



BROOKDALE
SENIOR LIVING SOLUTIONS
ALL THE PLACES LIFE CAN GO™

R E C E I V E D
MAY 01 2014
CONTINUING CARE
CONTRACTS BRANCH

April 30, 2014

VIA FEDERAL EXPRESS

Continuing Care Contracts Branch
California Department of Social Services
744 P Street, M.S. 10-90
Sacramento, CA 95814
P: (916) 657-2592

RE: **BLC Glenwood-Gardens AL-LH, LLC**
Annual Report

To Whom It May Concern:

Please find enclosed with this letter the **three (3)** copies of the completed annual report for the above mentioned Continuing Care Provider.

Should you have any questions or need additional information, please feel free to contact me directly at 414-918-5267 or email me at alindner1@brookdaleliving.com.

Sincerely,

Andrew Lindner
Paralegal

Enclosures



6757 W. Washington St. | Suite 2300
Milwaukee, WI 53214
Phone (414) 918-5000 | Fax (414) 918-5050
brookdale.com

CERTIFICATE BY CHIEF EXECUTIVE OFFICER

BLC Glenwood-Gardens AL-LH, LLC DBA Glenwood Gardens

RECEIVED
MAY 01 2014

CONTINUING CARE
CONTRACTS BRANCH

State of Tennessee)

SS:

County of Williamson)

The enclosed Annual Report for BLC Glenwood-Gardens AL-LH, LLC dba Glenwood Gardens and any amendments thereto are correct to the best of my knowledge and belief.

The continuing care contract form in use or offered to new residents at Glenwood Gardens has been approved by the Department.

As of the date of this certification, BLC Glenwood-Gardens AL-LH, LLC is maintaining the required liquid reserve.



T. Andrew Smith
Chief Executive Officer

Sworn and subscribed to before me,
a Notary Public, this 21st day
of April, 2014

Linda B. DeVault
Notary

LINDA B. DEVAULT
Notary Public
SUMNER COUNTY
(Notarial Seal)

My commission expires: 12-21-15

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	<u>0</u>
[2]	Number at end of fiscal year	<u>120</u>
[3]	Total Lines 1 and 2	<u>120</u>
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	<u>60</u>
All Residents		
[6]	Number at beginning of fiscal year	<u>252</u>
[7]	Number at end of fiscal year	<u>232</u>
[8]	Total Lines 6 and 7	<u>484</u>
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	<u>242</u>
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	<u>0.25</u>

**FORM 1-2
ANNUAL PROVIDER FEE**

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service-interest only)	<u>\$ 4,980,079</u>
[a] Depreciation	<u>424,369</u>
[b] Debt Service (Interest Only)	<u>118,816</u>
[2] Subtotal (add Line 1a and 1b)	<u>543,185</u>
[3] Subtract Line 2 from Line 1 and enter result.	<u>4,436,894</u>
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	<u>0.25</u>
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	<u>1,109,223</u>
[6] Total Amount Due (multiply Line 5 by .001)	x .001 <u>1,109.22</u>

PROVIDER: BLC Glenwood Gardens AL-LH, LLC
 COMMUNITY: Glenwood Gardens



ADDITIONAL REMARKS SCHEDULE

AGENCY Willis of Illinois, Inc.		NAMED INSURED Brookdale Senior Living, Inc. 111 Westwood Place Suite 400 Brentwood, TN 37027	
POLICY NUMBER See Page 1		EFFECTIVE DATE: See Page 1	
CARRIER See Page 1	NAIC CODE See Page 1		

ADDITIONAL REMARKS

THIS ADDITIONAL REMARKS FORM IS A SCHEDULE TO ACORD FORM,
FORM NUMBER: 25 FORM TITLE: Certificate of Liability Insurance

Location: BLC Glenwood-Gardens AL-LH, LLC dba Glenwood Gardens, 350 Calloway Drive, Bakersfield, CA 93312

R E C E I V E D
MAY 01 2014
CONTINUING CARE
CONTRACTS BRANCH

BLC GLENWOOD-GARDENS AL-LH, LLC

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Reports Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

