusion with an **Employee**, who is a participant in the **Theft** or **Forgery**.

L. "**Electronic Data**" means facts or information converted to a form:

(1) usable in a **Computer System**;

(2) which does not provide instructions or directions to a **Computer System**; and

(3) which is stored on electronic processing media for use by a **Computer Program**.

M. "**Employee**" means any:

(1) natural person regularly performing services for an **Insured** in the ordinary course of such **Insured's** business, who is compensated by the **Insured** directly by salary, wages or commissions, and whose performance is controlled and directed by such **Insured**, including any part-time, seasonal, leased and temporary employee, or volunteer; or

(2) **Executive**, while performing acts within the scope of the usual duties of an employee of the **Insured**.

An **Employee** shall not include an independent contractor.

N. "**Executive**" means any natural person who is a duly elected or appointed director, officer, general counsel, risk manager, partner, general partner, owner (in the case of a sole proprietorship), member of the board of managers or a management committee member of the **Insured**; or any natural person holding a functionally equivalent position in any **Insured** chartered in any other jurisdiction anywhere in the world.

Executive shall also include any **Employee** designated to represent the **Insured** in obtaining or maintaining insurance coverage.

O. "**Fiduciary**" means any natural person who is a trustee, an officer, or an administrator of any **Sponsored Plan**; and any other natural person, including an **Employee** who is authorized to handle **Money**, **Securities** or **Property** that belongs to a **Sponsored Plan**.

P. "**Financial Instrument**" means checks, drafts or similar written promises, orders or directions to pay a sum certain in **Money**, that are made, drawn by or drawn upon an **Insured** or by anyone acting as an **Insured's** agent, or that are purported to have been so made or drawn.

Q. "**Forgery**" means the signing of the name of another natural person with the intent to deceive, but does not mean a signature that includes one's own name, with or without authority, in any capacity for any purpose. Mechanically or electronically produced or reproduced signatures shall be treated as hand-written signatures.

R. "**Funds Transfer Fraud**" means fraudulent written, electronic, telegraphic, cable, teletype or telephone instructions issued to a financial institution directing such institution to transfer, pay or deliver **Money** or **Securities** from any account maintained by the **Insured** at such institution, without the **Insured's** knowledge or consent. **Funds Transfer Fraud** shall not include a **Forgery**.

S. "**Insured**" means:

(1) the **Named Insured**;

(2) any **Subsidiary** of the **Named Insured**; and

(3) solely as it pertains to Insuring Agreement A., a **Sponsored Plan**.

T. "**In Transit**" means being conveyed outside the **Premises**, from one person or place to another, by the **Insured** within the custody of an **Employee** or a partner of the **Insured**, or a person authorized by the **Insured** to have custody of **Money**, **Securities** or **Property**. **In Transit** ends immediately upon delivery to the designated recipient or its agent.

U. "**Management Control**" means any person, entity or affiliated group of persons or entities with the right to owning interests representing more than fifty percent (50%) of the voting, appointment or designation power for the selection of a majority of: the Board of Directors of a corporation; the Management Committee members of a joint venture; or the members of the Management Board of a limited liability company.

V. "**Messenger**" means any **Executive**, or relative thereof, or any **Employee**, duly authorized, while having care and custody of covered property outside the **Premises**.

W. "**Money**" means currency, coins, bank notes and bullion.

X. "**Money Orders and Counterfeit Currency Fraud**" means the good faith acceptance:

(1) in exchange for merchandise, **Money** or services, of any post office or express money order, issued or purporting to have been issued by any post office or express Insured, if such money order is not paid upon presentation; or

(2) in the regular course of business, of **Counterfeit** United States of America or Canadian paper currency.

Y. "**Named Insured**" means the entity named in Item 1. of the Declarations.

Z. "**Policy Period**" means the period from the Inception Date shown in Item 2. of the Declarations to the earlier of the Expiration Date shown in Item 2. of the Declarations or the effective date of cancellation of this Policy.

AA. "**Premises**" means the interior portion of a building which is occupied by the **Insured** in conducting its business.

BB. "**Property**" means tangible property, other than **Money** or **Securities**, that has intrinsic value.

CC. "**Restore**" means to complete the restoration or reproduction of **Computer Programs** and **Electronic Data** within the **Insured's Computer System**, to bring such **Computer System** back to the level of operational capability that existed immediately preceding a **Computer Violation**.

DD. "**Restoration Expenses**" means reasonable costs incurred by an **Insured** to **Restore** its **Computer System**.

Restoration Expenses do not include:

(1) the **Insured's** internal corporate costs and expenses, including **Employee** remuneration, and any costs related to any legal action;

(2) expenses incurred as a result of the reconstruction of **Computer Programs** and **Electronic Data** recorded on media, including but not limited to magnetic or optical media, if there are no analyses files, specifications or backups of **Computer Programs** or **Electronic Data** held outside the **Premises**;

(3) expenses incurred as a result of the reconstruction of **Computer Programs** and **Electronic Data**, if an **Insured** knowingly used illegal copies of programs;

(4) expenses incurred to render the **Computer Programs** and **Electronic Data** usable by replacement processing equipment;

(5) expenses incurred to design, update or improve **Computer Programs** or **Electronic Data** or to perfect their operation or performance;

(6) expenses incurred as a result of an alteration in **Computer Programs** and **Electronic Data** held on magnetic media due to the effect of magnetic fields, incorrect usage of the **Computer Programs** and **Electronic Data**, or the obsolescence of the **Computer System**;

(7) lost revenue, sales, interest, income or profits; or

(8) expenses incurred by any **Client**.

Restoration Expenses from a **Single Loss** shall include those **Restoration Expenses** incurred by an **Insured** between the time an **Insured** initially **Discovers** the damage or destruction and the time the **Insured's Computer System** is **Restored**. Recurrence of the same or a similar **Computer Violation** after an **Insured's Computer System** has been fully **Restored**, shall constitute a separate **Single Loss**.

Reimbursement of **Restoration Expenses** applies only:

(1) with respect to **Computer Programs** and **Electronic Data** which an **Insured** owns or for which an **Insured** is legally liable; and

(2) if an **Insured** is unable to reproduce such **Computer Programs** or **Electronic Data**, either from back-up data copies or from some other form of back-up technology.

EE. "**Robbery**" means the unlawful taking of **Money**, **Securities** or **Property** from the custody of an **Employee**, or other person (except a person acting as a watchman, porter or janitor) authorized by the **Insured** to have custody of such **Money**, **Securities** or **Property**, by violence or threat of violence, committed in the presence and cognizance of such person.

FF. "**Safe Burglary**" means the unlawful taking of **Money**, **Securities** or **Property** by forcible or violent entry evidenced by visible marks, from a locked vault or safe located within the **Premises**.

GG. "**Securities**" means negotiable and non-negotiable instruments representing either **Money** or **Property**.

HH. "**Single Loss**" means:

(1) with respect to Insuring Agreement A., all loss resulting from:

(a) an individual act;

(b) the combined total of all separate acts, whether or not related; or

(c) a series of acts whether or not related;

committed by the same **Employee**, or the same **Fiduciary** in the case of Insuring Agreement A.(3), acting alone or in collusion with other persons, and regardless of whether or not such act or acts occurred during or before the **Policy Period**;

(2) with respect to all other Insuring Agreements, all loss resulting from:

(a) an individual act or event; or

(b) a series of related acts or events;

committed by the same **Third Party,** acting alone or in collusion with other persons, or in which the same **Third party** is implicated or involved;

whether or not such **Third Party** or **Third Parties** are identified, and regardless of whether or not such act(s) or event(s) occurred during or before the **Policy Period**; and further

with regard to both paragraphs (1) and (2) above, regardless of the amount or number of losses, the number of **Insureds** incurring loss, or the number of **Financial Instruments** or documents or electronic transactions involved over any period of time.

II. "**Sponsored Plan**" means:

(1) an employee welfare benefit plan or an employee pension benefit plan as more fully set forth in Title 1, Section 3 of the Employee Retirement Income Security Act of 1974 and any amendments thereto ("ERISA"), and which is solely sponsored by the **Insured**;

(2) an employee welfare benefit plan or an employee pension benefit plan as more fully set forth in Title 1, Section 3 of ERISA, which is operated solely by the **Insured** or jointly by the **Insured** and a labor organization for the benefit of the **Employees** of the **Insured**, located anywhere in the

world, and which existed on or before the Inception Date of this Policy or which is created or acquired after the Inception Date of this Policy;

(3) any other employee benefit plan or program not subject to Title 1 of ERISA, sponsored solely by the **Insured** for the benefit of the **Employees**, including any excess benefit plan located anywhere in the world and which existed on or before the Inception Date of this Policy or which is created or acquired after the Inception Date of this Policy; or

(4) any other plan, fund, or program specifically included as a **Sponsored Plan** by Endorsement to this Policy.

Sponsored Plan shall not include any multi-employer plan.

JJ. "**Subsidiary**" means:

(1) any for-profit entity, whose securities are not publicly traded, in which the **Insured** has **Management Control** ("Controlled Entity") before the Inception Date set forth in Item 2 of the Declarations;

(2) any for-profit entity, whose securities are not publicly traded, of which the **Insured** acquires **Management Control** during the **Policy Period**, either directly or indirectly through one or more Controlled Entities; or

(3) any not-for-profit entity sponsored exclusively by an **Insured** prior to or during the **Policy Period.**

Coverage afforded under this Policy for loss sustained any **Subsidiary** or any **Subsidiary's Client**, shall only apply to loss sustained after the effective date such entity becomes a **Subsidiary** and prior to the effective date that such entity ceases to be a **Subsidiary**.

KK. "**Theft**" means the unlawful taking of **Money, Securities** or **Property** to the deprivation of:

(1) an **Insured**, solely for the purposes of determining coverage under Insuring under Insuring Agreement A.(1);

(2) a **Client,** solely for the purposes of determining coverage under Insuring under Insuring Agreement A.(2); or

(3) a **Sponsored Plan**, solely for the purposes of determining coverage under Insuring Agreement A.(3).

LL. "**Third Party**" means a natural person, other than an **Employee**.

MM. "**Transfer Account**" means an account maintained by an **Insured** at a financial institution from which an **Insured** can initiate the transfer, payment or delivery of **Money** or **Securities**:

(1) by means of electronic, telegraphic, cable, teletype, computer, telefacsimile or telephone instructions communicated directly through an electronic funds transfer system; or

(2) by means of written instructions (other then those described in Insuring Agreement B. establishing the conditions under which such transfers are to be initiated by such financial institution through an electronic funds transfer system.

V. EXCLUSIONS

A. No coverage is afforded under this Policy for loss resulting directly or indirectly from any authorized or unauthorized trading of **Money, Securities** or **Property**, whether or not in the name of the **Insured** and whether or not in a genuine or fictitious account; provided however, that this Exclusion shall not apply to loss caused by **Theft** or **Forgery** which results in an improper financial gain to an **Employee**. Such improper financial gain shall not include salary, bonuses, commissions, incentive payments, fees or other compensation, including but not limited to promotions and raises associated with employment, earned time off including vacations, and the costs of any health, welfare, pension or retirement benefits.

B. No coverage is afforded under this Policy for loss resulting directly or indirectly from any fraudulent, dishonest or criminal action committed by an **Insured**, or by an owner if the **Insured** is a sole-proprietorship, a partner if the **Insured** is a partnership, or by a member or manager if the **Insured** is a limited liability company or corporation, whether acting alone or in collusion with others; provided however, that this Exclusion shall not apply to loss otherwise provided under Insuring Agreement A.(2).

C. No coverage is afforded under this Policy for loss resulting directly or indirectly from any fraudulent, dishonest or criminal act by any **Employee** or **Fiduciary**, whether acting alone or in collusion with others, unless otherwise covered under Insuring Agreement A.

D. No coverage is afforded under this Policy for loss sustained by an **Insured's Client** due to **Theft** or **Forgery** committed by an **Employee** acting in collusion with the **Client** or the **Client's** employee.

E. No coverage is afforded under this Policy for loss resulting directly or indirectly from the unauthorized use or disclosure of trade secrets, patents or other intellectual property, confidential processing methods, customer lists, or other confidential information of any kind; provided however, that this Exclusion does not apply to loss otherwise covered under Insuring Agreements A. or E.

F. No coverage is afforded under this Policy for loss due to **Theft** or **Forgery** committed by, an owner if the **Insured** is a sole-proprietorship, a partner if the **Insured** is a partnership, or by a member or manager if the **Insured** is a limited liability company or corporation, whether acting alone or in collusion with others.

G. No coverage is afforded under this Policy for loss resulting directly or indirectly from declared or undeclared war, civil war, insurrection, rebellion or revolution, military, naval or usurped power, governmental intervention, expropriation or nationalization, or any act or condition incident to any of the foregoing.

H. No coverage is afforded under this Policy for loss of income, whether or not earned or accrued, including interest and dividends, not realized as the result of a loss covered under this Policy.

I. No coverage is afforded under this Policy for indirect or consequential loss of any kind, provided however, that this Exclusion shall not apply to otherwise covered **Authentication Expenses** under Section III. or **Restoration Expenses** under Section II.

J. No coverage is afforded under this Policy for fines or penalties, or for multiplied or punitive damages.

K. No coverage is afforded under this Policy for expenses incurred:

(1) as a result of the reconstitution of **Data** if the **Insured** knowingly used or uses illegal copies of programs;

(2) to render the **Data** usable by replacement processing equipment;

(3) to design, update or improve software or programs or to perfect their operation or performance; or

(4) as a result of an alteration in **Data** held on magnetic media due to the effect of magnetic fields, their incorrect use or the obsolescence of the **Computer System**.

L. No coverage is afforded under this Policy for loss caused by an **Employee**, which is sustained by an **Insured** after any other **Employee** with managerial or supervisory responsibility, or an **Executive**, not in collusion with the **Employee** becomes aware of a **Theft**, **Forgery**, or other fraudulent or dishonest act committed by such **Employee** while employed with the **Insured** or prior to the inception of the **Employee's** employment with the **Insured**, involving **Money**, **Securities** or **Property** in an amount in excess of one-thousand dollars ($1,000).

M. No coverage is afforded under this Policy for loss resulting directly or indirectly from fire; provided however, that this Exclusion shall not apply to:

(1) loss of **Money** or **Securities**; or

(2) damage to any safe or vault caused by the application of fire thereto for the purposes of **Safe Burglary**.

N. No coverage is afforded under this Policy for fees, costs or expenses incurred or paid by the **Insured** in defending or prosecuting any legal proceeding or claim; provided however, that this Exclusion shall not apply to the coverage provided under Insuring Agreement B.(2).

O. No coverage is afforded under this Policy for loss due to the **Insured** knowingly having given or surrendered **Money**, **Securities** or **Property** in any exchange or purchase with a **Third Party** not in collusion with an **Employee**; provided however, that this Exclusion shall not apply to **Money Orders** and **Counterfeit Currency Fraud**.

P. No coverage is afforded under this Policy for loss sustained by one **Insured** to the advantage of any other **Insured,** other than a **Sponsored Plan**.

Q. No coverage is afforded under this Policy for loss of or damage to **Money**, **Securities** or **Property** while in the custody of any bank, trust company, similar recognized place of safe deposit, armored motor vehicle company or any person who is duly authorized by the **Insured** to have custody of the property; provided however, that this Exclusion shall not apply to the extent that coverage under this Policy is excess of the amount recovered or received by the **Insured** under:

(1) the **Insured's** contract, if any, with, or insurance carried by, any of the foregoing; or

(2) any other insurance or indemnity in force which would cover the loss in whole or in part.

R. No coverage is afforded under this Policy for loss due to the unlawful taking of **Money**, **Securities** or **Property**, or due to **Computer Fraud** or any other fraudulent, dishonest or criminal act (other than **Robbery** or **Safe Burglary**), by any representative of the **Insured** other than an **Employee**, provided that such representative is not acting in collusion with any **Employee**.

S. No coverage is afforded under Insuring Agreement A. for loss resulting directly or indirectly caused by any broker, factor, commission merchant, consignee, contractor, independent contractor or other agent or representative of the same general character, of the **Insured**.

T. No coverage is afforded under Insuring Agreements C. or D. for:

(1) loss due to **Forgery**, **Computer Fraud** or **Funds Transfer Fraud**; or

(2) loss of or damage to **Money**, **Securities** or **Property** while in the mail or in the custody of a carrier for hire, other than an armored motor vehicle company.

U. No coverage is afforded under Insuring Agreements A., D., E. or F.for loss of or damage to **Money**, **Securities** or **Property** as a result of a kidnap, ransom or other extortion payment (as distinct from **Robbery**) surrendered to any person as a result of a threat to do bodily harm to any person or a threat to do damage to the **Premises** or **Property**.

V. No coverage is afforded under Insuring Agreement B. for loss due to **Forgery** or alteration of:

(1) any **Financial Instrument** committed by any **Third Party** in collusion with any **Employee**; or

(2) any registered or coupon obligations issued or purported to have been issued by the **Insured**, or any coupons whether attached or detached.

W. No coverage is afforded under Insuring Agreement H. for loss caused by any forgery or alteration of, on or in any written instrument; provided that this Exclusion shall not apply if:

(1) the provisions, conditions and other terms under which the involved credit card was issued were fully complied with; and

(2) the **Insured** is legally liable to the issuer of such credit card for such loss.

X. No coverage is afforded under this Policy for any loss that the **Insured** is aware of prior to the Inception Date of this Policy.

Y. No coverage is afforded under this Policy for loss sustained by the **Insured** prior to the termination of this Policy unless such loss is first **Discovered** during the **Policy Period** and the **Insured** provides written notice thereof to the **Insurer** within the time limitations provided in Sections XI. or XVI. of this Policy.

Z. No coverage is afforded under this Policy for loss, or that portion of any loss, sustained by the **Insured** which results from an unexplained inventory shortage, including loss, the proof of which its existence or amount is dependent upon an inventory computation or a profit and loss computation. Provided however, that if the **Insured** can establish, wholly apart from such computations, that it has sustained a loss, then the **Insured** may offer its inventory records and actual physical count of inventory in support of the amount of loss claimed.

VI. OWNERSHIP

A. The **Insurer's** liability under this Policy will apply only to the **Money**, **Securities** or **Property** owned by the **Insured** or for which the **Insured** is legally liable, or held by the **Insured** in any capacity whether or not the **Insured** is liable; provided that:

(1) the **Insurer** will not be liable for damage to the **Premises** unless the **Insured** is the owner of the **Premises** or is liable for such damage; or

(2) except solely with respect to Insuring Agreement A.(2), the **Insurer's** liability will not apply to **Money**, **Securities** or **Property** of a **Client**.

B. For the purposes of Insuring Agreement A.(2), the **Insurer's** liability under this Policy will apply only to the **Money**, **Securities** or **Property** of a **Client**, which is held by the **Insured** in any capacity or for which the **Insured** is legally liable.

VII. SPONSORED PLAN

A. Solely with respect to any **Sponsored Plan**, payment by the **Insurer** for covered loss to the **Insured** shall be held by the **Insured** for the use and benefit of the **Sponsored Plan** incurring such loss.

B. The Limit of Liability applicable to any **Sponsored Plan** shall equal either ten percent (10%) of the **Sponsored Plan's** assets as of the beginning of such **Sponsored Plan's** fiscal year, or five-hundred-thousand dollars ($500,000), whichever is less ("Amended Limit of Liability"); provided, however, that the following additional conditions shall also apply with respect to such coverage:

(1) Loss Involving One Sponsored Plan:

(a) if the applicable Limit of Liability as set forth in Item 3.A. of the Declarations is less than the Amended Limit of Liability, then the applicable Limit of Liability shall be the Amended Limit of Liability; or

(b) if the applicable Limit of Liability as set forth in Item 3.A. of the Declarations equals or exceeds the Amended Limit of Liability, then the applicable Limit of Liability shall be the Limit of Liability as set forth in Item 3.A. of the Declarations of this Policy; or

(2) Loss Involving More Than One Sponsored Plan:

(a) if the applicable Limit of Liability as set forth in Item 3.A. of the Declarations is less than the Amended Limit of Liability as calculated for each **Sponsored Plan**, then the applicable Limit of Liability for each **Sponsored Plan** shall be the Amended Limit of Liability as calculated for each **Sponsored Plan**; or

(b) if the applicable Limit of Liability as set forth in Item 3.A. of the Declarations equals or exceeds the Amended Limit of Liability as calculated for all such **Sponsored Plans**, then the applicable Limit of Liability for all such **Sponsored Plans** combined shall be the Limit of Liability as set forth in Item 3.A. of the Declarations.

Solely with respect to loss sustained by a **Sponsored Plan**, no Deductible Amount shall apply to such loss.

VIII. LIMITS OF LIABILITY

A. The **Insurer's** maximum liability for a **Single Loss** shall not exceed the Limit of Liability applicable to such loss, as set forth in Item 3.A. of the Declarations, regardless of the number of **Insureds** who have incurred loss.

B. If a **Single Loss** is covered under more than one Insuring Agreement of this Policy, the maximum amount payable under this Policy shall not exceed the largest applicable Limit of Liability of any one such Insuring Agreement.

C. If a **Single Loss** is covered under both Insuring Agreement E. and Section II, then only one Deductible and one Limit of Liability shall apply, that being the Deductible and Limit of Liability under Insuring Agreement E.

D. Aggregate Limit of Liability

If Item 3.C. of the Declarations indicates an Aggregate Limit of Liability for this Crime Policy, then the **Insurer's** maximum aggregate liability for all loss under this Policy which is **Discovered** during the **Policy Period**, all **Restoration Expenses**, and all **Authentication Expenses**, shall not exceed such Aggregate Limit of Liability. If the aggregate Limit of Liability is exhausted by the payment of loss, **Restoration Expenses** or **Authentication Expenses** by the **Insurer**, the **Insurer** will have no further liability to make any payments under this Crime Policy.

If Item 3.C. of the Declarations does not indicate an Aggregate Limit of Liability for this Crime Policy, then the payment of loss under any one Insuring Agreement by the **Insurer** shall not reduce or exhaust the Single Loss Limit of Liability under any other Insuring Agreement. However, in no event shall the **Insurer** be liable to reimburse the **Insured**, in total, more than the amount set forth in Item 3.B. of the Declarations for **Restoration Expenses**, under Section II of this Policy.

IX. DEDUCTIBLE

A. The **Insurer** will not reimburse the **Insured** for loss resulting directly from a **Single Loss** unless the amount of loss exceeds the applicable Deductible shown in Item 3.A. of the Declarations. The **Insurer** will then reimburse the amount of loss in excess of the Deductible, up to the applicable Limit of Liability.

B. If a **Single Loss** is covered under more than one Insuring Agreement of this Policy, then only the highest **Single Loss** Deductible shall be applied.

C. If a **Single Loss** is covered under both Insuring Agreement E. and Section II, then only one Deductible and one Limit of Liability shall apply, that being the Deductible and Limit of Liability under Insuring Agreement E.

