Episcopal Communities & Services

The art of creating community

RECEIVED
NOV 08 2013
CONTINUING CARE
CONTRACTS BRANCH

October 31, 2013

Ms. Allison Nakatomi
Continuing Care Contracts
Community Care Licensing Division
744 P Street, M.S. 8-3-90
Sacramento, CA 95814

Dear Allison,

Enclosed are three original copies of the annual report for Episcopal Communities & Services for Seniors.

If you have any questions regarding the annual report please contact me at 626.403.1482.

Sincerely,

Elena Liu
Controller

Cc: Martha Tamburrano
James Rothrock

Episcopal Communities & Services

The art of creating community

October 31, 2013

RECEIVED
NOV 08 2013
CONTINUING CARE CONTRACTS BRANCH

Continuing Care Contracts Branch
California Department of Social Services
744 P Street, M.S. 11-90
Sacramento, California 95814

I hereby certify that the enclosed Continuing Care Reports are correct, that the contracts in use for residents at Scripps Kensington, at The Canterbury and at The Covington have been approved by the California Department of Social Services, and that we are maintaining statutory reserves and refund reserves pursuant to requirements of the California Health and Safety Code.

Martha Tamburrano
President and C.E.O.

1111 South Arroyo Parkway
Suite 230
Pasadena, CA 91105
www.ecsforseniors.org
(626) 403-5880

CONTINUATION CERTIFICATE

In Consideration of the renewal premium the **Fidelity and Deposit Company of Maryland** hereby continues the following bond:

Bond Number: **08497359**

Principal: **THE HOME FOR THE PROTESTANT EPISCOPAL CHURCH OF THE DIOCESE**

Obligee: **State of California Health and Welfare Agency**

Type of Bond: **License & Permit**

Beginning: **April 23, 2010**

Ending: **April 22, 2014**

This continuation is executed upon the express condition that the Company's liability under said bond and this and all continuations thereof shall not be cumulative and shall in no event exceed the sum of **One Hundred Twenty Five Thousand and No/100 Dollars ($125,000.00).**

SIGNED AND SEALED THIS **23rd day of June, 2010**

Fidelity and Deposit Company of Maryland

By: Victoria M Campbell
Victoria M. Campbell, Attorney-in-Fact

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of Orange

On June 23, 2010 before me, Kim Heredia, Notary Public,
DATE — NAME, TITLE OF OFFICER - E.G., "JANE DOE, NOTARY PUBLIC"

personally appeared Victoria M. Campbell, who proved to me on the basis of satisfactory evidence to be the person(s) whose names (s) is/are subscribed to the within instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~ authorized capacity(ies), and that by ~~his/her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

BCTO
KIM HEREDIA
COMM. #1767050
NOTARY PUBLIC - CALIFORNIA
ORANGE COUNTY
My Comm. Expires July 14, 2011
BCTO

WITNESS my hand and official seal.

K. Heredia

SIGNATURE OF NOTARY

OPTIONAL

Though the data below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent reattachment of this form.

CAPACITY CLAIMED BY SIGNER

☐ INDIVIDUAL

☐ CORPORATE OFFICER

TITLE(S)

☐ PARTNER(S) ☐ LIMITED ☐ GENERAL

☒ ATTORNEY-IN-FACT

☐ TRUSTEE(S)

☐ GUARDIAN/CONSERVATOR

☐ OTHER:

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

Fidelity and Deposit Company of Maryland

DESCRIPTION OF ATTACHED DOCUMENT

TITLE OR TYPE OF DOCUMENT

NUMBER OF PAGES

JUN 23 2010

DATE OF DOCUMENT

SIGNER(S) OTHER THAN NAMED ABOVE.

Power of Attorney
FIDELITY AND DEPOSIT COMPANY OF MARYLAND

KNOW ALL MEN BY THESE PRESENTS: That the FIDELITY AND DEPOSIT COMPANY OF MARYLAND, a corporation of the State of Maryland, by WILLIAM J. MILLS, Vice President, and GREGORY E. MURRAY, Assistant Secretary, in pursuance of authority granted by Article VI, Section 2, of the By-Laws of said Company, which are set forth on the reverse side hereof and are hereby certified to be in full force and effect on the date hereof, does hereby nominate, constitute and appoint Victoria M. CAMPBELL, Kim HEREDIA and Erik JOHANSSON, all of Irvine, California, EACH its true and lawful agent and Attorney-in-Fact, to make, execute, seal and deliver, for, and on its behalf as surety, and as its act and deed: any and all bonds and undertakings, and the execution of such bonds or undertakings in pursuance of these presents, shall be as binding upon said Company, as fully and amply, to all intents and purposes, as if they had been duly executed and acknowledged by the regularly elected officers of the Company at its office in Baltimore, Md., in their own proper persons. This power of attorney revokes that issued on behalf of Victoria M. CAMPBELL, Maria Luisa R. AGUINALDO, Kim HEREDIA, dated June 29, 2007.

The said Assistant Secretary does hereby certify that the extract set forth on the reverse side hereof is a true copy of Article VI, Section 2, of the By-Laws of said Company, and is now in force.

IN WITNESS WHEREOF, the said Vice-President and Assistant Secretary have hereunto subscribed their names and affixed the Corporate Seal of the said FIDELITY AND DEPOSIT COMPANY OF MARYLAND, this 24th day of February, A.D. 2009.

ATTEST: FIDELITY AND DEPOSIT COMPANY OF MARYLAND

Gregory E. Murray

By: William J. Mills

Gregory E. Murray Assistant Secretary *William J. Mills* *Vice President*

State of Maryland
City of Baltimore } ss:

On this 24th day of February, A.D. 2009, before the subscriber, a Notary Public of the State of Maryland, duly commissioned and qualified, came WILLIAM J. MILLS, Vice President, and GREGORY E. MURRAY, Assistant Secretary of the FIDELITY AND DEPOSIT COMPANY OF MARYLAND, to me personally known to be the individuals and officers described in and who executed the preceding instrument, and they each acknowledged the execution of the same, and being by me duly sworn, severally and each for himself deposeth and saith, that they are the said officers of the Company aforesaid, and that the seal affixed to the preceding instrument is the Corporate Seal of said Company, and that the said Corporate Seal and their signatures as such officers were duly affixed and subscribed to the said instrument by the authority and direction of the said Corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal the day and year first above written.

Constance A. Dunn

Constance A. Dunn *Notary Public*
My Commission Expires: July 14, 2011

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
300 NORTH LAKE AVENUE, SUITE 930
PASADENA, CALIFORNIA 91101
TEL: (626) 577-1440 FAX: (626) 577-1082

PARTNERS OF THE FIRM
DAVID P. BERINGER
ERICH RAIL
MICHAEL TAO
DONALD R. WESTENHAVER, JR.

October 11, 2013

To the Audit Committee
of Episcopal Communities & Services for Seniors

We have audited the consolidated financial statements of Episcopal Communities & Services for Seniors and Subsidiaries ("ECS") and the separate financial statements of Sophie Miller Foundation ("SMF") for the year ended June 30, 2013, and the financial statements of ECS Management LLC ("ECSLLC") and MonteCedro LLC ("MCLLC") for the period from inception (November 5, 2012) through June 30, 2013. We have issued our reports thereon dated October 11, 2013. 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 letters to you dated April 29, 2013 and March 25, 2013. Professional standards also require that we communicate to you the following information related to our audits.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ECS, SMF, ECSLLC, and MCLLC are described in Note 1 to their 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 organizations 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 were:

- Fair value of investments.
- Deferred revenues and amortization of entrance fees.
- Obligation to provide future services and use of the facilities in excess of amounts received or to be received for such services.
- Provision for the liability for losses during phase-out period for discontinued operations.
- Accrual of workers' compensation liabilities.
- Valuation of split-interest agreements and unconditional promise to give.
- Allowance for uncollectible accounts receivable.
- Depreciable lives and estimated residual value of property and equipment.
- Amortization period of costs of acquiring initial care agreements and capitalized financing costs.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is 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 audits.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 audits.

Management Representations

We have requested certain representations from management that are included in the management representation letters dated October 11, 2013.

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 organizations' financial statements or a determination of the type of auditor's 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 Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

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 organizations' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We became aware of matters that are opportunities for strengthening internal controls and operating efficiency. Our comments are as follows:

Current Year's Comments (applicable to ECS, SMF, ECSLLC, MCLLC):

Increase the Threshold for Capitalization of Fixed Assets

At present, ECS and ECSLLC capitalize property acquisitions over $500. In view of the organizations' anticipated increase in property acquisitions and continued growth, we recommend that management consider the possibility of increasing the threshold (perhaps $2,000 to $5,000) to avoid having to keep ongoing records for items of relatively small value. This will eliminate unnecessary work by the accounting department in recording and depreciating minor items.

Management Response: Management agrees with the recommendation and implemented increased thresholds effective July 1, 2013.

Year-End Analysis and Review of Related Party Transactions

ECS and its related organizations continue to grow and its transactions, including related party transactions, and reporting requirements continue to increase in both frequency and complexity. Currently, the accounting staff spend a significant amount of time analyzing and recording related party transactions on a monthly basis. This analysis includes ensuring that all fund transfers, net asset transfers, and all management fees are properly accounted for and recorded in the various related organization's books and records and that all appropriate supporting documentation is gathered and maintained. This process is becoming a bigger and bigger job as ECS continues to grow.

In conjunction with the monthly analysis that the accounting staff currently performs, we recommend that a summary of related party account balances and transactions be prepared at year-end to support the adjusted year-end account balances that are impacted by related party transactions. This year-end summary should include the necessary inter-organization eliminating entries of related party transactions in order to correctly report consolidated financial activity. The preparation of this summary will make evident any problems or inconsistencies related to related party transactions before your annual audit begins and will significantly reduce the amount of time spent by both the accounting staff and the auditors on reviewing and adjusting related party transactions.

Management Response: Management agrees with the recommendation.

Assess the Accounting Department Staffing Needs

As we have discussed above and have observed during our past audits, we noted that ECS' and its related organization's transactions, including related party transactions, continue to increase in both frequency and complexity as ECS and its related organizations have grown larger and its activities more complex over the past several years. As a result, the accounting staff of ECS and its related organizations now have significantly more accounting responsibilities. These responsibilities include dealing with a much higher volume of transactions and new and more complex financial reporting requirements, along with the responsibility to analyze and record numerous related party transactions on a monthly basis. It is likely that these responsibilities will only continue to increase as the organization continues to grow. We therefore recommend that you assess the staffing needs of the accounting department and plan for the increased workload anticipated as a result of your recent organizational changes and those that are expected in the future.

Management Response: Management agrees with the recommendation and during the year reallocated personnel to provide additional accounting resources. Consideration is given to funding sources and accounting requirements of the newly created affiliate organizations (i.e., MonteCedro LLC, Artful Home Care LLC and ECS Management LLC) when determining staffing levels.

<u>Prior Years' Comments:</u>

Centralized Purchase Order System (applicable to ECS, SMF, ECSLLC, MCLLC)

During our prior year audit, we noted a centralized purchase order system is not used. Additionally, purchase orders are not generated for approval before processing the purchase. Invoices are however, matched to packing slips and shipping documents, which are approved by a department head.

We recommended that a centralized purchase order system be utilized to control spending of the organizations' resources and to help ensure that organizations' pay only for items that are actually received. The system should provide for approval of purchase orders that exceed certain defined limits.

2013 Update: The organizations will be implementing the usage of the purchase order module within AOD's financial software and considering implementation of Bank of America's purchase card system. Capital purchases have utilized a purchase order process for many years.

Record Retention and Destruction Policy and Electronic File Storage Software Program (applicable to ECS, SMF, ECSLLC, MCLLC)

During our prior year audit, we noted that your record retention and destruction policy did not specifically address the policy for destruction and storage of electronic files. We recommended that the policy be updated to reflect this and the policy should then be periodically communicated throughout the organizations, and compliance with the policy should be monitored.

Additionally, we recommended that you consider the purchase of an electronic file storage software program to assist with the organization of electronic files and compliance with your document retention policy for these types of files.

2013 Update: The organizations are in the process of implementing Microsoft SharePoint as their document management solution. They recently went through an in-depth overview, planning, and design with a SharePoint consulting company, ShareSquared. They will be signing a contract for implementation soon.

In addition, the record retention and destruction policy has been updated to specifically state the destruction and storage of electronic files.

Documentation of Contributions Received (applicable to ECS, SMF, ECSLLC, MCLLC)

During our prior year audit, we noted that no standard donation form is used for all contributions. For smaller contributions, donors complete a standard form specifying what programs or funds they would like to support. For larger contributions however, the donors typically communicate this verbally with staff of the organizations.

We recommended that all donors be required to complete a standard donation form that specifies how they would like their contributions to be used by the organizations. Or at a minimum, the form should be completed upon verbal communication with the donor. When possible, the form should be signed by the donor. This will reduce the chance of misallocation of funds, misunderstanding of donors' intents and the accounting that goes along with these transactions.

2013 Update: During 2013, the organization created a new standardized contribution form (the Donor Contribution Form). This form will be used in addition to the two other standardized forms previously used to ensure that all contributions received properly document donors' intents.

Establish an Internal Audit Function In-House (applicable to ECS, SMF, ECSLLC, MCLLC)

During the 2008 and subsequent year ECS audits, we recommended that ECS establish an in-house internal audit function because ECS has grown in size and the complexity of their accounting and reporting issues have significantly increased. Internal auditing consists of an independent review of an organization's accounting, financial, and other operations. The objective of an internal audit is to review an organization's financial and operational activities and its complex transactions to provide management with information about the effectiveness and efficiency of established accounting and operational policies, procedures and controls. Another objective is the detection and prevention of financial statement misstatements due to error or fraud.

We are available during December and January provide internal audit support and to review complex financial transactions, as well as related policies and procedures which could include related party transactions, capitalization of MonteCedro LLC's project development costs, deferred revenues and amortization of entrance fees, and the calculation of ECS' future service obligation ("FSO").

2013 Update: We noted during the 2013 audit that an in-house internal audit function has not yet been established. We continue to recommend that ECS establish one.

This information is intended solely for the use of the Audit Committee, Board of Directors, Board of Trustees, and management of ECS, SMF, ECSLLC and MCLLC, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Martin Werbelow LLP

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101
TEL: (626) 577-1440 FAX: (626) 577-1082

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Episcopal Communities & Services for Seniors and Subsidiaries
Pasadena, California

We have audited the accompanying continuing care reserve report ("Reports") of Episcopal Communities & Services for Seniors and Subsidiaries (the "Organization") as of June 30, 2013.

Management's Responsibility for the Reports
Management is responsible for the preparation and fair presentation of the Reports in accordance with the provisions of the California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Reports that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the Reports 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 Reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, 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 Reports 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 Reports.

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 Reports present fairly, in all material respects, the continuing care reserve requirements of the Organization as of June 30, 2013, in accordance with the provisions of the California Health and Safety Code Section 1792.

Other Matter
The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code Section 1792 and are not intended to be a complete presentation of the Organization's assets, liabilities, revenues and expenses.