BLC Glenwood-Gardens AL-LH, LLC

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets as of December 31, 2013 and 2012	2
Statements of Operations for the years ended December 31, 2013 and 2012	3
Statements of Changes in Member's Equity for the years ended December 31, 2013 and 2012	4
Statements of Cash Flows for the years ended December 31, 2013 and 2012	5
Notes to Financial Statements	6



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

RECEIVED
MAY 01 2014

REPORT OF INDEPENDENT AUDITORS'

CONTINUING CARE
CONTRACTS BRANCH

The Member
BLC Glenwood Gardens AL-LH, LLC:

We have audited the accompanying financial statements of BLC Glenwood Gardens AL-LH, LLC ("Company"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in member's equity 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.

Auditors' 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 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 auditors' 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 polices 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 financial position of BLC Glenwood Gardens AL-LH, LLC as of December 31, 2013 and 2012, 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.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
March 28, 2014

BLC GLENWOOD-GARDENS AL-LH, LLC

Balance Sheets

December 31, 2013 and 2012
(In thousands)

Assets

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 1	\$ 1
Accounts receivable, net	82	124
Deferred tax asset	168	107
Other current assets	<u>50</u>	<u>22</u>
Total current assets	301	254
Property and equipment, net	1,217	967
Cash - restricted	<u>4,479</u>	<u>6,374</u>
Total assets	\$ <u>5,997</u>	\$ <u>7,595</u>

Liabilities and Member's Equity

Current liabilities:		
Tenant security deposits	\$ 7	\$ 8
Accounts payable	299	60
Accrued interest	-	8
Accrued expenses	125	116
Accrued payroll	285	215
Deferred revenue	<u>100</u>	<u>75</u>
Total current liabilities	816	482
Long-term debt	<u>-</u>	<u>6,362</u>
Total liabilities	816	6,844
Member's equity	<u>5,181</u>	<u>751</u>
Total liabilities and member's equity	\$ <u>5,997</u>	\$ <u>7,595</u>

See accompanying notes to financial statements.

BLC GLENWOOD-GARDENS AL-LH, LLC

Statements of Operations

**For the years ended December 31, 2013 and 2012
(In thousands)**

	<u>2013</u>	<u>2012</u>
Revenue:		
Resident services	\$ 10,087	\$ 9,881
Ancillary revenue	292	342
Interest income	28	12
Total revenue	<u>10,407</u>	<u>10,235</u>
Expenses:		
Community operating expenses	4,436	4,864
General and administrative	1,133	1,069
Depreciation	424	381
Interest expense	119	51
Management fees to related party	519	511
Lease expense	3,776	3,359
Total expenses	<u>10,407</u>	<u>10,235</u>
Net income	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

BLC GLENWOOD-GARDENS AL-LH, LLC

Statements of Changes in Member's Equity

**For the years ended December 31, 2013 and 2012
(In thousands)**

	<u>Member's Equity</u>
Balance, December 31, 2011	\$ 781
Member distributions	(30)
Net income	<u>-</u>
Balance, December 31, 2012	751
Member contributions	4,430
Net income	<u>-</u>
Balance, December 31, 2013	<u><u>\$ 5,181</u></u>

See accompanying notes to financial statements.

BLC GLENWOOD-GARDENS AL-LH, LLC

Statements of Cash Flows

**For the years ended December 31, 2013 and 2012
(In thousands)**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ -	\$ -
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	424	381
Deferred taxes	(61)	(61)
Provision for doubtful accounts	23	7
Changes in operating assets and liabilities:		
Accounts receivable	19	(73)
Other current assets	(28)	48
Tenant security deposits	(1)	-
Accounts payable	239	(19)
Accrued interest	(8)	8
Accrued expenses	9	(27)
Accrued payroll	70	80
Deferred revenue	25	(80)
Net cash provided by operations	<u>711</u>	<u>264</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash	1,895	(6,374)
Purchases of property and equipment	<u>(674)</u>	<u>(222)</u>
Net cash provided by (used in) investing activities	<u>1,221</u>	<u>(6,596)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	-	6,362
Principal payment on long-term debt	(6,362)	-
Member contributions (distributions)	4,430	(30)
Net cash (used in) provided by financing activities	<u>(1,932)</u>	<u>6,332</u>
Net increase in cash	-	-
Cash at beginning of year	<u>1</u>	<u>1</u>
Cash at end of year	\$ <u>1</u>	\$ <u>1</u>

See accompanying notes to financial statements.