X. NON-ACCUMULATION OF LIABILITY

A. When there is more than one **Insured**, the maximum liability of the **Insurer** for loss sustained by one or all **Insureds** shall not exceed the amount for which the **Insurer** would be liable if all losses were sustained by any one **Insured**.

B. Regardless of the number of years this Policy remains in effect and the total premium amounts due or paid, neither the Limits of Liability nor the amount the **Insurer** shall reimburse for any loss shall be cumulative from year-to-year or from **Policy Period**-to-**Policy Period**.

XI. PROOF OF LOSS AND LEGAL PROCEEDINGS

(A) It is a condition precedent to coverage hereunder that, upon **Discovery**, the **Insured** shall:

(1) provide written notice to the **Insurer** as soon as practicable and in no event later than ninety (90) days after such **Discovery**;

(2) furnish sworn Proof of Loss with full particulars to the **Insurer** within six (6) months of such **Discovery**, including:

(a) production of all relevant records and documents as the **Insurer** shall request; and

(b) submit to examination under oath at the **Insurer's** request; and

(3) cooperate completely with the **Insurer** in all matters pertaining to the claim.

(B) The **Insured** may offer a comparison between the **Insured's** inventory records and actual physical count of its inventory to prove the amount of loss, but only where the **Insured** establishes wholly apart from such comparison that it has sustained a covered loss, caused by an identified **Employee**.

XII. VALUATION AND FOREIGN CURRENCY

The **Insurer** shall reimburse:

A. loss of **Money** but only up to and including its face value, and at the **Insured's** option, reimburse for loss of **Money** issued by any country other the United States of America:

(1) at face value in the **Money** issued by that country; or

(2) in the United States of America equivalent determined by the rate of exchange published in the Wall Street Journal on the day the loss was **Discovered**.

B. loss of **Securities** but only up to and including their value at the close of business on the day the loss was **Discovered**. The **Insurer** may, at the **Insurer's** option:

(1) reimburse the market value of such **Securities** or replace them in kind, in which event the **Insured** must assign to the **Insurer** all the **Insured's** rights, title and interest in and to those **Securities**; or

(2) reimburse the cost of any Lost Securities Bond required in connection with issuing duplicates of the **Securities**. However, the **Insurer** will be liable only for the payment of so much of the cost of the bond as would be charged for a bond having a penalty not exceeding the lesser of the value of the **Securities** at the close of business on the day the loss was **Discovered**.

C. loss of, or loss from damage to, **Property** or **Premises** including its exterior for the replacement cost without deduction for depreciation; provided the **Insurer** will not reimburse more than the least of the following:

(1) the cost to replace the lost or damaged **Property** with **Property** of comparable material and quality and used for the same purpose;

(2) the amount the **Insured** must actually spend that is necessary to repair or replace the lost or damaged **Property**; or

(3) the **Single Loss** Limit of Liability applicable to the lost or damaged **Property**.

The **Insurer** will not reimburse the **Insured** on a replacement cost basis for any loss or damage until such **Property** is actually repaired or replaced, and unless the repairs or replacement are made as soon as reasonably possible after the loss or damage. If the lost or damaged **Property** is not repaired or replaced, the **Insurer** will reimburse the **Insured** the actual cash value of the **Property** on the day the loss was **Discovered**.

XIII. OTHER INSURANCE

If the **Insured** or any other party in interest in any loss covered by this Policy has any bond, indemnity or other insurance which would cover such loss in whole or in part in the absence of this Policy, then this Policy shall be null and void to the extent of the amount recoverable or received under such other bond, indemnity, or insurance; but this Policy shall cover such loss, subject to its exclusions, conditions and other terms, only to the extent of the amount of such loss in excess of the amount recoverable or received under such other bond, indemnity or insurance.

XIV. ORGANIZATIONAL CHANGES

If during the **Policy Period** the **Insured** shall consolidate with, merge into, purchase, or acquire the assets or liabilities of another entity, this Policy will provide coverage for that merged, purchased or acquired entity, subject to all other terms and conditions herein, but only for loss **Discovered** by an **Insured** after the effective date of such merger, purchase, or acquisition; provided that the **Insured** provides written notice of such merger, purchase, or acquisition to the Insurer with full particulars of such merger, purchase, or acquisition, within ninety (90) days after the effective date of such merger, purchase, or acquisition. Coverage for the merged, purchased, or acquired entity shall not be afforded following such ninety (90) day period unless the **Insurer** agrees to provide such coverage, subject to any additional terms and conditions and any additional premium that may be required by the **Insurer**. Any **Sponsored Plan** acquired as above shall be included as an **Insured**.

The ninety (90) day notice requirement shall be waived subject to the following:

A. the assets of the merged, purchased, or acquired entity do no exceed forty percent (40%) of the total assets of the **Insured** as of one (1) day prior to the effective date of the transaction; or

B. the merger, purchase, or acquisition occurs less then ninety (90) days prior to the end of the **Policy Period**.

The **Insured** must notify the **Insurer** of a change in **Management Control** during the **Policy Period**, with written notice to the **Insurer** within ninety (90) days of the effective date of the change in **Management Control**, but notice must be made to the **Insurer** no later then the last date of the **Policy Period** on the Declarations Page.

XV. TERRITORY

This Policy extends to acts taking place anywhere in the world, to the extent permitted by law.

XVI. EXTENDED PERIOD TO DISCOVER LOSS

The **Insurer** will reimburse the **Insured** for loss that the **Insured** sustained prior to the effective date of the cancellation or termination of this Policy, which is **Discovered** by the **Insured**:

A. No later then ninety (90) days from the date of that cancellation or termination, with regard to all loss except loss sustained by a **Sponsored Plan**; or

B. No later then one (1) year from the date of that cancellation or termination, with regard to loss sustained by a **Sponsored Plan**.

However, this extended period to **Discover** loss terminates immediately upon the effective date of any other insurance obtained by the **Insured** in whole or in part to replace the coverage afforded under this Policy.

XVII. CONCEALMENT, MISREPRESENTATION OR FRAUD

This Policy is void in any case of fraud by the **Insured** as it relates to this Policy at any time. This Policy is also void if the **Named Insured** or any other **Insured**, or any person authorized to act on its behalf, at any time intentionally conceals or misrepresents a material fact concerning:

A. this Policy, in the Application for this Policy or in any materials submitted therewith;

B. **Money, Securities** or **Property**;

C. the **Insured's** interest in **Money, Securities** or **Property**; or

D. a claim under this Policy.

XVIII. TRANSFER OF RIGHTS AND DUTIES UNDER THIS COVERAGE SECTION

The **Insured's** rights and duties under this Policy may not be assigned or transferred without the **Insurer's** written consent except in the case of death of a natural person **Insured**. If the natural person **Insured** dies, the **Insured's** rights and duties will be transferred to the **Insured's** legal representative but only while acting within the scope of duties as the deceased **Insured's** legal representative. Until a legal representative is appointed, anyone having proper temporary custody of the decedent's property will have all rights and duties but only with respect to that property.

XIX. RECORDS

The **Insured** must keep records of all **Money**, **Securities**, and **Property** under this Policy so the **Insurer** can verify the amount of any loss.

XX. RECOVERIES

A. All recoveries for payments made under this Policy, whether made by the **Insurer** or the **Insured**, shall be applied net of the expense of such recovery:

(1) first, to the **Insured** in satisfaction of the **Insured's** covered loss in excess of the amount paid under this Policy;

(2) second, to the **Insurer** in satisfaction of amounts paid in settlement of the **Insured's** claim;

(3) third, to the **Insured** in satisfaction of any Deductible; and

(4) fourth, to the **Insured** in satisfaction of any loss not covered under this Policy.

B. Recoveries do not include any recovery:

(1) for insurance, suretyship, reinsurance, security or indemnity taken for the **Insurer's** benefit; or

(2) of original **Securities** after duplicates of them have been issued.

XXI. TRANSFER OF INSURED'S RIGHTS OF RECOVERY AGAINST OTHERS TO INSURER

The **Insured** must transfer to the **Insurer** all the **Insured's** rights of recovery against any person or organization for any loss the **Insured** sustained and for which the **Insurer** has paid or settled. The **Insured** must also do everything necessary to secure those rights and do nothing after the loss to impair them.

XXII. ACTION AGAINST INSURER

A. The **Insured** may not bring any legal action against the **Insurer** involving loss:

(1) unless the **Insured** has complied with all the terms of this Policy;

(2) until ninety (90) days after the **Insured** has filed Proof of Loss with the **Insurer**; and

(3) unless brought within two (2) years from the date the **Insured** **Discovered** the loss.

B. The **Insured** may not bring any legal action against the **Insurer** to recover a judgment or settlement against it or its bank resulting from **Forgery** or related legal expenses as set forth in Insuring Agreement B.(2), unless brought within two (2) years from the date upon which such judgment shall become final or upon which such settlement was entered into.

If any limitation in this Condition is deemed to be inconsistent with the state law, such limitation is amended so as to equal the minimum period of limitation provided by such law.

XXIII. LIBERALIZATION

In the event the **Insurer** introduces a new Crime Policy during the **Policy Period**, then the **Named Insured** shall have the right to any broader coverage available under such new Policy, if allowed by law, as of the date that such new Policy is made available to all insureds, but only with respect to loss **Discovered** and/or claims reported to the **Insurer** after such date.

XXIV. CANCELLATION AND TERMINATION

A. The **Named Insured** may cancel:

(1) this Policy;

(2) a specific Insuring Agreement under this Policy; or

(3) coverage for an **Insured**;

by mailing or delivering written notice of cancellation to the **Insurer**.

B. The **Insurer** may cancel:

(1) this Policy;

(2) a specific Insuring Agreement under this Policy; or

(3) coverage for an **Insured**;

by mailing or delivering to the **Named Insured** written notice of cancellation at least twenty (20) days before the effective date of cancelation, if the **Insurer** cancels for nonpayment of premium; or sixty (60) days before the effective date of cancellation if the **Insurer** cancels for any other reason.

The **Insurer** will mail or deliver the **Insurer's** notice to the **Named Insured's** last known mailing address. Notice of cancellation will state the effective date of cancellation and the **Policy Period** will end on such date. If this Policy or an Insuring Agreement is cancelled, the **Insurer** will send the **Named Insured** a premium refund due. If either the **Insurer** or **Insured** cancel this Policy, the refund will be the pro-rata amount of the annualized premium. If notice is mailed, proof of mailing will be sufficient proof of notice.

C. This Policy terminates:

(1) in its entirety, immediately upon expiration of the **Policy Period**;

(2) in its entirety, immediately upon exhaustion of the Policy Aggregate Limit of Liability, if applicable; provided, that no Policy termination under this Condition shall be effective with respect to a **Sponsored Plan** covered under Insuring Agreement A.(2);

(3) in its entirety immediately upon the voluntary liquidation or dissolution of the **Named Insured**; provided, that no Policy termination under this Condition shall be effective with respect to any **Sponsored Plan** covered under Insuring Agreement A.(2); or

(4) as to any **Subsidiary**, immediately upon a change in the **Management Control** of such **Subsidiary**.

XXV. CHANGES

This Policy contains all the agreements between the **Insured** and the **Insurer** concerning the insurance afforded. The **Named Insured** shown on the Declarations is authorized to make changes to the terms of this Policy with the **Insurer's** consent. This Policy's terms can be amended or waived only by endorsement issued by the **Insurer** and made a part of this Policy.

XXVI. HEADINGS

The descriptions in the headings and any subheading of this Policy, including any titles given to any endorsement attached hereto, are inserted solely for convenience and do not constitute any part of this Policy's terms or conditions.

12r
10-29-1

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ENDORSEMENT NO. 2

SPECIFIC PERSONS OR ENTITIES EXCLUSION

This Endorsement, effective at 12:01 a.m. on October 18, 2012, forms part of

Policy No.	0307-2195
Issued to	Eskaton
Issued by	Allied World Assurance Company (U.S.) Inc.

In consideration of the premium charged, it is hereby agreed that:

No person or entity listed below is an **Insured**. Accordingly, no coverage will be available for loss sustained or incurred by the following persons or entities:

ESKATON VILLAGE PLACERVILLE

All other terms, conditions and limitations of this Policy shall remain unchanged.

Authorized Representative

CE 00020 00 (01/10)

BP 4-18-12

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Frank Jaconetti Manor**
forms a part of Policy Number **NDO1052559F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18-1

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company** to **Eskaton Hayfork Manor/Mountain Valley Haven** forms a part of Policy Number **NDO1052551F** effective on **09/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

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All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

Bd 4-18-13

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Hazel Shirley Manor**
forms a part of Policy Number **NDO1052555F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

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CONTRACTS BRANCH

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18-1?

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Jefferson Manor**
forms a part of Policy Number **NDO1052550F** effective on **09/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

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CONTINUING CARE
CONTRACTS BRANCH

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18-1

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Kennedy Manor**
forms a part of Policy Number **NDO1052558F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Lassen Manor**
forms a part of Policy Number **NDO1052553F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

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CONTRACTS BRANCH

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18-12

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Natomas Manor**
forms a part of Policy Number **NDO1052560F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company**
to **Eskaton Washington Manor**
forms a part of Policy Number **NDO1052556F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

BP 4-18

ENDORSEMENT #1

This endorsement, issued by **United States Liability Insurance Company** to **Eskaton Wilson Manor** forms a part of Policy Number **NDO1052557F** effective on **9/29/2011** at 12:01 A.M.

Add/Remove Optional Coverage Endorsement

In consideration of a return premium of $59 it is hereby agreed and understood that Fiduciary Liability Coverage is removed from the Policy:

The following endorsement(s) have been removed to the policy:

DO-256 (04-07) - Fiduciary Liability Coverage Endt.

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All other terms and conditions of this Policy remain unchanged.

ADD-REM-OPT (03-01)

The United States Liability Insurance Group Rated A++ (SUPERIOR) by A.M. Best

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ALLIED WORLD

ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
(A member company of Allied World Assurance Company Holdings Ltd.)
225 Franklin Street, Boston, MA 02110 · Tel. (857) 288-6000 · Fax (617) 556-8060

FORCEFIELD℠
FIDUCIARY LIABILITY POLICY

POLICY NUMBER: 0307-2198 RENEWAL OF:

NOTICES

EXCEPT TO SUCH EXTENT AS MAY OTHERWISE BE PROVIDED HEREIN, THE COVERAGE OF THIS POLICY IS GENERALLY LIMITED TO LIABILITY FOR ONLY THOSE CLAIMS THAT ARE FIRST MADE AGAINST THE INSUREDS DURING THE POLICY PERIOD AND REPORTED IN WRITING TO THE INSURER PURSUANT TO THE TERMS HEREIN.

THE LIMIT OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCE BY AMOUNTS INCURRED FOR DEFENSE COSTS. AMOUNTS INCURRED FOR DEFENSE COSTS SHAL BE APPLIED AGAINST THE RETENTION AMOUNT.

THE INSURER DOES NOT ASSUME THE DUTY TO DEFEND ANY CLAIM UNDER THIS POLIC HOWEVER, IF THE INSURED TENDERS THE DEFENSE OF ANY CLAIM TO THE INSURER ACCORDANCE WITH THE TERMS HEREIN, THE INSURER SHALL ASSUME THE DEFENSE OF SU CLAIM.

PLEASE READ THE ENTIRE POLICY CAREFULLY AND DISCUSS THE COVERAGE HEREUNDER W YOUR INSURANCE BROKER.

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DECLARATIONS

ITEM 1. NAMED INSURED: Eskaton

ADDRESS: 5105 Manzanita Avenue
Carmichael, CA 95608

ITEM 2. POLICY PERIOD: Inception Date: January 1, 2012 Expiration Date: January 1, 201
(12:01 a.m. Standard Time at the address stated in Item 1)

ITEM 3. LIMITS OF LIABILITY:
A. Policy Aggregate Limit of Liability $1,000,000
B. HIPAA Claim Coverage $100,000
C. Voluntary Compliance Program Coverage $100,000

ITEM 4. RETENTION: $10,000

ITEM 5. PREMIUM: $3,617

ITEM 6. **PENDING AND PRIOR DATE:** January 1, 2008

ITEM 7. **DISCOVERY PERIOD:**

1 Year:	100%
2 Years:	125%
3 Years:	150%
4 Years:	N/A
5 Years:	N/A
6 Years:	N/A

ITEM 8. **ADDRESS OF INSURER FOR NOTICES UNDER THIS POLICY**

A. **Claim-Related Notices:**
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
ATTN: CLAIMS DEPARTMENT
9 FARM SPRINGS ROAD
FARMINGTON, CT 06032
or
AWACUS.FinancialClaims@awac.com

B. **All Other Notices:**
ALLIED WORLD ASSURANCE COMPANY (U.S.) INC.
ATTN: PROFESSIONAL LIABILITY UNDERWRITING
199 WATER STREET
NEW YORK, NY 10038

In Witness Whereof, the **Insurer** has caused this Policy to be executed and attested. This Policy shall not be valid unless countersigned by a duly authorized representative of the **Insurer**.

W Weston Krieger

President

Secretary

AUTHORIZED REPRESENTATIVE

FORCEFIELD[SM]
Fiduciary Liability Policy

In consideration of the payment of the premium and in reliance upon the **Application**, which shall be deemed to be attached to, incorporated into, and made a part of this Policy, ALLIED WORLD ASSURANCE COMPANY (U.S.) INC. (the **"Insurer"**) and the **Named Insured**, on behalf of all **Insureds**, agree as follows:

I. INSURING AGREEMENTS

A. Fiduciary Liability Coverage

The **Insurer** shall pay on behalf of any **Insured** the **Loss** arising from a **Claim** first made during the **Policy Period** (or Discovery Period, if applicable) against such **Insured** for any **Wrongful Act**, and reported to the **Insurer** in accordance with Section VIII. of this Policy.

B. HIPAA Claim Coverage

The **Insurer** shall also pay on behalf of any **Insured** the **Loss** arising from a **HIPAA Claim** first made during the **Policy Period** (or Discovery Period, if applicable) against such **Insured**, and reported to the **Insurer** in accordance with Section VIII. of this Policy. The applicable Sublimit of Liability set forth in Item 3.B. of the Declarations is the **Insurer's** maximum limit of liability for all **Loss** arising from all **HIPAA Claims.** The Sublimit of Liability for **HIPAA Claims** shall be part of, and not in addition to, the Limit of Liability applicable to this Policy.

C. Voluntary Compliance Program Coverage

The **Insurer** shall reimburse the **Insured** the **Voluntary Compliance Program Loss** incurred by the **Insured** and reported to the **Insurer** in accordance Section IX. of this Policy.

The Sublimit of Liability set forth in Item 3.C. of the Declarations is the **Insurer's** maximum limit of liability for all **Voluntary Compliance Program Loss.** The Sublimit of Liability for **Voluntary Compliance Program Loss** shall be part of, and not in addition to, the Aggregate Limit of Liability applicable to this Policy.

The reimbursement by the **Insurer** to the **Insured** of any **Voluntary Compliance Program Loss** under this Policy shall not waive any of the **Insurer's** rights under this Policy or at law, including in the event that such **Loss** results in a **Claim** under Insuring Agreements A. or B. of this Policy.

II. DEFINITIONS

A. "**Administration**" means:

(1) advising, counseling or giving notice to **Employees**, participants or beneficiaries with respect to any **Plan**;

(2) providing interpretations to **Employees**, participants or beneficiaries with respect to any **Plan**; or

(3) handling of records or effecting enrollment, termination or cancellation of **Employees**, participants or beneficiaries, under any **Plan**.

B. "**Application**" means: (1) the signed application submitted for this Policy and any attachments to such application, and for any other policy issued by the **Insurer**, or any affiliate thereof, of which this Policy is a direct renewal or replacement, including any attachments and other materials submitted with or incorporated into such applications; and (2) any publicly available documents filed by the **Named Insured** with any federal, state, local or foreign regulatory agency or U.S. Securities and Exchange Commission ("SEC"), during the twelve (12) months prior to the inception of the **Policy Period**. All of these materials shall be deemed attached hereto, as if physically attached hereto, and incorporated herein.

C. "**Benefits**" means any obligation under a **Plan** to a participant or beneficiary of such **Plan**, which is a payment of money or property, or the grant of a privilege, right, option or perquisite.

D. "**Claim**" means any:

(1) written demand for monetary, non-monetary or injunctive relief made against an **Insured**;

(2) judicial, administrative or regulatory proceeding, whether civil or criminal, for monetary, non-monetary or injunctive relief commenced against an **Insured**, including any appeal therefrom, which is commenced by:

(a) service of a complaint or similar pleading;
(b) return of an indictment, information or similar document (in the case of a criminal proceeding); or
(c) receipt or filing of a notice of charges;

(3) written notice of commencement of a fact finding investigation by the U.S. Department of Labor ("DOL"), the U.S. Pension Benefit Guaranty Corporation, or any similar governmental authority located outside the United States, including but not limited to, the Pensions Ombudsman appointed by the United Kingdom Pensions Regulator or any successor body thereto;

(4) written request to toll or waive the applicable statute of limitations relating to a potential **Claim** against an **Insured** for a **Wrongful Act**.

A **Claim** shall be deemed first made when any **Insured** first receives notice of the **Claim**.

E. "**Cleanup Costs**" means expenses (including but not limited to legal and professional fees) incurred in testing for, monitoring, cleaning up, removing, containing, treating, neutralizing, detoxifying or assessing the effects of **Pollutants**.

F. "**Company**" means:

(1) the **Named Insured**;

(2) any **Subsidiary** of the **Named Insured**; and

(3) any **Named Insured** or **Subsidiary** as a debtor, a debtor-in-possession or equivalent status.

G. "**Defense Costs**" means:

(1) reasonable and necessary fees, costs, charges or expenses resulting from the investigation, defense or appeal of a **Claim**;

(2) premium for an appeal, attachment or similar bond, but without any obligation to apply for and obtain such bond, in connection with a **Claim**; or

(3) any fees, costs, charges or expenses incurred by the **Insured** at the specific request of the **Insurer** to assist the **Insurer** in the investigation, defense or appeal of a **Claim**.

"**Defense Costs**" does not include: (a) amounts incurred by the **Insured** prior to the date a **Claim** is first made and reported to the **Insurer**; or (b) compensation or benefits of any **Insured Person** or any overhead expenses of the **Company**.

H. "**Employee**" means any natural person whose labor or service is engaged or directed by the **Company** or any **Plan** including any part-time, seasonal, leased or temporary employee or volunteer. **Employee** shall not include any **Independent Contractor**.

I. "**Employee Benefit Law**" means Employee Retirement Income Security Act of 1974, or any amendments thereto or any rules or regulations promulgated thereunder, or any similar provisions of any federal, state or local statutory law of the United States ("ERISA"), or any similar common or statutory law of any other jurisdiction anywhere in the world, to which a **Plan** is subject.

J. "**ESOP**" means: (1) any employee stock ownership plan as defined in ERISA, or; (2) any other **Plan** under which investments are made in securities of, or issued by, the **Company**, if scheduled in an Endorsement to this Policy.

