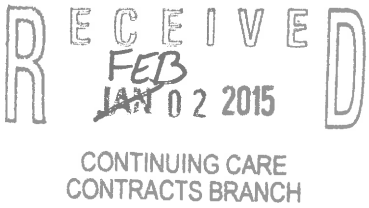
2 copies

THE TERRACES

AT SAN JOAQUIN GARDENS

MANAGED BY ASHOW



Terraces at San Joaquin Gardens
5555 North Fresno Street - Fresno, CA 93710

January 31, 2015

Ref: Cover Letter to DSS.doc

Continuing Care Contracts Branch
Department of Social Services
744 P Street, MS 17 - 19
Sacramento, CA 95814

RE: Annual Report - September 30, 2014

Enclosed please find three copies of Terraces at San Joaquin Gardens' September 30, 2014 Annual Report and one additional unbound copy of Section 7.

The Key Financial Indicators will be submitted under separate cover by the due date of February 28, 2015.

If you have any questions or need additional information, please contact Gary Johnson at 925-924-7135.

Sincerely,

Pamela S. Claassen

Pamela S. Claassen
CFO

RECEIVED
FEB 02 2015
CONTINUING CARE
CONTRACTS BRANCH

DECLARATIONS

Policy Number: 8221-2306

FEDERAL INSURANCE COMPANY
A stock insurance company, incorporated under the laws of Indiana, herein called the Company

Capital Center, 251 North Illinois, Suite 1100
Indianapolis, IN 46204-1927

THE EXECUTIVE LIABILITY, ENTITY LIABILITY, AND EMPLOYMENT PRACTICES LIABILITY, FIDUCIARY LIABILITY, AND OUTSIDE DIRECTORSHIP LIABILITY COVERAGE SECTIONS (WHICHEVER ARE PURCHASED) PROVIDE CLAIMS MADE COVERAGE, WHICH APPLIES ONLY TO "CLAIMS" FIRST MADE DURING THE "POLICY PERIOD", OR ANY EXTENDED REPORTING PERIOD. THE APPLICABLE LIMIT(S) OF LIABILITY TO PAY "LOSS" WILL BE REDUCED, AND MAY BE EXHAUSTED, BY "DEFENSE COSTS" UNLESS OTHERWISE SPECIFIED HEREIN. "DEFENSE COSTS" WILL BE APPLIED AGAINST THE RETENTION. IN NO EVENT WILL THE COMPANY BE LIABLE FOR "DEFENSE COSTS" OR OTHER "LOSS" IN EXCESS OF THE APPLICABLE LIMIT(S) OF LIABILITY. READ THE ENTIRE POLICY CAREFULLY.

Item 1. **Parent Organization:** Cornerstone Affiliates

Principal Address: 6120 Stoneridge Mall Rd.
Suite 300
Pleasanton, CA 94588

Item 2. **Policy Period:** From 12:01 A.M. on October 1, 2013
To 12:01 A.M. on October 1, 2014
Local time at the address shown in Item 1.

Item 3. Coverage Summary
Description of Coverage(s) purchased:

Executive Liability and:
Optional Entity Coverage
Optional Employment Practices Liability Coverage
Optional Third Party Liability Coverage
Outside Directorship Liability Coverage
Fiduciary Liability Coverage
Crime Coverage X
Kidnap/Ransom and Extortion Coverage

Item 4. Termination of Prior Bonds or Policies: 8221-2306 (October 1, 2012 - October 1, 2013)

In Witness Whereof, the Company issuing this policy has caused this policy to be signed by its Authorized Officers, but it shall not be valid unless also signed by a duly Authorized Representative of the Company.

FEDERAL INSURANCE COMPANY

W. Andrew Macan

Secretary

Paul J. Krump

President

10/09/2013

Date

Authorized Representative

AIG

National Union Fire Insurance Company of Pittsburgh, Pa.®
A capital stock company

Employee Benefit Plan Fiduciary Liability Insurance

NOTICE: 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 INSURED DURING THE POLICY PERIOD AND REPORTED IN WRITING TO THE INSURER PURSUANT TO THE TERMS HEREIN. PLEASE READ THE POLICY CAREFULLY AND DISCUSS THE COVERAGE THEREUNDER WITH YOUR INSURANCE AGENT OR BROKER.

NOTICE:EXCEPT AS SET FORTH IN ITEM 3(b) OF THE DECLARATIONS, THE LIMIT OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCED BY AMOUNTS INCURRED FOR LEGAL DEFENSE. AMOUNTS INCURRED FOR LEGAL DEFENSE SHALL BE APPLIED AGAINST THE RETENTION AMOUNT.

NOTICE: THE INSURER HAS THE DUTY TO DEFEND;HOWEVER, THE INSURED MAY ELECT TO ASSUME THE DUTY TO DEFEND. IN ALL EVENTS, THE INSURER MUST ADVANCE DEFENSE COSTS PAYMENTS PURSUANT TO THE TERMS HEREIN PRIOR TO THE FINAL DISPOSITION OF A CLAIM.

NOTICE: TERMS APPEARING IN BOLD FACE TYPE HAVE SPECIAL MEANING. SEE CLAUSE 3 OF THE POLICY.

POLICY NUMBER: *01-424-69-06* REPLACEMENT OF POLICY NUMBER: *01-284-39-59*

DECLARATIONS

ITEMS	
1	(herein "**Named Sponsor**") **NAMED SPONSOR:** *AMERICAN BAPTIST HOMES OF THE WEST*
1(a)	MAILING ADDRESS: *6120 STONERIDGE MALL ROAD* *PLEASANTON, CA 94588*
1(b)	**SUBSIDIARY** COVERAGE: Any past, present or future **Subsidiary** of the **Named Sponsor**
1(c)	**PLAN** COVERAGE: Any past, present or future **Plan**
2	**POLICY PERIOD:** From: *October 1, 2013* To: *October 1, 2014* 12:01 A.M. standard time at the address stated in Item 1(a) of the Declarations.
3(a)	**POLICY AGGREGATE LIMIT OF LIABILITY** (herein "**Limit of Liability**") For all **Loss**, in the aggregate, under this policy including **Defense Costs** (other than **Defense Costs** (if any) set forth in Item 3(b) of the Declarations): *$3,000,000*

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ITEMS (Continued)	
3(b)	**ADDITIONAL LIMIT OF LIABILITY FOR DEFENSE COSTS:** *$0*
3(c)	**SUBLIMIT OF LIABILITY FOR VOLUNTARY COMPLIANCE LOSS** For all **Voluntary Compliance Loss**, in the aggregate, under this policy including **Defense Expenses** ☒ See endorsement *#5* ☐ No Coverage This Sublimit of Liability shall be part of and not in addition to the **Policy Aggregate Limit of Liability** set forth in Item 3(a) of the Declarations.
4	**RETENTION:** Not applicable to: (i) non-**Indemnifiable Loss** of a **Natural Person Insured** (ii) judgments and settlements (all Coverages); and (iii) **Voluntary Compliance Loss**
4(a)	**Defense Costs:** ☒ None
5	**CONTINUITY DATE:** *December 18, 1994*
6	**PREMIUM:** *$8,100* *Premium for Certified Acts of Terrorism Coverage under Terrorism Risk Insurance Act 2002: Not applicable, coverage rejected by insured. Any coverage provided for losses caused by an act of terrorism as defined by TRIA (TRIA Losses) may be partially reimbursed by the United States under a formula established by TRIA as follows: 85% of TRIA Losses in excess of the insurer deductible mandated by TRIA, the deductible to be based on a percentage of the insurer's direct earned premiums for the year preceding the act of terrorism.* *A copy of the TRIA disclosure sent with the original quote is attached hereto.*
7	**NAME AND ADDRESS OF INSURER** (herein "**Insurer**"): *National Union Fire Insurance Company of Pittsburgh, Pa.* *175 Water Street* *New York, NY 10038-4969* This policy is issued only by the insurance company indicated in this Item 7.

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IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its President, Secretary and Authorized Representative. This Policy shall not be valid unless signed below at the time of issuance by an authorized representative of the insurer.