BLC GLENWOOD-GARDENS AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

1. Organization

BLC Glenwood-Gardens AL-LH, LLC (the "Company"), a wholly-owned indirect subsidiary of Brookdale Senior Living, Inc. (BKD or the Member), operates a 19-unit retirement center, 227-bed assisted living and 27-bed memory care on a continuing care retirement community located in Bakersfield, California (the Community).

On April 28, 2006, BKD acquired the Company. In connection with the transaction, the Company entered into a lease of the Community from BLC Glenwood Gardens AL, L.P. (the Lessor) for a 10 year term. The lease requires the Company pay to the Lessor as rent an amount equal to annual net income of the operations of the Community. The Lessor is also a wholly-owned indirect subsidiary of BKD.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosures of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results could differ from those estimates.

Recognition of Revenue

Resident fee revenue is recorded when services are rendered and consist of fees for basic housing, support services and fees associated with additional services such as personalized health and assisted living care. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly in advance. Revenue for certain ancillary charges is recognized as services are provided and is billed monthly in arrears.

Residents may elect to obtain additional services which are paid for on a monthly basis or as the services are received. These services are reported at the estimated net realizable amounts from residents and third-party payors, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

Cash – Restricted

Cash – restricted consists of reserve funds required by regulatory agencies for licensed continuing care retirement communities. The amount of reserve funds held is subject to minimum funding requirements issued by the regulatory agency.

Accounts Receivable

The Company reports accounts receivable net of an allowance for doubtful accounts to represent the Company's estimate of the amount that ultimately will be realized in cash. The Company reviews the adequacy of its allowance for doubtful accounts on an ongoing basis, using historical payment trends, analyses of receivable portfolios by payor source and aging of receivables, as well as review of specific accounts, and makes adjustments to the allowance as necessary. Late or interest charges on delinquent accounts are not recorded until collected.

Property and Equipment

Property and equipment are recorded at cost. Additions and improvements that extend the life of an asset are generally capitalized and depreciated or amortized over the lesser of the asset life or the remaining lease term. Maintenance and repair expenditures that do not improve or extend the life of assets are expensed as incurred. Depreciation is computed using the straight-line method using the following estimated useful lives:

Leasehold improvements	Shorter of the lease term or asset useful life
Furniture, fixtures and equipment	3 – 7 years

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use are assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any amount in excess of fair value recognized as an expense in the current period. Undiscounted cash flow projections and estimates of fair value amounts are based on a number of assumptions such as revenue and expense growth rates, estimated holding periods and estimated capitalization rates and discount rates. There was no impairment recorded in 2013 or 2012.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

Fair Value

Cash and restricted cash are reflected in the accompanying balance sheets at amounts considered by management to reasonably approximate fair value due to the short maturity.

ASC 820 - *Fair Value Measurement* establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Income Taxes

In 2011, the Company elected to be taxed as a corporation and files a consolidated federal income tax return with BKD. Prior to 2011, this entity was a single member LLC and income taxes were not provided in the financial statements. For the financial statement presentation, the separate-return method is used to allocate current and deferred tax expense (benefit) to the Company as if it were a separate taxpayer. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are recorded using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for its uncertainty in income taxes under ASC 740. Under ASC 740 a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur.

As of December 31, 2013, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the entity's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

The Company will file a consolidated U.S. Federal and State of California income tax return with BKD for the 2013 tax year. There are currently no Federal or California income tax returns subject to examination. The tax returns for 2011 and 2012 are subject to future examination by tax authorities.