Restriction on Use
This report is intended solely for the information of the Board of Directors and management of the Organization and the California Department of Social Services and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Martin Werbelow LLP

October 23, 2013

Financial Statements

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES

For the Years Ended June 30, 2013 and 2012

CONTENTS

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
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TEL: (626) 577-1440 FAX: (626) 577-1082

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Episcopal Communities & Services for Seniors and Subsidiaries

We have audited the accompanying consolidated financial statements of Episcopal Communities & Services for Seniors (a nonprofit organization) and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Community Housing Management Services, a wholly-owned subsidiary, which statements reflect total assets of $265,000 and $168,000 as of June 30, 2013 and 2012, respectively, and total revenues of $588,000 and $214,000 for the year ended June 30, 2013, and for the period from April 1, 2012 through June 30, 2012, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for Community Housing Management Services, is based solely on the report of other auditors. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Communities & Services for Seniors and Subsidiaries as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

October 11, 2013

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	$ 8,034	$ 6,035
Investments, short-term	19,985	14,441
Accounts receivable, net	692	854
Other receivables	224	347
Inventories	81	62
Prepaid expenses and other current assets	750	945
Restricted cash and cash equivalents for bond indenture	-	400
Restricted investments for bond indenture	-	1,039
Notes receivable - entrance fees	-	1,177
Total Current Assets	29,766	25,300
Property and Equipment, Net	90,620	92,536
Other Assets		
Investments, long-term	86,651	98,300
Split-interest agreements	11	20
Unconditional promise to give	467	453
Deferred charges and other assets	618	483
Costs of acquiring initial continuing care agreements, net	287	599
Project development costs	15,187	7,584
Capitalized financing costs, net	1,206	8,816
Restricted cash and cash equivalents for bond indenture	4,438	4,593
Restricted investments for bond indenture	-	3,081
Other assets	-	19
Total Other Assets	108,865	123,948
Total Assets	$ 229,251	$ 241,784

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012
(continued)
(DOLLARS IN THOUSANDS)

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities		
Accounts payable and accrued expenses	$ 1,417	$ 1,563
Accrued compensation, payroll taxes and benefits	1,124	1,179
Interest payable	390	1,687
Other current liabilities	4,335	2,553
Grant payable	99	-
Current portion of liability for losses during phase-out period of discontinued operations	1,410	1,621
Current portion of long-term debt	1,028	2,145
Total Current Liabilities	9,803	10,748
Other Liabilities		
Deferred interest income	-	1,179
Deposits from residents	41	57
Refundable portion of deferred revenue from entrance fees	1,750	2,150
Deferred revenue from entrance fees	70,120	67,474
Liability for losses during phase-out period of discontinued operations, net of current portion	4,266	5,290
Long-term debt, net of current maturities	70,196	72,855
Total Other Liabilities	146,373	149,005
Total Liabilities	156,176	159,753
Net Assets		
Unrestricted		
Designated by the Board	54,571	59,161
Undesignated	15,232	19,702
Total Unrestricted	69,803	78,863
Temporarily restricted	1,304	1,200
Permanently restricted	1,968	1,968
Total Net Assets	73,075	82,031
Total Liabilities and Net Assets	$ 229,251	$ 241,784

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
Change in Unrestricted Net Assets		
Operating Revenue, Other Support, and Investment Returns		
Operating Revenue and Other Support		
Resident care fees, net of contractual adjustments and allowances of $1,834 and $1,268 for the years ended June 30, 2013 and 2012, respectively	$ 20,751	$ 20,288
Ancillary services	4,388	3,560
Management fee revenue	560	2,904
Amortization of entrance fees	3,491	3,505
Contributions	187	650
Miscellaneous income	86	68
Total Operating Revenue and Other Support	29,463	30,975
Investment Returns Available for Current Operations		
Dividends, interest, and royalties	3,177	4,444
Net realized gains (losses)	2,853	(1)
Total Investment Returns Available for Current Operations	6,030	4,443
Total Operating Revenue, Other Support, and Investment Returns	35,493	35,418
Operating Expenses		
Departmental Expenses		
General and administrative	4,774	5,359
Dining service	4,190	4,331
Nursing service, routine	3,500	5,055
General maintenance	2,454	2,312
Ancillary services	1,463	1,141
Activities and social services	1,160	1,226
Housekeeping	1,078	1,298
Marketing	829	761
Resident health service	757	729
Program services	741	206
Security	258	267
Insurance	237	212
Grounds and gardens	159	171
Total Departmental Expenses	$ 21,600	$ 23,068

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(continued)
(DOLLARS IN THOUSANDS)

	2013	2012
Change in Unrestricted Net Assets (continued)		
Property Expenses		
Depreciation	$ 4,550	$ 4,211
Property taxes	87	87
Property insurance	60	61
Total Property Expenses	4,697	4,359
Other Expenses		
Interest expense	3,306	4,110
Investment expenses	676	479
Amortization expense	520	763
Income tax expense	8	-
Other expenses	211	54
Total Other Expenses	4,721	5,406
Total Operating Expenses	31,018	32,833
Operating Income	$ 4,475	$ 2,585

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
Change in Unrestricted Net Assets		
Operating Income	$ 4,475	$ 2,585
Other Changes In Unrestricted Net Assets		
Excess (deficiency) of investment returns over (under) amounts available for current operations	2,177	(4,850)
Gain (loss) on disposal of property and equipment	(307)	6
Loss on refunding of long-term debt	(14,975)	-
Accretion expense	(552)	-
Excess of assets acquired over liabilities assumed in the acquisition of Community Housing Management Services	-	72
Net asset reclassification consistent with donor intent	-	(7)
Net assets released from restrictions	122	475
Change in Unrestricted Net Assets	(9,060)	(1,719)
Change in Temporarily Restricted Net Assets		
Net asset reclassification consistent with donor intent	-	7
Contributions	226	213
Change in value of split-interest agreements	-	(92)
Net assets released from restrictions	(122)	(475)
Change in Temporarily Restricted Net Assets	104	(347)
Change in Net Assets	(8,956)	(2,066)
Net Assets, Beginning	82,031	84,097
Net Assets, Ending	$ 73,075	$ 82,031

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
Operating Activities		
Cash received:		
Resident care fees, net of contractual adjustments and allowances	$ 26,089	$ 24,596
Entrance fees	16,155	17,163
Contributions	399	849
Investment income	3,211	4,344
Payroll and related expenses of managed properties received	2,060	623
Management fee revenue	542	3,135
Other	157	283
Cash disbursed:		
Cash paid to employees and suppliers	(25,143)	(30,107)
Payroll and related expenses of managed properties paid	(2,060)	(623)
Interest	(4,721)	(4,164)
Cash paid for bond refunding	(7,500)	-
Other	(25)	(53)
Net Cash Provided by Operating Activities	9,164	16,046
Investing Activities		
Investment income reinvested	(2,613)	(3,686)
Purchase of investments	(8,545)	(20,381)
Proceeds from sale of investments	22,263	14,815
Purchase of property and equipment	(2,981)	(3,127)
Proceeds from sale of property and equipment	26	78
Additions to project development costs - MonteCedro facility	(7,805)	(2,229)
Collection of notes receivable	-	10,750
Cash received in acquisition of Community Housing Management Services	-	33
Release of (transfer to) restricted cash, cash equivalents and investments	107	(241)
Net Cash Provided by (Used in) Investing Activities	452	(3,988)
Financing Activities		
Payment of long-term debt	(340)	(2,150)
Refund of entrance fees	(7,277)	(9,986)
Net Cash Used in Financing Activities	(7,617)	(12,136)
Net Increase (Decrease) in Cash and Cash Equivalents	1,999	(78)
Cash and Cash Equivalents, Beginning	6,035	6,113
Cash and Cash Equivalents, Ending	$ 8,034	$ 6,035

The accompanying notes are an integral part of these statements.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(continued)
(DOLLARS IN THOUSANDS)

	2013	2012
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$ (8,956)	$ (2,066)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Amortization of entrance fees	(3,491)	(3,505)
Amortization of premium	(118)	-
Amortization of deferred interest income	(25)	(60)
Provision for doubtful accounts	20	27
Depreciation expense	4,566	4,261
Amortization expense	519	763
Accretion expense	552	-
Write off deferred interest income	(1,154)	-
Write off unamortized financing costs	8,629	-
Excess of assets acquired over liabilities assumed in the acquisition of Community Housing Management Services	-	(72)
Realized and unrealized (gains) losses on investments	(4,984)	4,430
Change in value of split-interest agreements	-	92
(Gain) loss on disposal of property and equipment, net	307	(6)
(Increase) decrease in:		
Accounts receivable	140	(274)
Other receivables	123	303
Inventories	(20)	(6)
Prepaid expenses and other current assets	219	(416)
Notes receivable - entrance fees	1,177	331
Split-interest agreements	-	139
Deferred charges and other assets	(116)	338
Increase (decrease) in:		
Accounts payable and accrued expenses	21	(444)
Accrued compensation, payroll taxes, and benefits	(61)	(333)
Interest payable	(1,297)	(43)
Other current liabilities	(164)	(429)
Grant payable	99	-
Deposits from residents	(14)	24
Deferred revenue from entrance fees	14,979	17,163
Liability for losses during phase-out period of discontinued operations	(1,787)	(4,171)
Total Adjustments	18,120	18,112
Net Cash Provided by Operating Activities	$ 9,164	$ 16,046

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(continued)
(DOLLARS IN THOUSANDS)

	2013	2012
Supplemental Schedule of Non-cash Investing and Financing Activities		
Project development costs financed through accounts payable, accrued expenses, other liabilities, and prepaid expenses	$ 1,091	$ 541
Non-cash bond refunding transactions:		
Refunding of Series 2002A and 2002B bonds	$ 75,000	$ -
Issuance of Series 2012 bond	(64,160)	-
Series 2012 bond premium	(7,523)	-
Other costs including the establishment of bond reserve funds, payment of financing costs, and other costs of issuance	(3,317)	-
	$ -	$ -
Notes receivable issued to residents for residential units sold	$ -	$ 1,177
Non-cash excess of assets acquired over liabilities assumed in the acquisition of Community Housing Management Services		
Fair value of assets acquired		
Cash	$ -	$ 33
Accounts receivable	-	75
Prepaid expenses	-	24
Fixed assets, net	-	6
Other assets	-	5
Liabilities assumed		
Accounts payable and accrued expenses	-	(44)
Accrued compensation, payroll taxes and benefits	-	(27)
Non-cash excess of assets acquired over liabilities assumed in the acquisition of Community Housing Management Services	$ -	$ 72

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

General

Episcopal Communities & Services for Seniors ("ECS"), a nonprofit corporation, operates residential, assisted living, and skilled nursing facilities known as The Canterbury in Rancho Palos Verdes, California, and The Covington in Aliso Viejo, California. ECS is developing a new Continuing Care Retirement Community ("CCRC"), the MonteCedro in Altadena, California (see Note 15). ECS formerly operated Scripps Kensington in Alhambra, California (see Note 16).

During fiscal year 2013, ECS was reorganized and two new entities were created, ECS Management, LLC ("ECSLLC"), and MonteCedro, LLC ("MCLLC"). Both ECSLLC and MCLLC are single-member LLC's with ECS as its sole member. ECSLLC was created on November 5, 2012, with operations effective January 1, 2013 to provide administrative, programmatic, and other forms of support to ECS and any of its subsidiaries and affiliated organizations, provided they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. MCLLC was created on November 5, 2012, with operations effective on January 1, 2013. MCLLC was created to develop and operate housing specially designed for older adults (the MonteCedro in Altadena, California), with arrangements for residents' health care and financial security, and otherwise to promote the interest and serve the needs of older adults, provided that such activities are consistent with its exempt purposes.

ECS established the Sophie Miller Foundation ("SMF") on July 27, 2009, as a supporting organization in order to enhance its fundraising efforts and to oversee the investment and distribution of its restricted and unrestricted donor funds. SMF was established by ECS, exclusively for the benefit of, to perform the functions of, and to carry out the purposes of ECS. ECS, through its Board of Directors, has the power to designate trustees and approve officers of SMF. Any designation of a trustee or approval of an officer by SMF may be revoked by ECS at any time. Not more than the lesser of one-third of the SMF trustees in office or four members of the board of trustees, including the president of ECS, may also be directors of ECS.

Effective April 1, 2012, ECS affiliated with (through acquisition) Community Housing Management Services ("CHMS"), to further its mission and enhance its delivery of charitable services. CHMS is a California nonprofit corporation, which provides development, management, and consulting services to affordable senior, disabled, and low-income housing facilities.

Artful Home Care, LLC ("Artful, LLC") was created as a nonprofit, single-member entity of ECS on June 14, 2013. The organization was created to develop and operate home care services, and promote the interests and serve the needs of older adults. Operations for Artful, LLC began on July 1, 2013, as such this entity had no activity for the fiscal year ended June 30, 2013.

The population at each facility as of June 30, 2013 and 2012 was as follows:

	2013	2012
The Canterbury	148	152
The Covington	245	249
	393	401

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

General (continued)
As a result of the closure of the Scripps Kensington CCRC facility, residents were transferred to outside facilities. The total number of Scripps Kensington residents located at outside facilities as of June 30, 2013, and 2012 was 58 and 71, respectively.

Principles of Consolidation
The consolidated financial statements include the accounts of ECS and its wholly-owned subsidiaries ECSLLC, MCLLC, SMF, CHMS and Artful, LLC (no activity), hereinafter referred to collectively as the "Organization". All inter-organization balances and transactions have been eliminated.

Basis of Accounting
The Organization accounts for its financial transactions using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Basis of Presentation
The Organization's financial statement presentation follows the recommendations prescribed by accounting principles generally accepted in the United States of America ("U.S. GAAP"). Under U.S. GAAP, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Recent Accounting Development
In July of 2012, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-01, Health Care Entities (Topic 954), *Continuing Care Retirement Communities – Refundable Advance Fees*, which clarifies the reporting for refundable advance fees received by a CCRC. The ASU affects CCRC's that have resident contracts that provide for a payment of a refundable advance fee upon reoccupancy of that unit by a subsequent resident. The ASU clarifies that an entity should classify an advance fee as deferred revenue when a CCRC has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of the reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of the reoccupancy should be accounted for and reported as a liability. The adoption of this ASU is effective for ECS beginning fiscal year ending June 30, 2014. Management has determined that its reoccupancy benefit contract with The Covington facility will be affected by this revised guidance.

Management has determined that the approximate impact of this change in this accounting policy will be as follows for the year ending June 30, 2014 (in thousands):

	Increase (Decrease)
Deferred revenue from entrance fees	$ (75,000)
Liability for refundable entrance fees	75,000
Amortization of entrance fees	(13,000)
Unrestricted net assets	(13,000)

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Recent Accounting Development (continued)
Additionally, the obligation to provide future services, which is calculated as the estimated net cost of future services to be provided to current continuing care residents, offset by the balance of unamortized deferred revenue, monthly maintenance fees and other contractually committed revenue, will be impacted as a result of the change in accounting policy, as a portion of the unamortized deferred revenue will be presented as liability for refundable entrance fees. Management believes there will be no significant impact to the obligation to provide future services and the use of facilities under the new accounting policy.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

At June 30, 2013 and 2012, the Organization held personal funds in trust for residents totaling approximately $13,000 and $26,000, respectively, which are not reflected in the accompanying consolidated financial statements.

As of June 30, 2013 and 2012, cash and cash equivalents included $415,887 and $466,954, of temporarily restricted cash and cash designated by the Board, respectively.

Restricted Cash and Cash Equivalents and Restricted Investments
Restricted cash and cash equivalents and restricted investments are assets whose use is limited by bond indenture for the development of The Covington facility and debt service.