K. "**HIPAA Claim**" means a **Claim** alleging, arising out of, based upon or attributable to a violation of the Health Insurance Portability and Accountability Act of 1996 and any amendments thereto ("HIPAA").

L. "**HIPAA Penalties**" means civil money penalties imposed upon an **Insured** for violation of HIPAA's Privacy Rule.

M. **"Independent Contractor"** means any person working in the capacity of an independent contractor pursuant to a written contract or agreement between the **Independent Contractor** and the **Company**, which specifies the terms of the **Company's** engagement of the **Independent Contractor**.

N. **"Insured"** means:

(1) the **Company**;

(2) any **Plan**;

(3) any **Insured Person**; and

(4) any other person or entity in his, her or its capacity as a fiduciary, administrator or trustee of a **Plan** and included in the Definition of **Insured** by specific written endorsement attached to this Policy.

O. **"Insured Person"** means any:

(1) past, present or future natural person director, officer, trustee, general partner, management committee member, member of board of managers, governor (or any foreign equivalent) of the **Company**; or

(2) **Employee.**

P. **"Loss"** means:

(1) damages, settlements or judgments;

(2) pre-judgment or post-judgment interest;

(3) costs or fees awarded in favor of the claimant;

(4) punitive, exemplary or the multiplied portion of any multiple damages awards, but only to the extent that such damages are insurable under the applicable law most favorable to the insurability of such damages;

(5) **Voluntary Compliance Program Loss**, solely under Insuring Agreement C., and

(6) **Defense Costs.**

"Loss" does not include:

(a) amounts for which the **Insureds** are not legally liable;

(b) amounts which are without legal recourse to the **Insureds**;

(c) taxes;

(d) fines and penalties, except:

(i) as provided for in Definition P(4) above;

(ii) the five percent (5%) or less civil penalty imposed upon an **Insured** under Section 502(i) of ERISA;

(iii) the twenty percent (20%) or less civil penalty imposed upon an **Insured** under Section 502(l) of ERISA;

(iv) any civil fines and penalties imposed by either the Pension Ombudsman appointed by the United Kingdom Secretary of State for Social Services, by the United Kingdom Occupational Pensions Regulatory Authority, by the United Kingdom Pensions Regulator or any successor body thereto; provided however, that any coverage for such fines and penalties applies only if the funds or assets of the subject **Plan** are not used to fund, pay or reimburse the premium for this Policy;

(v) fines and penalties which are part of **Voluntary Compliance Program Loss**, solely under Insuring Agreement C., or

(vi) **HIPAA Penalties**, solely under Insuring Agreement **B.**;

(e) the return or reversion to an employer of any contribution or asset of a **Plan**;

(f) **Benefits**, or that portion of any settlement or award in an amount equal to such **Benefits**, unless and to the extent that recovery of such **Benefits** is based upon a covered **Wrongful Act** and is payable as a personal obligation of an **Insured Person**;

(g) amounts deemed uninsurable under applicable law; or

(h) any amounts paid or incurred by the **Company** in complying with a judgment or settlement for non-monetary or injunctive relief.

However, this Policy shall provide coverage for **Defense Costs** incurred in a **Claim** seeking amounts specified in paragraphs (a) through (h) above, subject to all other terms, conditions and exclusions of this Policy.

Q. **"Management Control"** means:

(1) owning interests representing more than fifty percent (50%) of the voting, appointment or designation power for the selection of a majority of: the Board of Directors of a corporation; the Management Committee members of a joint venture; or the members of the Management Board of a limited liability company; or

(2) having the right, pursuant to written contract or the by-laws, charter, operating agreement or similar documents of a **Company**, to elect, appoint or designate a majority of: the board of directors of a corporation; the management committee of a joint venture; or the management board of a limited liability company.

R. **"Non-Indemnifiable Loss"** means **Loss** for which the **Company** is permitted or required to indemnify any **Insured Person**, but has not indemnified due to financial impairment or insolvency.

S. **"Non-Qualified Plan"** means any of the following plans for a select group of management or highly compensated directors, officers or employees: deferred compensation plan, supplemental executive retirement plan, top-hat plan, or excess benefit plan. **Non-Qualified Plan** shall not include any **ESOP** or stock option plan.

T. **"Plan"** means any plan, fund, trust, program or **Non-Qualified Plan** regardless of whether or not it is subject to regulation under Title I of ERISA or any part thereof, or meets the requirements for qualification under Section 401 of the Internal Revenue Code of 1986, as amended, and which is:

(1) a welfare plan, as defined in ERISA, sponsored solely by the **Company**, or sponsored jointly by the **Company** and a labor organization, solely for the benefit of **Employees**;

(2) a pension plan, as defined in ERISA (other than an **ESOP**), sponsored solely by the **Company**, or sponsored jointly by the **Company** and a labor organization, solely for the benefit of **Employees**, provided that, prior to the inception date of this Policy, such plan has been reported in writing to the **Insurer** pursuant to the terms of the **Application** for this Policy or pursuant to the terms of any prior policy issued by the **Insurer** or the **Application** for such Policy ,and the **Company** shall have paid the premium required for such plan;

(3) a pension plan, as defined in ERISA (other than an **ESOP**), which, during the **Policy Period** becomes sponsored solely by the **Company**, or sponsored jointly by the **Company** and a labor organization, solely for the benefit of **Employees**, subject to the following:

(a) if the assets of such pension plan total twenty five percent (25%) or less of the total consolidated assets of the **Plans** covered by this Policy as of the Inception Date of this Policy, this Policy shall provide coverage with respect to **Wrongful Acts** that occurred after the date of such sponsorship. As a condition precedent to such coverage, the **Company** shall give written notice of such sponsorship to the **Insurer** prior to the end of the **Policy Period**; and

(b) if the assets of such pension plan total more than twenty five percent (25%) of the total consolidated assets of the **Plans** covered by this Policy as of the Inception Date of this Policy, this Policy shall provide coverage with respect to **Wrongful Acts** that occurred after the date of such sponsorship. As a condition precedent to such coverage, the **Company** shall give written notice of such sponsorship to the **Insurer** within ninety (90) days after the date of such sponsorship, with full particulars regarding such pension plan, and the **Company** shall have paid the premium required for such pension plan.

(4) a plan which is both a welfare plan and a pension plan as defined in ERISA (other than an **ESOP**);

(5) a government-mandated program for workers compensation, unemployment, social security or disability benefits for **Employees**; solely with respect to a **Wrongful Act** as defined in Definition BB(2), by an **Insured Person**;

(6) an **ESOP** that is included in the definition of **Plan** by written Endorsement attached to this Policy; or

(7) any other plan, fund, trust or program, including a multi-employer plan,, solely with respect to a **Wrongful Act** by an **Insured Person** acting at the specific request of the **Company**, that is included in the definition of **Plan** by written Endorsement attached to this Policy.

With respect to paragraphs (1) and (2) of this Definition, coverage under this Policy shall apply to any pension or welfare plan that was merged, sold, spun-off or terminated prior to the **Policy Period** with respect to **Wrongful Acts** that occurred prior to the date of such merger, sale or spin-off or prior to the final date of asset distribution of such plan. As a condition precedent to such coverage, the **Company** shall give written notice of such transaction to the **Insurer** prior to the Inception Date of this Policy and the **Company** shall have paid the additional premium required for such **Plan**, as determined by the **Insurer**.

With respect to paragraphs (1) and (2) of this Definition, coverage under this Policy shall apply to any pension or welfare plan that was merged, sold, spun-off or terminated during the **Policy Period** with respect to **Wrongful Acts** that occurred prior to the date of such merger, sale or spin-off or prior to the final date of asset distribution of such plan. As a condition precedent to such coverage, the **Company** shall give written notice of such transaction to the **Insurer** prior to the end of the **Policy Period.**

U. **"Policy Period"** means the period from the Inception Date shown in Item 2. of the Declarations to the earlier of the Expiration Date shown in Item 2. of the Declarations or the effective date of cancellation of this Policy.

V. **"Pollutants"** means any substance located anywhere in the world exhibiting any hazardous characteristics as defined by, or identified on, any list of hazardous substances issued by the United States Environmental Protection Agency or any foreign, state, county, municipality, or locality counterpart thereof. Such substances shall include, without limitation, nuclear material or waste, any solid, liquid, gaseous or thermal irritant or contaminant, or smoke, vapor, soot, fumes, acids, alkalis, chemicals or waste materials. **Pollutants** shall also mean any other air emission, odor, waste water, oil or oil products, infectious or medical waste, asbestos or asbestos products and any noise.

W. **"Named Insured"** means the entity named in Item 1 of the Declarations.

X. **"Policy Period"** means the period from the Inception Date shown in Item 2. of the Declarations to the earlier of the Expiration Date shown in Item 2. of the Declarations or the effective date of cancellation of this Policy.

Y. **"Related Claims"** means all **Claims** for **Wrongful Acts** based upon, arising out of, or in consequence of the same or related facts, circumstances, situations, transactions or events or the same related series of facts, circumstances, situations, transactions or events.

Z. "**Subsidiary**" means:

(1) any for-profit entity in which the **Company** has **Management Control** "(Controlled Entity") before the Inception Date set forth in Item 2. of the Declarations;

(2) any for-profit entity, whose securities are not publicly traded, of which the **Company** acquires **Management Control** during the **Policy Period**, either directly or indirectly through one or more Controlled Entities; or

(3) any not-for-profit entity sponsored exclusively by a **Company** prior to or during the **Policy Period**.

Coverage afforded under this Policy for a **Claim** against any **Insured** relating to a **Wrongful Act** of a **Subsidiary** shall only apply to **Wrongful Acts** committed or allegedly committed after the effective date such entity becomes a **Subsidiary** and prior to the effective date that such entity ceases to be a **Subsidiary**.

AA. "**Voluntary Compliance Program Loss**" means:

(1) fines, penalties, sanctions, voluntary correction fees, compliance fees or user fees imposed upon or collected from an **Insured** by the Internal Revenue Service ("IRS") under the Employee Plans Compliance Resolution System pursuant to a written agreement with the IRS, but only in the event that the **Insured** first becomes aware during the **Policy Period** that a **Plan** must be corrected;

(2) penalties imposed upon an **Insured** by the IRS or the DOL under a Delinquent Filer Voluntary Compliance Program, but only in the event that the failure to timely file Form 5500 occurs during the **Policy Period**; and

(3) damages incurred by an **Insured** in connection with the DOL's Voluntary Fiduciary Correction Program, but only in the event that the **Insured's** compliance with such program results in the **Insured** obtaining a "No Action" letter from the DOL, and that the breach of fiduciary duty occurs during the **Policy Period**; provided, however, that **Voluntary Compliance Program Loss** under this Definition AA. (3) shall not include fines, penalties or sanctions.

Voluntary Compliance Program Loss shall not include any costs to correct the **Insured's** non-compliance.

BB. "**Wrongful Act**" means any actual or alleged:

(1) breach of the responsibilities, obligations or duties imposed upon fiduciaries of a **Plan** by an **Employee Benefits Law**, by an **Insured**;

(2) negligent act, error or omission by an **Insured**, in the **Administration** of a **Plan**;

(3) matter claimed against an **Insured Person** solely by reason of his or her service as a fiduciary of a **Plan**; or

(4) negligent hiring of either a third-party administer of a **Plan** or a third-party administrator of **Benefits** provided under a **Plan**, by an **Insured**.

III. EXCLUSIONS

This Policy shall not cover any **Loss** in connection with any **Claim**:

A. arising out of, based upon or attributable to the gaining of any profit or advantage or improper or illegal remuneration by an **Insured** if a final judgment or adjudication establishes that such **Insured** was not legally entitled to such profit or advantage or that such remuneration was improper or illegal;

B. arising out of, based upon or attributable to any deliberate fraud or any wilful violation of law by an **Insured** if a final judgment or adjudication establishes that such fraud or violation occurred;

In determining the applicability of Exclusions A and B, the facts pertaining to, the knowledge possessed by, or any **Wrongful Act** committed by, any **Insured Person** shall not be imputed to any other **Insured Person**; however, the facts pertaining to, the knowledge possessed by, or any **Wrongful Act** committed by, an **Insured Person** who is a past or current Chairman of the Board, Chief Executive Officer, President or Chief Financial Officer of the **Company** shall be imputed to the **Company**.

C. for failure to fund a **Plan** in accordance with ERISA or the **Plan** instrument or to collect an employer's contributions owed to a **Plan**; provided however, that this Exclusion shall not apply to: (1) the portion of **Loss** resulting from such **Claim** that is payable as a personal obligation of an **Insured Person**; or (2) the payment of **Defense Costs**;

D. alleging, arising out of, based upon or attributable to the liability of others assumed by any **Insured** under any express contract or agreement, either oral or written; provided however, that this Exclusion shall not apply: (1) to the extent that an **Insured** would have been liable in the absence of such contract or agreement; (2) if the liability was assumed in accordance with or under the agreement or declaration of trust pursuant to which a **Plan** was established; or (3) to the payment of **Defense Costs** in any such **Claim** against an **Insured Person**;

E. alleging, arising out of, based upon or attributable to, as of the Pending or Prior Date set forth in Item 6. of the Declarations, any pending or prior: (1) litigation; or (2) administrative or regulatory proceeding or investigation of which an **Insured** had notice, including any **Claim** alleging or derived from the same or essentially the same facts, or the same or related **Wrongful Acts**, as alleged in such pending or prior litigation or administrative or regulatory proceeding or investigation;

F. alleging, arising out of, based upon or attributable to the facts alleged, or to the same or related **Wrongful Acts** alleged or contained in any **Claim** which has been reported, or in any circumstances of which notice has been given, before the Inception Date of this Policy as set forth in Item 2. of the Declarations, under any policy, whether excess or underlying, of which this Policy is a renewal or replacement or which it may succeed in time;

G. alleging, arising out of, based upon, attributable to, directly or indirectly resulting from, or in consequence of, or in any way involving, actual, alleged or threatened discharge, dispersal, release, escape, seepage, transportation, emission, treatment, removal or disposal of **Pollutants** into or on real or personal property, water or the atmosphere; or seeking any **Cleanup Costs**; provided however, that this Exclusion shall not apply to any **Non-Indemnifiable Loss** constituting damages to a **Plan**, except for **Non-Indemnifiable Loss** constituting **Cleanup Costs**;

H. for any actual or alleged bodily injury, sickness, mental anguish, emotional distress, libel, slander, oral or written publication of defamatory or disparaging material, disease or death of any person, or damage to or destruction of any tangible property, including the loss of use thereof; provided, however, that this Exclusion shall not apply to **Defense Costs** incurred in defending a **Claim** alleging a violation of the responsibilities, obligations or duties imposed by ERISA;

I. for any actual or alleged violation of any law governing workers' compensation, unemployment insurance, social security or disability benefits, or any similar law, anywhere in the world; except the Consolidated Omnibus Budget Reconciliation Act of 1985, HIPAA, or any amendments thereto or any rules or regulations promulgated thereunder;

J. alleging, arising out of, based upon, or attributable to any actual or alleged discrimination, harassment, retaliation, wrongful discharge, termination or any other employment-related or employment practice claim; provided however, that this Exclusion shall not apply to any **Claim** asserted under Section 510 of ERISA;

K. alleging, arising out of, based upon or attributable to any **Wrongful Act** with respect to a **Plan**, taking place at any time when the **Company** did not sponsor such **Plan** or when the **Insured Person** was not a fiduciary, administrator, trustee, director, officer, governor, management committee member, member of the board of managers, general partner or employee of the **Company** or, if applicable, the **Plan**;

L. alleging, arising out of, based upon or attributable to any act or omission of an **Insured** in his, her or its capacity as a fiduciary or administrator of any plan, fund or program, other than a **Plan** as defined in this Policy, or by reason of his, her or its status as a fiduciary or administrator of such other plan, fund or program.

IV. LIMITS OF LIABILITY

A. The Limit of Liability set forth in Item 3.A. of the Declarations is the maximum Limit of Liability of the **Insurer** for all **Loss** from all **Claims** first made against the **Insureds** during the **Policy Period** or Discovery Period, if applicable.

B. **Defense Costs** are part of, and not in addition to, the Limits of Liability set forth in Item 3.A. of the Declarations, and payment by the **Insurer** of **Defense Costs** shall reduce and may exhaust such Limits of Liability.

C. The purchase of a Discovery Period by the **Company** pursuant to Section X. of this Policy, shall neither increase nor reinstate any Limit of Liability.

D. If the maximum Limit of Liability is exhausted by the payment of **Loss**, the **Insurer** will have no further obligations of any kind with respect to this Policy, and the Policy Premium set forth in Item 5. of the Declarations will be fully earned.

V. RETENTION

A. Subject to all other terms and conditions of this Policy, the **Insurer** shall only be liable for the amount of **Loss** arising from a **Claim** which is in excess of the applicable Retention amount as set forth in Item 4. of the Declarations for each Insuring Agreement of the Policy. A single Retention amount shall apply to all **Loss** from all **Related Claims**. The Retention amount shall be borne by the **Insureds** and remain uninsured.

B. The application of a Retention to **Loss** under one Insuring Agreement shall not reduce the Retention that applies to **Loss** under any other Insuring Agreement. If different Retention amounts apply to different parts of a **Claim**, the applicable Retention shall be applied separately to each part of the **Claim**, and the sum of such Retention amounts shall not exceed the largest single Retention amount which applies to such **Claim**.

C. If a **Company** is legally required or permitted to indemnify its **Insured Person** for any **Loss**, and does not do so for any reason, the **Insurer** shall not require payment of the applicable Retention by the **Insured Person**. However, the **Company** hereby agrees to reimburse the **Insurer** for the full amount of such applicable Retention immediately upon request, unless the **Company** is unable to do so solely by reason of **Financial Impairment**.

D. No Retention is applicable to **HIPAA Claims** or **Voluntary Compliance Program Loss.**

VI. DEFENSE AND SETTLEMENT OF A CLAIM

A. The **Insurer** does not assume any duty to defend any **Claim** under this Policy. However, the **Insurer** shall have the right to fully and effectively associate with the **Insured** in the control, investigation, defense and settlement of any **Claim**.

B. The **Insured(s)** shall defend and contest any **Claim** made against them. The **Insured** shall obtain the **Insurer's** written consent in the selection of defense counsel to represent the **Insured** as respects any **Claim**, such consent shall not be unreasonably withheld.

C. The **Insured(s)** shall not admit or assume any liability, incur any **Defense Costs**, make any settlement offer, enter into any settlement agreement or stipulate to any judgment, without the prior written consent of the **Insurer**. Any **Loss** incurred by the **Insured(s)** and/or any settlements or judgments agreed to by the **Insured(s)** without such consent shall not be covered by this Policy. However, the **Insurer's** consent is not required for the **Insured** to settle a **Claim** for a **Loss** amount within the applicable Retention, but solely in the event that such settlement fully resolves such **Claim** with respect to all **Insureds** and the **Insurer**.

D. At the request of the **Named Insured**, the **Insurer** shall reimburse **Defense Costs** prior to the final disposition of any **Claim**, subject to all other terms and conditions of this Policy. In the event and to the extent that the **Insureds** shall not be entitled to payment of such **Defense Costs** under the terms and conditions of this Coverage Section, such payments by the **Insurer** shall be repaid to the **Insurer** by the **Insureds**, severally according to their respective interests.

E. **Right to Tender Defense**

(1) Notwithstanding the foregoing, the **Insureds** shall have the right to tender the defense of a **Claim** to the **Insurer**; however, the **Insureds** shall not have the right to tender the defense of any **Claim** under Insuring Agreement C. Voluntary Compliance Program Coverage, of this Policy.

(2) The right to tender the defense of a **Claim** shall be exercised by the **Named Insured** on behalf of all **Insureds** by providing written notice to the **Insurer**. The right to tender the defense of a **Claim** shall terminate if it is not exercised within thirty (30) days of the date the **Claim** is first made. Further, from the date the **Claim** is first made to the date when the **Insurer** accepts the tender of the defense of such **Claim**, the **Insureds** shall take no action, or fail to take any required action, that prejudices the rights of any **Insured** or the **Insurer** with respect to such **Claim**. In the event the **Insureds** have complied with all of the foregoing, the **Insurer** shall be obligated to assume the defense of the **Claim**, even if such **Claim** is groundless, false or fraudulent.

(3) The **Insurer's** assumption of the defense of the **Claim** shall be effective upon the **Insurer** providing written confirmation sent thereof to the **Named Insured**. Once the defense has been so tendered, the **Insured** shall have the right to effectively associate with the **Insurer** in the defense and the negotiation of any settlement of any **Claim**, subject to the provisions of this Section VI. The **Insurer** shall not be obligated to defend or continue to defend a **Claim**, or to pay or reimburse **Defense Costs**, after the applicable Limit of Liability has been exhausted.

(4) When the **Insurer** has assumed the duty to defend, it shall have the right to investigate and conduct negotiations and, with the **Insured's** consent, which shall not be unreasonably withheld, enter into the settlement of any **Claim** that the **Insurer** deems appropriate.

(5) When the **Insurer** has assumed the duty to defend, it shall pay **Defense Costs** excess of the applicable Retention, subject to all other terms and conditions of this Policy. In the event and to the extent that the **Insureds** shall not be entitled to payment of such **Defense Costs** under the terms and conditions of this Policy, such payments by the **Insurer** shall be repaid to the **Insurer** by the **Insureds**, severally, according to their respective interests.

F. **Voluntary Compliance Program Loss Coverage**

(1) With respect to Insuring Agreement C. Voluntary Compliance Program Coverage, the **Company**, and not the **Insurer**, has the duty to investigate,

evaluate, negotiate and settle any matter which may result in **Voluntary Compliance Program Loss**.

(2) The **Insurer** shall have the right to effectively associate with the **Company** in such process, including the negotiation of any settlement of any such matter.

VII. COOPERATION

Each and every **Insured** shall give the **Insurer** full cooperation and such information as it may reasonably require relating to the defense and settlement of any **Claim** and the prosecution of any counterclaim, cross-claim or third-party claim, including without limitation the assertion of an **Insured's** indemnification or contribution rights.

VIII. NOTICE OF CLAIM

A. **Insured(s)** shall, as a condition precedent to the obligations of the **Insurer** under this Policy, give written notice to the **Insurer**, at either the physical or email address indicated in Item 8.A. of the Declarations, of a **Claim** made against an **Insured** as soon as practicable after the **Company's** General Counsel or Risk Manager, or any individual with functionally equivalent responsibilities, becomes aware of the **Claim**.

B. Notwithstanding the above, in no event shall notice of any **Claim** be provided to the **Insurer** later than ninety (90) days after the end of the **Policy Period**, or Discovery Period if purchased. If mailed, the date of mailing shall constitute the date that such notice was given and proof of mailing shall be sufficient proof of notice.