Total income tax expense for the years ended December 31, 2013 and 2012 was comprised of:

	<u>2013</u>	<u>2012</u>
U.S. Federal:		
Current	\$ 48	\$ 48
Deferred	<u>(61)</u>	<u>(61)</u>
Total U.S. Federal	<u>(13)</u>	<u>(13)</u>
State:		
Current	13	13
Deferred	<u>-</u>	<u>-</u>
Total State	<u>13</u>	<u>13</u>
Total expense	<u>\$ -</u>	<u>\$ -</u>

The tax effect of temporary differences that give rise to the net deferred tax asset at December 31, 2013 and 2012 consisted of:

	<u>2013</u>	<u>2012</u>
Deferred tax asset – property and equipment and accrued expenses	<u>\$ 168</u>	<u>\$ 107</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets related to deductible temporary differences is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of December 31, 2013 and 2012 the Company did not carry a valuation allowance against deferred tax assets.

Subsequent Events

The Company has evaluated events subsequent to December 31, 2013 through the date that the financial statements were available to be issued, March 28, 2014, and determined that no events have occurred which would require additional disclosure.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012
(amounts in thousands except as where otherwise stated)

3. Accounts Receivable

Net accounts receivable at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Accounts receivable - residents	\$ 89	\$ 145
Allowance for doubtful accounts	<u>(7)</u>	<u>(21)</u>
Accounts receivable, net	<u>\$ 82</u>	<u>\$ 124</u>

4. Property and Equipment

Net property and equipment as of December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 892	\$ 775
Furniture and fixtures	1,429	1,214
Construction in progress	<u>343</u>	<u>1</u>
	2,664	1,990
Accumulated depreciation	<u>(1,447)</u>	<u>(1,023)</u>
Property and equipment, net	<u>\$ 1,217</u>	<u>\$ 967</u>

5. Long-term Debt

On August 10, 2012, the Company entered into a loan agreement to borrow \$6.4 million at an annual interest rate of 2.0%. The loan was entered into by the Company to fund the minimum liquid reserve as required by the state of California for continuing care retirement communities operating in the state. The loan was collateralized by the certificate of deposit held by the Company as funding for the minimum liquid reserve. The carrying value of the debt as of December 31, 2012 was \$6.4 million, which approximated fair value.

During 2013, the Company redeemed the certificate of deposit held to fund the minimum liquid reserve and used the proceeds to pay off the loan balance of \$6.4 million. As of December 31, 2013, the minimum liquid reserve was funded by restricted cash of \$4.5 million.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

6. Related Party Transactions

On August 26, 2010, the Company entered into a management agreement with Brookdale Living Communities, Inc. (BLC). Under the terms of the agreement, BLC receives a management fee of 5.0% of gross revenues (as defined by the terms of the agreement). The amount incurred for management fees was \$519 and \$511 for the years ended December 31, 2013 and 2012, respectively. The management contracts expire on August 26, 2020. BLC is a wholly owned subsidiary of BKD.

7. Commitments and Contingencies

Litigation – The Company is subject to legal proceedings and claims that arise in the ordinary course of business. However, management believes the amount of potential liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

Insurance - Through BKD, the Company currently maintains professional and general liability insurance. BKD's current policies provide for deductibles for each and every claim and as a result they are, in effect, self-insured for claims that are less than the deductible amounts. In addition, the Company participates in BKD's large-deductible workers compensation program and a self-insured employee medical program. Estimated costs related to the self-insurance program are accrued at BKD based on known claims and projected settlement of unasserted claims incurred but not reported to the Company. The Company records an allocated monthly fee for insurance costs. Subsequent changes in actual experience (including claim costs, claim frequency, and other factors) could result in additional costs to the Company.

Health Care Regulations - Federal and state governments regulate various aspects of the Company's business. The development and operation of health care facilities and provision of health care services are subject to federal, state, and local licensure, certification, and inspection laws that regulate, among other matters, the number of licensed beds, the provision of services, the distribution of pharmaceuticals, billing practices and policies, equipment, staffing (including professional licensing), operating policies and procedures, fire prevention measures, environmental matters, and compliance with building and safety codes. Failure to comply with these laws and regulations could result in the denial of reimbursement, the imposition of fines, temporary suspension of admission of new patients, restrictions on the ability to acquire new facilities or expand existing facilities, and, in extreme cases, the revocation of a community's license or closure of a community.