Restricted cash and cash equivalents comprise the following (in thousands), as of June 30, 2013 and 2012:

	2013	2012
Revenue Funds	$ -	$ 400
Debt Service Reserve Fund	3,937	1,809
Accrued Interest Fund	312	1,688
Principal Funds Account	68	623
Expense Fund	121	-
Sinking Fund	-	271
Optional Redemption Accounts	-	202
	4,438	4,993
Less current portion	-	400
	$ 4,438	$ 4,593

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Restricted Cash and Cash Equivalents and Restricted Investments (continued)
Restricted investments include government debt securities and U.S. Treasury obligations. Restricted investments comprise the following (in thousands), as of June 30, 2013 and 2012:

	2013	2012
Debt Service Reserve Fund	$ -	$ 4,120
Less current portion	-	1,039
	$ -	$ 3,081

Investments
Investments consist of equity securities, debt securities, U.S. Treasury securities, and alternative funds. Investments are valued at fair value. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying consolidated statements of changes in net assets. Donated securities are recorded at their market value at the date of donation. Dividends and interest income are recorded when earned.

Accounts Receivable
The Organization provides an allowance for uncollectible accounts based on management's assessment of the collectability of existing specific accounts. As of June 30, 2013 and 2012, the Organization's accounts receivable and allowance for doubtful accounts are as follows (in thousands):

	2013	2012
Accounts receivable	$ 715	$ 933
Less allowance for doubtful accounts	23	79
	$ 692	$ 854

Notes Receivable
Notes receivable are recorded at the estimated collectible amounts. The accrual of interest occurs pursuant to the agreement the Organization negotiates with the particular party.

Property and Equipment
The costs of property and equipment are depreciated using the straight-line method over their estimated useful lives. Costs of additions, renewals, and betterments are capitalized; maintenance and repairs are charged to expense when incurred. Acquisitions of $500 or more and with a useful life of more than one year are capitalized. Donated fixed assets are recorded at their fair value at the date of donation. Estimated useful lives are as follows:

	Useful Lives
Land improvements	5-25 years
Buildings and improvements	30-50 years
Furnishings and equipment (including capitalized computer hardware and software)	3-20 years

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Impairment of Long-lived Assets
The Organization reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. The Organization considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. The Organization has determined that no long-lived assets are impaired at June 30, 2013 or 2012.

Accrued Workers' Compensation Claims
Beginning January 1, 2009, ECS's workers' compensation insurance is provided by Safety National, a commercial insurance carrier. Under the policy, ECS is responsible for the first $250,000 of each accident claim, subject to an aggregate loss limit of $1,350,000. Cash collateral of $450,000 was required and claims payment is made monthly to The Matrix Absence Management Company.

Prior to January 1, 2009, ECS's workers' compensation insurance was provided by a commercial insurance carrier. Under the policy, ECS was responsible for the first $250,000 of each accident claim, subject to a maximum liability for losses up to certain aggregate limits for each policy year. Cash collateral was required during each policy year to secure estimated future claims payment for the same policy year. Additional cash collateral was required to replenish the balance in the collateral accounts for each prior policy year as and when necessary.

Grant Payable
Grants authorized but unpaid at year end are measured at fair value and reported as liabilities in accordance with U.S. GAAP. Conditional grants are considered unconditional when the contingency requirement is met. The grant payable of $99,000 as reported in the accompanying consolidated statements of financial position represents a grant to the Pasadena Village to support the salaries of their Executive Director and part-time staff.

Net Assets
The Organization's net assets comprise the following:

Unrestricted Net Assets – Unrestricted net assets represent the portion of expendable net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These net assets are available for support of the ordinary operations and administration of the Organization. Unrestricted net assets also include board-designated net assets. These board-designated net assets include:

- Benevolence Funds – to be used for operating and capital needs associated with facilities and to assist qualifying residents with medical care expenses.
- Capital Replacement Reserve Funds – to be used for capital expenditures incurred for replacement of plant and equipment at the facilities.
- The Canterbury Entrance Fee Reserve Fund – represents funds available for entrance fee refunds for The Canterbury facility.
- Mission Expansion Fund – represents funds available to be utilized for the costs associated with the development of new communities, redevelopment of existing communities and expansion of programs.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- The Contingency Reserve Fund – represents funds available for unplanned liabilities and for support of charitable initiatives.
- Program Expansion Fund – represents funds available for the purpose of supporting ECS's charitable mission.
- Scripps Kensington Proceeds Funds – represents funds available to carry out the contractual obligations to former Scripps Kensington residents with life care agreements.
- By Your Side Fund – represents funds available to support the By Your Side program.
- Covington Pastoral Care Fund – represents funds available to enhance the spiritual lives of residents and the wider community.
- Covington Cares Fund – represents funds available for current and future programs.
- General Fund – represents funds available for purposes designated by the Board of Directors, including funds available for the purpose of funding the administrative and general expense associated with SMF's fundraising activities.

The following disclosure is made pursuant to Section 1790(a)(3) of the California Health and Safety Code. The Board of Directors have identified certain contingencies listed below to which the unrestricted net assets of the Organization may be exposed; and, therefore, directed that prudent reserves be established as a safeguard against such contingencies. Although not restricted in accordance with U.S. GAAP, board-designated funds represent the current intentions of the Board of Directors.

	As of June 30, 2013 (in thousands)	As of June 30, 2012 (in thousands)
Benevolence Funds	$ 1,206	$ 1,198
Capital Replacement Reserve Funds	18,044	13,842
The Canterbury Entrance Fee Reserve Fund	4,799	4,005
Mission Expansion Fund	17,115	25,273
The Contingency Reserve Fund	5,072	5,079
Program Expansion Fund	927	1,153
Scripps Kensington Proceeds Funds	6,947	8,449
By Your Side Fund	83	-
Covington Pastoral Care Fund	84	-
Covington Cares Fund	100	-
General Fund	194	162
	$ 54,571	$ 59,161

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Net Assets (continued)
Maintaining such reserves meets the needs of the continuing care retirement communities by providing a source of funds to replace property, plant and equipment, fund benevolence programs for qualified residents, fund growth of the Organization, pay entrance fees as they become due at The Canterbury, fund administrative and general expenses associated with fundraising activities, fund the care and services for the Scripps Kensington continuing care residents, and fund other planned and unplanned liabilities of the Organization.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent net assets that result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed restrictions that either expire by the passage of time or can be satisfied by actions of the Organization. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions. Restricted gains and investment income whose restrictions are met in the same reporting period are presented as unrestricted support. At June 30, 2013, temporarily restricted net assets comprise net assets that expire by passage of time totaling $11,182, and temporarily restricted net assets that are satisfied by use totaling $1,292,793.

Permanently Restricted Net Assets – Permanently restricted net assets represent net assets that result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled and removed by actions of the Organization pursuant to those restrictions. These net assets are permanently restricted by donors for investment in perpetuity. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization accounts for, and records transactions in established fund groups for the purpose of identifying those resources that are available for specific objectives of the Organization. As of June 30, 2013 and 2012, the Organization had permanently restricted net assets of $1,967,666, which includes the Endowed Employee Education Fund Scholarships, the Fanny Thompson Endowment Fund, the John Henry Dilkes Memorial Fund and The David and Margaret Schumacher Concert Series Endowment Fund.

Fair Value of Financial Instruments
The carrying amounts reported in the accompanying consolidated statements of financial position for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt approximate fair value.

Donated Material and Services
Donations and bequests are recorded as made. All donations are considered to be available for unrestricted use unless specifically restricted by the donor.

A substantial number of volunteers have donated their time to the Organization's programs and other services. However, these donated services are not reflected in the accompanying consolidated financial statements since they do not meet the criteria for recognition as contributed services.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Revenue Recognition
Resident fees, ancillary services, and management fee revenue are recognized as services are performed. Payments are received from residents, insurance companies, Medicare, and other third-party payers.

Management fee revenue include management fees and consulting fees received by CHMS. The payroll and related expenses paid and received for the employees of the properties managed by CHMS are considered agency transactions in accordance with U.S. GAAP. Agency transactions are not to be accounted for as the revenues and expenses of the entity, but as operating activities in the statements of cash flows. The total amount of payroll and related expenses received and paid on behalf of the managed properties for the year ended June 30, 2013 and for period from April 1, 2012 through June 30, 2012 was $2,059,846 and $623,243, respectively.

Financial Arrangements

Scripps Kensington

There were 58 former residents with life care continuing care contracts at June 30, 2013. Life care contracts include a promise by Scripps Kensington to provide routine and certain ancillary services at all levels of care, including acute care and services of physicians and surgeons, to the extent not covered by other public or private insurance benefits, to a resident for the duration of his or her life. Life care contracts include provisions to subsidize residents who become financially unable to pay their monthly care fees.

The Canterbury

The Canterbury offers payment options under (1) a fee for service continuing care agreement, and (2) a month-to-month agreement. Residents entering under the month-to-month agreement are charged a monthly care fee. The continuing care agreement applies to independent residency and the Organization's admission policy for new continuing care residents requires payment of, (1) an entrance fee upon admission ranging from $175,000 for a one-bedroom unit to between $269,000 and $300,000 for a two-bedroom unit, and (2) a monthly care fee.

The current entrance fee offered is refundable pro-rata if a continuing care resident should leave within five years from admission as follows:

i) During the first ninety days, the entrance fee is refunded in full.
ii) If the resident's tenancy is longer than three months and up to five years, The Canterbury retains 1/60th of the entrance fee for each month of residency or portion thereof.
iii) No refunds after sixty months.

In addition to the five-year contract currently offered, The Canterbury has residents who previously entered under eight-, ten-, and fifteen-year contracts.

The Canterbury amortizes entrance fees over the resident's expected life, and a liability is recognized ("Refundable portion of deferred revenue from entrance fees") for the expected amount that will be refunded to those residents who will not remain at the facility for the stipulated time.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Financial Arrangements (continued)

The Canterbury (continued)

Beginning June 1, 2008, The Canterbury introduced a Reoccupancy Benefit contract whereby residents may also pay, (1) an entrance fee ranging from $293,843 for a one-bedroom unit to between $486,360 and $515,360 for a two-bedroom unit, and (2) a monthly care fee. The entrance fee is refundable if the resident should leave The Canterbury as follows:

i) During the first ninety days, the entrance fee paid by the resident is refunded in full.
ii) If the resident's tenancy terminates subsequent to the first ninety days, the resident will receive a reoccupancy benefit equal to 90% of the paid entrance fees within
    a) 14 calendar days after the resident's accommodation unit is re-let to a new resident who has executed a care and residence agreement and paid the then-applicable entrance fee for the same unit;
    b) 180 days after the resident's accommodation unit is re-let to a new resident who enters under a month-to-month agreement.

Under the Reoccupancy Benefit contract agreement, the Organization amortizes 10% of the entrance fee over the resident's expected life. A liability is recognized ("Refundable portion of deferred revenue from entrance fees") for the expected amount that will be refunded to those residents who will not remain during the first ninety days.

The Covington

Residents of The Covington pay (1) an entrance fee upon admission ranging from $295,645 to $956,306, and (2) a monthly care fee. The entrance fee is refundable if a resident should leave The Covington as follows:

Reoccupancy Benefit contract agreement:

i) During the first ninety days, the entrance fee paid by the resident is refunded in full.
ii) If the resident's tenancy terminates subsequent to the first ninety days, the resident will receive a reoccupancy benefit equal to 90% of the paid entrance fees within fourteen calendar days after the resident's accommodation unit is re-let to a new continuing care resident who has executed a care and residence agreement and paid the then-applicable entrance fee for the same unit in full.

The Organization amortizes 10% of the paid entrance fees over the resident's expected life and the balance over the life of the facility. A liability is recognized ("Refundable portion of deferred revenue from entrance fees") for the expected amount that will be refunded to those residents who will not remain during the first ninety days.

Sixty-month contract agreement:

i) During the first ninety days, the entrance fee paid by the resident is refunded in full.
ii) If the resident's tenancy is longer than three months and up to five years, The Covington retains 1/60th of the entrance fee for each month or partial month of residency.
iii) No refunds after sixty months.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Financial Arrangements (continued)

The Covington (continued)

The Organization amortizes the entrance fee of sixty-month contract over the resident's expected life and a liability is recognized ("Refundable portion of deferred revenue from entrance fees") for the expected amount that will be refunded to those residents who will not remain at the facility for the stipulated time.

Income Taxes

ECS, SMF and CHMS are organized as nonprofit corporations under the general nonprofit corporation laws of the State of California and are exempt from federal income taxation under Internal Revenue Code Section 501(c)(3).

ECSLLC is organized as a nonprofit limited liability company in the State of California. ECSLLC has not applied for its own tax exemption for income tax purposes because ECSLLC is a disregarded entity. While ECSLLC is disregarded for income tax purposes, ECSLLC is still subject to the California annual minimum tax and the annual fee.

MCLLC is organized as a nonprofit limited liability company in the state of California. MCLLC has applied for tax-exempt status and a final determination is currently pending.

Nonprofit organizations are generally not liable for taxes on income; therefore, other than the California annual minimum tax and annual fee related to ECSLLC and MCLLC, no provision is made for such taxes in the consolidated financial statements, in accordance with U.S. GAAP.

The organizations consider many factors when evaluating and estimating their tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. The organizations evaluate their uncertain tax positions using the provisions in conformity with U.S. GAAP. These standards require management to perform an evaluation of all income tax positions taken, or expected to be taken in the course of preparing the organizations' tax returns. Management believes the tax positions taken more likely than not will be sustained under examination by the applicable tax authorities. Examples of tax positions taken include the tax-exempt status of the organizations, and various positions related to the potential sources of unrelated business taxable income. Since matters are subject to some degree of uncertainty, there can be no assurance that the organizations' tax returns will not be challenged by the taxing authorities and that the organizations will not be subject to additional tax, penalties, and interests as a result of such challenge. Generally, the organizations' tax returns remain open for three years for federal tax examination and four years for state tax examination.

Advertising

The Organization expenses advertising costs as they are incurred, with the exception of advertising costs incurred in connection with the development of The Covington and MonteCedro facilities which are capitalized as costs of acquiring initial care agreements and project development costs, respectively. Advertising costs expensed for the years ended June 30, 2013 and 2012, were approximately $726,000 and $499,000, respectively.

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Functional Expenses
Expenses related to more than one functional expense category are allocated based on estimates by the Organization. Expenses by functional classification were as follows (in thousands):

	2013	2012
Program expenses	$ 27,052	$ 29,585
General and administrative expenses	3,875	3,031
Fundraising expenses	91	217
	$ 31,018	$ 32,833

Reclassifications
Certain amounts included in the 2012 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2013 consolidated financial statements.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Investments

Investments in marketable securities are stated at their fair market value. As of June 30, 2013 and 2012, investments comprise the following (in thousands):

2013	Aggregate Fair Value	Cost	Aggregate Fair Value Appreciation
Investments	$ 106,636	$ 103,428	$ 3,208
Less investments, short-term	19,985	19,384	
Total Investments, long-term	$ 86,651	$ 84,044	

2012	Aggregate Fair Value	Cost	Aggregate Fair Value Appreciation
Investments	$ 112,741	$ 111,563	$ 1,178
Less investments, short-term	14,441	14,289	
Total Investments, long-term	$ 98,300	$ 97,274	

Note 2 – Investments (continued)

The Organization's investment policy makes available only a portion of the Organization's total investment return, consisting of dividends, interest and royalties, and net realized gains and losses, and principal for the support of current operations and development; the remainder is retained to support operations of future years and to offset potential market declines.