C. If during the **Policy Period** an **Insured** shall become aware of any circumstances which may reasonably be expected to give rise to a **Claim** being made against an **Insured** and shall, during the **Policy Period**, give written notice to the **Insurer**, at either the physical or email address indicated in Item 8.A. of the Declarations, of the circumstances including the **Wrongful Act** allegations anticipated and the reasons for anticipating such a **Claim**, with full particulars as to dates, persons and entities involved, any **Claim** that is subsequently made against the **Insured** alleging, arising out of, based upon or attributable to such circumstances, shall be deemed to have been made at the time written notice of such circumstances was given to the **Insurer**.

D. All **Related Claims** shall be deemed to be a single **Claim** first made on the date on which the earliest **Claim** within such **Related Claims** was first made, or when the earliest **Claim** within such **Related Claims** is treated as having been made in accordance with Section VIII.C. above, whichever is earlier. In such event, only one Limit of Liability and one Retention shall apply.

IX. NOTICE OF VOLUNTARY COMPLIANCE PROGRAM LOSS

The **Insureds** shall, as a condition precedent to the obligations o the **Insurer** under this Policy to reimburse **Voluntary Compliance Program Loss,** give written notice to the **Insurer** at the address indicated in Item 8.A. of the Declarations, of any matter which the **Insureds** reasonably believe may result in **Voluntary Compliance Program Loss** within thirty (30) days after the **Insureds** become aware of such matter, but in no event later then thirty (30) days after the Expiration Date set forth in Item 2. of the declarations.

X. DISCOVERY PERIOD

A. If this Policy is cancelled by either the **Named Insured** or the **Insurer** for any reason other than non-payment of premium, or the **Insurer** refuses to renew this Policy, or if an Organizational Change as defined in Section XIV. occurs, the **Insured(s)** shall have the right to purchase a Discovery Period of up to six (6) years following the effective date of such cancellation, non-renewal, or Organizational Change.

B. The **Insured's** right to purchase a Discovery Period shall lapse unless written notice of election to purchase such Discovery Period and the additional premium for such Discovery Period is received by the **Insurer** within sixty (60) days after such cancellation, non-renewal, Organizational Change.

C. The additional premium for a Discovery Period of one (1) to six (6) years shall be determined by multiplying the applicable percentage set forth in Item 7. of the Declarations by the Annual Premium of the Policy as set forth in Item 5. of the Declarations.

D. During the Discovery Period, the **Insured** may provide the **Insurer** with written notice, pursuant to Section VIII. of this Policy, of **Claims** first made during the Discovery Period, for **Wrongful Acts** occurring prior to the effective date of the cancellation or non-renewal of the Policy or the effective date of the Organizational Change, and otherwise covered by this Policy.

E. The election of a Discovery Period does not increase or reinstate the Limits of Liability set forth in Item 3.A. of the Declarations.

F. The premium for the Discovery Period shall be fully earned at the inception of the Discovery Period, and the Discovery Period shall be non-cancellable.

XI. OTHER INSURANCE

A. The insurance provided by this Policy, shall apply only as excess over any other valid and collectible insurance whether such other insurance is stated to be primary, contributory, excess, contingent or otherwise, unless such other insurance is written specifically as excess insurance over the applicable Limit of Liability provided by this Policy. This Policy shall specifically be excess, of any other valid and collectible insurance pursuant to which any other insurer has a duty to defend a **Claim** for which this Policy may be obligated to pay **Loss**. This Policy shall not be subject to the terms and conditions of any other insurance policy.

XII. COVERAGE EXTENSIONS

A. This Policy shall cover **Loss** arising from any **Claims** made against the estates, heirs, or legal representatives of any deceased person who was an **Insured Person** at the time the **Wrongful Acts** upon which such **Claims** are based were committed; provided, however, that this extension shall not afford coverage for any **Claim** for any actual or alleged **Wrongful Act** by or on the part of any such estates, heirs, or legal representatives, but shall apply only to **Claims** arising out of any actual or alleged **Wrongful Acts** of an **Insured Person**.

B. This Policy shall also cover **Loss** arising from any **Claims** made against the legal representatives of any incompetent, insolvent or bankrupt person who was an **Insured Person** at the time the **Wrongful Acts** upon which such **Claims** are based were committed; provided, however, that this extension shall not afford coverage for any **Claim** for any actual or alleged **Wrongful Act** by or on the part of any such legal representatives, but shall apply only to **Claims** arising out of any actual or alleged **Wrongful Acts** of an **Insured Person**.

C. This Policy shall also cover **Loss** arising from any **Claims** made against the lawful spouse or domestic partner (whether such status is derived by reason of the statutory law or common law of any applicable jurisdiction in the world, or by any formal program established by the **Company**) of an **Insured Person** for all **Claims** arising solely out of his or her status as the spouse or domestic partner of an **Insured Person**, including a **Claim** that seeks damages recoverable from marital community property, property jointly held by the **Insured Person** and the spouse or domestic partner, or property transferred from the **Insured Person** to the spouse or domestic partner; provided, however, that this extension shall not afford coverage for any **Claim** for any actual or alleged **Wrongful Act** by or on the part of the spouse or domestic partner, but shall apply only to **Claims** arising out of any actual or alleged **Wrongful Acts** of an **Insured Person**.

D. The coverage extensions set forth in this Section XII. are subject to all other terms and conditions of this Policy.

XIII. CANCELLATION AND NON RENEWAL

A. This Policy may be cancelled by the **Named Insured** by sending written prior notice to the **Insurer** stating when thereafter the cancellation of the Policy shall be effective. The Policy, terminates at the date and hour specified in such notice. This Policy may also be cancelled by the **Named Insured** by surrender of this Policy to the **Insurer**. The Policy terminates as of the date and time of surrender. The **Insurer** shall retain the pro rata proportion of the premium.

B. This Policy shall not be cancelled by or on behalf of the **Insurer** except by reason of non-payment of premium by the **Insured**. The **Insurer** may cancel the Policy by delivering to the **Named Insured** or by mailing to the **Named Insured**, by registered mail or by courier, at the **Named Insured's** address set forth in Item 1. of the Declarations, written notice stating when, not less than twenty (20) days thereafter, cancellation shall be effective. The mailing of such notice as aforesaid shall be sufficient proof of notice. In the event of such cancellation, the Policy will be deemed terminated as of the date indicated in the **Insurer's** written notice of cancellation to the **Named Insured**.

C. Payment or tender of any unearned premium by the **Insurer** shall not be a condition precedent to the effectiveness of cancellation, but such payment shall be made as soon as practicable.

D. The **Insurer** shall have no obligation to renew this Policy. In the event the **Insurer** decides to non-renew this Policy, it shall deliver or mail to the **Named Insured**, at the address set forth in Item 1 of the Declarations, written notice of such decision at least sixty (60) days prior to the expiration of the **Policy Period**.

XIV. ORGANIZATIONAL CHANGES

A. If during the **Policy Period:**

(1) the **Named Insured** shall consolidate with, merge into, or sell all or substantially all of its assets to any other person or entity or group of persons or entities acting in concert; or

(2) any person or entity or group of persons or entities acting in concert shall acquire more than fifty percent (50%) of the assets or voting rights of the **Named Insured;**

(any events described in paragraphs (1) or (2) are referred to herein as an "Organizational Change") then this Policy shall continue in full force and effect as to **Wrongful Acts** occurring prior to the effective date of the Organizational Change. However, there shall be no coverage afforded by this Policy for any actual or alleged **Wrongful Act** occurring after the effective date of the Organizational Change. This Policy shall be non-cancellable and the entire premium shall be deemed fully earned upon the effective date of the Organizational Change.

B. The **Named Insured** shall have the right to purchase a Discovery Period described in Section X. in the event of an Organizational Change.

C. The **Named Insured** shall give the **Insurer** written notice of the Organizational Change as soon as practicable, but no later than thirty (30) days after the effective date of the Organizational Change.

XV. AUTHORIZATION AND NOTICES

The **Named Insured** shall act on behalf of all **Insureds** with respect to all matters as respects this Policy including: (1) giving of notice of **Claim**; (2) the defense or settlement of a **Claim**; (3) giving and receiving of all correspondence and information; (4) giving and receiving notice of cancellation; (5) payment of premiums; (6) receiving of any return premiums; (7) receiving and accepting of any endorsements issued to form a part of this Policy; and (8) the exercising of any right to a Discovery Period.

XVI. RIGHT OF RECOURSE

If this Policy is purchased with plan assets, the **Insurer** shall have a right of recourse against any fiduciary whose breach of a fiduciary obligation, as imposed by ERISA, results in a **Loss** under this Policy paid by the **Insurer**. If, however, it is confirmed on the **Application** that all or a portion of the premium for this **Policy** is paid by or on behalf of the fiduciaries with non-plan assets, the **Insurer** shall have no right of recourse against a fiduciary with respect to any **Claim**, including but not limited to, rights of contribution and subrogation.

XVII. VALUATION AND CURRENCY

All amounts stated in this Policy are expressed in United States dollars and all amounts payable under this Policy are payable in United States dollars. If a judgment rendered or settlement entered into under this Policy are stated in a currency other than United States dollars, then payment under this Policy shall be made in United States dollars at the rate of exchange published in the *Wall Street Journal* on the date the final judgment is rendered or the settlement payment is established.

XVIII. TERRITORY

This Policy extends to **Wrongful Acts** occurring, or **Claims** made, anywhere in the world, to the extent permitted by law.

XIX. ASSIGNMENT AND CHANGES TO THE POLICY

A. This Policy and any and all rights hereunder are not assignable without the prior written consent of the **Insurer**.

B. Notice to any agent or knowledge possessed by any agent or person acting on behalf of the **Insurer**, will not result in a waiver or change in any part of this Policy or prevent the **Insurer** from asserting any right under the terms and conditions of this Policy. The terms and conditions of this Policy may only be waived or changed by written endorsement signed by the **Insurer** or its authorized agent.

XX. SUBROGATION

In addition to any right of subrogation existing at law, in equity or otherwise, in the event of any payment by the **Insurer** under this Policy, the **Insurer** shall be subrogated to the extent of such payment to all of the **Insured(s)'** rights of recovery. The **Insured(s)** shall execute all papers required (including those documents necessary for the **Insurer** to bring suit or other form of proceeding in their name) and do everything that may be necessary to pursue and secure such rights.

XXI. ORDER OF PAYMENTS

In the event of **Loss** arising from a covered **Claim** for which payment is due under the provisions of this Policy, the **Insurer** shall in all events:

(1) first, pay **Loss** for which coverage is provided under this Policy for any **Insured Person**;

(2) second, only after payment of **Loss** has been made pursuant to paragraph (1) above, with respect to whatever remaining amount of any Limit of Liability applicable to this Policy is available, pay the **Loss** for which coverage is provided under this Policy for any covered **Plan**; and

(3) third, only after payment of **Loss** has been made pursuant to paragraphs (1) and (2) above, with respect to whatever remaining amount of theLimit of Liability is available, pay the **Loss** for which coverage is provided under this Policy for the **Company**.

XXII. ACTION AGAINST THE INSURER

No action may be taken against the **Insurer** unless, as a condition precedent thereto, there shall have been full compliance with all material terms of this Policy and the amount of the **Insured's** obligation has been fully determined either by judgment against the **Insured** after actual trial, or by written agreement of the **Insured**, the claimant and the **Insurer**.

XXIII. CONFORMITY TO STATUTE

A. Any terms of this Policy which are in conflict with the terms of any applicable laws construing this Policy, including any endorsement to this Policy which is required by any state Department of Insurance, or equivalent authority ("State Amendatory Endorsement"), are hereby amended to conform to such laws. Nothing herein shall be construed to restrict the terms of any State Amendatory Endorsement.

B. In the event any portion of this Policy shall be declared or deemed invalid or unenforceable under applicable law, such invalidity or unenforceability shall not affect the validity or enforceability of any other portion of this Policy.

XXIV. HEADINGS

The descriptions in the headings and any subheading of this Policy, including any titles given to any endorsement attached hereto, are inserted solely for convenience and do not constitute any part of this Policy's terms or conditions.

XXV. REPRESENTATIONS AND SEVERABILITY

A. In granting coverage under this Policy, it is agreed that the **Insurer** has relied upon the statements and representations contained in the **Application.** All such statements and representations shall be deemed to be the basis of this Policy and are to be considered as incorporated into this Policy.

B. With respect to the statements and representations contained in the **Application**, no knowledge of any **Insured Person** shall be imputed to any other **Insured Person** for the purpose of determining whether coverage is available under this Policy for any **Claim** made against such **Insured Person**. However, the knowledge possessed by any **Insured Person** who is a past or current Chairman of the Board, Chief Executive Officer, President or Chief Financial Officer of the **Company** shall be imputed to the **Company** for the purpose of determining whether coverage is available under this Policy for any **Claim** made against the **Company**.

Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Eskaton and Subsidiaries

As of and for the Years Ended
December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Eskaton and Subsidiaries

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Eskaton and Subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011; and the related consolidated statements of operations and changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eskaton and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules as of and for the year ended December 31, 2012, for Eskaton and Subsidiaries, Eskaton Properties, Inc., and Eskaton, presented as supplementary information, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The supplementary information – social responsibility for the years ended December 31, 2012 and 2011 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

San Francisco, California
April 26, 2013

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CONSOLIDATED FINANCIAL STATEMENTS

ESKATON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011
(in thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 7,703	$ 16,819
Assets limited as to use	8,072	3,297
Investments	46,179	42,116
Accounts receivable, net of allowance for uncollectible accounts of $260 in 2012 and $253 in 2011	8,334	6,523
Other receivables	3,978	1,538
Notes receivable	-	274
Inventories	217	221
Deposits and prepaid expenses	1,143	707
Total current assets	75,626	71,495
Assets limited as to use, net of amount required for current liabilities	7,265	9,401
Investments	1,421	922
Property and equipment, net	114,379	117,896
Other assets:		
Land available for sale	1,050	1,050
Due from liability insurer	1,629	2,261
Deferred financing costs, net	1,930	1,893
Associate member/resident/patient deposits	4,596	4,955
Other	1,394	715
	10,599	10,874
Total assets	$ 209,290	$ 210,588

See accompanying notes.

(in thousands)

Liabilities and Net Assets (Deficit)	2012	2011
Current liabilities:		
Current maturities of long-term debt	$ 6,878	$ 36,949
Current portion of deferred revenue from unamortized CCRC membership fees	2,132	2,132
Deposits on unoccupied CCRC units	241	161
Accounts payable	1,601	1,867
Accrued liabilities:		
Payroll and payroll taxes	1,776	1,705
Vacation	1,633	1,523
Current portion of self-insured workers' compensation	2,871	2,593
Self-insured employee health plan	1,298	1,307
Interest	529	349
Other	1,047	2,353
Liability related to terminated interest rate swap agreements	-	5,191
Total current liabilities	20,006	56,130
Other liabilities:		
Self-insured workers' compensation, net of current portion	5,026	1,845
Interest rate swap agreements	18,734	21,077
Unfunded pension obligation	6,481	6,489
Professional liability	2,963	3,591
Associate member/resident/patient deposits	4,596	4,955
Other	243	199
	38,043	38,156
Long-term debt, net of current maturities	144,150	115,748
Deferred revenue from unamortized CCRC membership fees, net of current portion	15,455	17,587
Total liabilities	217,654	227,621
Net assets (deficit):		
Unrestricted net deficit	(9,744)	(17,823)
Temporarily restricted net assets	853	280
Permanently restricted net assets	527	510
Total net deficit	(8,364)	(17,033)
Total liabilities and net assets (deficit)	$ 209,290	$ 210,588

See accompanying notes.

ESKATON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Unrestricted net assets (deficit):		
Revenues, gains, and other support:		
Net patient service revenue	$ 48,899	$ 44,655
Resident service revenue, including amortization of CCRC membership fees of $2,132 in 2012 and 2011	55,635	53,975
Other, net	8,912	9,546
Total revenues, gains, and other support	113,446	108,176
Expenses:		
Salaries and wages	47,544	49,160
Employee benefits	19,425	16,224
Professional fees	1,651	1,105
Supplies	4,966	4,859
Purchased services	6,642	6,129
Ancillary costs	2,951	2,841
Utilities	4,182	4,128
Insurance and other	7,128	6,551
Depreciation	9,141	9,149
Interest and amortization	4,398	3,606
Provision for uncollectible accounts	231	275
Total operating expenses	108,259	104,027
Income from operations	5,187	4,149
Nonoperating revenue (expenses):		
Investment income	4,961	588
Interest rate swap activities	(2,629)	(5,049)
Loss on early repayment of debt	(145)	-
Other	(53)	(2,718)
Total nonoperating revenue (expenses)	2,134	(7,179)
Excess (deficiency) of revenues, gains, and other support over expenses	7,321	(3,030)

See accompanying notes.

ESKATON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (Continued)
Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Excess (deficiency) of revenues, gains, and other support over expenses (page 5)	$ 7,321	$ (3,030)
Net unrealized losses on other than trading securities	-	(99)
Pension related changes other than net periodic pension cost	758	(1,740)
Change in unrestricted net assets (deficit)	8,079	(4,869)
Unrestricted net deficit, beginning of year	(17,823)	(12,954)
Unrestricted net deficit, end of year	$ (9,744)	$ (17,823)
Temporarily restricted net assets:		
Contributions	$ 849	$ 273
Investment income (loss)	48	(6)
Net assets released from restriction used for operations	(324)	(79)
Change in temporarily restricted net assets	573	188
Temporarily restricted net assets, beginning of year	280	92
Temporarily restricted net assets, end of year	$ 853	$ 280
Permanently restricted net assets:		
Contributions of endowments	$ 14	$ 14
Change in assets held in trust by others	3	(1)
Change in permanently restricted net assets	17	13
Permanently restricted net assets, beginning of year	510	497
Permanently restricted net assets, end of year	$ 527	$ 510
Change in net assets (deficit)	$ 8,669	$ (4,668)
Net assets (deficit), beginning of year	(17,033)	(12,365)
Net assets (deficit), end of year	$ (8,364)	$ (17,033)

See accompanying notes.

ESKATON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets (deficit)	$ 8,669	$ (4,668)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation	9,141	9,149
Amortization of deferred financing costs	461	650
Amortization of CCRC membership fees	(2,132)	(2,132)
Net realized and unrealized gains on assets limited as to use	(61)	(378)
Net realized and unrealized (gains) losses on investments	(4,011)	691
Valuation adjustment on land available for sale	-	2,643
Pension related changes other than net periodic pension cost	(758)	1,740
Change in fair value of interest rate swap agreements	(257)	1,693
Provision for uncollectible accounts	231	275
Proceeds from permanently restricted contributions	(14)	(14)
Loss on early repayment of debt	145	-
CCRC resale proceeds	4,307	4,668
Loss on disposal of property and equipment	12	1
Changes in operating assets and liabilities:		
Change in receivables	(4,482)	1,537
Change in inventories	4	1
Change in deposits and prepaid expenses	(436)	(175)
Change in other assets	912	(1,713)
Change in accounts payable	(266)	451
Change in accrued liabilities	1,877	4,011
Change in unfunded pension obligation	750	(1,364)
Change in other liabilities	(315)	(392)
Net cash provided by operating activities	13,777	16,674
Cash flows from investing activities:		
Purchases of assets limited as to use	(148,890)	(39,664)
Proceeds from sales of assets limited as to use	146,312	39,869
Purchases of investments	(1,551)	(19,961)
Proceeds from sales of investments	1,000	19,764
Purchase of FountainWood Lodge	-	(8,503)
Acquisition of FountainWood Lodge goodwill	-	(500)
Investment in housing joint venture	(600)	-
Expenditures for property and equipment	(5,636)	(3,518)
Payments received on notes receivable	274	256
Net cash used in investing activities	(9,091)	(12,257)

See accompanying notes.

(in thousands)

	2012	2011
Cash flows from financing activities:		
CCRC resale disbursements	$ (4,307)	$ (4,653)
Change in deposits on unoccupied CCRC units	80	(207)
Proceeds from permanently restricted contributions	14	14
Proceeds from long-term borrowing	48,866	5,750
Principal payments on long-term debt	(49,569)	(4,229)
Debt issuance costs	(1,609)	(682)
Payments on settlement of terminated swaps	(7,277)	-
Net cash used in financing activities	(13,802)	(4,007)
Net increase (decrease) in cash and cash equivalents	(9,116)	410
Cash and cash equivalents, beginning of year	16,819	16,409
Cash and cash equivalents, end of year	$ 7,703	$ 16,819
Supplemental disclosure:		
Cash paid for interest	$ 3,757	$ 2,937

See accompanying notes.

NOTE 1 – ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Eskaton and Subsidiaries include the following:

Eskaton – Eskaton is a not-for-profit 501(c)(3) California corporation, which was formed in 1967. Eskaton's primary mission is to enhance the quality of life of seniors through innovative health, housing, and social services. Eskaton is the sole corporate member of Eskaton Properties, Inc. (EPI), Eskaton Gold River Lodge (EGRL), Eskaton Village-Grass Valley (EVGV), Eskaton Village-Roseville (EVR), Eskaton Village-Placerville (EVP), Eskaton FountainWood Lodge (EFWL), and Eskaton Foundation and the sole stockholder of Livable Design (LD) and California Healthcare Consultants (CHC). Eskaton also operates adult day healthcare services and various community service programs.

EPI – EPI is a not-for-profit 501(c)(3) California corporation that operates skilled nursing care centers and retirement housing communities, home health services, a continuing care retirement community, a certification program for home designs for older adults sold to various home builders, a membership program that provide services to older adults in their homes, and a business services group which provides financial and managerial support to all Eskaton operations. EPI also manages retirement housing communities owned by third parties and affordable housing communities that operate as single purpose not-for-profit 501(c)(3) California corporations.

EGRL – EGRL is a not-for-profit 501(c)(3) California corporation that operates a 95-apartment assisted living community in Gold River, California.

EVGV – EVGV is a not-for-profit 501(c)(3) California corporation that operates a 57-apartment assisted living and 80-apartment independent living with services community in Grass Valley, California.

EVR – EVR is a not-for-profit 501(c)(3) California corporation that operates a 96-apartment assisted living community in Roseville, California.

EVP – EVP is a not-for-profit 501(c)(3) California corporation that operates a 64-apartment assisted living community in Placerville, California.

EFWL – EFWL is a not-for-profit 501(c)(3) California corporation that operates a 94-apartment assisted living community in Orangevale, California.

Eskaton Foundation – Eskaton Foundation is a not-for-profit 501(c)(3) California corporation whose purpose is to raise funds for the benefit of Eskaton programs.

LD – LD is a taxable subsidiary and owns a home used to demonstrate livable designs concepts to the general public.

CHC – CHC is a taxable subsidiary that leases employees to communities owned by third parties.

All material intercompany accounts and transactions have been eliminated in consolidation.

EPI, EGRL, and EVGV are members of the Obligated Group (the Obligated Group) according to a Master Indenture of Trust dated July 1, 1999, and various Supplemental Master Indentures dated subsequent to July 1, 1999 (together, the Master Indenture). EVR was added to the Obligated Group effective June 28, 2012, and the Eskaton and Subsidiaries consolidating schedules give effect to the addition of EVR as of January 1, 2012. Accordingly, this change was retrospectively applied to the consolidated financial statements and footnotes of all prior periods presented. Under the terms of the Master Indenture, members of the Obligated Group are jointly and severally liable for bonds issued pursuant to the Master Indenture.