PRESIDENT

SECRETARY

AUTHORIZED REPRESENTATIVE

COUNTERSIGNATURE | DATE | COUNTERSIGNED AT

LOCKTON COMPANIES LLC
725 S FIGUEROA ST 35TH FLOOR
LOS ANGELES, CA 90017-5524

7272420

AIG

National Union Fire Insurance Company of Pittsburgh, Pa.®
A capital stock company

NOT- FOR- PROFIT INDIVIDUAL AND ORGANIZATION INSURANCE POLICY INCLUDING EMPLOYMENT PRACTICES LIABILITY INSURANCE

NOT-FOR-PROFIT PROTECTOR®

NOTICE: 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 INSURED DURING THE POLICY PERIOD AND REPORTED IN WRITING TO THE INSURER PURSUANT TO THE TERMS HEREIN. PLEASE READ THE POLICY CAREFULLY AND DISCUSS THE COVERAGE THEREUNDER WITH YOUR INSURANCE AGENT OR BROKER.

NOTICE: THE LIMIT OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCED BY AMOUNTS INCURRED FOR LEGAL DEFENSE. AMOUNTS INCURRED FOR LEGAL DEFENSE SHALL BE APPLIED AGAINST THE RETENTION AMOUNT.

NOTICE: THE INSURER DOES NOT ASSUME ANY DUTY TO DEFEND. HOWEVER, THE INSUREDS MAY UNDER CERTAIN CONDITIONS TENDER THE DEFENSE OF A CLAIM. IN ALL EVENTS, THE INSURER MUST ADVANCE DEFENSE COSTS PAYMENTS PURSUANT TO THE TERMS HEREIN PRIOR TO THE FINAL DISPOSITION OF A CLAIM.

POLICY NUMBER: *01-423-70-53* REPLACEMENT OF POLICY NUMBER: *01-283-44-51*

DECLARATIONS

ITEM 1. NAMED ORGANIZATION: *CORNERSTONE AFFILIATES C/O AMERICAN BAPTIST HOMES OF THE WEST*

MAILING ADDRESS: *6120 STONERIDGE MALL ROAD*
SUITE 300
PLEASANTON, CA 94588

STATE OF INCORPORATION OF THE NAMED ORGANIZATION:
California

ITEM 2. SUBSIDIARY COVERAGE: any past, present or future Subsidiary of the Named Organization

ITEM 3. POLICY PERIOD: From: *October 1, 2013* To: *October 1, 2014*
(12:01 A.M. standard time at the address stated in Item 1.)

ITEM 4. LIMIT OF LIABILITY: *$10,000,000*
aggregate for each Policy Year Coverages A, B and C combined (including Defense Costs)

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ITEM 5. RETENTION:

A. Judgments, Settlements and Defense Costs (Non-Indemnifiable Loss or Indemnifiable Loss incurred solely by Organizations in Financial Insolvency) — None

B. Judgments, Settlements and Defense Costs (Coverage C and all other Indemnifiable Loss) — *$100,000*

for Loss arising from Claims alleging the same Wrongful Act or related Wrongful Acts (waivable under Clause 6 in certain circumstances)

ITEM 6. CONTINUITY DATES:

A. Coverages A and B: *December 18, 1992*

B. Coverage C: *December 18, 1992*

ITEM 7. A. PREMIUM: 1 Year Premium *$127,790*

3 Year Premium Prepaid *n/a.*

3 Year Premium Installments payable each anniversary

1st *n/a.* inception

2nd *n/a.*

3rd *n/a.*

Premium for Certified Acts of Terrorism Coverage under Terrorism Risk Insurance Act 2002: Not applicable, coverage rejected by insured. Any coverage provided for losses caused by an act of terrorism as defined by TRIA (TRIA Losses) may be partially reimbursed by the United States under a formula established by TRIA as follows: 85% of TRIA Losses in excess of the insurer deductible mandated by TRIA, the deductible to be based on a percentage of the insurer's direct earned premiums for the year preceding the act of terrorism.

A copy of the TRIA disclosure sent with the original quote is attached hereto.

B. ADDITIONAL PREMIUM FOR PUNITIVE, EXEMPLARY AND MULTIPLIED DAMAGES *NO CHARGE* (included in above ☒) (No punitive damages coverage provided ☐)

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ITEM 8. NAME AND ADDRESS OF INSURER (hereinafter "Insurer"):
(This policy is issued only by the insurance company indicated below.)

National Union Fire Insurance Company of Pittsburgh, Pa.

175 Water Street

New York, NY 10038-4969

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POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE
(APPLICABLE TO CERTIFIED AND NON- CERTIFIED ACTS)

You are hereby notified that under the Terrorism Risk Insurance Act, as amended, that you have a right to purchase insurance coverage for losses resulting from acts of terrorism, as defined in Section 102(1) of the Act: The term "act of terrorism" means any act that is certified by the Secretary of the Treasury- in concurrence with the Secretary of State, and the Attorney General of the United States- to be an act of terrorism; to be a violent act or an act that is dangerous to human life, property, or infrastructure; to have resulted in damage within the United States, or outside the United States in the case of certain air carriers or vessels or the premises of a United States mission; and to have been committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

YOU SHOULD KNOW THAT WHERE COVERAGE IS PROVIDED BY THIS POLICY FOR LOSSES RESULTING FROM CERTIFIED ACTS OF TERRORISM, SUCH LOSSES MAY BE PARTIALLY REIMBURSED BY THE UNITED STATES GOVERNMENT UNDER A FORMULA ESTABLISHED BY FEDERAL LAW. HOWEVER, YOUR POLICY MAY CONTAIN OTHER EXCLUSIONS WHICH MIGHT AFFECT YOUR COVERAGE, SUCH AS AN EXCLUSION FOR NUCLEAR EVENTS. UNDER THE FORMULA, THE UNITED STATES GOVERNMENT GENERALLY REIMBURSES 85% OF COVERED TERRORISM LOSSES EXCEEDING THE STATUTORILY ESTABLISHED DEDUCTIBLE PAID BY THE INSURANCE COMPANY PROVIDING THE COVERAGE. THE PREMIUM CHARGED FOR THIS COVERAGE IS PROVIDED BELOW AND DOES NOT INCLUDE ANY CHARGES FOR THE PORTION OF LOSS THAT MAY BE COVERED BY THE FEDERAL GOVERNMENT UNDER THE ACT.

YOU SHOULD ALSO KNOW THAT THE TERRORISM RISK INSURANCE ACT, AS AMENDED, CONTAINS A $100 BILLION CAP THAT LIMITS U.S. GOVERNMENT REIMBURSEMENT AS WELL AS INSURERS' LIABILITY FOR LOSSES RESULTING FROM CERTIFIED ACTS OF TERRORISM WHEN THE AMOUNT OF SUCH LOSSES IN ANY ONE CALENDAR YEAR EXCEEDS $100 BILLION. IF THE AGGREGATE INSURED LOSSES FOR ALL INSURERS EXCEED $100 BILLION, YOUR COVERAGE MAY BE REDUCED.

COPY OF DISCLOSURE SENT WITH ORIGINAL QUOTE

Insured Name: *CORNERSTONE AFFILIATES C/O AMERICAN BAPTIST HOMES OF THE WEST*

Policy Number: *01-423-70-53*
Policy Period Effective Date From: *October 1, 2013* To: *October 1, 2014*

IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its President, Secretary and Authorized Representative. This Policy shall not be valid unless signed below at the time of issuance by an authorized representative of the insurer.