BLC Glenwood-Gardens AL-LH, LLC

Notes to Financial Statements

December 31, 2013 and 2012

(amounts in thousands except as where otherwise stated)

Healthcare Reform – In March 2010, the Patient Protection and Affordable Care Act were signed into law, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the Affordable Care Act). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that is expected to expand health care coverage to millions of currently uninsured people beginning in 2014 and provide for significant changes to the U.S. health care system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various health care providers, including skilled nursing facilities, as well as certain other changes in Medicare payment methodologies. This comprehensive health care legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended.

Due to the complexity of the Affordable Care Act's laws, lack of current implementation regulations and interpretive guidance, and response by CMS and other participants in the health care industry to the choices available under the law, it is difficult for the Company to predict the full impact of the law on the Company. Additionally, pending legislative proposals which may be adopted may affect the Company. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act may materially impact the Company through increased costs, decreased revenues, and additional exposure to potential liability, or require the Company to revise the method it conducts business.

Minimum Liquid Reserve - The State of California (the State), under Health and Safety Code Chapter 10, requires the Company to maintain a MLR balance based upon certain financial calculations. The MLR balance is required as the community is licensed as a continuing care retirement community. The reserve balance expected to be required by the State during 2014 is approximately \$4.7 million. As of December 31, 2013 the reserve is underfunded. As such, an additional funding is expected to be required during 2014.

The Member

BLC Glenwood-Gardens AL-LH, LLC:

We have audited the financial statements of BLC Glenwood-Gardens AL-LH, LLC (the "Company") as of and for the year ended December 31, 2013, and have issued our report thereon dated March 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Company are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the allowance for doubtful accounts, lease expense and the depreciable lives of property and equipment. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In connection with the audit, management identified several adjustments that primarily related to bi-furcating the operating legal entity and real estate legal entity on the general ledger. Previously, these two entities were combined on one general ledger. The primary effect was to remove approximately \$52 million in property and equipment and \$31 million in debt and record \$4 million in lease expense on the general ledger subject to audit. The entries reduced member's equity by approximately \$21 million.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Independence

We are not aware of any relationships between our firm and the Company that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred during the period from January 1, 2013 through the date of this letter.

This information is intended solely for the use of the Member, management, and others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
March 28, 2014

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	8-10-2012	Ø	118,816	Ø	118,816
2					
3					
4					
5					
6					
7					
8					
TOTAL:			118,816	Ø	118,816

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

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

PROVIDER: BLC GUARANTY SERVICES AL-LH, LLC

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

	(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))
Long-Term Debt Obligation					
1					
2					
3					
4					
5					
6					
7					
8					
TOTAL:					0

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

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

PROVIDER: BLC Glenwood Gardens AL-LH, LLC

FORM 5-3

CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	118,816
2	Total from Form 5-2 bottom of Column (e)	∅
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	3,715,763
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	3,894,579

PROVIDER: BLC Glenwood Gardens AL-LH, LLC

Nov 2013 - Oct 2014

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$ 5,122,632
2	Deductions	
a	Interest paid on long-term debt (see instructions)	12849
b	Credit enhancement premiums paid for long-term debt (see instructions)	-
c	Depreciation	209,167
d	Amortization	-
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	-
f	Extraordinary expenses approved by the Department	-
3	Total Deductions	222,016
4	Net Operating Expenses	
5	Divide Line 4 by 365 and enter the result.	4,900,616
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve mount.	13246
		\$ 1,006,976

PROVIDER: SIC Clinwood Gardens AL-LH, LLC
COMMUNITY: Clinwood Gardens

BLC Glenwood Gardens AL-LH, LLC
Form 5-4 Supporting Calculation

License - October 22, 2013

November + December 2013

Expenses	\$	957,800.00	Actuals
G&A Expenses		<u>(154,953.00)</u>	
Community Operating Expenses:	\$	802,847.00	

Add: Deductions

Interest paid on LT Debt		12,849
Depreciation		<u>73,603</u>

Total Operating Expenses: \$ 889,299.00 November & December 13'

Projected Expenses - Jan - Oct

Expenses	\$	5,103,333.33	A
G&A Expenses		<u>(1,079,166.67)</u>	B
Community Operating Expenses:	\$	4,024,166.67	