Eskaton is subject to certain risks, including maintaining occupancy in its facilities, sustaining its debt structure, the interest rate environment, potential competition, reliance on key individuals, and uncertainty of future profitability. The ability of Eskaton to generate sufficient revenues depends in large part upon sustaining occupancy of its facilities. The ability of Eskaton to maintain substantial occupancy at its facilities depends to some extent on factors outside its control, including the availability of alternative housing opportunities and future economic and other conditions which are unpredictable. Eskaton's Obligated Group has financed projects through the issuance of variable rate demand bonds supported by bank letters of credit, which contain various covenants which if violated could subject the related debt to an acceleration of debt payments. During fiscal year 2012, management has refinanced a portion of the variable rate demand bonds. Management currently expects that Eskaton will be able to generate sufficient funds from operations to pay its obligations as they come due and maintain compliance with its debt covenants. However, an inability to maintain occupancy of its facilities, adverse changes in the interest rate environment, the effects of competition or other unforeseen events could adversely affect the revenues and financial condition of Eskaton.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents – Cash and cash equivalents include cash in bank and short-term money market accounts. The carrying amounts at face value approximate fair value because of the short maturity of these instruments.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Management has elected to carry alternative investments under the fair value option. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues, gains, and other support over expenses.

Assets limited as to use – Assets limited as to use include assets held by trustees under bond indenture agreements, assets restricted by donor for financial assistance to residents of Eskaton communities, and assets held by banks as collateral securing standby letters of credit. Assets limited as to use are reported at fair value.

Property and equipment – Property and equipment are stated at cost. Interest capitalized (net of investment income from bond proceeds) in connection with the construction of plant and equipment is recorded as part of the cost of the constructed asset to which it relates and is amortized over the asset's useful life. Depreciation is computed using the straight-line method based on estimated useful lives of property and equipment as follows:

Land improvements	10 to 20 years
Buildings and improvements	15 to 40 years
Equipment	5 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess (deficiency) of revenues, gains, and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported as net assets released from restriction when the donated or acquired long-lived assets are placed in service.

Impairment of long-lived assets and long-lived assets to be disposed of – Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2011, land available for sale was recorded in the consolidated balance sheets at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The fair value estimate was performed by a third-party specialist using unobservable inputs that are supported by little or no market activity and were therefore classified within Level 3 of the valuation hierarchy. During 2011, Eskaton recorded a loss valuation adjustment on land available for sale of approximately $2.6 million. As of December 31, 2012, land available for sale is recorded in the consolidated balance sheets at the carrying amount, as the fair value of the assets exceeds the carrying amount of the assets.

The following tables reconcile the beginning and ending balances of land available for sale recognized in the accompanying consolidated financial statements in other income (loss) using significant unobservable (Level 3) inputs:

	2011
Balance, January 1	$ 3,693
Total valuation adjustment	
Included in excess (deficiency) of revenues, gains, and other support over expenses	(2,643)
Included in changes in unrestricted net assets (deficit)	-
Purchases	-
Sales	-
Transfers in and/or out of Level 3	-
Balance, December 31	$ 1,050

There was no activity or adjustments to the land available for sale during the year ended December 31, 2012.

Continuing Care Retirement Community (CCRC) membership fees – Eskaton owns and operates a CCRC known as Eskaton Village Carmichael (EVC) located on 37 acres in Carmichael, California. EVC membership fees, which were paid by the initial resident of each housing unit upon entering into a resalable continuing care contract, were recorded as deferred revenue. Such deferred revenue is amortized to income using the straight-line method over the estimated remaining life of the facility. Eskaton's share of appreciation in excess of the original membership fee amount earned upon the resale of a membership from one resident to another qualified individual is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated remaining life of the facility. Transfer fees earned upon the resale of a membership are recorded as revenue in the period earned.

During 2012, Eskaton introduced membership contracts with refundable membership fees, which are deferred and amortized on a straight-line basis over the five-year refundable period. Unamortized refundable membership fees totaled $460,000 as of December 31, 2012.

Self-insured employee health and workers' compensation – The provisions for estimated self-insured employee health and workers' compensation include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Derivative instruments – Eskaton has entered into various swap agreements to manage interest rate risk on its bonds. Swaps are contracts to exchange, for a period of time, the investment performance of one underlying instrument for the investment performance of another instrument without exchanging the instruments themselves. Eskaton entered into these agreements to mitigate cash flow and fair value risks related to changes in interest rates.

Eskaton records in its consolidated balance sheets the estimated fair value of swaps at the balance sheet date. Because the derivatives have not been designated as hedges for accounting purposes, changes in the fair value of swaps are included in nonoperating revenue (expenses) in the consolidated statements of operations and changes in net assets (deficit).

Deferred financing costs – Deferred financing costs are amortized over the period the obligation is expected to be outstanding or the life of bank letter of credit agreements associated with variable rate demand bonds, whichever is shorter. Amortization is calculated using the straight-line method, which is not materially different from using the effective interest method. Amortization of deferred financing costs is included as a component of interest expense.

Obligation to provide future services – Management annually calculates the present value of the net cost (difference between cost to operate and maintenance fees charged) of future services and use of the CCRC to be provided to current residents and compares the amount with the balance of deferred revenue from unamortized CCRC membership fees. If the present value of the net cost of future services and use of the CCRC exceeds the deferred revenue from unamortized CCRC membership fees, a liability is recorded with the corresponding charge to income. No liability was recorded at December 31, 2012 or 2011.

Temporarily restricted net assets – Temporarily restricted net assets are those whose use by Eskaton has been limited by donors for a specific time period or purpose.

Permanently restricted net assets – Permanently restricted net assets are those whose use by Eskaton has been restricted by donors to be maintained by Eskaton in perpetuity. The Board of Directors has interpreted California's enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, Eskaton classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit Eskaton to use all or part of the investment return on these assets and the donor agreements allow Eskaton to appropriate for distribution each year 5 percent of its endowment fund's prior year average fair value. Unrealized gains and investment income allocated to the permanently restricted fund are classified as temporarily restricted net assets, as supported by the associated agreements, until those amounts are appropriated for expenditure by Eskaton in a manner consistent with the standard of prudence prescribed by UPMIFA. In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before a loss occurs. Any remaining loss shall reduce unrestricted net assets.

Net patient service revenue – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Resident service revenue – Residential units are charged a monthly accommodation fee. Additional fees are charged for services rendered in the assisted living and skilled nursing facilities, of which a significant portion may be defrayed by coverage under a long-term care group insurance policy.

Donated services and materials – A number of volunteers donate significant amounts of time to advance Eskaton's program objectives. No amounts are reported in the accompanying consolidated financial statements for donated services since no objective basis is available to measure the value of such services.

Eskaton records the donation of materials when an objective basis is available to measure the value of those donations and when the materials would be purchased if they were not donated. These amounts are recorded as contribution revenues and as expenses.

Excess (deficiency) of revenues, gains, and other support over expenses – The consolidated statements of operations and changes in net assets (deficit) include excess (deficiency) of revenues, gains, and other support over expenses. Changes in unrestricted net assets (deficit), which are excluded from excess (deficiency) of revenues, gains, and other support over expenses, include changes in net unrealized gains and losses on other than trading securities and pension related changes other than net periodic pension cost.

Advertising – Advertising costs are expensed as incurred and included in purchased services expenses. Advertising expense was $530,000 and $513,000 for the years ended December 31, 2012 and 2011, respectively.

Income taxes – Eskaton, EPI, EGRL, EVGV, EVR, EVP, EFWL, and Eskaton Foundation are exempt from income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and applicable state regulations, except for federal and state tax on income resulting from unrelated business income. LD and CHC are taxable entities; however, income taxes for these entities are not significant to the consolidated financial statements.

FASB ASC Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Recognition of a tax position is determined when it is more likely than not that a tax position will be sustained on examination by the taxing authorities, including resolution of any related appeals or litigation processes. A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority.

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

Fair value measurements – FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, prescribes fair value measurements and disclosures for financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements. FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, other receivables, notes receivables, deposits and prepaid expenses, other assets, accrued liabilities, and long-term debt approximate fair value. The fair values of assets limited as to use and investments are disclosed in Note 4. The fair values of derivative instruments are disclosed in Note 5.

Recent accounting pronouncements – In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (FASB ASU No. 2011-04), which amended FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Eskaton adopted FASB ASU No. 2011-04 in the fiscal year ending December 31, 2012 (See Notes 4 & 5).

Reclassifications – Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation and had no impact on net income or net assets as previously reported.

NOTE 3 – THIRD-PARTY PAYORS

Eskaton has agreements with third-party payors that provide for payments to Eskaton at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** – Skilled nursing services provided to Medicare program beneficiaries are reimbursed under the Prospective Payment System. Eskaton is reimbursed under this system on a per diem rate depending on each patient category, which is determined by the Resource Utilization Groups (RUG) system. Home health visits rendered to Medicare program beneficiaries are reimbursed under the Prospective Payment System. Eskaton is reimbursed under this system on a per 60-day case rate depending on each patient category, which is determined by the Home Health Resource Groups (HHRG) system.

- **Medi-Cal** – Skilled nursing services and home health visits rendered to Medi-Cal program beneficiaries are reimbursed under prospectively determined per diem or per visit rates.

- **Other** – Eskaton has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Eskaton under these agreements includes prospectively determined daily rates and discounts from established charges.

NOTE 4 – ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use – Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use, stated at fair value, as of December 31 is set forth in the following table (in thousands):

	2012	2011
Required under bond indenture agreements for escrow, principal, interest, reserves, and insurance, held by trustee:		
Cash and short-term investments	$ 4,731	$ 2,071
U.S. Treasury notes, government securities, and other corporate debt securities	9,949	7,490
	14,680	9,561
Investments restricted by donors:		
Cash and short-term investments	24	20
Mutual funds	633	479
	657	499
Required to secure stand-by letters of credit supporting the self-insured workers' compensation program, and the Eskaton Retirement Plan, held by the issuing bank:		
Cash and short-term investments	-	2,638
	15,337	12,698
Less current portion	8,072	3,297
	$ 7,265	$ 9,401

Investments – Investments, at fair value, at December 31 include the following (in thousands):

	2012	2011
Corporate reserves for capital replacement, liquidity, and growth:		
Cash and short-term investments	$ 3,189	$ 2,641
U.S. Treasury notes, government securities, and other corporate debt securities	3,053	3,980
Equity securities	20,063	13,336
Mutual funds	15,500	18,016
Alternative investments	4,374	4,143
	46,179	42,116
Board designated Eskaton Foundation:		
Cash and short-term investments	311	48
U.S. Treasury notes, government securities, and other corporate debt securities	47	-
Equity securities	19	-
Mutual funds	1,044	874
	1,421	922
	47,600	43,038
Less current portion	46,179	42,116
	$ 1,421	$ 922

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

> ***Level 1*** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Eskaton has the ability to access at the measurement date.
>
> ***Level 2*** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> ***Level 3*** inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement, in its entirety.

The fair values of the financial instruments as of December 31, 2012 and 2011, represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – The carrying amounts at face value approximate fair value because of the short maturity of these instruments.

Marketable investment securities – Marketable equity securities, debt securities, and mutual funds are measured using quoted market prices at the reporting date multiplied by the quantity held.

Alternative investment securities – Management has elected to carry alternative investments at fair value under the fair value option. The fair value of alternative investments has been determined using net asset value (NAV) as a practical expedient.

Investments by level at December 31, 2012 and 2011 are as follows (in thousands):

		Fair value measurements at reporting date using		
	December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments (including assets limited as to use):				
Cash and cash equivalents	$ 372	$ 372	$ -	$ -
Certificates of deposit	1,459	-	1,459	-
Money market funds	6,424	6,424	-	-
Common stock	20,082	20,082	-	-
Mutual funds	17,176	17,176	-	-
U.S. Government securities	7,660	-	7,660	-
U.S. Government bonds	4,852	-	4,852	-
Other government bonds	538	-	538	-
Alternative investments	4,374	-	-	4,374
Total	$ 62,937	$ 44,054	$ 14,509	$ 4,374

		Fair value measurements at reporting date using		
	December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments (including assets limited as to use):				
Cash and cash equivalents	$ 4	$ 4	$ -	$ -
Certificates of deposit	4,190	-	4,190	-
Money market funds	3,224	3,224	-	-
Common stock	13,336	13,336	-	-
Mutual funds	19,369	19,369	-	-
U.S. Government securities	4,090	-	4,090	-
U.S. Government bonds	3,059	-	3,059	-
Other government bonds	3,001	-	3,001	-
Corporate bonds	1,320	-	1,320	-
Alternative investments	4,143	-	-	4,143
Total	$ 55,736	$ 35,933	$ 15,660	$ 4,143

Eskaton invests in limited partner positions including hedge funds. Investments in commingled funds have the potential to become illiquid under stressed market conditions and, in certain circumstances investors may be subject to redemption restrictions which can impede the timely return of capital. These partnerships are valued using their respective NAV, and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued on a monthly basis by each fund's independent administrator and for certain illiquid investments where no market exists, the General Partner may provide pricing input. The management assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type, but are predominantly derived from observed market prices.

Eskaton management meets at least quarterly with the investment advisors to review the strategy, and the ongoing performance of all investments, including analyzing changes in fair value measurements from period to period. Eskaton further corroborates third-party information used in the fair value measurement by obtaining audited financial statements of its hedge funds.

The following table presents Eskaton's alternative investments measured at estimated fair value as of December 31, 2012 and 2011 (in thousands):

Description	Balance as of December 31, 2012	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (i)	$ 2,437	$ -	Quarterly	95 days
Hedge funds (ii)	1,937	-	Annually	60 days
Total	$ 4,374	$ -		

Description	Balance as of December 31, 2011	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (i)	$ 2,305	$ -	Quarterly	95 days
Hedge funds (ii)	1,838	-	Annually	60 days
Total	$ 4,143	$ -		

(i) Hedge funds in this category were established for the purpose of achieving capital appreciation through a multi-manager, multi-strategy investment approach while maintaining a low level of volatility. The hedge funds implement their investment programs through investments in individually managed accounts, private investment funds, and affiliated funds.

(ii) Hedge funds in this category were established for the purpose of achieving consistent, positive returns, which are not dependent upon a rising equity market, while attempting to reduce risk and volatility. The hedge funds invest with other hedge funds and other experienced portfolio managers or otherwise utilize the services of investment advisors or other investment managers employing a variety of trading styles or strategies, including, but not limited to, direct lending, convertible arbitrage, merger or risk arbitrage and other event-driven investing, distressed and long/short credit, long/short equity, multi-strategy, and other relative value strategies. The hedge funds had a one-year initial lock-up period subsequent to the initial subscription, which expired on November 1, 2011.

The following tables reconcile the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated financial statements using significant unobservable (Level 3) inputs:

	Hedge funds (i)	Hedge funds (ii)
Balance, January 1, 2012	$ 2,305	$ 1,838
Total realized and unrealized gains and losses		
Included in excess (deficiency) of revenues, gains, and other support over expenses	132	99
Included in changes in unrestricted net assets (deficit)	-	-
Purchases	-	-
Sales	-	-
Transfers in and/or out of Level 3	-	-
Balance, December 31, 2012	$ 2,437	$ 1,937

	Hedge funds (i)	Hedge funds (ii)
Balance, January 1, 2011	$ 2,002	$ 1,711
Total realized and unrealized gains and losses		
Included in excess (deficiency) of revenues, gains, and other support over expenses	(32)	27
Included in changes in unrestricted net assets (deficit)	-	-
Purchases	335	100
Sales	-	-
Transfers in and/or out of Level 3	-	-
Balance, December 31, 2011	$ 2,305	$ 1,838

Investment income (loss), expenses, and gains (losses) for assets limited as to use, cash equivalents, and investments are comprised of the following for the years ended December 31 (in thousands):

	Year ended December 31, 2012		
	Obligated Group	Nonobligated	Total
Income:			
Interest and dividend income	$ 1,331	$ 30	$ 1,361
Realized gains on sales of securities	1,629	9	1,638
Unrealized gains on trading securities and alternative investments	2,269	83	2,352
	5,229	122	5,351
Less investment expenses	385	5	390
Total investment income	$ 4,844	$ 117	$ 4,961

	Year ended December 31, 2011		
	Obligated Group	Nonobligated	Total
Income:			
Interest and dividend income	$ 1,083	$ 23	$ 1,106
Realized gains on sales of securities	904	52	956
Unrealized losses on trading securities and alternative investments	(1,146)	-	(1,146)
	841	75	916
Less investment expenses	327	1	328
Total investment income	$ 514	$ 74	$ 588

NOTE 5 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Eskaton has interest rate swap derivative instruments (swaps) to manage its exposure on its debt instruments. By using derivative instruments, Eskaton exposes itself to credit risk and termination risk.

Credit risk exists because Eskaton is dependent upon the interest rate swap counterparty to meet its obligations under the agreement. This risk is measured by the cost associated with replacing the agreement, not by the notional amount of the agreement. At inception, the swap's replacement cost, or fair market value, is close to zero. If interest rates change such that the fair market value of the swap is positive, Eskaton's exposure to the swap counterparty increases, as the cost of replacing the agreement increases. If the fair market value decreases, Eskaton's exposure to the swap counterparty decreases. Eskaton minimizes the credit risk in derivative instruments by entering into transactions with high quality counterparties whose credit rating is higher than A2/A.

Termination risk is the risk that a swap will be terminated by the swap counterparty before maturity and Eskaton, due to adverse market conditions, will be forced to make a cash termination payment to the counterparty. The termination risk associated with swaps is managed by establishing and monitoring parameters that limit the market value sensitivity Eskaton is willing to accept. Termination risk is also mitigated by allowing only Eskaton to have voluntary termination rights and allowing the swap counterparty to terminate only under specific ratings downgrade triggers of Eskaton.

The estimated fair values of derivative instruments have been determined using Level 2 inputs including available market information and valuation methodologies. At December 31, 2012 and 2011, the fair values of these derivatives were recorded in the consolidated balance sheets at net liabilities of $18.7 million and $21.1 million, respectively. The credit risk assumption, as required under FASB ASC Topic 820, reduced Eskaton's interest rate swap liability by $2.1 million and $2.9 million in 2012 and 2011, respectively.

Interest rate swap agreements for variable-rate debt – Eskaton has issued variable-rate debt to refinance various debt issuances and finance capital improvements. The variable-rate debt obligations expose Eskaton to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management entered into swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps effectively changed the variable-rate cash flow exposure on the debt obligations to fixed-rate cash flows. Under the terms of the swaps, Eskaton makes fixed interest rate payments and receives variable interest rate payments, thereby creating the equivalent of fixed-rate debt. As of December 31, 2012 and 2011, Eskaton was party to swap agreements with an aggregate notional principal amount of $75.0 million and $89.2 million, respectively.

Terminated interest rate swap agreements with Lehman Brothers – Eskaton held six interest rate swap agreements with Lehman Brothers Special Financing Inc. (Lehman) at the time Lehman declared bankruptcy in 2008. Lehman's bankruptcy was an event of default under the swap agreements providing Eskaton various rights as the nondefaulting party to the agreements. Eskaton subsequently exercised its rights under the agreements and terminated all six of its swaps with Lehman effective November 25, 2008. At the effective date of termination, the fair value of the net liability position of Eskaton to Lehman was approximately $12.6 million.

In accordance with the terms of the swap agreements, Eskaton conducted a bid process with alternative counterparties to determine the market value of the swaps based on terms of an acceptance of assignment from replacement counterparties. Due to the absence of any bids from alternative counterparties for the swap agreements, Eskaton retained a consultant to perform a loss-method valuation of the swaps based on a reasonable estimate of what a replacement swap with different terms might cost, adjusted for the differences in terms from the existing swaps. The loss-method valuation resulted in a net receivable position of Eskaton from Lehman of approximately $7.9 million. Eskaton filed the appropriate settlement amount notices with Lehman but did not recognize a receivable for the $7.9 million from Lehman due to its bankruptcy filing status.

In accordance with the alternative dispute resolution (ADR) process established by the United States Bankruptcy Court, Southern District of New York, Lehman filed a Derivatives ADR Notice on February 4, 2011 with a settlement demand in the amount of $15.1 million. Eskaton filed a Response to Derivatives ADR Notice on March 21, 2011 denying the settlement demand. On April 5, 2011, Lehman replied to Eskaton's response to derivatives ADR notice and revised their settlement demand to $13.4 million due to an error in its original calculation. Mediation commenced in August 2011 in accordance with the ADR process and a settlement was reached in December 2011. In accordance with the termination settlement agreement, Eskaton made a payment to Lehman of approximately $5.2 million on January 5, 2012 as full settlement of all interest rate swap agreement claims between the parties. Accordingly, Eskaton reduced its liability related to terminated interest rate swap agreements from approximately $12.6 million to approximately $5.2 million and recognized a gain on settlement of approximately $7.4 million which is included in interest rate swap activities in the consolidated statement of operations and changes in net assets (deficit) for the year ended December 31, 2011.

Other terminated interest rate swap agreements – In November 2012, as a precondition to refinancing the Series 2007 Placerville Bonds with a Federal Housing Administration (FHA) insured loan, Eskaton voluntarily terminated the swap agreement associated with those bonds. In accordance with the terms of the swap termination agreement, Eskaton made a termination payment of approximately $2.1 million to the swap counterparty. Eskaton recognized a loss on settlement of approximately $172,000 which is included in interest rate swap activities in the consolidated statements of operations and changes in net assets (deficit) for the year ended December 31, 2012.

Interest rate swap activities – Interest rate swap activities recognized as a change in total revenues, gains, and other support for the years ended December 31 consist of the following (in thousands):

	2012	2011
Obligated Group:		
Unrealized gain (loss) on interest rate swap agreements for variable-rate debt	$ 429	$ (8,757)
Gain on settlement of terminated swaps	-	7,383
Nonobligated:		
Unrealized loss on interest rate swap agreements for variable-rate debt	-	(319)
Loss on settlement of terminated swaps	(172)	-
Net gain (loss) on interest rate swap agreements (including terminated swaps)	257	(1,693)
Obligated Group:		
Net payments on interest rate swap agreements	(2,496)	(2,878)
Nonobligated:		
Net payments on interest rate swap agreements	(390)	(478)
Total interest rate swap activities (including terminated swaps)	$ (2,629)	$ (5,049)

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following (in thousands):

	2012	2011
Land	$ 16,301	$ 16,254
Land improvements	16,901	16,859
Buildings and improvements	171,128	168,086
Equipment	23,988	23,062
	228,318	224,261
Accumulated depreciation	(115,794)	(107,083)
	112,524	117,178
Construction in progress	1,855	718
Property and equipment, net	$ 114,379	$ 117,896

During the years ended December 31, 2012 and 2011, no interest was capitalized.