PRESIDENT

SECRETARY

AUTHORIZED REPRESENTATIVE

COUNTERSIGNATURE	DATE	COUNTERSIGNED AT

LOCKTON COMPANIES LLC
725 S FIGUEROA ST 35TH FLOOR
LOS ANGELES, CA 90017-5524

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FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	250
[2]	Number at end of fiscal year	332
[3]	Total Lines 1 and 2	582
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	291
	All Residents	
[6]	Number at beginning of fiscal year	325
[7]	Number at end of fiscal year	385
[8]	Total Lines 6 and 7	710
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	355
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.82

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$25,110,000
[a]	Depreciation	$4,196,000	
[b]	Debt Service (Interest Only)	$3,200,000	
[2]	Subtotal (add Line 1a and 1b)		$7,396,000
[3]	Subtract Line 2 from Line 1 and enter result.		$17,714,000
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		82%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$14,520,490
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$14,520

PROVIDE Terraces at San Joaquin Gardens
COMMUN

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Report of Independent Auditors and
Financial Statements

Terraces at San Joaquin Gardens
(a Member of Cornerstone Affiliates)

As of and for the Years Ended
September 30, 2014 and 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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JAN 02 2015
CONTINUING CARE
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REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors
Terraces at San Joaquin Gardens

Report on the Financial Statements

We have audited the accompanying financial statements of Terraces at San Joaquin Gardens ("TSJG") (a member of Cornerstone Affiliates), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations and changes in net deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from 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 misstatement 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.

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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 financial position of Terraces at San Joaquin Gardens as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
December 22, 2014

FINANCIAL STATEMENTS

TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
BALANCE SHEETS
AS OF SEPTEMBER 30, 2014 AND 2013
(In Thousands)

	2014	2013
ASSETS		
CASH AND CASH EQUIVALENTS	$ 11,297	$ 9,039
RESTRICTED CASH	-	2,834
RESTRICTED INVESTMENTS	12,062	29,876
RESIDENT ACCOUNTS AND OTHER RECEIVABLES, LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS OF $134 AND $160, RESPECTIVELY	501	1,726
PREPAID EXPENSES AND OTHER DEPOSITS	86	90
OTHER ASSETS	5,778	5,951
LAND, BUILDINGS, AND EQUIPMENT - NET	102,956	87,269
RECEIVABLE FROM AFFILIATES	-	58
TOTAL ASSETS	$ 132,680	$ 136,843
LIABILITIES AND NET DEFICIT		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 1,568	$ 3,502
PAYABLE TO AFFILIATES	139	142
DEPOSITS	212	3,020
ACCRUED INTEREST	2,992	3,043
SUBORDINATED MANAGEMENT FEES	1,491	754
REBATABLE ENTRANCE FEES DUE	34,028	18,004
ENTRANCE FEES SUBJECT TO REFUND	3,134	1,452
ENTRANCE FEES NON-REFUNDABLE	9,055	7,023
NOTES AND BONDS PAYABLE	57,364	71,572
SUBORDINATED NOTES PAYABLE TO ABHOW	29,774	29,774
OTHER LIABILITIES	59	333
TOTAL LIABILITIES	139,816	138,619
NET DEFICIT		
UNRESTRICTED	(7,136)	(1,776)
TOTAL NET DEFICIT	(7,136)	(1,776)
TOTAL	$ 132,680	$ 136,843

See accompanying notes.

TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF OPERATIONS AND CHANGES IN NET DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Thousands)

UNRESTRICTED NET ASSETS	2014	2013
OPERATING REVENUES		
Residential living	$ 5,966	$ 4,763
Assisted living	2,075	1,842
Health center	7,395	8,634
Memory support	1,631	1,546
Other residential services	133	102
Amortization of entrance fees	1,761	1,743
Other operating revenue	552	405
Total operating revenues	19,513	19,035
OPERATING EXPENSES		
Salaries and wages	7,283	6,910
Employee benefits	1,965	1,997
Supplies	1,813	1,635
Chargeable ancillary services	1,229	1,613
Other purchased services	630	597
Marketing and advertising	1,106	544
Repairs and maintenance	213	223
Utilities	1,254	953
Insurance	233	249
Travel and related	43	63
Leases and rents	177	160
Management fees	1,474	1,507
Other operating expenses	294	239
Total operating expenses	17,714	16,690
INCOME BEFORE OTHER OPERATING INCOME (EXPENSE)	1,799	2,345
OTHER OPERATING INCOME (EXPENSE)		
Realized losses on investments - net	(102)	-
Investment income - net	121	-
Mortgage interest	(3,200)	(1,146)
Depreciation and amortization	(4,196)	(2,710)
LOSS FROM OPERATIONS	(5,578)	(1,511)
Unrealized gains (losses) on investments	218	(404)
CHANGE IN UNRESTRICTED NET DEFICIT	(5,360)	(1,915)
CHANGE IN NET DEFICIT	(5,360)	(1,915)
NET (DEFICIT) ASSETS - Beginning of year	(1,776)	139
NET DEFICIT - End of year	$ (7,136)	$ (1,776)

See accompanying notes.

TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(In Thousands)

	2014	2013
OPERATING ACTIVITIES		
Cash received for resident services	$ 18,096	$ 16,323
Cash received for entrance fees from reoccupancy	4,744	6,176
Cash received from other operating activities	548	337
Cash earnings realized from investments	19	-
Cash paid for employee salaries	(6,872)	(6,355)
Cash paid for employee benefits	(1,956)	(1,956)
Cash paid for temporary labor	(358)	(498)
Cash paid to vendors	(10,164)	(4,226)
Cash paid for interest, net of amounts capitalized	(3,297)	-
Net cash provided by operating activities	760	9,801
INVESTING ACTIVITIES		
Acquisition of land, buildings and equipment	(19,126)	(33,702)
Change in restricted cash	2,834	(719)
Purchase of restricted investments	(41,204)	(36,028)
Proceeds from sale of cash utilized from restricted investments	59,236	66,792
Net cash provided by (used in) investing activities	1,740	(3,657)
FINANCING ACTIVITIES		
Cash received from initial entrance fees and deposits	15,965	468
Refunds of deposits and refundable fees	(2,032)	(1,119)
Cash paid for deferred debt issuance costs	-	(66)
Principal payments on notes and bonds payable	(14,175)	-
Net cash used in financing activities	(242)	(717)
INCREASE IN CASH AND CASH EQUIVALENTS	2,258	5,427
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	9,039	3,612
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 11,297	$ 9,039
OPERATING ACTIVITIES		
Change in unrestricted net deficit	$ (5,360)	$ (1,915)
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities		
Amortization of entrance fees	(1,761)	(1,743)
Entrance fees from reoccupancy	4,744	6,176
Depreciation and amortization	4,196	2,710
Change in unrealized (gains) losses on investments - net	(218)	404
Change in payable to affiliates	55	549
Other changes in operating assets and liabilities, net	(896)	3,620
Net cash provided by operating activities	$ 760	$ 9,801
Acquisition of buildings and equipment financed through accounts payable and accrued expenses	$ 611	$ 2,093

See accompanying notes.

Note 1 – Business and Organization

Parent Organization – Cornerstone Affiliates ("Parent Organization" or "Cornerstone") is a California nonprofit public benefit corporation. Cornerstone is the sole member and exercises its direction and control through the appointment of the Board of Directors of Terraces at San Joaquin Gardens ("TSJG" or the "Corporation"), American Baptist Estates, Inc. ("ABE" or d.b.a. Terraces of Phoenix), Las Ventanas Retirement Community ("Las Ventanas"), and Boise Retirement Community ("Boise" or d.b.a. Terraces of Boise) and Cornerstone Affiliates International, Inc. ("CAI"); and appoints the majority of the directors of American Baptist Homes of the West and Affiliates ("ABHOW").

Cornerstone Related Enterprises

Terraces at San Joaquin Gardens – Terraces at San Joaquin Gardens is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Fresno, California through its continuing care retirement community. Prior to September 26, 2012, TSJG was one of the eight continuing care retirement communities constituting ABHOW's California Obligated Group. Effective September 26, 2012, by vote of the ABHOW Board of Directors, and consistent with the rights and abilities granted in ABHOW's Master Trust Indenture, sole corporate membership and control of TSJG was transferred from ABHOW to Cornerstone.

American Baptist Homes of the West – American Baptist Homes of the West is a California nonprofit public benefit tax-exempt corporation which owns, operates, and manages both continuing care retirement communities and rental housing communities in which housing, health care, and supportive services are provided for the elderly in California and Washington. ABHOW developed the TSJG campus in 1966 and has managed the community since that time.