Add: Deductions

Interest paid on LT Debt		-
Depreciation		<u>209,166.67</u>

Total Operating Expenses: \$ 4,233,333.33 Jan - Oct 14' projected

\$ 5,122,632.33 Operating Expenses

Calculation of A:

Application Amounts:

Expenses:	<u>Application</u>	<u>10/12 Adjustment</u>	<u>Other</u>	<u>Net</u>
Assisted living	1,061,000.00	884,166.67		884,166.67
Dietary	1,581,000.00	1,317,500.00		1,317,500.00
Environmental Services	1,093,000.00	910,833.33		910,833.33
Residential Services	594,000.00	495,000.00		495,000.00
Administrative	1,295,000.00	1,079,166.67 B		1,079,166.67
Real Estate Taxes	936,000.00	780,000.00	(363,333.33) aa	416,666.67 aa
Expenses:				5,103,333.33 A

aa - Annual real estate tax estimate of \$500,000 subsequent to the new assessment in 2013 - use 10/12

**FORM 5-5
ANNUAL RESERVE CERTIFICATION**

Provider Name: BLC Greenwood Garbins AL-LH, LLC
 Fiscal Year Ended: December 31, 2013

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended December 31, 2013 and are in compliance with those requirements.

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

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>3,894,579</u>
[2] Operating Expense Reserve Amount	<u>1,006,976</u>
[3] Total Liquid Reserve Amount:	<u>4,901,555</u>

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

<u>Qualifying Asset Description</u>	<u>Amount</u> (market value at end of quarter)	
	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>3,894,579</u>	<u>584,295</u>
[5] Investment Securities	_____	_____
[6] Equity Securities	_____	_____
[7] Unused/Available Lines of Credit	_____	_____
[8] Unused/Available Letters of Credit	_____	_____
[9] Debt Service Reserve	_____	(not applicable)
[10] Other: _____ (describe qualifying asset)	_____	_____
Total Amount of Qualifying Assets Listed for Liquid Reserve:	[11] align="right"> <u>3,894,579</u>	[12] align="right"> <u>584,295</u>
Total Amount Required:	[13] align="right"> <u>3,894,579</u>	[14] align="right"> <u>1,006,976</u>
Surplus/(Deficiency):	[15] align="right"> <u>0</u>	[16] align="right"> <u>(422,681)</u>

Signature: _____

(Authorized Representative)

Date: _____

(Title)

BLC Glenwood Gardens AL-LH, LLC
Deficiency Plan
December 31, 2013

In response to the deficiency calculated on Form 5-5 of the Annual Report, BLC Glenwood Gardens AL-LH, LLC (the Provider) will designate sufficient qualifying assets on, or before, June 30, 2014. The provider will receive the additional qualifying assets from Brookdale Senior Living, Inc of which the provider is a wholly-owned indirect subsidiary.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$2,382 - \$3,896</u>	<u>\$3,448 - \$5,148</u>	<u>N/A</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>3%</u>	<u>4%</u>	<u>N/A</u>

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: JANUARY 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: BLC GLENWOOD GARDENS AL-LH LLC
COMMUNITY: GLENWOOD GARDENS

FORM 7-1

Form 7-1

[5] BLC Glenwood Gardens AL-LH LLC increases IL, AL, and MC monthly service fees on January 1 each year. Monthly service fees increase at the same level as expenses which have averaged from 3%-5% over the last five years depending on the year and level of care. Future increases are forecast to remain at similar levels.

**Continuing Care Retirement Community
Disclosure Statement
General Information**

Date Prepared: _____



FACILITY NAME: Glenwood Gardens
 ADDRESS: 350 Calloway Drive, Bakersfield, CA ZIP CODE: 93312 PHONE: 661-587-0221
 PROVIDER NAME: BLC Glenwood-Gardens AL-LH, LLC FACILITY OPERATOR: Brookdale Senior Living
 RELATED FACILITIES: No other CCRC's in CA RELIGIOUS AFFILIATION: None
 YEAR OPENED: 1998 NO. OF ACRES: 21 MULTI-STORY: _____ SINGLE STORY: _____ BOTH: X
 MILES TO SHOPPING CTR: 2.0 MILES TO HOSPITAL: 1.0

NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>34</u>	ASSISTED LIVING <u>81</u>
APARTMENTS - 1 BDRM	<u>88</u>	SKILLED NURSING <u>N/A</u>
APARTMENTS - 2 BDRM	<u>24</u>	SPECIAL CARE <u>27</u>
COTTAGES/HOUSES	<u>19</u>	DESCRIBE SPECIAL CARE: <u>Memory Care</u>
% OCCUPANCY AT YEAR END	<u>75%</u>	

TYPE OF OWNERSHIP: NOT FOR PROFIT FOR PROFIT ACCREDITED: Y N BY: _____

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: _____

RANGE OF ENTRANCE FEES: \$ _____ TO \$ _____ LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	SERVICES AVAILABLE		INCLUDED IN FEE	FOR EXTRA CHARGE
	AVAILABLE	FEE FOR SERVICE		
BEAUTY/BARBER SHOP	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	Weekly See X/Y
BILLIARD ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	2/day See X/Y
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	In AL See X/Y
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>		
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
COFFEE SHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/> <input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/> <input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/> <input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/> <input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input type="checkbox"/> <input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/> <input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input type="checkbox"/> <input checked="" type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/> <input type="checkbox"/>
SWIMMING POOL-INDOOR	<input type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/> <input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/> <input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/> <input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER _____	<input type="checkbox"/> <input type="checkbox"/>
OTHER _____	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>

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.

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	\$10,334,776	\$10,271,280	\$10,235,828	\$10,407,449
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	<u>(4,686,284)</u>	<u>(4,810,079)</u>	<u>(4,864,001)</u>	<u>(4,436,894)</u>
NET INCOME FROM OPERATIONS	5,648,492	5,461,201	5,371,827	5,970,555
LESS INTEREST EXPENSE	-	-	(51,214)	(118,816)
PLUS CONTRIBUTIONS	-	-	-	-
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	(5,502,539)	(5,190,328)	(4,939,902)	(5,427,370)
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	<u>\$ 145,953</u>	<u>270,873</u>	<u>\$ 380,711</u>	<u>\$ 424,369</u>
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	-	-	-	-

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD
N/A					

FINANCIAL RATIOS (see next page for ratio formulas)

	2009 CCAC Medians 50 th Percentile (optional)	2011	2012	2013
DEBT TO ASSET RATIO		0%	83.8%	0%
OPERATING RATIO		46.8%	47.5%	42.6%
DEBT SERVICE COVERAGE RATIO		0.1	0.1	0.1
DAYS CASH-ON-HAND RATIO		-	-	-

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

	2010		2011		2012		2013	
	\$	%	\$	%	\$	%	\$	%
STUDIO	\$2,253	3.8%	\$2,339	1.8%	\$2,382	0.01%	\$2,398	
ONE BEDROOM	\$3,163	2.2%	\$3,233	2.1%	\$3,300	(0.01%)	\$3,277	
TWO BEDROOM	\$3,770	2.1%	\$3,850	1.7%	\$3,914	3.3%	\$4,044	
COTTAGE/HOUSE	\$3,665	5.0%	\$3,850	1.2%	\$3,896	2.6%	\$3,998	
ASSISTED LIVING	\$3,213	3.0%	\$3,308	4.2%	\$3,448	3.9%	\$3,583	
SKILLED NURSING	-	-	-	-	-	-	-	
SPECIAL CARE	\$4,821	3.0%	\$4,968	3.6%	\$5,148	4.0%	\$5,352	

COMMENTS FROM PROVIDER: Historical MSF's corrected from previous version provided. MSF's shown are rates charged to residents. Special Care (Memory Care) rates are per bed.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

$$\frac{\begin{aligned} &\text{Total Operating Expenses} \\ &\quad - \text{Depreciation Expense} \\ &\quad - \text{Amortization Expense} \end{aligned}}{\begin{aligned} &\text{Total Operating Revenues} \\ &\quad - \text{Amortization of Deferred Revenue} \end{aligned}}$$

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

$$\frac{\begin{aligned} &\text{Unrestricted Current Cash} \\ &\quad \text{And Investments} \\ &\quad + \text{Unrestricted Non-Current Cash} \\ &\quad \text{and Investments} \end{aligned}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

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.