State law allows the Board to appropriate to current operations so much of the net appreciation as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, expected total return on investments, price level trends and general economic conditions.

The following schedule summarizes investment return and its classification in the consolidated statements of operations and changes in net assets (in thousands) for the years ended June 30, 2013 and 2012:

	2013	2012
Dividend income	$ 1,363	$ 2,041
Interest income	1,785	2,316
Royalties	29	87
	3,177	4,444
Net realized and unrealized gains (losses)	5,030	(4,851)
Total Return (Loss) on Investments	8,207	(407)
Less investment returns available for current operations	(6,030)	(4,443)
Excess (Deficiency) of Investment Returns Over (Under) Amounts Available for Current Operations	$ 2,177	$ (4,850)

The following table shows the gross unrealized losses and fair value of investments and restricted investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30 (in thousands):

	Fair Value Below Cost as of June 30, 2013					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Stocks	$ 4,988	$ (201)	$ 1,622	$ (63)	$ 6,610	$ (264)
Bonds	21,594	(655)	8,094	(169)	29,688	(824)
Alternative investments	2,044	(178)	1,551	(133)	3,595	(311)
Total Temporarily Impaired Securities	$ 28,626	$ (1,034)	$ 11,267	$ (365)	$ 39,893	$ (1,399)

Note 2 – Investments (continued)

	Fair Value Below Cost as of June 30, 2012					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Stocks	$ 15,587	$ (390)	$ 9,194	$ (926)	$ 24,781	$ (1,316)
Bonds	10,065	(45)	5,436	(77)	15,501	(122)
Alternative investments	1,887	(398)	1,215	(244)	3,102	(642)
Total Temporarily Impaired Securities	$ 27,539	$ (833)	$ 15,845	$ (1,247)	$ 43,384	$ (2,080)

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other than temporary impairment under management's policy. The Organization follows a policy of evaluating securities for impairment, which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended June 30, 2013 and 2012, no securities were determined to be other-than-temporarily impaired.

Note 3 – Other Receivables

Other receivables (in thousands) at June 30, 2013 and 2012 consist of the following:

	2013	2012
Interest and dividend receivable	$ 120	$ 213
Miscellaneous	104	134
Total Other Receivables	$ 224	$ 347

Note 4 – Notes Receivable

Notes receivable consist of the following (in thousands) at June 30, 2013 and 2012:

	2013	2012
Unsecured notes due from three residents of The Covington, all with no stated interest, paid in full during 2013	$ -	$ 1,177
Total Notes Receivable	$ -	$ 1,177

Note 5 – Property and Equipment

As of June 30, 2013 and 2012, property and equipment consists of the following (in thousands):

	2013	2012
Land	$ 24,048	$ 23,759
Land improvements	2,072	2,063
Buildings and improvements	99,673	99,441
Furnishings and equipment	9,092	8,719
Capitalized computer hardware and software	774	498
	135,659	134,480
Less accumulated depreciation	45,039	41,944
Total	$ 90,620	$ 92,536

Depreciation expense during 2013 and 2012 in connection with these assets (in thousands) was $4,566 and $4,261, respectively.

Note 6 – Split-interest Agreements

The Organization is a beneficiary of several irrevocable charitable gift annuities, which are held in trusts by third party administrators. At the end of the annuity's term, the Organization will receive its beneficial interest in the trusts. ECS' beneficial interest is measured at fair value and revalued annually using present value techniques. Split-interest agreements comprise charitable gift annuities totaling $11,000 and $20,000 at June 30, 2013 and 2012, respectively.

Note 7 – Unconditional Promise to Give

The unconditional promise to give at June 30, 2013, and 2012 consists of a promise from a current resident to give a total of $1.5 million during the donor's lifetime or from the donor's estate and is measured using a present value technique. During 2013 and 2012, no amounts were received for donor-specified purposes. During 2008, $500,000 was received for donor-specified purposes. The present value of the remaining $1,000,000 is $466,845, net of $533,155 discount to present value and is reported as a non-current unconditional promise to give. The promise to give is deemed collectible at June 30, 2013; therefore, no allowance for uncollectible unconditional promises to give has been established. The discount rate used to determine the present value of the unconditional promise to give was 4.8% for 2013 and 2012.

Note 8 – Fair Value Measurements

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

There have been no changes in the methodologies used at June 30, 2013 and 2012.

Cash and cash equivalents: valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that the Organization has the ability to access at the measurement date.

U.S. Treasury securities: valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that the Organization has the ability to access at the measurement date.

Equity securities: valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that the Organization has the ability to access at the measurement date.

Debt securities: valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that the Organization has the ability to access at the measurement date.

Note 8 – Fair Value Measurements (continued)

Alternative investments: alternative investments include hedge funds ("Funds"), which invest in a variety of common and preferred stocks, limited partnerships, LLC interests, and derivative investments. These alternative investments are valued at fair value based on prices with unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. For those investments of the Funds that do not have a quoted value or active market, the Funds' investment managers use a variety of valuation techniques, including but not limited to discounted cash flows, the Black Scholes Model, and the liquidation approach. Significant unobservable inputs related to the aforementioned valuation techniques include various discount rates, volatility percentages, and underlying asset multiples, respectively. The Organization does not develop the unobservable inputs used in measuring fair value; therefore, a quantitative information table summarizing the valuation techniques and significant unobservable inputs is not provided in these consolidated financial statements.

A portion of the alternative investments also includes cash and cash equivalents and mutual funds, which are valued at fair value by reference to quoted market prices in active markets for identical assets and other relevant generated market transactions.

Split-interest agreements: agreements that include charitable gift annuities, valued at fair value by estimating the present value of expected future cash inflows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level (in thousands), within the fair value hierarchy, assets at fair value at June 30, 2013:

	Assets at Fair Value as of June 30, 2013			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 5,765	$ 5,765	$ -	$ -
U.S. Treasury securities	6,080	6,080	-	-
Stocks	48,174	48,174	-	-
Bonds	40,440	40,440	-	-
Alternative investments	6,177	5,655	-	522
Total investments	106,636	106,114	-	522
Split-interest agreements:				
Charitable gift annuities	11	-	-	11
Total split-interest agreements	11	-	-	11
Total	$ 106,647	$ 106,114	$ -	$ 533

Note 8 – Fair Value Measurements (continued)

The following table sets forth by level (in thousands), within the fair value hierarchy, assets at fair value at June 30, 2012:

	Assets at Fair Value as of June 30, 2012			
	Total	Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 4,605	$ 4,605	$ -	$ -
U.S. Treasury securities	4,657	4,657	-	-
Stocks	46,580	46,580	-	-
Bonds	46,395	46,395	-	-
Alternative investments	10,504	2,112	-	8,392
Total investments	112,741	104,349	-	8,392
Restricted investments for bond indenture:				
Bonds	1,009	1,009	-	-
U.S. Treasury securities	3,111	3,111	-	-
Total restricted investments for bond indenture:	4,120	4,120	-	-
Split-interest agreements:				
Charitable gift annuities	20	-	-	20
Total split-interest agreements	20	-	-	20
Total	$ 116,881	$ 108,469	$ -	$ 8,412

The following tables set forth a summary of changes (in thousands) in the fair value of the Level 3 assets for the years ended June 30, 2013 and 2012:

	Alternative Investments	Charitable Gift Annuities	Total
Balance, July 1, 2012	$ 8,392	$ 20	$ 8,412
Unrealized gains relating to instruments still held at the reporting date	266	-	266
Account fees	(1)	-	(1)
Purchases	(1,391)	-	(1,391)
Sales	9,520	-	9,520
Transfers to other investment accounts	(8,382)	-	(8,382)
Issuances	1,641	-	1,641
Settlements	(9,523)	(9)	(9,532)
Balance, June 30, 2013	$ 522	$ 11	$ 533

Note 8 – Fair Value Measurements (continued)

	Alternative Investments	Charitable Gift Annuities	Charitable Remainder Trusts	Total
Balance, July 1, 2011	$ 8,492	$ 29	$ 224	$ 8,745
Unrealized losses relating to instruments still held at the reporting date	(1,433)	(6)	(86)	(1,525)
Account fees	(1)	-	-	(1)
Purchases	(3,006)	-	-	(3,006)
Sales	1,750	-	-	1,750
Transfers from other investment accounts	1,278	-	-	1,278
Issuances	1,312	-	-	1,312
Settlements	-	(3)	(138)	(141)
Balance, June 30, 2012	$ 8,392	$ 20	$ -	$ 8,412

At June 30, 2012, and for previously reported periods, certain portions of alternative investments were shown as Level 3 investments.

Note 9 – Long-term Debt

In February 2002, the Organization issued California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A, and Series 2002B which were refinanced from a variable interest rate to a fixed interest rate in January 2010.

On December 12, 2012, the Organization refunded all of the outstanding California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A and Series 2002B. As a result, California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 Bonds were issued in the amount of $64.16 million. Interest is payable semi-annually at 2% per annum through May 15, 2014, 3% per annum through May 15, 2016, 4% per annum through May 15, 2017, and 5% per annum through May 15, 2047. Principal payments are due annually on May 15th.

As part of the refunding, the Organization paid $7.5 million, which was first applied to cover the cost of issuance, then to the repayment of the refunded bonds. Additionally, unamortized costs related to the Series 2002A and 2002B Bonds were written off, totaling $7.475 million. These transactions resulted in a loss on bond refunding of $14.975 million.

The underwriter's discount was $609,520 and the costs of issuance were $617,572 for the Series 2012 Bond, which are being amortized over the life of the bonds and are presented as capitalized financing costs in the accompanying consolidated statements of financial position.

Note 9 – Long-term Debt (continued)

The outstanding balances of these bonds are as follows (in thousands) at June 30, 2013 and 2012:

	2013	2012
Series 2012	$ 63,820	$ -
Series 2012 unamortized premium	7,404	-
Series 2002A, interest rates from 3.25% to 5.30% per annum over the term of the bonds with sinking account payments due from February 1, 2005, to February 1, 2032. The interest rate was 4.75% from July 1, 2011, through June 30, 2012.	-	50,200
Series 2002B, fixed interest rate with sinking account payments due from February 1, 2003, to February 1, 2032. The interest rate for the years ended June 30, 2012 was5.10% per annum.	-	24,800
	71,224	75,000
Less current portion (including current portion of unamortized premium of $218,000 at June 30, 2013)	1,028	2,145
	$ 70,196	$ 72,855

Aggregate maturities of long-term debt before unamortized premium of $7,404,000 are as follows (in thousands):

Years Ending June 30,	
2014	$ 810
2015	825
2016	850
2017	875
2018	910
Thereafter	59,550
	$ 63,820

The 2012 Series Bonds are secured by the first deed of trust on the real property of The Covington and The Canterbury. The bond agreements contain certain covenants related to debt service coverage ratio, and days cash on hand. The Organization was in compliance with its bond covenants as of June 30, 2013.

Note 10 – Obligation to Provide Future Services and the Use of the Facilities

The Organization calculates annually, the present value (using a 3.50% discount rate at June 30, 2013, and 2012) of the estimated net cost of future services to be provided to current continuing care residents, and, to the extent this amount exceeds the balance of unamortized deferred revenue, monthly maintenance fees and other contractually committed revenue, a liability would be recorded for the obligation to provide future services. The change in the obligation during a year would be reported as a current year change in obligation to provide future services in the consolidated statements of changes in net assets.

The estimated amounts received or to be received from current continuing care residents exceed the estimated costs of providing future services and use of facilities to those residents. Consequently, no liability is shown on the consolidated statements of financial position at either date.

The Organization's commitment for continuing care is also subject to statutory requirements by the State of California. At June 30, 2013 and 2012, the Organization was in compliance with all such requirements.

Note 11 – Endowment

The Organization's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. The Organization has interpreted relevant state law as requiring preservation of the fair value of the original gift as of the date of the gift of the donor restricted endowment funds explicit donor stipulations to the contrary. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified, and reported based on the existence or absence of donor-imposed restrictions.

According to the Organization's investment guidelines, the Organization's permanently restricted assets are currently invested in the Organization's investment portfolio managed by Merrill Lynch. The primary long-term investment objective is to preserve and enhance the real (inflation adjusted) purchasing power of the portfolio, net of annual withdrawals. If the fair value of the permanently restricted net asset falls below the level required by the donor or laws, the reduction is made to unrestricted net assets.

The goals of the funds are as follows: (a) maintain purchasing power; (b) maintain the level of programs and services currently provided; (c) maximize return within reasonable and prudent levels of risk; and (d) maintain an appropriate asset allocation based on a total return policy that is compatible with spending policy, while still having the potential to produce positive real returns.

The primary long-term investment objective of the funds is to preserve and grow the real purchasing power of the assets (when applicable). This objective is to be achieved over a rolling five to ten year period on a total return basis. A secondary investment objective is to provide a relatively predictable, stable, and, in real terms, constant stream of current income to augment the Organization's operating income.

Note 11 – Endowment (continued)

Endowment net asset composition by type of fund (in thousands) as of June 30, 2013, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (222)	$ 3	$ 1,968	$ 1,749
Board-designated endowment funds	54,572	-	-	54,572
Total Funds	$ 54,350	$ 3	$ 1,968	$ 56,321

Changes in endowment net assets (in thousands) for the fiscal year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 58,838	$ 2	$ 1,968	$ 60,808
Investment returns:				
Investment income	1,706	1	-	1,707
Net realized and unrealized gains on investment	1,916	1	-	1,917
Investment management fees	(278)	-	-	(278)
Total Investment Return	3,344	2	-	3,346
Contributions	4,108	-	-	4,108
Appropriation of endowment assets for expenditure	(11,940)	(1)	-	(11,941)
Endowment Net Assets, End of Year	$ 54,350	$ 3	$ 1,968	$ 56,321

Endowment net asset composition by type of fund (in thousands) as of June 30, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (323)	$ 2	$ 1,968	$ 1,647
Board-designated endowment funds	59,161	-	-	59,161
Total Funds	$ 58,838	$ 2	$ 1,968	$ 60,808

Note 11 – Endowment (continued)

Changes in endowment net assets (in thousands) for the fiscal year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 61,933	$ -	$ 1,968	$ 63,901
Investment returns:				
Investment income	2,123	-	-	2,123
Net realized and unrealized losses on investment	(907)	-	-	(907)
Investment management fees	(247)	-	-	(247)
Total Investment Return	969	-	-	969
Reclassification consistent with donor intent	(2)	2	-	-
Contributions	5,229	-	-	5,229
Appropriation of endowment assets for expenditure	(9,291)	-	-	(9,291)
Endowment Net Assets, End of Year	$ 58,838	$ 2	$ 1,968	$ 60,808

Note 12 – Retirement Plans

The Organization maintains a safe harbor 401(k) retirement plan for all eligible employees of ECS, ECSLLC, MCLLC, CHMS, SMF and Artful, LLC. The plan allows for employer nonelective contributions, including a mandatory 3% employer contribution. The plan also allows for discretionary match contributions, approved on an annual basis. Total pension plan contributions in connection with the 401(k) retirement plan for the years ended June 30, 2013 and 2012, was approximately $410,000 and $504,000, respectively.