ABHOW provides financial support and management services including financial budgeting, accounting, and tax services; negotiation of capital and financing services; regulatory and compliance oversight and legal support; a pooled program for employee benefits including pensions and workers compensation and a pooled program for property and liability insurance as well as other services through ABHOW affiliates. TSJG reimburses ABHOW for its pro-rata share of employee benefit costs incurred.

Note 1 – Business and Organization (continued)

ABHOW continues to manage TSJG under a multi-year management agreement. The current agreement began on September 26, 2012, and continues for 10 years. Under the management agreement, TSJG is charged a base management fee equal to 8.5% of total budgeted cash revenues. Half of this fee is payable to ABHOW on the tenth of each month, with the remaining half subordinated to TSJG's debt service and payable annually if certain occupancy, debt service coverage, and days cash on hand requirements are met. Total management fees for fiscal year 2014 and 2013, were $1,474,000 and $1,507,000, respectively, of which $1,490,000 and $754,000 was accrued but not paid and is included in accrued management fees in the accompanying balance sheets at September 30, 2014 and 2013, respectively.

American Baptist Estates, Inc. – American Baptist Estates, Inc., is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Phoenix, Arizona, through its continuing care retirement community ("CCRC"), the Terraces of Phoenix.

Las Ventanas Retirement Community – Las Ventanas Retirement Community ("Las Ventanas") is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Las Vegas, Nevada, through its continuing care retirement community.

Boise Retirement Community – Boise Retirement Community ("Boise") is a California nonprofit public benefit tax-exempt corporation which leased, and subsequently purchased, from American Baptist Properties, Inc. a site in Boise, Idaho, upon which the Terraces of Boise is currently under construction, with planned completion in calendar year 2015.

Cornerstone Affiliates International, Inc. – Cornerstone Affiliates International, Inc., is a California for-profit corporation wholly owned by Cornerstone. CAI is the holding company for the activities surrounding the development of international senior housing consulting and management business opportunities.

Note 2 – Accounting Policies

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable; fair values of investments; future service benefit obligations; rebatable entrance fees due; entrance fees subject to refund; entrance fees non-refundable; and liabilities for self-insured workers' compensation. Actual results could differ from those estimates.

Note 2 – Accounting Policies (continued)

New Accounting Pronouncements – In April 2013, the FASB issued ASU No. 2013-06, *Services Received from Personnel of an Affiliate* ("ASU No. 2013-06") to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The Corporation implemented this guidance in 2014. The adoption did not have a material impact on the financial statements.

Cash and Cash Equivalents – Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and overnight investments considered to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC"). The Corporation has cash balances in financial institutions that are in excess of FDIC limits. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Restricted Cash – Restricted cash is defined as cash which is restricted in its use by regulatory or other agreements. These amounts consist of escrowed resident entry fee deposits for the second phase of the Corporation's redevelopment.

Restricted Investments – Investments include certain cash equivalents held by investment managers, equity securities, corporate debt, and U.S. government securities, held by trustees for capital project expenditures and debt service, and are stated at fair value.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the accompanying statements of operations and changes in net deficit according to donor restrictions. Historical cost, on the specific identification method, is utilized to compute the realized gains and losses for all other securities. Upon determination that the cost of securities is other-than-temporarily impaired, adjustments are made to revalue the securities to current value. Any adjustments required by this policy for unrestricted assets are charged to investment loss and restricted assets are charged to the appropriate net assets category. Unrealized gains and losses are recorded in other changes in net deficit (see Note 4).

Note 2 – Accounting Policies (continued)

Resident Accounts Receivable – The Corporation provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. The Corporation receives payment for health services from residents, insurance companies, Medicare, Medi-Cal, HMOs, and other third-party payors. As a result, the Corporation is exposed to certain credit risks. The Corporation manages its risk by regularly reviewing its accounts, by providing appropriate allowances for uncollectible accounts, and by having secured the accounts through the Care and Residence Agreements with the residents of continuing care retirement community.

Land, Buildings, and Equipment – Land, building, and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Real estate predevelopment costs, such as architectural and entitlement costs, costs of model units, furnishings, etc., are capitalized as part of the building cost and depreciated over the useful life of the related building. Maintenance and repair costs are charged to operations when incurred.

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period.

Asset Impairment – The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment was recognized for the years ended September 30, 2014 and 2013.

Fair Value of Financial Instruments – Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. The Corporation's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. See Note 3 for fair value hierarchy disclosures.

Deferred Debt Issuance Costs – Expenses incurred in connection with the issuance of debt are deferred and are amortized over the term of the related financing agreements using the interest method. Unamortized deferred debt issuance costs amounted to $1,906,000 and $2,008,000 at September 30, 2014 and 2013, respectively, and are included in other assets in the accompanying balance sheets. Accumulated amortization of deferred debt issuance costs was $236,000 and $110,000 at September 30, 2014 and 2013, respectively.

Note 2 – Accounting Policies (continued)

Deferred Marketing Costs – Expenses incurred in connection with marketing of newly constructed apartments are deferred and amortized over the estimated average life of the first generation of residents. Unamortized deferred marketing costs amounted to $3,872,000 and $3,942,000 at September 30, 2014 and 2013, respectively, and are included in other assets in the accompanying balance sheets. Accumulated amortization of deferred marketing costs was $485,000 and $338,000 at September 30, 2014 and 2013, respectively.

Obligation to Provide Future Services – If the present value of future outflows to provide future services, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. An evaluation of the future service benefit obligation for residents indicated a liability was not considered to be necessary at September 30, 2014 and 2013. The discount rate used to calculate the obligation to provide future services is 6% for 2014 and 2013.

Types of Entrance Fees – The Care and Residence Agreements between the Corporation and the residents provide for the payment of an entrance fee. Entrance fees received by the Corporation are categorized into two types: initial entrance fees and entrance fees from reoccupancy are recorded as either rebatable entrance fees due, entrance fees subject to refund, or entrance fees non-refundable. Initial entrance fees, which are the initial fees on new or expanded facilities, are used to provide funds for acquisition and construction of physical facilities, debt retirement, and to defray anticipated deficits in the operations of new homes for a period of time. Entrance fees from reoccupancy in existing homes are used for general purposes, including capital expenditures, support of operations (including benevolence), new development, and funding of reserves.

Refund Policy on Entrance Fees – The Care and Residence Agreement provides the resident with the right to a refund of the entrance fee, less 2% for each month of residency for 44 months after an initial reduction of 12% of the original fee, under certain circumstances. For a majority of contracts, upon the move out of a resident, the unamortized balance of the entrance fee becomes the property of the Corporation and is included in income. Amounts amortized to income relating to these types of contracts were $1,761,000 and $1,743,000 for the years ended September 30, 2014 and 2013, respectively.

At September 30, 2014 and 2013, the Corporation had nonrefundable entrance fees of $9,055,000 and $7,023,000, respectively, related to entrance fees received that will be recognized as revenue in future years. Additionally, at September 30, 2014 and 2013, the Corporation had entrance fees subject to refund of $3,134,000 and $1,452,000, respectively, that will be recognized as revenue in future years unless refunded.

Note 2 – Accounting Policies (continued)

The Corporation offers contract options whereby 70% to 95% of the entrance fee is rebatable at death or termination of the contract and subsequent reoccupancy of the apartment. Phase 1 redevelopment apartments were sold offering primarily rebatable entrance fee contracts. At September 30, 2014 and 2013, $34,028,000 and $18,004,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable, and reflected as rebatable entrance fees due in the accompanying balance sheets.

Actual refunds and rebates of entrance fees were $2,032,000 and $1,119,000, for the years ended September 30, 2014 and 2013, respectively. Based on historical experience, management expects refunds in future years to approximate $2,500,000 per year.

Subordinated Notes Payable to ABHOW – Includes both a fixed rate subordinated note and a variable rate subordinated note to ABHOW (see Note 6).