NOTE 7 – LONG-TERM DEBT

Long-term debt at December 31 consists of the following (in thousands):

	2012	2011
Obligated Group:		
Series 2012 Tax-Exempt Fixed-Rate Revenue Bonds (Series 2012 Bonds) due 2034, principal due in annual installments and fixed interest of 2.00% to 5.25% due semi-annually; secured by deeds of trust.	$ 37,895	$ -
Series 2008A Tax-Exempt Variable-Rate Demand Revenue Refunding Bonds (Series 2008A Bonds) due 2029, principal due in annual installments and variable interest due monthly (0.13% and 0.10% at December 31, 2012 and 2011, respectively); supported by direct-pay irrevocable bank letter of credit; secured by deeds of trust.	20,050	20,750
Series 2008B Tax-Exempt Variable-Rate Demand Revenue Refunding Bonds (Series 2008B Bonds) due 2035, principal due in annual installments and variable interest due monthly (0.13% and 0.10% at December 31, 2012 and 2011, respectively); supported by direct-pay irrevocable bank letter of credit; secured by deeds of trust.	43,625	44,720
Series 2007 Taxable Variable-Rate Demand Revenue Bonds (Series 2007 Granite Bay Bonds) due 2037, principal due in annual installments and variable interest due monthly (0.40% and 0.35% at December 31, 2012 and 2011, respectively); supported by direct-pay irrevocable bank letter of credit; secured by deeds of trust.	11,470	11,655
Series 2006 Tax-Exempt Variable-Rate Demand Revenue Bonds (Series 2006 Bonds) due 2037, principal due in annual installments commencing in 2010 and variable interest due monthly (1.39% and 2.00% at December 31, 2012 and 2011, respectively); held under a bank direct placement agreement; secured by deeds of trust.	19,435	21,250
Series 1999 Tax-Exempt Convertible Certificates of Participation Select Auction Variable-Rate Securities (Series 1999 Certificates) due 2029; principal due in annual installments and variable interest due every 35 days (0.81% at December 31, 2011); insured by ACA Financial Guaranty and wrapped with insurance by Radian Asset Assurance; secured by deeds of trust.	-	33,100
Other notes, due through 2013	2,940	3,028

Nonobligated:		
Note payable to Red Mortgage Capital, LLC due 2047, principal and interest of 2.45% due in monthly installments of $32; insured by U.S. Department of Housing and Urban Development under Section 232, pursuant to Section 223(f); secured by deed of trust.	8,962	-
Series 2007 Tax-Exempt Variable-Rate Demand Revenue Bonds (Series 2007 Placerville Bonds) due 2038, principal due in annual installments commencing in 2011 and variable interest due monthly (0.14% at December 31, 2011); supported by direct-pay irrevocable bank letter of credit; secured by deed of trust.	-	12,540
Other notes, due through 2014	5,489	5,654
	149,866	152,697
Unamortized premiums	1,162	-
	151,028	152,697
Less current maturities	6,878	36,949
	$ 144,150	$ 115,748

As a result of favorable conditions in the credit markets, Eskaton refinanced the Series 1999 Certificates on May 22, 2012 at a 3% discount with uninsured fixed rate debt (the Series 2012 Bonds). On June 28, 2012, Eskaton simultaneously admitted EVR to the Eskaton Properties Incorporated Obligated Group (the Obligated Group) and replaced the existing bank letter of credit for the Series 2006 Bonds under a five year direct placement agreement with Compass Mortgage Corporation.

Maturities (as calculated based on the following paragraph) of long-term debt are as follows (in thousands):

Year ending December 31:	
2013	$ 6,878
2014	80,020
2015	1,685
2016	1,715
2017	1,869
Thereafter	58,861
	$ 151,028

Eskaton calculated the above maturities of long-term debt as if the variable rate demand bonds were put by the holders and not successfully remarketed or refinanced and were required to be repaid under an accelerated schedule in accordance with the terms of the related bank letters of credit. If the bonds are put by the investors, the bonds are immediately redeemed by the bank for the benefit of the investors, and if the remarketing agent is unable to remarket the bonds, or if Eskaton is unable to refinance the bonds, then Eskaton is required to repay the bank under an accelerated schedule of installment payments and/or in a balloon payment upon the expiration date of the letter of credit agreement.

The total amount of long-term debt supported by letter of credit or direct placement agreements at December 31, 2012 was approximately $95 million. Eskaton pays fees on each letter of credit or direct placement facility, which range from 1.25% to 1.50% per annum.

Interest expense related to long-term debt for the years ended December 31, 2012 and 2011, comprises the following (in thousands):

	2012	2011
Obligated Group:		
Interest on bonds and notes	$ 1,762	$ 641
Letter of credit and other financing fees	1,647	1,908
Amortization of debt issuance costs	380	527
Nonobligated:		
Interest on bonds and notes	381	270
Letter of credit and other financing fees	147	137
Amortization of debt issuance costs	81	123
	$ 4,398	$ 3,606

Under the terms of the Series 2012 Bonds, Series 2008A Bonds, Series 2008B Bonds, Series 2007 Granite Bay Bonds and the note payable to Red Mortgage Capital, LLC, Eskaton is required to maintain certain deposits with a trustee or the lender. Such deposits are included in assets limited as to use. The Master Indenture (Series 2012, Series 2008A Bonds, Series 2008B Bonds, Series 2007 Granite Bay Bonds, and Series 2006 Bonds) and the bank letters of credit (Series 2008A Bonds, Series 2008B Bonds, and Series 2007 Granite Bay Bonds) contain restrictive covenants that require, among other things, that Eskaton maintain specified debt service coverage ratios and days cash on hand ratios and include certain requirements regarding the management of revenues. The Master Indenture and the bank letters of credit and direct placement agreement also place limits on the incurrence of additional borrowings as long as the bonds are outstanding. The bank letters of credit, direct placement agreement, and remarketing agreements require Eskaton to report material adverse changes. Management believes that Eskaton was in compliance with the various covenants as of and for the year ended December 31, 2012.

The Series 2006 Bonds, which were previously secured by a bank letter of credit with KBC Bank, N.V. through July 15, 2012, are held by Compass Mortgage Corporation under a direct placement agreement expiring June 28, 2017. The Series 2007 Granite Bay Bonds, which were previously secured by a bank letter of credit with KBC Bank N.V. through March 31, 2011, are now secured by a bank letter of credit with U.S. Bank, N.A. expiring March 31, 2014. The Series 2008B Bonds, which were previously secured by a bank letter of credit with Bank of America, N.A. through March 31, 2011, are now secured by a bank letter of credit with U.S. Bank, N.A. expiring March 31, 2014. The Series 2008A Bonds are secured by a bank letter of credit with U.S. Bank, N.A. expiring March 31, 2014.

Long-term debt is carried at amortized cost. The fair value of Eskaton's long-term debt is estimated to equal its carrying value based on Level 2 inputs, such as the quoted market prices for the same or similar issues or on the current rates offered to Eskaton for debt of the same remaining maturities.

NOTE 8 – PENSION PLANS

Eskaton has a defined benefit cash balance pension plan whereby a participant's monthly rate of retirement benefits shall equal one twelfth of the amount determined in accordance with the Plan provisions. A participant may elect an optional form of benefit, including a single lump-sum payment. The Eskaton Retirement Plan covers all employees of Eskaton, EPI, EGRL, EVGV, EVR, EVP, EFWL, Eskaton Foundation, and LD who have attained the age of 21 after completion of one year of service in which the employee completes 1,000 hours of service. The Plan requires five benefit years to vest. Contributions of $2,398,000 and $3,308,000 were made for the years ended December 31, 2012 and 2011, respectively.

Eskaton is party to an irrevocable standby letter of credit totaling $4,268,000 and $3,155,000 at December 31, 2012 and 2011, respectively, with the Eskaton Retirement Plan named as beneficiary. The standby letter of credit supports restricted distributions (amounts distributed as lump sums in excess of amounts that would have been distributed as annuity payments) to 5 of the top 25 retirees of the Plan. The stand-by letter of credit would only be called upon in the event that Eskaton terminated the Plan and assets were insufficient to meet the Plan liabilities. Management has no plans to terminate the Plan and thus performance is not expected to be required. Management is therefore of the opinion that the fair value of this instrument is zero.

Eskaton also maintains a Supplemental Executive Retirement Plan (SERP) that provides supplemental funds for retirement or death for selected key employees of Eskaton in the event that the Eskaton Retirement Plan benefits of such individuals are less than the specified target. The SERP is a nonqualified plan intended to meet the requirements of an ineligible deferred compensation plan as described in Section 457(f) of the Internal Revenue Code of 1986. The benefit under the SERP is offset by certain portions of the Eskaton Retirement Plan. It is expected over time that the benefits payable from the SERP will be nearly completely offset by the cash balance pension plan.

The following table sets forth the plan's benefit obligations, fair value of assets, and funded status at December 31, 2012 and 2011 (in thousands):

	Eskaton Retirement Plan		SERP	
	2012	2011	2012	2011
Benefit obligation	$ 25,213	$ 23,501	$ 279	$ 602
Fair value of assets	19,011	17,614	-	-
Funded status at end of year (liabilities recognized in consolidated balance sheets)	$ (6,202)	$ (5,887)	$ (279)	$ (602)

The accumulated benefit obligation for the pension plan was $24,922,000 and $23,234,000 at December 31, 2012 and 2011, respectively. Net periodic benefit cost recognized and other changes in plan assets and benefit obligations is excluded from excess (deficiency) of revenues over expenses in 2012 and 2011 and were as follows (in thousands):

	Eskaton Retirement Plan		SERP	
	2012	2011	2012	2011
Net periodic benefit cost recognized	$ 3,090	$ 1,807	$ 57	$ 137
Other changes in plan assets and benefit obligations recognized in accumulated unrestricted net assets (deficit):				
Net actuarial gain (loss)	380	1,611	(380)	125
Settlement	(790)	-	-	-
Prior service cost	32	4	-	-
Total recognized in accumulated unrestricted net assets (deficit)	(378)	1,615	(380)	125
Total recognized in net periodic benefit cost and accumulated unrestricted net assets (deficit)	$ 2,712	$ 3,422	$ (323)	$ 262

The net loss and prior service cost for the Eskaton Retirement Plan that will be amortized from unrestricted net assets (deficit) into net periodic benefit cost over the next fiscal year is $1,267,000 and $171,000, respectively. The net loss and prior service cost for the SERP that will be amortized from unrestricted net assets (deficit) into net periodic benefit cost over the next fiscal year is $19,700 and $0, respectively.

Weighted average assumptions used are as follows:

	Eskaton Retirement Plan		SERP	
	2012	2011	2012	2011
Discount rate - benefit obligation	3.70%	4.30%	3.70%	4.30%
Discount rate - benefit cost	4.30%	5.20%	4.30%	5.20%
Expected rate of return on plan assets	7.00%	7.50%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	4.00%	4.00%

Eskaton's expected rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following table summarizes benefit costs, employer contributions, settlement payments, and benefits paid during 2012 and 2011 (in thousands):

	Eskaton Retirement Plan		SERP	
	2012	2011	2012	2011
Benefit cost	$ 2,300	$ 1,807	$ 57	$ 137
Employer contribution	2,398	3,308	-	-
Settlement	790	-	-	-
Benefits paid	(2,673)	(1,355)	-	-

Measurement date – The measurement date used to determine pension benefit measures for the plans is December 31.

Cash flows – Eskaton expects to contribute $1,130,000 to the Eskaton Retirement Plan and $0 to the SERP during the year ending December 31, 2013.

The benefits expected to be paid are as follows (in thousands):

	Eskaton Retirement Plan	SERP
2013	$ 2,314	$ -
2014	2,107	-
2015	2,134	-
2016	1,801	-
2017	1,827	-
2018 - 2022	8,171	-

The expected benefits are based on the same assumptions used to measure Eskaton's benefit obligation at December 31, 2012 and include estimated future employee service.

Plan assets – Eskaton's investment policy for the Eskaton Retirement Plan states the overall investment objectives of the account. It also contains a target asset mix and asset mix restrictions, which in combination with the skills of each investment manager should achieve these objectives.

The objectives of the account are expected to be pursued as a long-term goal designed to maximize the returns without exposure to undue risk. Each investment manager's greatest concern is expected to be long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, management expects the account to achieve the following objectives over a three-year rolling time period:

- The account's total return will exceed the increase in the Consumer Price Index by 3.0% annually.
- The total return will exceed 8.4% annually, net of fees.

Target Asset Mix Table
Overall Portfolio

Asset class	Minimum percentage	Target percentage	Maximum percentage
Domestic equities	30%	45%	60%
Real estate	0%	5%	10%
International equities	10%	15%	20%
Domestic fixed income	15%	25%	35%
Alternative investments	0%	10%	20%

The asset allocations of plan assets at December 31, 2012 are as follows (in thousands):

		Fair value measurements at December 31, 2012		
		Plan assets		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category				
Cash	$ 122	$ 122	$ -	$ -
Money market funds	420	420	-	-
Common stock	8,255	8,255	-	-
Mutual funds	6,476	6,476	-	-
U.S. government securities	668	-	668	-
U.S. government bonds	574	-	574	-
Guaranteed investment account	807	-	807	-
Pooled separate account	79	-	79	-
Alternative investments	1,610	-	-	1,610
Total pension assets	$ 19,011	$ 15,273	$ 2,128	$ 1,610

The asset allocations of plan assets at December 31, 2011 are as follows (in thousands):

		Fair value measurements at December 31, 2011		
		Plan assets		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category				
Cash	$ 1,808	$ 1,808	$ -	$ -
Money market funds	668	668	-	-
Common stock	4,669	4,669	-	-
Mutual funds	6,502	6,502	-	-
U.S. government securities	670	-	670	-
U.S. government bonds	557	-	557	-
Guaranteed investment account	1,125	-	1,125	-
Pooled separate account	88	-	88	-
Alternative investments	1,527	-	-	1,527
Total pension assets	$ 17,614	$ 13,647	$ 2,440	$ 1,527

The following tables reconcile the beginning and ending balances of recurring fair value measurements recognized in the plan assets using significant unobservable (Level 3) inputs:

	Hedge funds
Balance, January 1, 2012	$ 1,527
Actual return on plan assets	83
Purchases	-
Sales	-
Transfers in and/or out of Level 3	-
Balance, December 31, 2012	$ 1,610

	Hedge funds
Balance, January 1, 2011	$ 1,308
Actual return on plan assets	19
Purchases	200
Sales	-
Transfers in and/or out of Level 3	-
Balance, December 31, 2011	$ 1,527

There were no significant transfers between plan assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with significant other observable inputs (Level 2) during the years ended December 31, 2012 and 2011.

NOTE 9 – ESKATON VILLAGE CARMICHAEL

EVC is a multi-level continuing care community offering independent living, assisted living for those residents needing assistance with two or more of the functions of daily living and residents with cognitive impairments, and skilled nursing for all other residents. EVC is located on a 37-acre parcel of land in Carmichael, California, and consists of the following living units:

Unit type	Number of units
Apartments	201
Cottages	94
Assisted living	38
Assisted living – special care unit	20
Skilled nursing	35

Residents of the apartments and cottages pay a membership fee and sign a membership agreement, which has been approved by the Continuing Care Contracts Branch of the California Department of Social Services. The membership fee is refundable only from reoccupancy proceeds. Residents may resell their membership to another qualified individual, and Eskaton receives a transfer fee of 10% of the original membership fee amount, capped at a maximum of 10% of the new sales price. In addition, appreciation in excess of the original membership fee amount is shared equally between the resident and Eskaton.

During 2012, Eskaton introduced membership contracts with refundable membership fees, which are deferred and amortized on a straight-line basis over the five-year refundable period. Unamortized refundable membership fees totaled $460,000 as of December 31, 2012.

Eskaton is obligated to provide future services and the use of the EVC facility to the residents. Residents are charged monthly maintenance fees, which are used to pay routine operating expenses of EVC. Management has determined that the deferred revenue from unamortized EVC membership fees and future monthly fees exceeds the present value of the net cost of future services and use of the EVC facility to be provided to residents as of December 31, 2012 and 2011, discounted at 6%. Accordingly, Eskaton has not recorded a liability to provide future services as of December 31, 2012 and 2011.

NOTE 10 – SELF-INSURED EMPLOYEE HEALTH AND WORKERS' COMPENSATION

Eskaton is self-insured for employee health and workers' compensation up to $150,000 and $1,500,000 per claim, respectively. Eskaton maintains stop-loss insurance policies for employee health and workers' compensation with limits of $0 and $25,000,000 per claim, respectively. Accruals have been made for estimated liabilities, including estimates for incurred but not reported claims. Eskaton has recorded a liability of $1,298,000 and $1,307,000 at December 31, 2012 and 2011, respectively, in relation to employee health. Eskaton has recorded a liability of $7,897,000 and $4,438,000 at December 31, 2012 and 2011, respectively, in relation to workers' compensation. Eskaton is party to an irrevocable standby letter of credit for workers' compensation totaling $5,465,000 and $3,561,000, at December 31, 2012 and 2011, respectively, with the State of California named as beneficiary. In Eskaton's past experience, no claims have been made against this financial instrument. Management does not expect any material loss to result from this off-balance-sheet instrument because performance is not expected to be required and, therefore, is of the opinion that the fair value of this instrument is zero. In 2012, the bank standby letter of credit was replaced with a letter of credit directly from the State of California. As a result, the related security deposit was released and is $0 at December 31, 2012, as disclosed in Note 4.

NOTE 11 – PROFESSIONAL LIABILITY INSURANCE

Eskaton maintains claims-made commercial professional liability insurance coverage with California Healthcare Insurance Company covering losses up to $5,000,000 per claim, annual aggregate of $15,000,000, with a $10,000 deductible per claim. Eskaton also purchased excess professional liability insurance coverage of $10,000,000 per claim and $10,000,000 aggregate over the primary insurance coverage limits. Eskaton has recorded a liability of $1,334,000 and $1,330,000 for the tail exposure at December 31, 2012 and 2011, respectively. In accordance with FASB Topic 954-450, *Health Care Entities: Contingencies*, Eskaton has also recorded a liability of $1,629,000 and $2,261,000 at December 31, 2012 and 2011, respectively, for estimated claim liabilities insured under its liability policy. Any related insurance recovery receivables are recorded under due from liability insurer in the accompanying consolidated balance sheets.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Eskaton is a defendant in various legal actions arising from its normal conduct of business. It is the opinion of Eskaton's management, after consulting with legal counsel, that the outcome of such matters will not have a material adverse effect on the consolidated financial position or results of operations of Eskaton.

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

Eskaton's financial instruments that are exposed to concentrations of credit risk consist primarily of its accounts receivable.

Eskaton's operating facilities are located primarily in the Sacramento, California, metropolitan area. Eskaton grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. Receivables (before allowances for uncollectible accounts and net of applicable contractual allowances) from patients and third-party payors at December 31 are as follows (in thousands):

	2012	2011
Medicare	$ 1,099	$ 612
Medi-Cal	2,130	1,732
Other third-party payors	4,296	3,771
Patients and residents	1,069	661
	$ 8,594	$ 6,776

NOTE 14 – FUNCTIONAL EXPENSES

Eskaton provides health services, residential services, and community service programs within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2012	2011
Health services	$ 39,729	$ 38,494
Residential services	50,790	50,959
Community service programs	1,134	1,170
Fund raising	800	695
General and administrative	15,806	12,709
	$ 108,259	$ 104,027

NOTE 15 – HEALTH AND SAFETY CODE SECTION 1790(A)(3) DISCLOSURE

The following disclosure is made pursuant to Section 1790(a)(3) of the California Health and Safety Code: no reserves are being accumulated for identified projects or contingencies.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued.

As a result of favorable conditions in the credit markets, it was determined that an opportunity had arisen to potentially refinance with fixed rate debt the Series 2008B Bonds, and to terminate the related interest rate swap with a notional amount approximately equal to the principal balance of the Series 2008B Bonds. Eskaton will continue to pursue this refinancing effort should prevailing favorable market conditions permit.

Eskaton has engaged a broker to market and sell the assets associated with the 80-apartment independent living community known as Eskaton Henson Manor. The potential sale date and price will ultimately be determined by market conditions and are unknown at this time.

Subsequent events have been evaluated through April 26, 2013, which is the date the consolidated financial statements were issued.