In addition, the Organization contributed approximately $27,000 and $30,000 to the church pension fund for the Episcopal chaplains for the years ended June 30, 2013 and 2012, respectively.

The Organization also maintains a 457(b) plan established for executives who have completed six months of continuous service. The 457(b) plan allows for salary reduction contributions and employer discretionary contributions. Total contributions in connection with the 457(b) plan for the years ended June 30, 2013 and 2012 was approximately $114,000 and $127,000, respectively.

CHMS sponsors a 403(b) plan for its eligible employees. Employer contributions may be made at the discretion of the Board of Directors. Total contributions in connection with the 403(b) plan for the year ended June 30, 2013 was approximately $1,000. There were no contributions to the 403(b) plan for the period from April 1, 2012 to June 30, 2012.

Note 13 – Significant Concentrations

Approximately 15% and 13% of the Organization's total operating revenue and other support for the years ended June 30, 2013 and 2012, respectively, was funded pursuant to federal, state, and local assistance programs, the continuation of which is dependent upon governmental policies. Revenues received under these programs are partially based upon cost reimbursement principles that are subject to government audit.

The Organization maintains its cash in bank deposit accounts that may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. At June 30, 2013, cash balances held at one bank exceeded federally insured limits by approximately $6,637,000.

Note 14 – Commitments and Contingencies

Lease Commitments

The Organization leases its administrative office in Pasadena, California, expiring in October 2017. The Organization also leases a sales office in Pasadena, expiring August 31, 2016.

The future minimum rental commitments subsequent to June 30, 2013, under these leases are as follows:

Years Ending June 30,	
2014	$ 217,838
2015	228,773
2016	251,748
2017	191,971
2018	61,104
	$ 951,434

Rental expense incurred with these operating leases was approximately $279,000 and $228,000, for 2013 and 2012, respectively. The rental expenses for 2013 include $30,000 of expense incurred by CHMS to terminate its office lease in Long Beach, California early.

Litigation

The Organization is subject to legal proceedings, which arise in the ordinary course of its business. In the opinion of management and legal counsel, the outcome of such matters will not have a material effect on the financial position of the Organization.

Note 15 – Development of MonteCedro

The MonteCedro will operate as a CCRC. As currently designed, the CCRC project will consist of four separate buildings totaling approximately 420,000 square feet, and will include 186 independent living and 20 assisted living/memory support units. Construction is scheduled to begin in September 2013 and occupancy is anticipated 18 to 24 months later.

Note 15 – Development of MonteCedro (continued)

Total project costs, excluding financing costs, are estimated to be approximately $141 million. The Organization expects to contribute $21 million in cash equity and secure short and long-term financing. The Organization has incurred project development costs related to MonteCedro of approximately $15,187,000 and $7,584,000 as of June 30, 2013 and 2012, respectively. Additionally, the Organization purchased two buildings on the site for $391,382 in 2013 and $682,310 in 2010, respectively. The building purchased in 2010 was raised in preparation for the construction during 2013.

As required by the California Department of Social Services Continuing Care Contract Statutes, MonteCedro LLC established an escrow account for entrance fee deposits. Entrance fee deposits are held in escrow until certain statutory requirements are satisfied. Under the terms of the deposit agreements between prospective residents and MonteCedro, the deposits are refundable to prospective residents who do not enter into a residence agreement. Upon release from escrow, these deposits will be reflected as part of the Organization's consolidated financial statements. Entrance fee deposits representing 10% of the related entrance fees totaled $7,228,155 and $2,441,685 as of June 30, 2013 and 2012, respectively. As of August 31, 2013, MonteCedro has received entrance fee deposits for 108 units.

Note 16 – Sale of Scripps Kensington and Liability for Losses During Phase-out Period of Discontinued Operations

Scripps Kensington was sold on October 15, 2010 for a total sales price of $21,500,000. The net gain on sale of $11,087,000 is restricted by the Office of the Attorney General of California to provide care and services to the existing Scripps Kensington residents and for the development of the MonteCedro if determined feasible by the Organization (see Note 1 regarding the Scripps Kensington Proceeds Funds).

As part of the disposal, management has calculated an estimated provision and liability for losses expected to be incurred during the phase-out period of discontinued operations. The liability is calculated using present value techniques with a 3.5% discount rate.

	2013	2012
Total costs expected to be incurred as a result of the discontinued facility (in thousands)	$ 11,082	$ 11,082
Costs incurred during the period (in thousands)	$ 1,787	$ 4,171
Cumulative costs incurred (in thousands)	$ 5,958	$ 4,171

Note 16 – Sale of Scripps Kensington and Liability for Losses During Phase-out Period of Discontinued Operations (continued)

	2013	2012
Changes in the liability for losses during phase-out period of discontinued operations are as follows (in thousands):		
Liability for losses during phase-out period of discontinued operations, beginning of year	$ 6,911	$ 11,082
Net costs paid during the period	(1,787)	(4,171)
Accretion expense	552	-
Liability for Losses During Phase-Out Period of Discontinued Operations, End of Year	$ 5,676	$ 6,911

The estimated future payments on the phase-out of discontinued operations are as follows (in thousands):

Years Ending June 30,	
2014	$ 1,459
2015	1,367
2016	1,134
2017	641
2018	476
Thereafter	1,327
Total Future Payments	6,404
Less discount	(728)
Present Value of Future Payments	5,676
Less current portion	(1,410)
	$ 4,266

Note 17 – Subsequent Events

Management evaluated for subsequent events through October 11, 2013, the issuance date of the Organization's consolidated financial statements. No subsequent events requiring disclosure were noted.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Episcopal Communities & Services for Seniors and Subsidiaries

We have audited the consolidated financial statements of Episcopal Communities & Services for Seniors and Subsidiaries, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated October 11, 2013, which expressed an unqualified opinion on those consolidated financial statements, which appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of June 30, 2013, and the related consolidating statements of operations, changes in net assets, and cash flows - for the year then ended are presented for purposes of additional analysis of the consolidated financial statements, and are not required parts of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Community Housing Management Services, is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Martin Werbelow LLP

October 11, 2013

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(DOLLARS IN THOUSANDS)

ASSETS

	Episcopal Communities & Services for Seniors												
	Scripps Kensington	The Canterbury	The Covington	MonteCedro	Support Services	The Episcopal Home Management Company	Combined Facility Totals	ECS Management LLC	MonteCedro LLC	Community Housing Management Services	Sophie Miller Foundation	Eliminating Entries	Consolidated Totals
Current Assets													
Cash and cash equivalents	$ 232	$ 2,389	$ 2,658	$ 43	$ 367	$ -	$ 5,689	$ 626	$ 743	$ 131	$ 845	$ -	$ 8,034
Investments, short-term	-	3,674	5,212	-	-	-	8,886	-	-	-	11,099	-	19,985
Accounts receivable, net	51	(25)	583	-	-	-	609	-	-	83	-	-	692
Other receivables	37	47	79	-	-	-	163	8	-	-	53	-	224
Inventories	-	45	36	-	-	-	81	-	-	-	-	-	81
Prepaid expenses and other current assets	416	84	143	-	5	-	648	61	33	8	-	-	750
Due from related parties	-	-	-	1	-	-	1	6	11	-	178	(196)	-
Total Current Assets	736	6,214	8,711 #	44	372	-	16,077	701	787	222	12,175	(196)	29,766
Property and Equipment, Net	-	16,512	56,148	17,388	47	-	90,095	483	-	42	-	-	90,620
Other Assets													
Investments, long-term	22	17,636	46,511	-	9	-	64,178	-	-	-	22,473	-	86,651
Note receivable from Community Housing Management Services	-	-	-	-	436	-	436	-	-	-	-	(436)	-
Split-interest agreements	-	-	-	-	-	-	-	-	-	-	11	-	11
Unconditional promise to give	-	-	-	-	-	-	-	-	-	-	467	-	467
Deferred charges and other assets	314	56	139	-	79	-	588	16	14	-	-	-	618
Costs of acquiring initial continuing care agreements, net	-	-	287	-	-	-	287	-	-	-	-	-	287
Project development costs	-	-	-	-	-	-	-	-	15,187	-	-	-	15,187
Capitalized financing costs, net	-	84	1,122	-	-	-	1,206	-	-	-	-	-	1,206
Restricted cash and cash equivalents for bond indenture	-	311	4,127	-	-	-	4,438	-	-	-	-	-	4,438
Interest in ECS Management LLC net assets	-	-	-	-	907	-	907	-	-	-	-	(907)	-
Interest in MonteCedro LLC net assets	-	-	-	11,436	-	-	11,436	-	-	-	-	(11,436)	-
Interest in Community Housing Management Services' net assets	-	-	-	-	(616)	-	(616)	-	-	-	-	616	-
Interest in Sophie Miller Foundation net assets	14,648	430	1,327	-	18,712	-	35,117	-	8	1	-	(35,126)	-
Total Other Assets	14,984	18,517	53,513	11,436	19,527	-	117,977	16	15,209	1	22,951	(47,289)	108,865
Total Assets	$ 15,720	$ 41,243	$ 118,372	$ 28,868	$ 19,946	$ -	$ 224,149	$ 1,200	$ 15,996	$ 265	$ 35,126	$ (47,485)	$ 229,251

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013
(continued)
(DOLLARS IN THOUSANDS)

LIABILITIES AND NET ASSETS

	Episcopal Communities & Services for Seniors												
	Scripps Kensington	The Canterbury	The Covington	MonteCedro	Support Services	The Episcopal Home Management Company	Combined Facility Totals	ECS Management LLC	MonteCedro LLC	Community Housing Management Services	Sophie Miller Foundation	Eliminating Entries	Consolidated Totals
Current Liabilities													
Accounts payable and accrued expenses	$ 120	$ 375	$ 421	$ -	$ 9	$ -	$ 925	$ 38	$ 417	$ 37	$ -	$ -	$ 1,417
Accrued compensation, payroll taxes, and benefits	6	287	456	-	56	-	805	217	34	68	-	-	1,124
Interest payable	-	27	363	-	-	-	390	-	-	-	-	-	390
Other current liabilities	274	1,723	2,336	-	1	-	4,334	-	1	-	-	-	4,335
Grant payable	-	-	-	-	99	-	99	-	-	-	-	-	99
Due to related parties	-	2	6	-	188	-	196	-	-	-	-	(196)	-
Current portion of liability for losses during phase-out period of discontinued operations	1,410	-	-	-	-	-	1,410	-	-	-	-	-	1,410
Current portion of long-term debt	-	78	950	-	-	-	1,028	-	-	-	-	-	1,028
Total Current Liabilities	1,810	2,492	4,532	-	353	-	9,187	255	452	105	-	(196)	9,803
Other Liabilities													
Note payable to Episcopal Communities & Services for Seniors	-	-	-	-	-	-	-	-	-	436	-	(436)	-
Deposits from residents	5	36	-	-	-	-	41	-	-	-	-	-	41
Refundable portion of deferred revenue from entrance fees	-	750	1,000	-	-	-	1,750	-	-	-	-	-	1,750
Deferred revenue from entrance fees	-	15,911	54,209	-	-	-	70,120	-	-	-	-	-	70,120
Liability for losses during phase-out period of discontinued operations, net of current portion	4,266	-	-	-	-	-	4,266	-	-	-	-	-	4,266
Long-term debt, net of current maturities	-	5,221	64,975	-	-	-	70,196	-	-	-	-	-	70,196
Total Other Liabilities	4,271	21,918	120,184	-	-	-	146,373	-	-	436	-	(436)	146,373
Total Liabilities	6,081	24,410	124,716	-	353	-	155,560	255	452	541	-	(632)	156,176
Net Assets													
Unrestricted													
Designated by the Board	12,972	21,492	1,697	-	18,409	-	54,570	-	-	1	31,727	(31,727)	54,571
Undesignated	(4,693)	(4,940)	(9,369)	28,868	881	-	10,747	945	15,544	(277)	127	(11,854)	15,232
Total Unrestricted	8,279	16,552	(7,672)	28,868	19,290	-	65,317	945	15,544	(276)	31,854	(43,581)	69,803
Temporarily restricted	173	207	621	-	303	-	1,304	-	-	-	1,304	(1,304)	1,304
Permanently restricted	1,187	74	707	-	-	-	1,968	-	-	-	1,968	(1,968)	1,968
Total Net Assets	9,639	16,833	(6,344)	28,868	19,593	-	68,589	945	15,544	(276)	35,126	(46,853)	73,075
Total Liabilities and Net Assets	$ 15,720	$ 41,243	$ 118,372	$ 28,868	$ 19,946	$ -	$ 224,149	$ 1,200	$ 15,996	$ 265	$ 35,126	$ (47,485)	$ 229,251

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2013
(DOLLARS IN THOUSANDS)

	Episcopal Communities & Services for Seniors												
Change in Unrestricted Net Assets	**Scripps Kensington**	**The Canterbury**	**The Covington**	**MonteCedro**	**Support Services**	**The Episcopal Home Management Company**	**Combined Facility Totals**	**ECS Management LLC**	**MonteCedro LLC**	**Community Housing Management Services**	**Sophie Miller Foundation**	**Eliminating Entries**	**Consolidated Totals**
Operating Revenue, Other Support, and Investment Returns													
Operating Revenue and Other Support													
Resident care fees, net of contractual adjustments and allowances of $1,834, The Covington	$ -	$ 8,853	$ 11,898	$ -	$ -	$ -	$ 20,751	$ -	$ -	$ -	$ -	$ -	$ 20,751
Ancillary services	-	314	4,074	-	-	-	4,388	-	-	-	-	-	4,388
Management fee revenue	-	-	-	-	30	-	30	1,422	-	560	-	(1,452)	560
Amortization of entrance fees	-	1,051	2,440	-	-	-	3,491	-	-	-	-	-	3,491
Contributions	1	3	25	-	-	-	29	-	-	-	158	-	187
Miscellaneous income	-	47	11	-	-	-	58	-	-	28	-	-	86
Total Operating Revenue and Other Support	1	10,268	18,448	-	30	-	28,747	1,422	-	588	158	(1,452)	29,463
Investment Returns Available for Current Operations													
Dividends, interest, and royalties	-	520	1,472	-	271	-	2,263	-	-	-	914	-	3,177
Net realized gains	-	95	1,294	-	239	-	1,628	-	-	-	1,225	-	2,853
Total Investment Returns Available for Current Operations	-	615	2,766	-	510	-	3,891	-	-	-	2,139	-	6,030
Total Operating Revenue, Other Support and Investment Returns	1	10,883	21,214	-	540	-	32,638	1,422	-	588	2,297	(1,452)	35,493
Operating Expenses													
Departmental Expenses													
General and administrative	-	1,561	2,500	-	-	-	4,061	1,422	-	640	103	(1,452)	4,774
Dining service	-	1,335	2,855	-	-	-	4,190	-	-	-	-	-	4,190
Nursing service, routine	-	1,475	2,025	-	-	-	3,500	-	-	-	-	-	3,500
General maintenance	-	758	1,696	-	-	-	2,454	-	-	-	-	-	2,454
Ancillary services	-	15	1,448	-	-	-	1,463	-	-	-	-	-	1,463
Activities and social services	-	470	690	-	-	-	1,160	-	-	-	-	-	1,160
Housekeeping	-	364	714	-	-	-	1,078	-	-	-	-	-	1,078
Marketing	-	430	399	-	-	-	829	-	-	-	-	-	829
Resident health service	-	349	408	-	-	-	757	-	-	-	-	-	757
Program services	-	-	-	-	271	-	271	-	-	470	-	-	741
Security	-	110	148	-	-	-	258	-	-	-	-	-	258
Insurance	-	107	130	-	-	-	237	-	-	-	-	-	237
Grounds and gardens	-	49	110	-	-	-	159	-	-	-	-	-	159
Total Departmental Expenses	-	7,023	13,123	-	271	-	20,417	1,422	-	1,110	103	(1,452)	21,600
Distributions to Episcopal Communities & Services for Seniors	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,425	$ (8,425)	$ -