Net Assets – The Corporation reports three classifications of net assets. A description of each classification of net assets is as follows:

> **Unrestricted Net Assets** – Unrestricted net assets include unrestricted contributions and income earned on unrestricted funds, and amounts for which restrictions have expired.
>
> **Temporarily Restricted Net Assets** – Temporarily restricted net assets include net assets subject to donor imposed stipulations that may, or will be met, either by actions of the Corporation and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions. At September 30, 2014 and 2013, the Corporation had no temporarily restricted net assets.
>
> **Permanently Restricted Net Assets** – Permanently restricted net assets include net assets subject to donor imposed stipulations that they be maintained permanently by the Corporation. At September 30, 2014 and 2013, the Corporation had no permanently restricted net assets.

Revenue Recognition – Non-rebatable entrance fees are initially recorded as either entrance fees non-refundable or entrance fees subject to refund and are amortized to income using the straight-line method over the remaining life expectancy of the resident. The life expectancy of each resident is updated annually based upon the 2000 Group Annuity Mortality Table.

Note 2 – Accounting Policies (continued)

Monthly service fees, ancillary, and other service fees are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Accounts receivable over 150 days past their contractual due date are fully reserved.

The Corporation provides health care services primarily to its residents. Revenues from the Medicare and Medi-Cal program accounted for approximately 29% and 34% of the Corporation's total operating revenue less amortization of entrance fees for the years ended September 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations. Certain reimbursements from Medicare have been subjected to regulatory audit resulting in questioned costs, and subsequent losses of $92,000 and $0 in fiscal year 2014 and 2013, respectively. There were no additional findings open at September 30, 2014. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Contributions – The Corporation participates in the American Baptist Homes Foundation of the West ("ABHFOW") fundraising activity. Gifts and bequests to the Corporation are credited to the Corporation's fund with ABHFOW. In addition, upon maturity, deferred gifts such as gift annuities and charitable remainder trusts are also credited to the Corporation's fund. Funds held by ABHFOW that the ABHFOW board has designated for the Corporation amounted to approximately $4,375,000 as of September 30, 2014 and 2013. ABHFOW retains a legal right to redirect the use of unrestricted endowment funds. Board practice since inception has been to designate earnings distributions on funds for community benevolence needs. The Corporation receives distributions from ABHFOW based upon the market value of the twelve-quarter rolling average of the Corporation's endowment fund at a current rate of 3.5%. This rate is subject to change based upon the ABHFOW board's action. Distribution income for the years ended September 30, 2014 and 2013, was approximately $124,000 and $121,000, respectively, and are reflected in other operating revenues in the accompanying statements of operations and changes in net deficit.

Note 2 – Accounting Policies (continued)

The Corporation and ABHFOW account for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with the guidance, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Corporation and ABHFOW report the support as unrestricted.

The Corporation reports gifts of property and equipment (or other long-lived assets) as unrestricted support 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, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Benevolence – The Corporation provides services to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Partial payments to which the Corporation is entitled from public assistance programs on behalf of residents that meet the Corporation's benevolence criteria are reported as revenues. Because the Corporation does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue for the years ended (in thousands):

	2014	2013
Benevolence, at cost	$ 312	$ 256

Contractual Allowances – A portion of the Corporation's revenues is subject to discounts under contracts with third-party payors. These discounts are reported as contractual allowances for the years ended (in thousands):

	2014	2013
Contractual allowances	$ 2,350	$ 2,783

Note 2 – Accounting Policies (continued)

Performance Indicator – "Loss from operations" as reflected in the accompanying statements of operations and changes in net deficit is a performance indicator. Loss from operations includes all changes in unrestricted net deficit other than noncash changes in unrealized gains and losses on investments.

Workers' Compensation Plan – The Corporation participates in ABHOW's partially self-insured workers' compensation program for workers' compensation claims up to $200,000 per year under an occurrence form insurance policy for 2014 and 2013. Claims are accrued under the plan as the incidents that give rise to them occur. The estimate of incurred but not reported claims is based on actuarial projections of the ultimate cost of settlement, including claim settlement expenses, using ABHOW's historical claim payment experience. The estimated liability is continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments of self-insured workers' compensation claims are dependent upon future developments, management is of the opinion that the recorded reserve is adequate. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

Professional Liability Insurance – The Corporation has professional liability insurance through a pooled program provided by ABHOW. ABHOW has secured claims-made policies for malpractice and general liability insurance with a self-insured retention of $150,000 for the years ended September 30, 2014 and 2013. Management of the Corporation is not aware of any claims outstanding which are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

Tax-Exempt Status – The Corporation is a California nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The Corporation assesses uncertain tax positions in accordance with the provisions of the FASB ASC Topic 740-10, *Income Taxes*. The Corporation recognizes the tax benefit from uncertain tax positions only if it is more than likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation recognizes interest and penalties related to income tax matters in operating expenses. At September 30, 2014 and 2013, there were no such uncertain tax positions.

Note 2 – Accounting Policies (continued)

The Corporation files United States federal and California tax returns. The Corporation is no longer subject to federal tax examinations before fiscal year 2010 or California tax examination before fiscal year 2009.

Reclassifications – Certain financial statement reclassifications were made to the 2013 amounts to conform to the 2014 presentation.

Note 3 – Fair Value

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 fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Restricted Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents held for investment, equity securities, corporate debt securities, and U.S. government securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, discounted cash flows, or net asset value as described below.

Note 3 – Fair Value (continued)

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at September 30, 2014 and 2013 (in thousands):

	Level 1	Level 2	Level 3	Fair value at September 30, 2014
Restricted Investments				
Cash and cash equivalents	$ 8,091	$ -	$ -	$ 8,091
Domestic corporate debt	1,433	-	-	1,433
Foreign corporate debt	531	-	-	531
U.S. government securities	2,007	-	-	2,007
Total	$ 12,062	$ -	$ -	$ 12,062

	Level 1	Level 2	Level 3	Fair value at September 30, 2013
Restricted Investments				
Cash and cash equivalents	$ 10,384	$ -	$ -	$ 10,384
Domestic corporate debt	15,099	-	-	15,099
Foreign corporate debt	1,306	-	-	1,306
U.S. government securities	3,087	-	-	3,087
Total	$ 29,876	$ -	$ -	$ 29,876

The following methods were used to estimate the fair value of all other financial instruments.

Cash and Cash Equivalents – The carrying amount approximates fair value.

Bonds Payable – The fair value of bonds payable is estimated based on discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents estimated fair values of the Corporation's financial instruments in accordance with FASB ASC Topic 825, *Financial Instruments,* at September 30, 2014 and 2013 (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents - unrestricted	$ 11,297	$ 11,297	$ 9,039	$ 9,039
Restricted cash	$ -	$ -	$ 2,834	$ 2,834
Bonds payable	$ 57,364	$ 60,145	$ 71,572	$ 70,677

Note 3 – Fair Value (continued)

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Corporation would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of September 30, 2014 and 2013. Current estimates of fair value may differ significantly from the amounts presented.

Note 4 – Restricted Investments

Restricted investments are held at September 30, 2014 and 2013, for the following purpose (at fair value) (in thousands):

	2014	2013
Restricted investments		
Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements	$ 12,062	$ 29,876

Investment income (loss) for the years ended September 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Dividend, interest, and other investment income	$ 121	$ -
Net realized loss on investments	(102)	-
Total investment income - net	$ 19	$ -
Unrealized gain (loss) on investments	$ 218	$ (404)

Note 5 – Land, Buildings, and Equipment

Land, buildings, and equipment at cost as of September 30, 2014 and 2013, consists of the following (in thousands):

	2014	2013
Land and improvements	$ 3,946	$ 2,858
Buildings and improvements	123,983	48,453
Furnishings and equipment	8,428	6,364
Automotive equipment	198	171
Total	136,555	57,846
Accumulated depreciation	(33,809)	(29,759)
Total	102,746	28,087
Construction in progress	210	59,182
Total	$ 102,956	$ 87,269

Note 6 – Notes and Bonds Payable

A summary of the Corporation's bonds payable at September 30, 2014 and 2013, is as follows (in thousands):