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SUPPLEMENTARY INFORMATION

ESKATON AND SUBSIDIARIES
CONSOLIDATING SCHEDULE – BALANCE SHEET
December 31, 2012

Assets	Eskaton Properties Inc.	Eskaton Village Grass Valley	Eskaton Gold River Lodge	Eskaton Village Roseville	Eskaton Obligated Group Total	Eskaton Obligated Group Adjustments	Eskaton Obligated Group Combined	Eskaton	California Healthcare Consultants	Eskaton Village Placerville	Eskaton FountainWood Lodge	Livable Design	Eskaton Foundation	Total	Eliminations	Consolidated
Current assets:																
Cash and cash equivalents	$ 4,206	$ 111	$ 102	$ 1,709	$ 6,128	$ -	$ 6,128	$ 69	$ -	$ 682	$ 270	$ 107	$ 447	$ 7,703	$ -	$ 7,703
Assets limited as to use	7,960	48	25	-	8,033	-	8,033	-	-	39	-	-	-	8,072	-	8,072
Investments	45,862	-	-	165	46,027	-	46,027	-	-	-	152	-	-	46,179	-	46,179
Accounts receivable, net	8,113	15	27	33	8,188	-	8,188	114	-	4	28	-	-	8,334	-	8,334
Other receivables	3,114	275	-	-	3,389	-	3,389	46	113	-	54	-	376	3,978	-	3,978
Inventories	189	7	7	4	207	-	207	-	-	5	5	-	-	217	-	217
Deposits and prepaid expenses	802	51	40	46	939	-	939	24	-	104	74	-	2	1,143	-	1,143
Due from related parties	555	-	-	-	555	-	555	-	6	-	-	85	-	646	(646)	-
Total current assets	70,801	507	201	1,957	73,466	-	73,466	253	119	834	583	192	825	76,272	(646)	75,626
Assets limited as to use, net of amount required for current liabilities	4,329	1,478	769	-	6,576	-	6,576	-	-	32	-	-	657	7,265	-	7,265
Investments	-	-	-	-	-	-	-	-	-	-	-	-	1,421	1,421	-	1,421
Property and equipment, net	57,015	10,059	8,142	17,721	92,937	(178)	92,759	860	-	11,840	8,307	612	1	114,379	-	114,379
Other assets:																
Land available for sale	1,050	-	-	-	1,050	-	1,050	-	-	-	-	-	-	1,050	-	1,050
Due from liability insurer	1,629	-	-	-	1,629	-	1,629	-	-	-	-	-	-	1,629	-	1,629
Deferred financing costs, net	1,126	83	43	290	1,542	-	1,542	-	-	370	18	-	-	1,930	-	1,930
Associate member/resident/patient deposits	4,581	-	9	-	4,590	-	4,590	-	-	1	5	-	-	4,596	-	4,596
Other	835	-	-	-	835	-	835	1,284	-	-	500	-	-	2,619	(1,225)	1,394
Due from related parties, net of current portion	3,153	-	-	-	3,153	-	3,153	-	-	-	-	-	-	3,153	(3,153)	-
	12,374	83	52	290	12,799	-	12,799	1,284	-	371	523	-	-	14,977	(4,378)	10,599
Total assets	$ 144,519	$ 12,127	$ 9,164	$ 19,968	$ 185,778	$ (178)	$ 185,600	$ 2,397	$ 119	$ 13,077	$ 9,413	$ 804	$ 2,904	$ 214,314	$ (5,024)	$ 209,290

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Liabilities and Net Assets (Deficit)	Eskaton Properties Inc.	Eskaton Village Grass Valley	Eskaton Gold River Lodge	Eskaton Village Roseville	Eskaton Obligated Group Total	Eskaton Obligated Group Adjustments	Eskaton Obligated Group Combined	Eskaton	California Healthcare Consultants	Eskaton Village Placerville	Eskaton FountainWood Lodge	Livable Design	Eskaton Foundation	Total	Eliminations	Consolidated
Current liabilities:																
Current maturities of long-term debt	$ 5,269	$ 568	$ 296	$ 420	$ 6,553	$ -	$ 6,553	$ -	$ -	$ 150	$ 175	$ -	$ -	$ 6,878	$ -	$ 6,878
Current portion of deferred revenue from unamortized CCRC membership fees	2,132	-	-	-	2,132	-	2,132	-	-	-	-	-	-	2,132	-	2,132
Deposits on unoccupied CCRC units	226	7	-	8	241	-	241	-	-	-	-	-	-	241	-	241
Accounts payable	1,129	76	167	83	1,455	-	1,455	7	23	54	51	2	9	1,601	-	1,601
Accured liabilities:																
Payroll and payroll taxes	1,390	77	89	34	1,590	-	1,590	28	38	60	60	-	-	1,776	-	1,776
Vacation	1,269	50	50	69	1,438	-	1,438	46	58	39	44	-	8	1,633	-	1,633
Current portion of self-insured workers' compensation	2,871	-	-	-	2,871	-	2,871	-	-	-	-	-	-	2,871	-	2,871
Self-insured employee health plan	1,298	-	-	-	1,298	-	1,298	-	-	-	-	-	-	1,298	-	1,298
Interest	325	63	33	82	503	-	503	-	-	-	26	-	-	529	-	529
Other	1,010	6	7	1	1,024	-	1,024	5	-	12	1	5	-	1,047	-	1,047
Due to related parties	85	-	-	-	85	-	85	-	-	262	245	-	54	646	(646)	-
Total current liabilities	17,004	847	642	697	19,190	-	19,190	86	119	577	602	7	71	20,652	(646)	20,006
Other liabilities:																
Self-insured workers' compensation, net of current portion	5,026	-	-	-	5,026	-	5,026	-	-	-	-	-	-	5,026	-	5,026
Interest rate swap agreements	6,430	4,755	2,474	5,075	18,734	-	18,734	-	-	-	-	-	-	18,734	-	18,734
Unfunded pension obligation	6,481	-	-	-	6,481	-	6,481	-	-	-	-	-	-	6,481	-	6,481
Professional liability	2,963	-	-	-	2,963	-	2,963	-	-	-	-	-	-	2,963	-	2,963
Associate member/resident/patient deposts	4,581	-	9	-	4,590	-	4,590	-	-	1	5	-	-	4,596	-	4,596
Other	48	12	1	126	187	-	187	4	-	9	1	-	42	243	-	243
Due to related parties, net of current portion	-	-	-	-	-	-	-	-	-	1,403	1,750	-	-	3,153	(3,153)	-
	25,529	4,767	2,484	5,201	37,981	-	37,981	4	-	1,413	1,756	-	42	41,196	(3,153)	38,043
Long-term debt, net of current maturities	78,961	21,079	10,969	19,015	130,024	-	130,024	-	-	8,812	5,314	-	-	144,150	-	144,150
Deferred revenue from unamortized CCRC membership fees, net of current portion	15,455	-	-	-	15,455	-	15,455	-	-	-	-	-	-	15,455	-	15,455
Total liabilities	136,949	26,693	14,095	24,913	202,650	-	202,650	90	119	10,802	7,672	7	113	221,453	(3,799)	217,654
Net assets (deficit):																
Unrestricted net assets (deficit)	7,562	(14,566)	(4,931)	(4,945)	(16,880)	(178)	(17,058)	2,307	-	2,275	1,741	797	1,419	(8,519)	(1,225)	(9,744)
Temporarily restricted net assets	8	-	-	-	8	-	8	-	-	-	-	-	845	853	-	853
Permanently restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	527	527	-	527
Total net assets (deficit)	7,570	(14,566)	(4,931)	(4,945)	(16,872)	(178)	(17,050)	2,307	-	2,275	1,741	797	2,791	(7,139)	(1,225)	(8,364)
Total liabilities and net assets (deficit)	$ 144,519	$ 12,127	$ 9,164	$ 19,968	$ 185,778	$ (178)	$ 185,600	$ 2,397	$ 119	$ 13,077	$ 9,413	$ 804	$ 2,904	$ 214,314	$ (5,024)	$ 209,290

ESKATON AND SUBSIDIARIES
CONSOLIDATING SCHEDULE – OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
Year ended December 31, 2012

	Eskaton Properties Inc.	Eskaton Village Grass Valley	Eskaton Gold River Lodge	Eskaton Village Roseville	Eskaton Obligated Group Total	Eskaton Obligated Group Adjustments	Eskaton Obligated Group Combined
Unrestricted net assets (deficit):							
Revenue, gains, and other support:							
Net patient service revenue	$ 48,142	$ -	$ -	$ -	$ 48,142	$ -	$ 48,142
Resident service revenue, including amortization of CCRC membership fees	32,626	5,598	5,070	4,761	48,055	-	48,055
Other, net	6,298	296	77	462	7,133	(1,087)	6,046
Total revenues, gains, and other support	87,066	5,894	5,147	5,223	103,330	(1,087)	102,243
Expenses:							
Salaries and wages	35,618	1,784	1,897	1,886	41,185	-	41,185
Employee benefits	15,846	516	563	583	17,508	-	17,508
Professional fees	1,597	1	4	-	1,602	-	1,602
Supplies	3,267	461	337	301	4,366	-	4,366
Purchased services	5,309	757	548	638	7,252	(1,087)	6,165
Ancillary costs	2,781	25	40	49	2,895	-	2,895
Utilities	3,045	302	220	182	3,749	-	3,749
Insurance and other	5,637	256	220	254	6,367	-	6,367
Depreciation	5,591	860	517	977	7,945	(9)	7,936
Interest and amortization	2,416	518	269	586	3,789	-	3,789
Provision for uncollectible accounts	212	-	10	8	230	-	230
Total operating expenses	81,319	5,480	4,625	5,464	96,888	(1,096)	95,792
Income (loss) from operations	5,747	414	522	(241)	6,442	9	6,451
Nonoperating revenue (expenses):							
Investment income	4,793	32	16	3	4,844	-	4,844
Interest rate swap activities	(810)	(343)	(321)	(592)	(2,066)	-	(2,066)
Loss on early repayment of debt	(145)	-	-	-	(145)	-	(145)
Other	-	(13)	-	(36)	(49)	-	(49)
Total nonoperating revenue (expenses)	3,838	(324)	(305)	(625)	2,584	-	2,584
Excess (deficiency) of revenues, gains, and other support over expenses	9,585	90	217	(866)	9,026	9	9,035

	Eskaton	California Healthcare Consultants	Eskaton Village Placerville	Eskaton FountainWood Lodge	Livable Design	Eskaton Foundation	Total	Eliminations	Consolidated
Unrestricted net assets (deficit):									
Revenue, gains, and other support:									
Net patient service revenue	$ 757	$ -	$ -	$ -	$ -	$ -	$ 48,899	$ -	$ 48,899
Resident service revenue, including amortization of CCRC membership fees	-	-	3,819	3,761	-	-	55,635	-	55,635
Other, net	259	2,559	276	38	8	795	9,981	(1,069)	8,912
Total revenues, gains, and other support	1,016	2,559	4,095	3,799	8	795	114,515	(1,069)	113,446
Expenses:									
Salaries and wages	977	1,976	1,372	1,627	-	407	47,544	-	47,544
Employee benefits	281	582	416	518	-	120	19,425	-	19,425
Professional fees	4	-	14	2	-	29	1,651	-	1,651
Supplies	82	-	241	298	-	30	5,020	(54)	4,966
Purchased services	158	-	432	457	3	77	7,292	(650)	6,642
Ancillary costs	1	-	33	22	-	-	2,951	-	2,951
Utilities	19	-	180	229	2	3	4,182	-	4,182
Insurance and other	356	1	160	170	-	439	7,493	(365)	7,128
Depreciation	36	-	624	516	25	4	9,141	-	9,141
Interest and amortization	-	-	283	326	-	-	4,398	-	4,398
Provision for uncollectible accounts	1	-	-	-	-	-	231	-	231
Total operating expenses	1,915	2,559	3,755	4,165	33	1,109	109,328	(1,069)	108,259
Income (loss) from operations	(899)	-	340	(366)	(25)	(314)	5,187	-	5,187
Nonoperating revenue (expenses):									
Investment income	-	-	3	1	-	113	4,961	-	4,961
Interest rate swap activities	-	-	(563)	-	-	-	(2,629)	-	(2,629)
Loss on early repayment of debt	-	-	-	-	-	-	(145)	-	(145)
Other	-	-	-	-	-	(4)	(53)	-	(53)
Total nonoperating revenue (expenses)	-	-	(560)	1	-	109	2,134	-	2,134
Excess (deficiency) of revenues, gains, and other support over expenses	(899)	-	(220)	(365)	(25)	(205)	7,321	-	7,321

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ESKATON AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (Continued)

Year Ended December 31, 2012

	Eskaton Properties Inc.	Eskaton Village Grass Valley	Eskaton Gold River Lodge	Eskaton Village Roseville	Eskaton Obligated Group Total	Eskaton Obligated Group Adjustments	Eskaton Obligated Group Combined	Eskaton	California Healthcare Consultants	Eskaton Village Placerville	Eskaton FountainWood Lodge	Livable Design	Eskaton Foundation	Total	Eliminations	Consolidated
Excess (deficiency) of revenues, gains, and other support over expenses (page 32)	$ 9,585	$ 90	$ 217	$ (866)	$ 9,026	$ 9	$ 9,035	$ (899)	$ -	$ (220)	$ (365)	$ (25)	$ (205)	$ 7,321	$ -	$ 7,321
Pension related changes other than net periodic pension cost	758	-	-	-	758	-	758	-	-	-	-	-	-	758	-	758
Transfers between related entities	(10,299)	575	(11)	2,966	(6,769)	-	(6,769)	232	-	3,748	2,106	-	683	-	-	-
Change in unrestricted net assets (deficit)	44	665	206	2,100	3,015	9	3,024	(667)	-	3,528	1,741	(25)	478	8,079	-	8,079
Unrestricted net assets (deficit), beginning of year	7,518	(15,231)	(5,137)	(7,045)	(19,895)	(187)	(20,082)	2,974	-	(1,253)	-	822	941	(16,598)	(1,225)	(17,823)
Unrestricted net assets (deficit), end of year	$ 7,562	$ (14,566)	$ (4,931)	$ (4,945)	$ (16,880)	$ (178)	$ (17,058)	$ 2,307	$ -	$ 2,275	$ 1,741	$ 797	$ 1,419	$ (8,519)	$ (1,225)	$ (9,744)
Temporarily restricted net assets:																
Contributions	$ 3	$ -	$ -	$ -	$ 3	$ -	$ 3	$ -	$ -	$ -	$ -	$ -	$ 846	$ 849	$ -	$ 849
Investment income	-	-	-	-	-	-	-	-	-	-	-	-	48	48	-	48
Net assets released from restriction used for operations	(7)	-	-	-	(7)	-	(7)	-	-	-	-	-	(317)	(324)	-	(324)
Change in temporarily restricted net assets	(4)	-	-	-	(4)	-	(4)	-	-	-	-	-	577	573	-	573
Temporarily restricted net assets, beginning of year	12	-	-	-	12	-	12	-	-	-	-	-	268	280	-	280
Temporarily restricted net assets, end of year	$ 8	$ -	$ -	$ -	$ 8	$ -	$ 8	$ -	$ -	$ -	$ -	$ -	$ 845	$ 853	$ -	$ 853
Permanently restricted net assets:																
Contributions of endowments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14	$ 14	$ -	$ 14
Change in assets held in trust by others	-	-	-	-	-	-	-	-	-	-	-	-	3	3	-	3
Change in permanently restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	17	17	-	17
Permanently restricted net assets, beginning of year	-	-	-	-	-	-	-	-	-	-	-	-	510	510	-	510
Permanently restricted net assets, end of year	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 527	$ 527	$ -	$ 527
Change in net assets (deficit)	$ 40	$ 665	$ 206	$ 2,100	$ 3,011	$ 9	$ 3,020	$ (667)	$ -	$ 3,528	$ 1,741	$ (25)	$ 1,072	$ 8,669	$ -	$ 8,669
Net assets (deficit), beginning of year	7,530	(15,231)	(5,137)	(7,045)	(19,883)	(187)	(20,070)	2,974	-	(1,253)	-	822	1,719	(15,808)	(1,225)	(17,033)
Net assets (deficit), end of year	$ 7,570	$ (14,566)	$ (4,931)	$ (4,945)	$ (16,872)	$ (178)	$ (17,050)	$ 2,307	$ -	$ 2,275	$ 1,741	$ 797	$ 2,791	$ (7,139)	$ (1,225)	$ (8,364)

ESKATON AND SUBSIDIARIES
CONSOLIDATING SCHEDULE – CASH FLOWS
Year Ended December 31, 2012

	Eskaton Properties Inc.	Eskaton Village Grass Valley	Eskaton Gold River Lodge	Eskaton Village Roseville	Eskaton Obligated Group Total	Eskaton Obligated Group Adjustments	Eskaton Obligated Group Combined	Eskaton	California Healthcare Consultants	Eskaton Village Placerville	Eskaton FountainWood Lodge	Livable Design	Eskaton Foundation	Total	Eliminations	Consolidated
Cash flows from operating activities:																
Change in net assets (deficit)	$ 40	$ 665	$ 206	$ 2,100	$ 3,011	$ 9	$ 3,020	$ (667)	$ -	$ 3,528	$ 1,741	$ (25)	$ 1,072	$ 8,669	$ -	$ 8,669
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:																
Depreciation	5,591	860	517	977	7,945	(9)	7,936	36	-	624	516	25	4	9,141	-	9,141
Amortization of deferred financing costs	220	67	35	58	380	-	380	-	-	67	14	-	-	461	-	461
Amortization of CCRC membership fees	(2,132)	-	-	-	(2,132)	-	(2,132)	-	-	-	-	-	-	(2,132)	-	(2,132)
Net realized and unrealized (gains) losses on assets limited as to use	(10)	(27)	(14)	18	(33)	-	(33)	-	-	18	-	-	(46)	(61)	-	(61)
Net realized and unrealized gains on investments	(3,920)	-	-	-	(3,920)	-	(3,920)	-	-	-	-	-	(91)	(4,011)	-	(4,011)
Pension related changes other than net periodic pension cost	(758)	-	-	-	(758)	-	(758)	-	-	-	-	-	-	(758)	-	(758)
Change in fair value of interest rate swap agreements	(142)	(106)	(55)	(126)	(429)	-	(429)	-	-	172	-	-	-	(257)	-	(257)
Provision for uncollectible accounts	212	-	10	8	230	-	230	1	-	-	-	-	-	231	-	231
Transfers between related entities	10,299	(575)	11	(2,966)	6,769	-	6,769	(232)	-	(3,748)	(2,106)	-	(683)	-	-	-
Proceeds from permanently restricted contributions	-	-	-	-	-	-	-	-	-	-	-	-	(14)	(14)	-	(14)
Loss on early repayment of debt	145	-	-	-	145	-	145	-	-	-	-	-	-	145	-	145
CCRC resale proceeds	4,307	-	-	-	4,307	-	4,207	-	-	-	-	-	-	4,207	-	4,207
Loss on disposal of property and equipment	-	12	-	-	12	-	12	-	-	-	-	-	-	12	-	12
Changes in operating assets and liabilities:																
Change in receivables	(3,861)	(249)	13	(18)	(4,115)	-	(4,115)	(21)	88	8	(77)	10	(375)	(4,482)	-	(4,482)
Change in inventories	-	(1)	2	1	2	-	2	-	-	1	1	-	-	4	-	4
Change in deposits and prepaid expenses	(233)	(36)	(29)	22	(276)	-	(276)	(3)	-	(86)	(70)	-	(1)	(436)	-	(436)
Change in other assets	913	-	-	-	913	-	913	500	-	-	(501)	-	-	912	-	912
Change in accounts payable	(405)	13	94	(26)	(324)	-	(324)	(5)	23	5	31	2	2	(266)	-	(266)
Change in accrued liabilities	1,955	12	(20)	(71)	1,876	-	1,876	(16)	(50)	(37)	117	(12)	(1)	1,877	-	1,877
Change in unfunded pension obligation	750	-	-	-	750	-	750	-	-	-	-	-	-	750	-	750
Change in other liabilities	(350)	1	2	-	(347)	-	(347)	(17)	-	4	3	-	42	(315)	-	(315)
Net cash provided by (used in) operating activities	12,621	636	772	(23)	14,006	-	14,006	(424)	61	556	(331)	-	(91)	13,777	-	13,777
Cash flows from investing activities:																
Purchases of assets limited as to use	(108,467)	(11,689)	(6,082)	(5,650)	(131,888)	-	(131,888)	-	-	(16,404)	-	-	(598)	(148,890)	-	(148,890)
Proceeds from sales of assets limited as to use	103,776	11,682	6,079	7,050	128,587	-	128,587	-	-	17,239	-	-	486	146,312	-	146,312
Purchases of investments	(1,141)	-	-	(1)	(1,142)	-	(1,142)	-	-	-	(1)	-	(408)	(1,551)	-	(1,551)
Proceeds from sales of investments	897	-	-	-	897	-	897	-	-	103	-	-	-	1,000	-	1,000
Investment in housing joint venture	(600)	-	-	-	(600)	-	(600)	-	-	-	-	-	-	(600)	-	(600)
Expenditures for property and equipment	(4,248)	(492)	(526)	(27)	(5,293)	-	(5,293)	(58)	-	72	(353)	(4)	-	(5,636)	-	(5,636)
Payments received on notes receivable	274	-	-	-	274	-	274	-	-	-	-	-	-	274	-	274
Net cash provided by (used in) investing activities	(9,509)	(499)	(529)	1,372	(9,165)	-	(9,165)	(58)	-	1,010	(354)	(4)	(520)	(9,091)	-	(9,091)
Cash flows from financing activities:																
CCRC resale disbursements	(4,307)	-	-	-	(4,307)	-	(4,307)	-	-	-	-	-	-	(4,307)	-	(4,307)
Change in deposits on unoccupied CCRC units	78	(6)	-	8	80	-	80	-	-	-	-	-	-	80	-	80
Proceeds from restricted contributions	-	-	-	-	-	-	-	-	-	-	-	-	14	14	-	14
Proceeds from long-term borrowing	39,890	-	-	-	39,890	-	39,890	-	-	8,976	-	-	-	48,866	-	48,866
Principal payments on long-term debt	(34,209)	(543)	(283)	(1,815)	(36,850)	-	(36,850)	-	-	(12,554)	(165)	-	-	(49,569)	-	(49,569)
Debt issuance costs	(968)	-	-	(298)	(1,266)	-	(1,266)	32	-	(343)	(32)	-	-	(1,609)	-	(1,609)
Payments on settlement of terminated swaps	(4,970)	(221)	-	-	(5,191)	-	(5,191)	-	-	(2,086)	-	-	-	(7,277)	-	(7,277)
Net change in due to/due from related entities	(5,324)	574	(11)	377	(4,384)	-	(4,384)	214	(760)	3,816	242	17	855	-	-	-
Net cash provided by (used in) financing activities	(9,810)	(196)	(294)	(1,728)	(12,028)	-	(12,028)	246	(760)	(2,191)	45	17	869	(13,802)	-	(13,802)
Net increase (decrease) in cash and cash equivalents	(6,698)	(59)	(51)	(379)	(7,187)	-	(7,187)	(236)	(699)	(625)	(640)	13	258	(9,116)	-	(9,116)
Cash and cash equivalents, beginning of year	10,904	170	153	2,088	13,315	-	13,315	305	699	1,307	910	94	189	16,819	-	16,819
Cash and cash equivalents, end of year	$ 4,206	$ 111	$ 102	$ 1,709	$ 6,128	$ -	$ 6,128	$ 69	$ -	$ 682	$ 270	$ 107	$ 447	$ 7,703	$ -	$ 7,703
Supplemental disclosure:																
Cash paid for interest	$ 1,980	$ 449	$ 233	$ 534	$ 3,196	$ -	$ 3,196	$ 18	$ -	$ 257	$ 286	$ -	$ -	$ 3,757	$ -	$ 3,757
Noncash transfer of property and equipment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,470	$ -	$ -	$ (8,470)	$ -	$ -	$ -	$ -	$ -
Noncash transfer of long-term debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,654)	$ -	$ -	$ 5,654	$ -	$ -	$ -	$ -	$ -

ESKATON PROPERTIES, INC. CONSOLIDATING SCHEDULE - BALANCE SHEET
December 31, 2012

Assets	Home Office	Eskaton Care Center Manzanita	Eskaton Care Center Fair Oaks	Eskaton Care Center Greenhaven	Eskaton Monroe Lodge	Eskaton Henson Manor	Eskaton Lodge Cameron Park	Eskaton Lodge Granite Bay	Eskaton Home Healthcare	Eskaton Village Carmichael	Live Well at Home	Eliminations	Eskaton Properties Inc. Total
Current assets:													
Cash and cash equivalents	$ 4,198	$ 1	$ 1	$ 1	$ 1	$ -	$ 1	$ 1	$ -	$ 2	$ -	$ -	$ 4,206
Assets limited as to use	24	-	-	-	-	-	-	-	-	7,936	-	-	7,960
Investments	37,450	-	-	-	-	-	-	-	-	8,412	-	-	45,862
Accounts receivable, net	-	1,919	2,928	2,006	7	-	24	18	456	744	11	-	8,113
Other receivables	2,562	-	-	-	-	-	-	-	-	552	-	-	3,114
Inventories	48	20	25	30	2	-	7	4	6	47	-	-	189
Deposits and prepaid expenses	205	64	99	64	29	10	15	32	11	273	-	-	802
Due from related parties	555	-	-	-	-	-	-	-	-	-	-	-	555
Total current assets	45,042	2,004	3,053	2,101	39	10	47	55	473	17,966	11	-	70,801
Assets limited as to use, net of amount required for current liabilities	731	-	-	1	-	-	-	-	-	3,597	-	-	4,329
Property and equipment, net	1,288	1,172	2,292	3,026	1,605	1,926	2,595	12,153	38	30,907	13	-	57,015
Other assets:													
Land available for sale	1,050	-	-	-	-	-	-	-	-	-	-	-	1,050
Due from liability insurer	1,629	-	-	-	-	-	-	-	-	-	-	-	1,629
Deferred financing costs, net	48	6	20	24	7	10	15	49	-	947	-	-	1,126
Associate member/resident/patient deposits	-	1	8	10	-	-	3	-	-	4,559	-	-	4,581
Other	600	-	-	-	-	-	-	-	-	235	-	-	835
Due from related parties, net of currrent portion	3,153	-	-	-	-	-	-	-	-	-	-	-	3,153
	6,480	7	28	34	7	10	18	49	-	5,741	-	-	12,374
Total assets	$ 53,541	$ 3,183	$ 5,373	$ 5,162	$ 1,651	$ 1,946	$ 2,660	$ 12,257	$ 511	$ 58,211	$ 24	$ -	$ 144,519