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)
(DOLLARS IN THOUSANDS)

Change in Unrestricted Net Assets (continued)	Episcopal Communities & Services for Seniors: Scripps Kensington	The Canterbury	The Covington	MonteCedro	Support Services	The Episcopal Home Management Company	Combined Facility Totals	ECS Management LLC	MonteCedro LLC	Community Housing Management Services	Sophie Miller Foundation	Eliminating Entries	Consolidated Totals
Property Expenses													
Depreciation	$ -	$ 1,303	$ 2,984	$ 196	$ 6	$ -	$ 4,489	$ 61	$ -	$ -	$ -	$ -	$ 4,550
Property taxes	-	31	56	-	-	-	87	-	-	-	-	-	87
Property insurance	-	15	45	-	-	-	60	-	-	-	-	-	60
Total Property Expenses	-	1,349	3,085	196	6	-	4,636	61	-	-	-	-	4,697
Other Expenses													
Interest expense	-	229	3,077	-	-	-	3,306	-	-	-	-	-	3,306
Investment expenses	-	162	387	-	-	-	549	-	-	-	127	-	676
Amortization expense	-	-	520	-	-	-	520	-	-	-	-	-	520
Income tax expense	-	-	-	-	-	-	-	7	1	-	-	-	8
Other expenses	-	-	-	-	2	-	2	-	-	209	-	-	211
Total Other Expenses	-	391	3,984	-	2	-	4,377	7	1	209	127	-	4,721
Total Operating Expenses	-	8,763	20,192	196	279	-	29,430	1,490	1	1,319	8,655	(9,877)	31,018
Operating Income (Loss)	$ 1	$ 2,120	$ 1,022	$ (196)	$ 261	$ -	$ 3,208	$ (68)	$ (1)	$ (731)	$ (6,358)	$ 8,425	$ 4,475

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013
(DOLLARS IN THOUSANDS)

	Episcopal Communities & Services for Seniors												
	Scripps Kensington	The Canterbury	The Covington	MonteCedro	Support Services	The Episcopal Home Management Company	Combined Facility Totals	ECS Management LLC	MonteCedro LLC	Community Housing Management Services	Sophie Miller Foundation	Eliminating Entries	Consolidated Totals
Change in Unrestricted Net Assets													
Operating Income (Loss)	$ 1	$ 2,120	$ 1,022	$ (196)	$ 261	$ -	$ 3,208	$ (68)	$ (1)	$ (731)	$ (6,358)	$ 8,425	$ 4,475
Other Changes In Unrestricted Net Assets													
Excess (deficiency) of investment returns over (under) amounts available for current operations	-	463	1,827	-	446	-	2,736	-	-	-	(559)	-	2,177
Gain (loss) on disposal of property and equipment	-	-	-	(321)	14	-	(307)	-	-	-	-	-	(307)
Loss on refunding of long-term debt	-	(525)	(14,450)	-	-	-	(14,975)	-	-	-	-	-	(14,975)
Accretion expense	(552)	-	-	-	-	-	(552)	-	-	-	-	-	(552)
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	122	-	122
Change in interest in ECS Management LLC net assets - unrestricted	-	-	-	-	(68)	-	(68)	-	-	-	-	68	-
Change in interest in MonteCedro LLC net assets - unrestricted	-	-	-	(1)	-	-	(1)	-	-	-	-	1	-
Change in interest in Community Housing Management Services' net assets - unrestricted	-	-	-	-	(616)	-	(616)	-	-	-	-	616	-
Change in interest in Sophie Miller Foundation net assets - unrestricted	711	151	97	-	664	-	1,623	-	-	1	-	(1,624)	-
Change in Unrestricted Net Assets	160	2,209	(11,504)	(518)	701	-	(8,952)	(68)	(1)	(730)	(6,795)	7,486	(9,060)
Change in Temporarily Restricted Net Assets													
Contributions	-	-	-	-	-	-	-	-	-	-	226	-	226
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	(122)	-	(122)
Change in interest in Sophie Miller Foundation net assets - temporarily restricted	24	28	35	-	22	-	109	-	-	1	-	(110)	-
Change in Temporarily Restricted Net Assets	24	28	35	-	22	-	109	-	-	1	104	(110)	104
Change in Net Assets	184	2,237	(11,469)	(518)	723	-	(8,843)	(68)	(1)	(729)	(6,691)	7,376	(8,956)
Transfers of Net Assets (Net)	(82)	(51)	(56)	4,800	(9,509)	299	(4,599)	1,013	15,545	453	28,009	(40,421)	-
Net Assets, Beginning	9,537	14,647	5,181	24,586	28,379	(299)	82,031	-	-	-	13,808	(13,808)	82,031
Net Assets, Ending	$ 9,639	$ 16,833	$ (6,344)	$ 28,868	$ 19,593	$ -	$ 68,589	$ 945	$ 15,544	$ (276)	$ 35,126	$ (46,853)	$ 73,075

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(DOLLARS IN THOUSANDS)

	Episcopal Communities & Services for Seniors												
	Scripps Kensington	**The Canterbury**	**The Covington**	**MonteCedro**	**Support Services**	**The Episcopal Home Management Company**	**Combined Facility Totals**	**ECS Management LLC**	**MonteCedro LLC**	**Community Housing Management Services**	**Sophie Miller Foundation**	**Eliminating Entries**	**Consolidated Totals**
Operating Activities													
Cash received:													
Resident care fees, net of contractual adjustments and allowances	$ 773	$ 9,157	$ 16,159	$ -	$ -	$ -	$ 26,089	$ -	$ -	$ -	$ -	$ -	$ 26,089
Entrance fees	-	4,115	12,040	-	-	-	16,155	-	-	-	-	-	16,155
Contributions	1	3	25	-	-	-	29	-	-	-	370	-	399
Investment income	-	523	1,535	-	271	-	2,329	-	-	-	882	-	3,211
Transfers (to) from Episcopal Communities & Services for Seniors	-	2	12	(1)	11	-	24	(6)	(11)	-	(7)	-	-
Payroll and related expenses of managed properties received	-	-	-	-	-	-	-	-	-	2,060	-	-	2,060
Management fee revenue	-	-	-	-	30	-	30	1,422	-	542	-	(1,452)	542
Other	-	47	11	(24)	103	-	137	(8)	-	28	-	-	157
Cash disbursed:													
Cash paid to employees and suppliers	(2,751)	(7,174)	(13,640)	-	(286)	-	(23,851)	(1,302)	-	(1,229)	(213)	1,452	(25,143)
Distributions (to) Episcopal Communities & Services for Seniors	-	-	-	-	-	-	-	-	-	-	(8,425)	8,425	-
Payroll and related expenses of managed properties paid	-	-	-	-	-	-	-	-	-	(2,060)	-	-	(2,060)
Interest	-	(330)	(4,391)	-	-	-	(4,721)	-	-	-	-	-	(4,721)
Cash paid for bond refunding	-	(525)	(6,975)	-	-	-	(7,500)	-	-	-	-	-	(7,500)
Other	-	-	(25)	-	-	-	(25)	-	-	-	-	-	(25)
Net Cash Provided by (Used in) Operating Activities	(1,977)	5,818	4,751	(25)	129	-	8,696	106	(11)	(659)	(7,393)	8,425	9,164
Investing Activities													
Investment income reinvested	-	(420)	(1,133)	-	(300)	-	(1,853)	-	-	-	(760)	-	(2,613)
Purchase of investments	-	(3,933)	(4,445)	-	-	-	(8,378)	-	-	-	(167)	-	(8,545)
Proceeds from sale of investments	-	-	10,370	-	3,635	-	14,005	-	-	-	8,258	-	22,263
Purchase of property and equipment	-	(1,333)	(1,055)	(395)	(133)	-	(2,916)	(61)	-	(4)	-	-	(2,981)
Proceeds from sale of equipment	-	-	-	-	26	-	26	-	-	-	-	-	26
Additions to project development costs MonteCedro facility	-	-	-	(4,456)	-	-	(4,456)	-	(3,349)	-	-	-	(7,805)
Issuance of note receivable to Community Housing Management Services	-	-	-	-	(319)	-	(319)	-	-	-	-	319	-
Release of (transfer to) restricted cash, cash equivalents and investments	-	7	100	-	-	-	107	-	-	-	-	-	107
Net Cash Provided by (Used in) Investing Activities	-	(5,679)	3,837	(4,851)	2,909	-	(3,784)	(61)	(3,349)	(4)	7,331	319	452
Financing Activities													
Payment of long-term debt	-	(25)	(315)	-	-	-	(340)	-	-	-	-	-	(340)
Issuance of note payable from Episcopal Communities & Services for Seniors	-	-	-	-	-	-	-	-	-	319	-	(319)	-
Refund of entrance fees	-	(1,135)	(6,142)	-	-	-	(7,277)	-	-	-	-	-	(7,277)
Distributions from Sophie Miller Foundation	1,998	34	86	-	1,830	-	3,948	38	4,100	339	-	(8,425)	-
Transfer of net assets	-	(42)	(144)	4,800	(5,694)	-	(1,080)	543	3	115	419	-	-
Net Cash Provided by (Used in) Financing Activities	1,998	(1,168)	(6,515)	4,800	(3,864)	-	(4,749)	581	4,103	773	419	(8,744)	(7,617)
Net Increase (Decrease) in Cash and Cash Equivalents	21	(1,029)	2,073	(76)	(826)	-	163	626	743	110	357	-	1,999
Cash and Cash Equivalents, Beginning	211	3,418	585	119	1,193	-	5,526	-	-	21	488	-	6,035
Cash and Cash Equivalents, Ending	$ 232	$ 2,389	$ 2,658	$ 43	$ 367	$ -	$ 5,689	$ 626	$ 743	$ 131	$ 845	$ -	$ 8,034

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)
(DOLLARS IN THOUSANDS)

	Episcopal Communities & Services for Seniors												
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities	**Scripps Kensington**	**The Canterbury**	**The Covington**	**MonteCedro**	**Support Services**	**The Episcopal Home Management Company**	**Combined Facility Totals**	**ECS Management LLC**	**MonteCedro LLC**	**Community Housing Management Services**	**Sophie Miller Foundation**	**Eliminating Entries**	**Consolidated Totals**
Change in net assets	$ 184	$ 2,237	$ (11,469)	$ (518)	$ 723	$ -	$ (8,843)	$ (68)	$ (1)	$ (729)	$ (6,691)	$ 7,376	$ (8,956)
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:													
Amortization of entrance fees	-	(1,051)	(2,440)	-	-	-	(3,491)	-	-	-	-	-	(3,491)
Amortization of premium	-	(10)	(108)	-	-	-	(118)	-	-	-	-	-	(118)
Amortization of deferred interest income	-	-	(25)	-	-	-	(25)	-	-	-	-	-	(25)
Provision for doubtful accounts	-	-	20	-	-	-	20	-	-	-	-	-	20
Depreciation expense	3	1,303	2,984	196	6	-	4,492	61	-	13	-	-	4,566
Amortization expense	-	(1)	520	-	-	-	519	-	-	-	-	-	519
Accretion expense	552	-	-	-	-	-	552	-	-	-	-	-	552
Write off deferred interest income	-	-	(1,154)	-	-	-	(1,154)	-	-	-	-	-	(1,154)
Write off unamortized financing costs	-	-	8,629	-	-	-	8,629	-	-	-	-	-	8,629
Realized and unrealized (gains) losses on investments	-	(556)	(3,077)	-	(685)	-	(4,318)	-	-	-	(666)	-	(4,984)
(Gain) loss on disposal of property and equipment, net	-	-	-	321	(14)	-	307	-	-	-	-	-	307
Interest in ECS Management LLC net assets	-	-	-	-	68	-	68	-	-	-	-	(68)	-
Interest in MonteCedro LLC net assets	-	-	-	1	-	-	1	-	-	-	-	(1)	-
Interest in Community Housing Management Services' net assets	-	-	-	-	616	-	616	-	-	-	-	(616)	-
Interest in Sophie Miller Foundation net assets	(735)	(179)	(132)	-	(687)	-	(1,733)	-	-	(1)	-	1,734	-
(Increase) decrease in:													
Accounts receivable	20	(14)	152	-	-	-	158	-	-	(18)	-	-	140
Other receivables	(1)	(4)	53	1	114	-	163	(8)	-	-	(32)	-	123
Inventories	-	(13)	(7)	-	-	-	(20)	-	-	-	-	-	(20)
Prepaid expenses and other current assets	250	(21)	(26)	-	(18)	-	185	14	-	17	3	-	219
Notes receivable - entrance fees	-	-	1,177	-	-	-	1,177	-	-	-	-	-	1,177
Deferred charges and other assets	(137)	-	-	-	(12)	-	(149)	28	-	5	-	-	(116)
Increase (decrease) in:													
Accounts payable and accrued expenses	(156)	151	57	-	(78)	-	(26)	37	1	9	-	-	21
Accrued compensation, payroll taxes, and benefits	(2)	(40)	(36)	-	(76)	-	(154)	48	-	45	-	-	(61)
Interest payable	-	(91)	(1,206)	-	-	-	(1,297)	-	-	-	-	-	(1,297)
Due to/from related parties	-	2	12	(1)	11	-	24	(6)	(11)	-	(7)	-	-
Other current liabilities	(165)	4	(3)	-	-	-	(164)	-	-	-	-	-	(164)
Grant payable	-	-	-	-	99	-	99	-	-	-	-	-	99
Deposits from residents	-	11	-	(25)	-	-	(14)	-	-	-	-	-	(14)
Deferred revenue from entrance fees	-	4,115	10,864	-	-	-	14,979	-	-	-	-	-	14,979
Liability for losses during phase-out period of discontinued operations	(1,787)	-	-	-	-	-	(1,787)	-	-	-	-	-	(1,787)
Interdepartmental allocation	(3)	(25)	(34)	-	62	-	-	-	-	-	-	-	-
Total Adjustments	(2,161)	3,581	16,220	493	(594)	-	17,539	174	(10)	70	(702)	1,049	18,120
Net Cash Provided by (Used in) Operating Activities	$ (1,977)	$ 5,818	$ 4,751	$ (25)	$ 129	$ -	$ 8,696	$ 106	$ (11)	$ (659)	$ (7,393)	$ 8,425	$ 9,164

See independent auditor's report on supplementary information.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(continued)
(DOLLARS IN THOUSANDS)

	Episcopal Communities & Services for Seniors												
	Scripps Kensington	**The Canterbury**	**The Covington**	**MonteCedro**	**Support Services**	**The Episcopal Home Management Company**	**Combined Facility Totals**	**ECS Management LLC**	**MonteCedro LLC**	**Community Housing Management Services**	**Sophie Miller Foundation**	**Eliminating Entries**	**Consolidated Totals**
Supplemental Schedule of Non-cash Investing and Financing Activities													
Project development costs financed through accounts payable, accrued expenses, other liabilities, and prepaid expenses	$ -	$ -	$ -	$ 646	$ -	$ -	$ 646	$ -	$ 445	$ -	$ -	$ -	$ 1,091
Non-cash bond refunding transactions:													
Refunding of Series 2002A and 2002B bonds	$ -	$ 5,467	$ 69,533	$ -	$ -	$ -	$ 75,000	$ -	$ -	$ -	$ -	$ -	$ 75,000
Issuance of Series 2012 bond	-	(4,677)	(59,483)	-	-	-	(64,160)	-	-	-	-	-	(64,160)
Series 2012 bond premium	-	(657)	(6,866)	-	-	-	(7,523)	-	-	-	-	-	(7,523)
Other costs including the establishment of bond reserve funds, payment of financing costs, and other costs of issuance	-	(133)	(3,184)	-	-	-	(3,317)	-	-	-	-	-	(3,317)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Assets and liabilities transferred from related parties through net asset transfers during 2013:													
Investments	$ -	$ -	$ -	$ -	$ (27,591)	$ -	$ (27,591)	$ -	$ -	$ -	$ 27,591	$ -	$ -
Prepaid expenses and other current assets	-	-	-	(45)	(75)	-	(120)	75	45	-	-	-	-
Property and equipment, net	-	-	-	-	(483)	-	(483)	483	-	-	-	-	-
Project development costs	-	-	-	(11,394)	-	-	(11,394)	-	11,394	-	-	-	-
Other assets	-	-	-	(15)	(44)	-	(59)	44	15	-	-	-	-
Interest in Sophie Miller Foundation net assets	-	-	-	-	(4,484)	-	(4,484)	38	4,108	338	-	-	-
Accrued compensation, payroll taxes, and benefits	-	-	-	15	169	-	184	(169)	(15)	-	-	-	-
Other current liabilities	-	-	-	5	-	-	5	-	(5)	-	-	-	-
Total Non-cash Net Asset Transfers During 2013	$ -	$ -	$ -	$ (11,434)	$ (32,508)	$ -	$ (43,942)	$ 471	$ 15,542	$ 338	$ 27,591	$ -	$ -

See the independent auditor's report on supplementary information.