	2014	2013
Secured		
Series 2012 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated September 26, 2012), Serial certificates, to fund redevelopment spending at Terraces at San Joaquin Gardens, with annual principal payable commencing on April 1, 2014, in varying amounts depending on initial entrance fee collections through 2016; interest at fixed rates ranging from 4.00% to 6.00%, payable annually on October 1.	$ 56,860	$ 71,035
Subordinated		
Series A Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 3.22% per annum until October 1, 2013, 4.22% until October 1, 2014, 4.00% per annum until October 1, 2018, and thereafter bears interest at the average rate per annum on the ABHOW Series 2006 bonds or any bonds refunding those bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any.	23,336	23,336
Series B Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 6.20% per annum, or if the ABHOW Series 2010 bonds are refunded, the average interest rate per annum on any such refunding bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any.	6,438	6,438
Total secured and subordinated notes and bonds payable	86,634	100,809
Add: unamortized bond premium	504	537
Total bonds and subordinated notes payable	$ 87,138	$ 101,346

Note 6 – Notes and Bonds Payable (continued)

The Corporation has undertaken a plan to redevelop portions of its campus (the "Project"). As part of this plan, sole corporate membership and control of the Corporation was transferred from ABHOW to Cornerstone on September 26, 2012. Concurrent with this change in legal structure, the repayment of funds previously provided from the Corporation to ABHOW for corporate purposes were forgiven. As part of the transfer, at closing, $4,807,000 of the proceeds from the financing discussed below were transferred from the Corporation to ABHOW to reimburse for construction costs advanced by ABHOW in anticipation of the financing. Additionally, the portion of ABHOW's Series 2006 bonds previously allocated to the Corporation were replaced with a $23,336,000 variable rate subordinated note, and the portion of ABHOW's Series 2010 bonds previously allocated to the Corporation were replaced with a $6,438,000 fixed rate subordinate note. Debt service payments on these subordinate notes are contingent upon the Corporation being compliant with certain performance metrics. At September 30, 2014 and 2013, $1,384,000 and $1,151,000, respectively, of interest expense related to these notes were accrued but not paid, pending achievement of these performance criteria.

To finance the Project, the Corporation issued $71,035,000 of tax exempt bonds in September 2012 ("Series 2012"). ABHOW has no obligation for and does not guarantee the Series 2012 debt. These bonds were sold at a premium of $567,000 in order to affect a market rate of interest. The premium is being amortized under the effective interest method. At September 30, 2014 and 2013, the accumulated amortized premium was $63,000 and $30,000, respectively.

Capitalized interest expense for the year ended September 30, 2014, was $1,850,000, comprised of $1,944,000 of interest expense and $94,000 of net interest income, inclusive of capitalized investment expense. Capitalized interest expense for the year ended September 30, 2013, was $3,699,000, comprised of $3,873,000 of interest expense and $174,000 of net interest income, inclusive of capitalized investment expense.

Scheduled maturities of notes and bonds payable are as follows (in thousands):

Year Ending September 30,	
2015	$ 7,129
2016	2,136
2017	312
2018	940
2019	992
Thereafter	75,125
	$ 86,634

Note 7 – Compliance with Financial Covenants

The Corporation is subject to financial covenants on its debt which include a debt service coverage ratio and minimum days of cash-on-hand requirement. Management believes that the Corporation was in compliance with each of these debt covenants as of and for the year ended September 30, 2014.

Note 8 – Functional Expenses

Management of the Corporation presents operating expenses in its accompanying statements of operations and changes in net deficit by natural class categories. Operating expenses classified by functional categories for the years ended September 30, 2014 and 2013, were as follows (in thousands):

	2014	2013
Direct resident care	$ 6,337	$ 6,801
Dietary services	3,071	2,728
Housekeeping and laundry services	742	675
Property	2,737	2,319
Resident services and activities	801	725
Marketing and advertising	1,106	544
Administrative and general	2,920	2,898
Total operating expenses	$ 17,714	$ 16,690

Note 9 – Commitments and Contingencies

The Corporation is party to various claims and legal actions in the normal course of business. In the opinion of management, based upon current facts and circumstances the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Note 10 – Health and Safety Code Section 1790(a)(3) Disclosure

The following disclosure is made pursuant to Section 1790(a)(3) of the California Health & Safety Code. The Corporation has identified certain corporate initiatives and contingencies listed below to which unrestricted assets may be exposed; and, therefore, have designated reserves as a safeguard against such contingencies. Although not restricted in accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, an amount of $2,874,000 is designated for commitments due to ABHOW at September 30, 2014.

Note 11 – Subsequent Events

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

The Corporation has evaluated subsequent events through December 22, 2014, which is the date the financial statements are issued.

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Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Terraces at San Joaquin Gardens

As of and for the year ended September 30, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors
Terraces at San Joaquin Gardens

Report on the Financial Statements

We have audited the accompanying financial statements of Terraces at San Joaquin Gardens (a member of Cornerstone Affiliates), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended September 30, 2014.

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 misstatement 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 reserves of Terraces at San Joaquin Gardens as of and for the year ended September 30, 2014, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Terraces at San Joaquin Gardens 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedules of Attachment I to Form 5-1: Interest Paid During Fiscal Year, Attachment II to Form 5-4: Deductions From Operating Expenses, Attachment III to Form 5-4: Operating Expenses From Financial Statements, Attachment IV to Form 5-5: Schedule of Qualifying Assets - Debt Service Reserve, Description of Reserves Under SB 1212, and Per Capita Cost of Operations, presented as supplementary schedules, are presented for the purpose of additional analysis and are not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the 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 financial statements, taken as a whole.

Restriction on Use

Our report is intended solely for the information and use of management and the board of directors of Terraces at San Joaquin Gardens 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
January 28, 2015

CONTINUING CARE LIQUID RESERVE SCHEDULES

FORM 5-1
LONG-TERM DEBT INCURRED IN A 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	09/26/12	$0	$3,697,486		$3,697,486
2	9/1/2012 SubA	$0			$0
3	9/1/2012 SubB	$0			$0
4	Certs. Of Part	$0			$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$3,697,486	$0	$3,697,486

(Transfer this amount to Form 5-3, Line 1)

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

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					$0
2					$0
3					$0
4					$0
5					$0
6					$0
	TOTAL:	$0	$0	0	$0

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

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

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$3,697,486
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$177,000
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$3,874,486

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$25,110,000
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	$3,134,459	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	$65,541	
c.	Depreciation	$4,196,000	
d.	Amortization	$0	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$832,840	
f.	Extraordinary expenses approved by the Department	$0	
3	Total Deductions		$8,228,840
4	Net Operating Expenses		$16,881,160
5	Divide Line 4 by 365 and enter the result.		$46,250
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$3,468,750

PROVIDER: Terraces at San Joaquin Gardens
COMMUNITY

ANNUAL RESERVE CERTIFICATION

Provider Name: Terraces at San Joaquin Gardens
Fiscal Year Ended: 2014

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 9/30/2014 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	$3,874,486
[2]	Operating Expense Reserve Amount	$3,468,750
[3]	**Total Liquid Reserve Amount:**	$7,343,236

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

	Qualifying Asset Description	(market value at end of quarter) Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents	$0	$11,297,000
[5]	Investment Securities	$0	$0
[6]	Equity Securities	$0	$0
[7]	Unused/Available Lines of Credit	$0	$0
[8]	Unused/Available Letters of Credit	$0	$0
[9]	Debt Service Reserve	$4,405,502	(not applicable)
[10]	Other:		
	(describe qualifying asset)		
	Listed for Reserve Obligation: [11]	$4,405,502 [12]	$11,297,000
	Reserve Obligation Amount: [13]	$3,874,486 [14]	$3,468,750
	Surplus/(Deficiency): [15]	$531,016 [16]	$7,828,250

Signature:

(Authorized Representative)

Date: January 28, 2015

SVP Finance/Chief Financial Officer
(Title)

SUPPLEMENTARY SCHEDULES

TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT I TO FORM 5-1
INTEREST PAID DURING FISCAL YEAR
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

INTEREST PAID DURING FISCAL YEAR:

	Capitalized interest expense	$	1,944,000		
77125	Interest expense - TSJG Series 2012		1,753,486		3,697,486
TOTAL AMOUNT OF INTEREST PAID DURING FISCAL YEAR				$	3,697,486

INTEREST EXPENSE RECONCILIATION:

77122	Interest on TSJG Sub Note A	$	984,794		
77123	Interest on TSJG Sub Note B		399,183		
77140	Amortization of loan costs		65,541		
77141	Amortization - premium on issuance		(2,677)		1,446,841
77125	Interest Expense - TSJG Series 2012		1,753,486		1,753,486
TOTAL INTEREST FROM FINANCIAL STATEMENTS AS REPORTED				$	3,200,327

Line	Description	Terraces at San Joaquin Gardens	
2e	Total Revenues received during the fiscal year for services to resident who did not have a continuing care contract		
40201	Monthly Fees – Private (Non-Contract)	$ 787,512	sum of {A}
40221	Second Person Fee - PP	7,967	{B}
41001	Monthly Fees - Wellness - Private (Non-Contract)	36,137	{C}
43201	Physical Therapy – Private (Non-Contract)	317	{D}
43211	Occupational Therapy – Private (Non-Contract)	190	{E}
43301	Chargeable Supplies – Private (Non-Contract)	354	{F}
43321	Drugs – Private (Non-Contract)	363	{G}
	Total for Line 2e	$ 832,840	
	Residential Living Fees Reconciliations		
	Total (Non-Contract)	-	
	Contract	$ 5,965,605	
	Total Resident Fees	$ 5,965,605	
	Assisted Living Fees Reconciliation		
40201	Monthly Fees – Private (Non-Contract)	$ 51,601	{A}
40221	Second Person Fee - PP	7,967	{B}
	Total (Non-Contract)	59,568	
	Contract	2,015,508	
	Total Assisted Living Fees	$ 2,075,076	
	Health Center Fees Reconciliation		
40201	Monthly Fees – Private (Non-Contract)	$ 656,471	{A}
43201	Physical Therapy – Private (Non-Contract)	317	{D}
43211	Occupational Therapy – Private (Non-Contract)	190	{E}
43301	Chargeable Supplies – Private (Non-Contract)	354	{F}
43321	Drugs – Private (Non-Contract)	363	{G}
	Total (Non-Contract)	657,695	
	Contract	6,737,374	
	Total Health Center Fees	$ 7,395,069	
	Memory Suport Fees Reconciliation		
40201	Monthly Fees – Private (Non-Contract)	$ 79,440	{A}
	Total (Non-Contract)	79,440	
	Contract	1,551,306	
	Total Memory Support Fees	$ 1,630,746	
	Other Resident Svc. Reconciliation		
41001	Monthly Fees - Wellness - Private (Non-Contract)	$ 36,137	{C}
	Total (Non-Contract)	36,137	
	Contract	96,653	
	Total Resident Svc. Fees	$ 132,790	

TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT III TO FORM 5-4
OPERATING EXPENSES FROM FINANCIAL STATEMENTS
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Line	Description	Terraces at San Joaquin Gardens
1	Total operating expenses from financial statements	
	Total operating expenses from financial statements as reported	$ 17,714,000
	Add:	
	Depreciation and amortization	4,196,000
	Mortgage interest	3,200,000
	Total for Line 1	$ 25,110,000
	Mortgage Interest Reconciliation:	
2a	Interest paid on long-term debt	$ 3,134,459
2b	Credit enhancement premiums paid for long-term debt	65,541
	Total mortgage interest from financial statements as reported	$ 3,200,000

DEBT SERVICE RESERVE					
US Bank #200523009	Cash & cash equivalents	$	21,028		
	Domestic corporate debt		1,282,723		
	Foreign corporate debt		530,597		
	U.S. government securities		1,560,503	$	3,394,851
US Bank #200523011	U.S. government securities		452,979		452,979
US Bank #200523012	U.S. government securities		557,672		557,672
TOTAL AMOUNT OF QUALIFYING ASSETS FOR DEBT SERVICE RESERVE				$	4,405,502
RESTRICTED INVESTMENTS RECONCILIATION:					
14000	DSR funds 2012 A series - USB # 200523009	$	3,436,325		
14200	MktSec/L.T.(Market)-USB 200523009		(41,474)	$	3,394,851
14101	DSR funds 2012 B1 series - USB # 200523011		452,685		
14201	MktSec/L.T.(Market)-USB 200523011		294		452,979
14002	DSR funds 2012 B2series - USB # 200523012		557,672		557,672
14004	Project funds - 2012 Bonds USB #200523016		2,336,981		
14204	MktSec/L.T.(Market)-USB 200523016		(14,958)		2,322,023
14005	Project exp fund acct 2012 Bonds USB #200523017		1		1
14006	2012 -A SERIES - #200523002		1,409,529		
14007	2012 -B1 SERIES -#200523003		217,914		
14008	2012 -B2 SERIES -#200523004		1		
14186	2012 Series Working Capital Fund- USB #200523015		200,015		
14187	2012 Series Operating Reserve Fund- USB #200523013		1,500,110		
14188	2012 Series Optional Redemp Fund- USB #200523007		329		
14199	2012 Series-Entrance Fee Fund - USB 200523014		2,006,271		5,334,169
TOTAL RESTRICTED INVESTMENTS FROM FINANCIAL STATEMENTS AS REPORTED				$	12,061,695

Total Qualifying Assets as Filed:		**Comments in Consistency with Tax Exempt Status Under AB 1169**
Cash and Cash Equivalents	$ 11,297,000	
Unrestricted Investment Securities	-	
Subtotal Cash and Unrestricted Investment Securities	11,297,000	
Reserved for Workers Compensation	-	
Total Qualifying Assets as Filed:	11,297,000	
Reservations and Designations:		
Total Reservations and Designations	11,297,000	All liquid investments are designated for working capital during the completion of construction and fill process for the major redevelopment underway at the Terraces at San Joaquin Gardens
Remaining Liquid Reserves	$ -	

TERRACES AT SAN JOAQUIN GARDENS
FORM 5-5
SUPPLEMENTAL SCHEDULE – PER CAPITA COST OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Per Capita Cost of Operations	
Operating Expenses (Form 5-4 line 1)	$ 25,110,000
Mean Number of CCRC Residents (Form 1-1 line 10)	355
Per Capita Cost of Operations	$ 70,732

NOTE 1 – BASIS OF ACCOUNTING

The accompanying reserve reports have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of Terraces at San Joaquin Gardens assets, liabilities, revenues, and expenses.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period:	$2,140 – 3,922	$3,723 - $7,940	$257 - $300
	2nd person fee	$833		
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.00%	2.00%	3.00%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: December 1, 2013
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☑ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☑ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☑ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☑ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☑ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☑ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: American Baptist Homes of the West
COMMUNITY: Terraces at San Joaquin Gardens

Assumptions

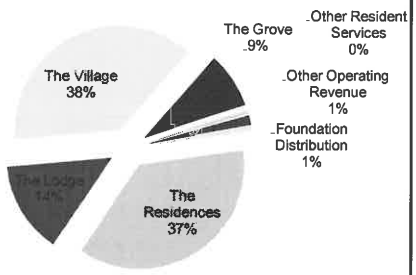
Budgeted Occupancy Assumptions

The Residences = 72.3 %
The Lodge = 80.5 %
The Village = 67.0 %
The Grove = 91.7 %