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Liabilities and Net Assets (Deficit)	Home Office	Eskaton Care Center Manzanita	Eskaton Care Center Fair Oaks	Eskaton Care Center Greenhaven	Eskaton Monroe Lodge	Eskaton Henson Manor	Eskaton Lodge Cameron Park	Eskaton Lodge Granite Bay	Eskaton Home Healthcare	Eskaton Village Carmichael	Live Well at Home	Eliminations	Eskaton Properties Inc. Total
Current liabilities:													
Current maturities of long-term debt	$ 3,250	$ 40	$ 147	$ 176	$ 52	$ 72	$ 110	$ 200	$ -	$ 1,222	$ -	$ -	$ 5,269
Current portion of deferred revenue from unamortized CCRC membership fees	-	-	-	-	-	-	-	-	-	2,132	-	-	2,132
Deposits on unoccupied CCRC units	-	-	-	-	-	-	-	-	-	226	-	-	226
Accounts payable	213	139	136	129	47	10	18	72	4	361	-	-	1,129
Accrued liabilities:													
Payroll and payroll taxes	591	132	180	164	24	-	36	46	56	160	1	-	1,390
Vacation	325	185	243	202	20	7	21	32	50	184	-	-	1,269
Current portion of self-insured workers' compensation	2,871	-	-	-	-	-	-	-	-	-	-	-	2,871
Self-insured employee health plan	1,298	-	-	-	-	-	-	-	-	-	-	-	1,298
Interest	31	-	1	-	-	-	1	53	-	239	-	-	325
Other	375	61	96	64	97	28	6	13	175	95	-	-	1,010
Due to related parties	85	-	-	-	-	-	-	-	-	-	-	-	85
Total current liabilities	9,039	557	803	735	240	117	192	416	285	4,619	1	-	17,004
Other liabilities:													
Self-insured workers' compensation, net of current portion	5,026	-	-	-	-	-	-	-	-	-	-	-	5,026
Interest rate swap agreements	2,353	-	-	-	-	-	-	4,077	-	-	-	-	6,430
Unfunded pension obligation	6,481	-	-	-	-	-	-	-	-	-	-	-	6,481
Professional liability	2,963	-	-	-	-	-	-	-	-	-	-	-	2,963
Associate member/resident/patient deposits	-	1	8	10	-	-	3	-	-	4,559	-	-	4,581
Other	1	1	5	1	6	-	-	-	-	34	-	-	48
	16,824	2	13	11	6	-	3	4,077	-	4,593	-	-	25,529
Long-term debt, net of current maturities	11,085	907	3,326	3,967	1,182	1,636	2,470	11,270	-	43,118	-	-	78,961
Deferred revenue from unamortized CCRC membership fees, net of current portion	-	-	-	-	-	-	-	-	-	15,455	-	-	15,455
Total liabilities	36,948	1,466	4,142	4,713	1,428	1,753	2,665	15,763	285	67,785	1	-	136,949
Net assets (deficit):													
Unrestricted net assets (deficit)	16,593	1,717	1,231	449	223	193	(5)	(3,506)	226	(9,582)	23	-	7,562
Temporarily restricted net assets	-	-	-	-	-	-	-	-	-	8	-	-	8
Total net assets (deficit)	16,593	1,717	1,231	449	223	193	(5)	(3,506)	226	(9,574)	23	-	7,570
Total liabilities and net assets (deficit)	$ 53,541	$ 3,183	$ 5,373	$ 5,162	$ 1,651	$ 1,946	$ 2,660	$ 12,257	$ 511	$ 58,211	$ 24	$ -	$ 144,519

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ESKATON AND SUBSIDIARIES
ESKATON PROPERTIES, INC. CONSOLIDATING SCHEDULE – OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
Year Ended December 31, 2012

	Home Office	Eskaton Care Center Manzanita	Eskaton Care Center Fair Oaks	Eskaton Care Center Greenhaven	Eskaton Monroe Lodge	Eskaton Henson Manor	Eskaton Lodge Cameron Park	Eskaton Lodge Granite Bay	Eskaton Home Healthcare	Eskaton Village Carmichael	Live Well at Home	Eliminations	Eskaton Properties Inc. Total
Unrestricted net assets (deficit):													
Revenue, gains, and other support:													
Net patient service revenue	$ -	$ 11,600	$ 17,066	$ 16,366	$ -	$ -	$ -	$ -	$ 3,110	$ -	$ -	$ -	$ 48,142
Resident service revenue, including amortization of CCRC membership fees	-	-	-	-	2,439	592	1,629	4,936	-	23,030	-	-	32,626
Other, net	9,606	80	29	20	115	28	11	269	-	917	51	(4,828)	6,298
Total revenues, gains, and other support	9,606	11,680	17,095	16,386	2,554	620	1,640	5,205	3,110	23,947	51	(4,828)	87,066
Expenses:													
Salaries and wages	5,612	5,146	7,170	6,988	639	72	790	1,533	1,806	5,655	207	-	35,618
Employee benefits	6,830	1,570	2,111	2,065	225	23	240	454	507	1,764	57	-	15,846
Professional fees	747	131	74	592	-	7	2	1	1	42	-	-	1,597
Supplies	275	515	745	640	275	10	153	385	11	234	24	-	3,267
Purchased services	710	802	1,089	1,085	321	58	245	455	194	5,122	56	(4,828)	5,309
Ancillary costs	-	892	793	743	-	-	1	38	21	293	-	-	2,781
Utilities	214	234	267	248	221	125	108	196	15	1,416	1	-	3,045
Insurance and other	713	814	1,271	1,249	120	25	99	216	204	911	15	-	5,637
Depreciation	286	175	497	489	263	136	166	535	16	3,028	-	-	5,591
Interest and amortization	386	22	82	97	29	40	61	287	-	1,412	-	-	2,416
Provision for uncollectible accounts	-	63	67	70	-	9	-	-	-	-	3	-	212
Total operating expenses	15,773	10,364	14,166	14,266	2,093	505	1,865	4,100	2,775	19,877	363	(4,828)	81,319
Income (loss) from operations	(6,167)	1,316	2,929	2,120	461	115	(225)	1,105	335	4,070	(312)	-	5,747
Nonoperating revenue (expenses):													
Investment income	3,862	-	-	-	-	-	-	-	-	931	-	-	4,793
Interest rate swap activities	(305)	-	-	-	-	-	-	(505)	-	-	-	-	(810)
Loss on early repayment of debt	-	-	-	-	-	-	-	-	-	(145)	-	-	(145)
Total nonoperating revenue (expenses)	3,557	-	-	-	-	-	-	(505)	-	786	-	-	3,839
Excess (deficiency) of revenues, gains, and other support over expenses	(2,610)	1,316	2,929	2,120	461	115	(225)	600	335	4,856	(312)	-	9,585

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ESKATON AND SUBSIDIARIES
ESKATON PROPERTIES, INC. CONSOLIDATING SCHEDULE – OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) (Continued)
Year Ended December 31, 2012

	Home Office	Eskaton Care Center Manzanita	Eskaton Care Center Fair Oaks	Eskaton Care Center Greenhaven	Eskaton Monroe Lodge	Eskaton Henson Manor	Eskaton Lodge Cameron Park	Eskaton Lodge Granite Bay	Eskaton Home Healthcare	Eskaton Village Carmichael	Live Well at Home	Eliminations	Eskaton Properties Inc. Total
Excess (deficiency) of revenues, gains and other support over expenses (page 37)	$ (2,610)	$ 1,316	$ 2,929	$ 2,120	$ 461	$ 115	$ (225)	$ 600	$ 335	$ 4,856	$ (312)	$ -	$ 9,585
Pension related changes other than net periodic pension cost	758	-	-	-	-	-	-	-	-	-	-	-	758
Transfers between related entities	(9,549)	(524)	(1,663)	(1,226)	(46)	(16)	625	(700)	(275)	2,589	486	-	(10,299)
Change in unrestricted net assets (deficit)	(11,401)	792	1,266	894	415	99	400	(100)	60	7,445	174	-	44
Unrestricted net assets (deficit), beginning of year	27,994	925	(35)	(445)	(192)	94	(405)	(3,406)	166	(17,027)	(151)	-	7,518
Unrestricted net assets (deficit), end of year	$ 16,593	$ 1,717	$ 1,231	$ 449	$ 223	$ 193	$ (5)	$ (3,506)	$ 226	$ (9,582)	$ 23	$ -	$ 7,562
Temporarily restricted net assets:													
Contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ -	3
Net assets released from restriction used for operations	-	-	-	-	-	-	-	-	-	(7)	-	-	(7)
Change in temporarily restricted net assets	-	-	-	-	-	-	-	-	-	(4)	-	-	(4)
Temporarily restricted net assets, beginning of year	-	-	-	-	-	-	-	-	-	12	-	-	12
Temporarily restricted net assets, end of year	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8	$ -	$ -	$ 8
Change in net assets (deficit)	$ (11,401)	$ 792	$ 1,266	$ 894	$ 415	$ 99	$ 400	$ (100)	$ 60	$ 7,441	$ 174	$ -	$ 40
Net assets (deficit), beginning of year	27,994	925	(35)	(445)	(192)	94	(405)	(3,406)	166	(17,015)	(151)	-	7,530
Net assets (deficit), end of year	$ 16,593	$ 1,717	$ 1,231	$ 449	$ 223	$ 193	$ (5)	$ (3,506)	$ 226	$ (9,574)	$ 23	$ -	$ 7,570

	Home Office	Eskaton Care Center Manzanita	Eskaton Care Center Fair Oaks	Eskaton Care Center Greenhaven	Eskaton Monroe Lodge	Eskaton Henson Manor	Eskaton Lodge Cameron Park	Eskaton Lodge Granite Bay	Eskaton Home Healthcare	Eskaton Village Carmichael	Live Well at Home	Eliminations	Eskaton Properties Inc. Total
Cash flows from operating activities:													
Change in net assets (deficit)	$ (11,401)	$ 792	$ 1,266	$ 894	$ 415	$ 99	$ 400	$ (100)	$ 60	$ 7,441	$ 174	$ -	$ 40
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:													
Depreciation	286	175	497	489	263	136	166	535	16	3,028	-	-	5,591
Amortization of deferred financing costs	40	4	18	21	6	9	13	39	-	70	-	-	220
Amortization of CCRC membership fees	-	-	-	-	-	-	-	-	-	(2,132)	-	-	(2,132)
Net realized and unrealized (gains) losses on assets limited as to use	(14)	-	-	-	-	-	-	-	-	4	-	-	(10)
Net realized and unrealized gains on investments	(3,218)	-	-	-	-	-	-	-	-	(702)	-	-	(3,920)
Pension related changes other than net periodic pension costs	(758)	-	-	-	-	-	-	-	-	-	-	-	(758)
Change in fair value of interest rate swap agreements	(52)	-	-	-	-	-	-	(90)	-	-	-	-	(142)
Provision for uncollectible accounts	-	63	67	70	-	9	-	-	-	-	3	-	212
Transfers between related entities	9,549	524	1,663	1,226	46	16	(625)	700	275	(2,589)	(486)	-	10,299
Loss on early repayment of debt	-	-	-	-	-	-	-	-	-	145	-	-	145
CCRC resale proceeds	-	-	-	-	-	-	-	-	-	4,307	-	-	4,307
Changes in operating assets and liabilities:													
Change in receivables	(1,512)	(464)	(925)	(89)	1	(8)	(18)	(9)	(108)	(718)	(11)	-	(3,861)
Change in inventories	(9)	1	7	3	-	-	-	-	(1)	(1)	-	-	-
Change in deposits and prepaid expenses	10	(19)	(33)	(27)	(19)	(9)	(6)	(21)	1	(110)	-	-	(233)
Change in other assets	632	(1)	(3)	5	-	(1)	(1)	-	-	282	-	-	913
Change in accounts payable	(276)	(38)	3	(26)	-	(2)	4	29	-	(96)	(3)	-	(405)
Change in accrued liabilities	2,880	(192)	(342)	(425)	15	5	(1)	13	43	(45)	4	-	1,955
Change in unfunded pension obligation	750	-	-	-	-	-	-	-	-	-	-	-	750
Change in other liabilities	-	(1)	-	(5)	5	-	1	-	-	(357)	-	-	(350)
Net cash provided by (used in) operating activities	(3,093)	844	2,225	2,136	732	254	(67)	1,096	286	8,527	(319)	-	12,621
Cash flows from investing activities:													
Purchases of assets limited as to use	(5,785)	-	-	-	-	-	-	-	-	(102,682)	-	-	(108,467)
Proceeds from sales of assets limited as to use	8,420	-	-	-	-	-	-	-	-	95,356	-	-	103,776
Purchases of investments	(903)	-	-	-	-	-	-	-	-	(238)	-	-	(1,141)
Proceeds from sales of investments	216	-	-	-	-	-	-	-	-	681	-	-	897
Investment in housing joint venture	(600)	-	-	-	-	-	-	-	-	-	-	-	(600)
Expenditures for property and equipment	(418)	(209)	(102)	(362)	(541)	(38)	(236)	(211)	(11)	(2,107)	(13)	-	(4,248)
Payments received on notes receivables	274	-	-	-	-	-	-	-	-	-	-	-	274
Net cash provided by (used in) financing activities	1,204	(209)	(102)	(362)	(541)	(38)	(236)	(211)	(11)	(8,990)	(13)	-	(9,509)
Cash flows from financing activities:													
CCRC resale disbursements	-	-	-	-	-	-	-	-	-	(4,307)	-	-	(4,307)
Change in deposits on unoccupied CCRC units	-	-	-	-	-	-	-	-	-	78	-	-	78
Proceeds from long-term borrowing	-	-	-	-	-	-	-	-	-	39,890	-	-	39,890
Principal payments on long-term debt	(361)	(33)	(121)	(144)	(43)	(60)	(110)	(185)	-	(33,152)	-	-	(34,209)
Debt issuance costs	(1)	-	(2)	(2)	(1)	-	(1)	-	-	(961)	-	-	(968)
Payments on settlement of terminated swaps	(27)	(78)	(337)	(402)	(101)	(140)	(211)	-	-	(3,674)	-	-	(4,970)
Net change in due to/due from related entities	(4,420)	(524)	(1,663)	(1,226)	(46)	(16)	625	(700)	(275)	2,589	332	-	(5,324)
Net cash provided by (used in) financing activities	(4,809)	(635)	(2,123)	(1,774)	(191)	(216)	303	(885)	(275)	463	332	-	(9,810)
Net decrease in cash and cash equivalents	(6,698)	-	-	-	-	-	-	-	-	-	-	-	(6,698)
Cash and cash equivalents, beginning of year	10,896	1	1	1	1	-	1	1	-	2	-	-	10,904
Cash and cash equivalents, end of year	$ 4,198	$ 1	$ 1	$ 1	$ 1	$ -	$ 1	$ 1	$ -	$ 2	$ -	$ -	$ 4,206
Supplemental disclosure:													
Cash paid for interest	$ 346	$ 18	$ 63	$ 77	$ 23	$ 31	$ 47	$ 248	$ -	$ 1,127	$ -	$ -	$ 1,980

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	Parent	Carmichael Adult Day Health Care	Eskaton Combined
Assets			
Current assets:			
Cash and cash equivalents	$ 40	$ 29	$ 69
Accounts receivable, net	-	114	114
Other receivables	42	4	46
Deposits and prepaid expenses	9	15	24
Total current assets	91	162	253
Property and equipment, net	802	58	860
Other assets	1,284	-	1,284
Total assets	$ 2,177	$ 220	$ 2,397
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 3	$ 4	$ 7
Accrued liabilities:			
Payroll and payroll taxes	14	14	28
Vacation	22	24	46
Other	-	5	5
Total current liabilities	39	47	86
Other liabilities	4	-	4
Total liabilities	43	47	90
Net assets:			
Unrestricted net assets	2,134	173	2,307
Total net assets	2,134	173	2,307
Total liabilities and net assets	$ 2,177	$ 220	$ 2,397

ESKATON AND SUBSIDIARIES
ESKATON CONSOLIDATING SCHEDULE – OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)
Year Ended December 31, 2012

	Parent	Carmichael Adult Day Health Care	Eskaton Combined
Unrestricted net assets (deficit):			
Revenues, gains, and other support:			
Net patient services revenue	$ -	$ 757	$ 757
Other, net	231	28	259
Total revenues, gains, and other support	231	785	1,016
Expenses:			
Salaries and wages	454	523	977
Employee benefits	112	169	281
Professional fees	-	4	4
Supplies	22	60	82
Purchased services	46	112	158
Ancillary costs	-	1	1
Utilities	17	2	19
Insurance and other	155	201	356
Depreciation	25	11	36
Provision for uncollectible accounts	-	1	1
Total operating expenses	831	1,084	1,915
Loss from operations	(600)	(299)	(899)
Nonoperating revenue:			
Investment income	-	-	-
Total nonoperating revenue	-	-	-
Deficiency of revenues, gains, and other support over expenses	$ (600)	$ (299)	$ (899)

	Parent	Carmichael Adult Day Health Care	Eskaton Combined
Deficiency of revenues, gains, and other support over expenses (page 41)	$ (600)	$ (299)	$ (899)
Transfers between related entities	(383)	615	232
Change in unrestricted net assets (deficit)	(983)	316	(667)
Unrestricted net assets (deficit), beginning of year	3,117	(143)	2,974
Unrestricted net assets, end of year	2,134	173	2,307
Temporarily restricted net assets:			
Net assets released from restriction used for operations	-	-	-
Increase in temporarily restricted net assets	-	-	-
Temporarily restricted net assets, beginning of year	-	-	-
Temporarily restricted net assets, end of year	$ -	$ -	$ -
Change in net assets (deficit)	$ (983)	$ 316	$ (667)
Net assets (deficit), beginning of year	3,117	(143)	2,974
Net assets, end of year	$ 2,134	$ 173	$ 2,307

ESKATON AND SUBSIDIARIES
ESKATON CONSOLIDATING SCHEDULE – CASH FLOWS
Year Ended December 31, 2012

	Parent	Carmichael Adult Day Health Care	Eskaton Combined
Cash flows from operating activities:			
Change in net assets (deficit)	$ (983)	$ 316	$ (667)
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:			
Depreciation	25	11	36
Provision for uncollectible accounts	-	1	1
Transfers between related entities	383	(615)	(232)
Change in operating assets and liabilities:			
Change in receivables	16	(37)	(21)
Change in deposits and prepaid expenses	2	(5)	(3)
Change in other assets	500	-	500
Change in accounts payable	(8)	3	(5)
Change in accrued liabilities	(26)	10	(16)
Change in other liabilities	(6)	(11)	(17)
Net cash used in operating activities	(97)	(327)	(424)
Cash flows from investing activities:			
Expenditures for property and equipment	(40)	(18)	(58)
Net cash used in investing activities	(40)	(18)	(58)
Cash flows from financing activities:			
Debt issuance costs	32	-	32
Net change in due to/from related entities	117	97	214
Net cash provided by financing activities	149	97	246
Net increase (decrease) in cash and cash equivalents	12	(248)	(236)
Cash and cash equivalents, beginning of year	28	277	305
Cash and cash equivalents, end of year	$ 40	$ 29	$ 69
Supplemental disclosure:			
Cash paid for interest	$ 18	$ -	$ 18
Noncash transfer of property and equipment	$ 8,470	$ -	$ 8,470
Noncash transfer of long-term debt	$ (5,654)	$ -	$ (5,654)

EPI develops affordable housing projects for older adult residents utilizing various funding programs from the U.S. Department of Housing and Urban Development (HUD) and other federal, state, and local government funding programs. EPI also sponsors community education, health fairs, community fundraising for charitable purposes, and aging services organizations that research technology and other services appropriate to older adult living. Eskaton's National Demonstration Home presents innovative solutions in home design and technology that will enable older adults to maximize their independence and remain in their own homes. Eskaton provides educational guided tours of the National Demonstration Home to the public for free.

In addition, Eskaton and EPI provide the following community service programs under their social responsibility policies:

The Senior Connection – Eskaton owns and operates The Senior Connection (TSC). TSC provides older adults and their family members with information about community resources, assistance in selecting the appropriate level and source of care, educational courses, placement referrals, legal consultation services, case management, transportation services, and other services. These services are provided free or at nominal cost to the clients.

Telephone Reassurance Program – Eskaton owns and operates a telephone reassurance/home visitor program. The Telephone Reassurance Program is provided primarily by volunteers, is free to clients, and includes daily telephone calls or weekly home visits to isolated older adults.

Adult Day Health Care Center (ADHC) – Eskaton owns and operates an ADHC program that provides social, recreational, and rehabilitation services to residents of a portion of Sacramento County. The ADHC program accepts Medi-Cal clients despite the shortfall of Medi-Cal reimbursement compared to cost. The ADHC program also accepts uninsured clients at rates below actual cost.

Social Responsibility Costs – The unreimbursed affordable housing development and operating costs; the actual costs of community education and health fairs, community and aging services sponsorships, and demonstration home tours; and the difference between the cost and reimbursement of providing community service programs are all considered to be social responsibility. The level of social responsibility provided for the years ended December 31 is measured as follows (dollar amounts in thousands):

	2012	2011
Unreimbursed affordable housing costs	$ -	$ 76
Community sponsorships	7	12
Aging services sponsorships	10	5
Demonstration Home tours	28	73
Community service program cost in excess of reimbursement:		
The Senior Connection	333	674
Telephone Reassurance Program	285	238
ADHC	299	278
Total	$ 962	$ 1,356
Community service program operating statistics:		
Demonstration Home people toured	49	413
The Senior Connection:		
Information and referral calls	2,241	4,941
Telephone Reassurance Program:		
Telephone calls	88,926	98,547
Home visits	1,583	1,361
ADHC client days	9,677	10,034