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101
TEL: (626) 577-1440 FAX: (626) 577-1082

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Episcopal Communities & Services for Seniors and Subsidiaries
Pasadena, California

We have audited the accompanying continuing care reserve report ("Reports") of Episcopal Communities & Services for Seniors and Subsidiaries (the "Organization") as of June 30, 2013.

Management's Responsibility for the Reports
Management is responsible for the preparation and fair presentation of the Reports in accordance with the provisions of the California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Reports that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the Reports 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 Reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, 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 Reports 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 Reports.

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 Reports present fairly, in all material respects, the continuing care reserve requirements of the Organization as of June 30, 2013, in accordance with the provisions of the California Health and Safety Code Section 1792.

Other Matter
The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code Section 1792 and are not intended to be a complete presentation of the Organization's assets, liabilities, revenues and expenses.

Restriction on Use
This report is intended solely for the information of the Board of Directors and management of the Organization and the California Department of Social Services and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Martin Werbelow LLP

October 23, 2013

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
Fiscal Year Ended: 30-Jun-13

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 30-Jun-13 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 30-Jun-13 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$7,949,908
[2]	Operating Expense Reserve Amount	$2,859,051
[3]	**Total Liquid Reserve Amount:**	$10,808,959

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

	Qualifying Asset Description	**Amount (market value at end of quarter)** Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents		$8,034,000
[5]	Investment Securities	$99,889,000	$6,747,000
[6]	Equity Securities		
[7]	Unused/Available Lines of Credit		
[8]	Unused/Available Letters of Credit		
[9]	Debt Service Reserve	$3,936,612	(not applicable)
[10]	Other: (describe qualifying asset)		
	Total Amount of Qualifying Assets Listed for Reserve Obligation:	[11] $103,825,612	[12] $14,781,000
	Reserve Obligation Amount:	[13] $7,949,908	[14] $2,859,051
	Surplus/(Deficiency):	[15] $95,875,704	[16] $11,921,949

Signature:

(Authorized Representative)

Date: 10/25/13

V. P. Finance / C F O
(Title)

DSS - Reserve Report - Attachment to Form 5-5
Description of Reserves

Total Qualifying Assets As Filed:		**Additional Comments**
Cash and Cash Equivalents	8,034,000	
Investment Securities	106,636,000	Investment is about 49% fixed income/45% equities/6% alternative investments
Debt Service Reserve	3,936,612	Invested in government bonds to meet debt obligations
Total Qualifying Assets as Filed	118,606,612	
Reservations and Designations:		
Benevolence Funds	1,206,422	Cash and investments to provide operating and capital needs associated with facilities and to assist qualifying residents with medical care expenses.
Capital Replacement Reserve Funds	18,045,449	Investments reserved for capital expenditures incurred for replacement of plant and equipment at the facilities. Capital replacement and improvement will prolong the life of the facilities and provide better care for the residents.
The Canterbury Entrance Fee Reserve Fund	4,799,285	Fund available for entrance fee refunds for the Canterbury facility.
Mission Expansion Fund	17,115,449	Investments available for costs associated with the development of new communities, redevelopment of existing communities and expansion of programs.
General Funds	193,513	Funds available for purposes designated by the Board of Directors.
Contingency Reserve Fund	5,071,674	Funds established as a reserve for unplanned liabilities and for planned obligations.
The Program Expansion Fund	927,003	Funds available for current program and future programs
Scipps Kensington Proceeds Funds	6,946,569	Funds available to carry out the contractual obligations to former Scripps Kensington residents with life care agreements
By Your Side Fund	83,812	Funds available to support the By Your Side Program
Covington Pasotral Care Fund	83,020	Funds available to enhance the spiritual lives of residents and the wider community
Covington Cares Fund	100,000	Funds available to proivde financial assistance to Covington qualifying residents
Total Reservations and Designations	54,572,196	
Remaining Liquid Reserves	64,034,416	

Per Capita Cost of Operations:	Scripps Kensington	Canterbury	Covington	Total
Operating Expenses (Form 5-4 line #1)	1,932,209	8,762,639	20,191,893	30,886,741
Mean # of All Residents (Form 1-1 line 10)	64.5	150	247	461.5
Per Capita Cost of Operations	29,957	58,418	81,749	66,927

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	02/01/02	$0	$2,220,110		$2,220,110
2	01/07/10	$0	$1,170,458		$1,170,458
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
					$0
		TOTAL:	$3,390,568	$0	$3,390,568

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

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

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

Footnote to Form 5-1:

Series 2002B Bond originated on 2/1/2002 was refinanced on 1/7/2010 from variable rate to fixed rate.

On 12/12/2012, the Organization refunded all of the outstanding California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A and Series 2002B. As a result, California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 Bonds were issued in the amount of $64,160,000.

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	12/12/12	$1,330,781	$379,945	12	$4,559,340
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$1,330,781	$379,945	12	$4,559,340

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

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

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

Footnote to Form 5-2:

On 12/12/2012, the Organization refunded all of the outstanding California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A and Series 2002B, originated on 2/1/2002. As a result, California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 Bonds were issued in the amount of $64,160,000. Interest is payable semi-annually at 2% per annum through May 15, 2014, 3% per annum through May 15, 2016, 4% per annum through May 15, 2017, and 5% per annum through May 15, 2047. Principal payments are due annually on May 15th.

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$3,390,568
2	Total from Form 5-2 bottom of Column (e)	$4,559,340
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$7,949,908

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$8,762,639
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	$330,494	
	b. Credit enhancement premiums paid for long-term debt (see instructions)		
	c. Depreciation	$1,302,809	
	d. Amortization	$1,456	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$4,118,733	
	f. Extraordinary expenses approved by the Department		
3	Total Deductions		$5,753,492
4	Net Operating Expenses		$3,009,147
5	Divide Line 4 by 365 and enter the result.		$8,244
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$618,318

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
COMMUNITY: THE CANTERBURY

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
FORM 5-4 (Item 2-a)
Series 2002 A & B and 2012 Bond Interest

	CB	COV	Total
Series A Interest Paid on 8/1/12			
2/1/2012	15,428.71	204,981.50	220,410.21
3/1/2012	15,428.71	204,981.50	220,410.21
4/1/2012	15,428.71	204,981.50	220,410.21
5/1/2012	15,428.71	204,981.50	220,410.21
6/1/2012	15,428.71	204,981.50	220,410.21
7/1/2012	15,428.71	204,981.49	220,410.20
UBOC#1802 Paid on 8/1/12	92,572.26	1,229,888.99	1,322,461.25
8/1/2012	15,428.71	204,981.50	220,410.21
9/1/2012	15,428.71	204,981.50	220,410.21
10/1/2012	15,428.71	204,981.50	220,410.21
11/1/2012	15,428.71	204,981.50	220,410.21
12/1/2012	1,120.53	14,887.03	16,007.56
UBOC#1802 Paid on 12/11/12	62,835.37	834,813.03	897,648.40
Total Series A Interest Paid FY 12/13	155,407.63	2,064,702.02	2,220,109.65
Series A Interest Expense 7/1/12 to 12/11/12			
7/1/2012	15,428.71	204,981.50	220,410.21
8/1/2012	15,428.71	204,981.50	220,410.21
9/1/2012	15,428.71	204,981.50	220,410.21
10/1/2012	15,428.71	204,981.50	220,410.21
11/1/2012	15,428.71	204,981.50	220,410.21
12/1/2012	1,120.53	14,887.03	16,007.56
Series A Interest Expense 7/1/12 to 12/11/12	78,264.08	1,039,794.53	1,118,058.61
Series B Interest Paid on 8/1/12			
2/1/2012	8,193.21	108,852.62	117,045.83
3/1/2012	8,193.21	108,852.62	117,045.83
4/1/2012	8,193.21	108,852.62	117,045.83
5/1/2012	8,193.21	108,852.62	117,045.83
6/1/2012	8,193.21	108,852.62	117,045.83
7/1/2012	8,193.21	108,852.64	117,045.85
UBOC#1902 Paid on 8/1/12	49,159.26	653,115.74	702,275.00
8/1/2012	8,193.21	108,852.62	117,045.83
9/1/2012	8,193.21	108,852.62	117,045.83
10/1/2012	8,193.21	108,852.62	117,045.83
11/1/2012	8,193.21	108,852.62	117,045.83
UBOC#1902 Paid on 12/11/12	32,772.84	435,410.48	468,183.32
Total Series B Interest Paid FY 12/13	81,932.10	1,088,526.22	1,170,458.32
Series B Interest Expense 7/1/12 to 12/11/12			
7/1/2012	8,193.21	108,852.64	117,045.85
8/1/2012	8,193.21	108,852.64	117,045.85
9/1/2012	8,193.21	108,852.64	117,045.85
10/1/2012	8,193.21	108,852.64	117,045.85
11/1/2012	8,193.21	108,852.64	117,045.85
Series B Interest Expense 7/1/12 to 12/11/12	40,966.05	544,263.20	585,229.25
Series 2012 Interest Paid on 5/15/13			
12/16-12/31/12	9,315.47	123,762.66	133,078.13
1/31/2013	18,630.94	247,525.31	266,156.25
2/28/2013	18,630.94	247,525.31	266,156.25
3/31/2013	18,630.94	247,525.31	266,156.25
4/30/2013	18,630.94	247,525.31	266,156.25
5/15/2013	9,315.47	123,762.65	133,078.12
UBOC#9801 Paid on 5/15/13	93,154.70	1,237,626.55	1,330,781.25
Series 2012 Interest Expense 12/16/12-6/30/13			
12/16-12/31/12	9,315.47	123,762.66	133,078.13
1/31/2013	18,630.94	247,525.31	266,156.25
2/28/2013	18,630.94	247,525.31	266,156.25
3/31/2013	18,630.94	247,525.31	266,156.25
4/30/2013	18,630.94	247,525.31	266,156.25
5/31/2013	18,428.45	244,835.09	263,263.54
6/30/2013	18,225.96	242,144.88	260,370.84
	120,493.64	1,600,843.87	1,721,337.51
Series 2012 Amortized Bond Premium			
12/16-12/31/12	(794.93)	(8,311.83)	(9,106.75)
1/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
2/28/2013	(1,589.87)	(16,623.67)	(18,213.54)
3/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
4/30/2013	(1,589.87)	(16,623.67)	(18,213.54)
5/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
6/30/2013	(1,589.87)	(16,623.67)	(18,213.54)
	(10,334.15)	(108,053.85)	(118,387.99)
Total Interest Paid For FY 2012-13	330,494.43	4,390,854.79	4,721,349.22 Form 5-1
Total Interest Expense For FY 2012-13	229,389.63	3,076,847.76	3,306,237.38

		CB	COV	Total
Interest expense per audited fianacial statements(wtb)		229,390	3,076,848	3,306,237
Net Interest expense (accrued) (Form 1-2 Line 1b)		229,390	3,076,848	3,306,237
Less:	Series A Accrued Interest FY12-13	(78,264)	(1,039,795)	(1,118,059)
	Series B Accrued Interest FY12-13	(40,966)	(544,263)	(585,229)
	Series 2012 Accrued Interest FY 12-13	(110,159)	(1,492,790)	(1,602,950)
Add:	Series A Interest Paid FY 12-13	155,408	2,064,702	2,220,110
	Series B Interest Paid FY 12-13	81,932	1,088,526	1,170,458
	Series 2012 Interest Paid FY 12-13	93,155	1,237,627	1,330,781
Interest Paid for FY 12-13 (Form 5-4 item 2a)		330,494	4,390,855	4,721,349

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS (ECS)
SCRIPPS KENSINGTON
Footnote To Form 5-4

		WTB Group
Outsourced Facilities:		6002.18
ATHERTON	202,837	
CLAREMONT	89,154	
DESERT COVE	20,500	
GLEN TERRA	36,000	
REGENTS POINT	31,902	
ROYAL OAKS MANOR	57,661	
SCHOONER ESTATES	13,612	
SOLHEIM LUTHERAN HOME	365,931	
TOWN AND COUNTRY MANOR	112,055	
WESTMINSTER GARDENS	51,484	
WINDSOR MANOR	712,625	
Total Outsourced Facilities	1,693,761	
Ancillary	101,114	6002.12
Resident Allowance	67,851	6002.07
Resident Relations*	70,394	6002.11
Total Operating Expenses (Form 5-4 Line 1)	1,933,120 (a)	

*Resident Relations costs represent payroll and benefits for one full time employee who visits the residents at the outsourced facilities and coordinates services for the residents.

Extraordinary Deduction: 6002

ECS receives and deposits residents' monthly payments from social security and pension. This income pays for part of the outsourced facility costs. However, ECS is responsible to pay the total outsourced facility monthly fees and ancillary. As of June 30, 2013, there is one resident who receives his income directly and ECS only pays the difference of the outsourced facility fees.