THE TERRACES

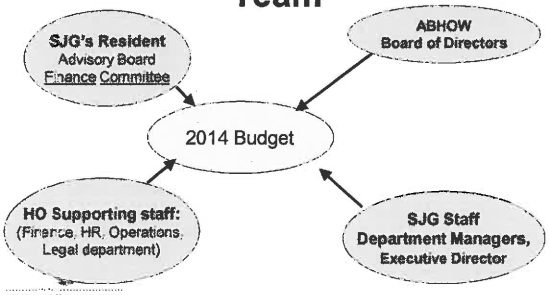
Revenue Sources

Budget 2014



THE TERRACES

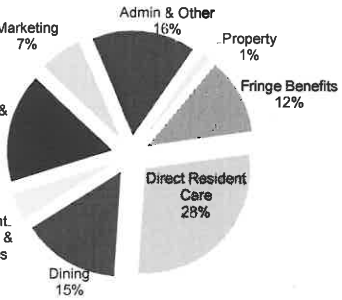
San Joaquin Gardens' Budget Team



THE TERRACES

Expenses

Budget 2014



THE TERRACES

Operating Revenue

	2014 Budget	2013 Budget	Change
The Residences	$ 6,350	$ 4,868	$ 1,482
The Lodge	2,470	2,088	382
The Village	6,542	9,007	-2,465
The Grove	1,484	1,277	207
Other Resident Services	102	137	-35
Other Operating Revenue	267	234	33
Foundation Distributions	123	121	2
Operating Revenue	**$ 17,339**	**$ 17,731**	**-$ 392**

THE TERRACES

Factors Affecting Cost Increase

- **Revenue**
  - Occupancy drop in The Village from 72 to 52.9
- **Expenses**
  - **Employee Costs** - $99,200 decrease
    - Wage increases budgeted at 3%
    - Fringe Benefit Cost = 31.1%, an increase from last year's 30.5%
  - **Marketing & Mgt Fees** – 106.7% from last year. As the Milano buildings opens, expenses that have been classified as redevelopment are being shifted to operations
  - **Utilities Costs** – 39.0% increase from last year
  - **Food cost** increasing by 9.2%

THE TERRACES

Operating Expenses

	2014 Budget	2013 Budget	Change
Direct Resident Care	$ 4,818	$ 6,003	-$ 1,185
Dining Services	2,552	2,435	117
Resident Services & Activities	696	626	70
Housekeeping & Maintenance	2,883	2,432	451
Sales & Marketing	1,106	535	571
Administration & Other	2,743	2,681	62
Property	225	240	-15
Employee Benefits	2,015	2,009	6
Operating Expenses	**$ 17,039**	**$ 16,961**	**$ 78**

THE TERRACES

Rate Increase

Effective December 1, 2013

- The Residences: 3.00 %
- The Lodge: 2.00 %
- The Village: 3.00 %
- The Grove: 2.00%

THE TERRACES

Operating Margins

	2014 Budget	2013 Budget	Change
Operating Revenues	$ 17,339	$ 17,731	-$ 392
Operating Expenses	17,039	16,961	78
Operating Margin	**300**	**770**	**-470**
Less interest on debt:			
Interest Expense	1,384	1,151	233
Cash Operating Margin	**-1,084**	**-381**	**-703**

THE TERRACES

San Joaquin Gardens Recent Fee Increase History (%)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Res.	4.80	4.50	4.90	3.75	2.80	3.00	4.90	4.00	3.00
Lodge	4.20	4.00	4.90	3.75	2.80	3.00	7.60	4.00	2.00
Village	3.00	5.00	5.75	3.75	3.50	3.00	3.50	4.00	3.00
Grove	4.20	4.00	4.90	3.75	2.80	4.00	4.50	4.00	2.00

Nine Year Average Rate Increase The Residences	Five Year Average Rate Increase The Residences
3.96 %	**3.54 %**

THE TERRACES

This budget is achievable and San Joaquin Gardens expects to meet or exceed its budget for 2014. The fee increases for FY 2014 are prudent and congruent with its financial goals. The increases cover the expected increases in cost and provide for operating margin increases consistent with the redevelopment plan.

THE TERRACES

Thank you for your time and attention

Questions and Answers

THE TERRACES

Continuing Care Retirement Community
Disclosure Statement
General Information

Date Amended: 12/24/14

RECEIVED FEB 2015 CONTINUING CARE CONTRACTS BRANCH

FACILITY NAME: The Terraces at San Joaquin Gardens Retirement Community
ADDRESS: 5555 N Fresno St: Fresno, CA ZIP CODE: 93710 PHONE: 559-439-4770
PROVIDER NAME: TSJG FACILITY OPERATOR: TSJG
RELATED FACILITIES: RELIGIOUS AFFILIATION: Nonsectarian
YEAR OPENED: 1966 NO. OF ACRES: 25 MULTI-STORY: ___ SINGLE STORY: ___ BOTH: X
MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 2

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	0	ASSISTED LIVING	58
APARTMENTS – 1 BDRM	105	SKILLED NURSING	54
APARTMENTS – 2 BDRM	157	SPECIAL CARE	24
COTTAGES/HOUSES		DESCRIBE SPECIAL CARE:	Memory Support
% OCCUPANCY AT YEAR END	78.2%		

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

FORM OF CONTRACT: ☐ LIFE CARE ☒ CONTINUING CARE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☒ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☒90% ☐75% ☐50% ☒PRORATED TO 0% ☐OTHER: 70%

RANGE OF ENTRANCE FEES: $85,000 TO $500,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐Y ☒N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Various transfer credits dependent upon contract.

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: NA OTHER: ___

RESIDENT REPRESENTATIVE ON THE BOARD (briefly describe their involvement): ABHOW's board includes 2 residents from its owned and managed CCRCs. Resident Council Presidents attend 3 of the 4 ABHOW board meetings per year.

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

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

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	2-4	
NUMBER OF MEALS/DAY	1	
SPECIAL DIETS AVAILABLE	Yes	
24-HOUR EMERGENCY RESPONSE	X	☐
ACTIVITIES PROGRAM	X	☐
ALL UTILITIES EXCEPT PHONE	X	☐
APARTMENT MAINTENANCE	X	☐
CABLE TV	X	☐
LINENS FURNISHED	☐	☐
LINENS LAUNDERED	X	X
MEDICATION MANAGEMENT	☐	X
NURSING/WELLNESS CLINIC	X	☐
PERSONAL NURSING/HOME CARE	☐	X
TRANSPORTATION-PERSONAL	☐	X
TRANSPORTATION-PREARRANGED	X	☐
OTHER___	☐	☐
	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: _____ Terraces at San Joaquin Gardens

CCRCs	LOCATION (City, State)	PHONE (with area code)
Terraces at San Joaquin Gardens	Fresno, CA	559-439-4770

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: _____

	2011	2012	2013	2014
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)			$17,292,000	$17,752,000
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)			16,690,000	17,714,000
NET INCOME FROM OPERATIONS			602,000	38,000
LESS INTEREST EXPENSE			1,146,000	3,200,000
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				19,000
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION			-544,000	-3,143,000
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)			6,176,000	4,743,528

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Series 2012	58,860,000		09/26/12		
Series A Subnote 2006	23,336,000		09/01/12		
Series B Subnote 2010	6,438,000		09/01/12		

FINANCIAL RATIOS (see next page for ratio formulas)

	2001 CCAC Medians 50th Percentile *(optional)*	2012	2013	2014
DEBT TO ASSET RATIO			78.11%	65.68%
OPERATING RATIO			103.15%	117.01%
DEBT SERVICE COVERAGE RATIO			0.95	3.64
DAYS CASH-ON-HAND RATIO			145.13	197.17

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2011		2012		2013		2014
STUDIO							
ONE BEDROOM	2,052	4.90%	2,177	4.00%	2,253	3.00%	2,444
TWO BEDROOM	2,688	4.90%	2,847	4.00%	3,090	3.00%	3,409
COTTAGE/HOUSE							
ASSISTED LIVING	4,233	6.50%	4,567	4.00%	4,927	2.00%	4,944
SKILLED NURSING	242/day	3.50%	252/day	4.00%	262/day	3.00%	293/day
SPECIAL CARE	5,873	3.50%	6,390	4.00%	6,414	2.00%	7,092

COMMENTS FROM PROVIDER:
The financial information is taken from the OFI section of the audited financial statements.

PROVIDER NAME: _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} \;-\; \text{Depreciation Expense} \;-\; \text{Amortization Expense}}{\text{Total Operating Revenues} \;-\; \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} \;+\; \text{Interest, Depreciation, and Amortization Expenses} \;-\; \text{Amortization of Deferred Revenue} \;+\; \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} \;+\; \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.