Lifecare Outside Facility Gross Revenue	1,710,761	02-0X-00-50051
Lifecare Outside Facility -Benevolence	(964,608)	02-0X-00-50052
Total Extraordinary Deduction (Form 5-4 Line 2f)	746,153 (b)	
Net Operating Expenses (Form 5-4 Line 4)	1,186,967 (a)-(b)	

	2010	(Restated) 2011	2012	2013
LONG-TERM DEBT TO TOTAL ASSETS RATIO				
Long Term Debt less Current Portion	77,150	75,000	72,855	70,196
Total Assets	229,912	246,301	241,784	229,251
Long-Term Debt to Total Assets Ratio	33.56%	30.45%	30.13%	30.62%
OPERATING RATIO				
Operating Expenses from Ongoing Operatings	28,576	32,876	32,833	31,018
Operating Expenses from Discontinued Operatings		11,082 R	0	0
Operating Expenses from Discontinued Operating	14,677	9,639	1,834	1,932
Total Operating Expenses	43,253	53,597	34,667	32,950
Less: Depreciation Exp.-Ongoing Operating	3,921	4,071	4,211	4,550
Depreciation Exp.-Discontinued Opera	854	77	0	0
Amortization Exp.	791	763	763	520
	37,687	48,686	29,693	27,880
Less: Extraordinary Items-Ongoing Operatings				
Project Development Exp	26	32	0	0
Merger-related Expense	88	33	54	0
Loss on Bond Coversion	1,011			
Adjusted Operating Expenses	36,562	48,621	29,639	27,880
(DIVIDED BY)				
Operating Revenue from Ongoing Operatings	29,692 R	34,841	35,419	32,640
Operating Revenue from Discontinued Operating	0	11,087 R		
Operating Revenue from Discontinued Operating	13,293	6,337 R	762	746
Total Operating Revenues	42,985 R	52,265 R	36,181	33,386
Less: Amort.of Deferred Revenue-Ongoing	3,376	3,632	3,505	3,491
Less: Amort.of Deferred Revenue-Discontin	471	0 R	0	0
	3,847	3,632	3,505	3,491
Adj Operating Rev. Ongoing Operatings & Discon	39,138 R	48,633 R	32,676	29,895
Operating Ratio-Ongoing & Discontiued Operatings	93.42% R	99.98% R	90.71%	93.26%
Operating Ratio-Ongoing Operatings Only	86.41% R	89.64% R	87.12%	89.02%
DEBT SERVICE COVERAGE RATIO				
Total Excess of Revenue over Expenses	2,492	4,558	2,585	4,475
Plus: Net Realized Losses	0	0	0	0
Plus: Project Development Exp	26	32	0	0
Plus: Merger-related Expense	88	33	54	0
Plus: Loss on Bond Coversion	1,011	0	0	0
Plus: Interest Exp.	4,123	4,210	4,110	3,306
Plus: Depreciation Exp.	4,775	4,148	4,211	4,550
Plus: Amortization Exp.	791	763	763	520
Less: Amortization of Deferred Revenue	3,847	3,632 R	3,505	3,491
Less: Amortization of Deferred Interest Inc	60	60	60	25
Plus: Net Proceeds from Entrance Fees	2,015	3,208	7,177	8,878
Adjusted Excess Revenue over Expenses	11,414	13,260	15,335	18,213
(DIVIDED BY)				
Annual Debt Service	5,613	6,170	6,260	3,646
Debt Service Coverage Ratio	2.03	2.15	2.45	5.00
DAYS CASH ON HAND RATIO				
Unrestricted Current Cash	2,353	5,567	5,645	7,667
Plus: Current Investments	10,514	15,054	14,441	19,985
Plus: Unrestricted Non-Current Cash	0	0	0	0
Plus: Non-Current Investments	79,503	90,725	95,829	84,015
Total Cash and Equivalents	92,370	111,346	115,915	111,667
(DIVIDED BY)				
Operating Expenses	43,253	53,597	34,667	32,950
Less: Depreciation Expense	4,775	4,148	4,211	4,550
Less: Amortization Expense	791	763	763	520
Less: Provision for doubtful accounts	92	-1	86	20
	37,595	48,687	29,607	27,860
Less: Extraordinary Items				
Project Development Exp	26	32	0	0
Merger-related Expense	88	33	54	0
Loss on Bond Coversion	1,011			
Adjusted Operating Expenses	36,470	48,622	29,553	27,860
Divided by 365	99.91781	133.211	80.96712	76.32877
's Cash on Hand Ratio	924.46	835.86	1,431.63	1,462.97

Continuing Care Retirement Community Disclosure Statement

10/31/2013

General Information

FACILITY NAME: THE CANTERBURY

ADDRESS: 5801 W CRESTRIDGE RD RANCHO PALOS ZIP CODE: 90275 PHONE: 310-541-2410

PROVIDER NAME: EPISCOPAL COMMUNITIES & FACILITY OPERATOR: EPISCOPAL COMMUNITIES & SERVICES

RELATED FACILITIES: THE COVINGTON RELIGIOUS AFFILIATION: EPISCOPAL

YEAR OPENED: 1983 NO. OF ACRES: 5.3 MULTI-STORY: ☑ SINGLE STORY: ☐ BOTH: ☐

MILES TO SHOPPING CTR: 3.00 MILES TO HOSPITAL: 6.00

RECEIVED NOV 08 2013 CONTINUING CARE CONTRACTS BRANCH

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO		ASSISTED LIVING	29
APARTMENTS – 1 BDRM	47	SKILLED NURSING	28
APARTMENTS – 2 BDRM	51	SPECIAL CARE	
COTTAGES/HOUSES		DESCRIBE SPECIAL CARE:	
% OCCUPANCY AT YEAR END	92%		

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: $ 175,000 TO $ 515,360 **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

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

SERVICES AVAILABLE

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

CCRCs	LOCATION (City, State)	PHONE (with area code)
THE COVINGTON	ALISO VIEJO, CA	949-389-8500

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

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

PROVIDER NAME: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS OPERATING INCOME (excluding amortization of entrance fee income)	$23,166	$27,192	$26,820	$25,785
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$18,617	$23,767	$23,695	$22,642
NET INCOME FROM OPERATIONS	$4,549	$3,425	$3,125	$3,143
LESS INTEREST EXPENSE	-$4,123	-$4,210	-$4,110	-$3,306
PLUS CONTRIBUTIONS	$120	$209	$650	$187
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$546	-$576	-$335	$24
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$2,015	$3,208	$7,177	$3,878

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CSCDA	$63,820,000	3.42	12/12/12	05/15/47	34.42 YRS
(refer to footnote 5-1, 5-2)					

FINANCIAL RATIOS (see next page for ratio formulas)

	2011 CCAC Medians 50[th] Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		30.45%	30.13%	30.62%
OPERATING RATIO		99.98%	90.71%	93.26%
DEBT SERVICE COVERAGE RATIO		2.15	2.45	5.00
DAYS CASH-ON-HAND RATIO		835.86	1,431.63	1,462.97

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2010	%	2011	%	2012	%	2013
STUDIO		0.0%		0.0%		0.0%	
ONE BEDROOM	$3,384	3.0%	$3,480	4.0%	$3,612	4.0%	$3,753
TWO BEDROOM	$3,634	3.0%	$3,738	4.0%	$3,880	4.0%	$4,309
COTTAGE/HOUSE		0.0%		0.0%		0.0%	
ASSISTED LIVING	$6,644	3.0%	$6,834	4.0%	$7,093	4.0%	$7,359
SKILLED NURSING	$7,381	3.0%	$7,625	8.0%	$8,205	4.0%	$8,510
SPECIAL CARE		0.0%		0.0%		0.0%	

COMMENTS FROM PROVIDER:

PROVIDER NAME: EPISCOPAL HOME COMMUNITIES & SERVICES

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.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
(formerly know as THE EPISCOPAL HOME COMMUNITIES)
Disclosure Statement page 3 of 4 attachment
2013 Operating Expenses Adjustments

Operating expenses from on going operations	31,018
Less:	
Depreciation	(4,550)
Amortization	(520)
Interest	(3,306)
Extraordinary items:	
Merger-related expense	0
Project development expense	0
Net operating expenses	22,642

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	3,183- 4,878	5,318 – 9,554	7,178 – 9,825
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4%	4%	4%

☐ 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: 7/1/2011
(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: EPISCOPAL HOME COMMUNITIES & SERVICES FOR SENIORS

COMMUNITY: THE CANTERBURY

FORM 7-1 ATTACHMENT

5. The increase was based upon the increase in projected operating and capital costs in consideration of the volume of expenditures and economic indicators.

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
COMMUNITY: CANTERBURY

FORM 1-1
RESIDENT POPULATION

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	206
[2]	Number at end of fiscal year	211
[3]	Total Lines 1 and 2	417
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	208.5
	All Residents	
[6]	Number at beginning of fiscal year	249
[7]	Number at end of fiscal year	245
[8]	Total Lines 6 and 7	494
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	247
[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).	0.84

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CONTINUING CARE
CONTRACTS BRANCH

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$20,191,893
[a]	Depreciation	$2,983,711	
[b]	Debt Service (Interest Only)	$3,076,848	
[2]	Subtotal (add Line 1a and 1b)		$6,060,559
[3]	Subtract Line 2 from Line 1 and enter result.		$14,131,334
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		84%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$11,928,677
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$11,929

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
COMMUNIT THE COVINGTON

MARTIN WERBELOW LLP
CERTIFIED PUBLIC ACCOUNTANTS
300 NO. LAKE AVE., STE. 930, PASADENA, CA 91101
TEL: (626) 577-1440 FAX: (626) 577-1082

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Episcopal Communities & Services for Seniors and Subsidiaries
Pasadena, California

We have audited the accompanying continuing care reserve report ("Reports") of Episcopal Communities & Services for Seniors and Subsidiaries (the "Organization") as of June 30, 2013.

Management's Responsibility for the Reports
Management is responsible for the preparation and fair presentation of the Reports in accordance with the provisions of the California Health and Safety Code Section 1792; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Reports that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the Reports 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 Reports are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Reports, 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 Reports 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 Reports.

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 Reports present fairly, in all material respects, the continuing care reserve requirements of the Organization as of June 30, 2013, in accordance with the provisions of the California Health and Safety Code Section 1792.

Other Matter
The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code Section 1792 and are not intended to be a complete presentation of the Organization's assets, liabilities, revenues and expenses.

Restriction on Use
This report is intended solely for the information of the Board of Directors and management of the Organization and the California Department of Social Services and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Martin Werbelow LLP

October 23, 2013

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
Fiscal Year Ended: 30-Jun-13

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 30-Jun-13 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year 30-Jun-13 are as follows:

		Amount
[1]	Debt Service Reserve Amount	$7,949,908
[2]	Operating Expense Reserve Amount	$2,859,051
[3]	**Total Liquid Reserve Amount:**	$10,808,959

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

	Qualifying Asset Description	Amount (market value at end of quarter) Debt Service Reserve		Operating Reserve
[4]	Cash and Cash Equivalents			$8,034,000
[5]	Investment Securities	$99,889,000		$6,747,000
[6]	Equity Securities			
[7]	Unused/Available Lines of Credit			
[8]	Unused/Available Letters of Credit			
[9]	Debt Service Reserve	$3,936,612		(not applicable)
[10]	Other: (describe qualifying asset)			
	Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	$103,825,612	[12]	$14,781,000
	Reserve Obligation Amount: [13]	$7,949,908	[14]	$2,859,051
	Surplus/(Deficiency): [15]	$95,875,704	[16]	$11,921,949

Signature: James A Cohen

(Authorized Representative)

Date: 10/25/13

V. P. Finance / C F O
(Title)

DSS - Reserve Report - Attachment to Form 5-5
Description of Reserves

Total Qualifying Assets As Filed:		**Additional Comments**
Cash and Cash Equivalents	8,034,000	
Investment Securities	106,636,000	Investment is about 49% fixed income/45% equities/6% alternative investments
Debt Service Reserve	3,936,612	Invested in government bonds to meet debt obligations
Total Qualifying Assets as Filed	118,606,612	
Reservations and Designations:		
Benevolence Funds	1,206,422	Cash and investments to provide operating and capital needs associated with facilities and to assist qualifying residents with medical care expenses.
Capital Replacement Reserve Funds	18,045,449	Investments reserved for capital expenditures incurred for replacement of plant and equipment at the facilities. Capital replacement and improvement will prolong the life of the facilities and provide better care for the residents.
The Canterbury Entrance Fee Reserve Fund	4,799,285	Fund available for entrance fee refunds for the Canterbury facility.
Mission Expansion Fund	17,115,449	Investments available for costs associated with the development of new communities, redevelopment of existing communities and expansion of programs.
General Funds	193,513	Funds available for purposes designated by the Board of Directors.
Contingency Reserve Fund	5,071,674	Funds established as a reserve for unplanned liabilities and for planned obligations.
The Program Expansion Fund	927,003	Funds available for current program and future programs
Scipps Kensington Proceeds Funds	6,946,569	Funds available to carry out the contractual obligations to former Scripps Kensington residents with life care agreements
By Your Side Fund	83,812	Funds available to support the By Your Side Program
Covington Pasotral Care Fund	83,020	Funds available to enhance the spiritual lives of residents and the wider community
Covington Cares Fund	100,000	Funds available to proivde financial assistance to Covington qualifying residents
Total Reservations and Designations	54,572,196	
Remaining Liquid Reserves	64,034,416	

Per Capita Cost of Operations:	Scripps Kensington	Canterbury	Covington	Total
Operating Expenses (Form 5-4 line #1)	1,932,209	8,762,639	20,191,893	30,886,741
Mean # of All Residents (Form 1-1 line 10)	64.5	150	247	461.5
Per Capita Cost of Operations	29,957	58,418	81,749	66,927

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	02/01/02	$0	$2,220,110		$2,220,110
2	01/07/10	$0	$1,170,458		$1,170,458
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
		TOTAL:	$3,390,568	$0	$3,390,568

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

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

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

Footnote to Form 5-1:

Series 2002B Bond originated on 2/1/2002 was refinanced on 1/7/2010 from variable rate to fixed rate.

On 12/12/2012, the Organization refunded all of the outstanding California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A and Series 2002B. As a result, California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 Bonds were issued in the amount of $64,160,000.

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

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	12/12/12	$1,330,781	$379,945	12	$4,559,340
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$1,330,781	$379,945	12	$4,559,340

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

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

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

Footnote to Form 5-2:

On 12/12/2012, the Organization refunded all of the outstanding California Health Facilities Financing Authority Insured Revenue Bonds, Series 2002A and Series 2002B, originated on 2/1/2002.
As a result, California Statewide Communities Development Authority Revenue Refunding Bonds, Series 2012 Bonds were issued in the amount of $64,160,000. Interest is payable semi-annually at 2% per annum through May 15, 2014, 3% per annum through May 15, 2016, 4% per annum through May 15, 2017, and 5% per annum through May 15, 2047. Principal payments are due annually on May 15th.

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$3,390,568
2	Total from Form 5-2 bottom of Column (e)	$4,559,340
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$7,949,908

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		$20,191,893
2	Deductions:		
	a. Interest paid on long-term debt (see instructions)	$4,390,855	
	b. Credit enhancement premiums paid for long-term debt (see instructions)		
	c. Depreciation	$2,983,711	
	d. Amortization	$519,522	
	e. Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$2,579,870	
	f. Extraordinary expenses approved by the Department		
3	Total Deductions		$10,473,958
4	Net Operating Expenses		$9,717,935
5	Divide Line 4 by 365 and enter the result.		$26,624
6	**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve amount.		$1,996,836

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
COMMUNITY: THE COVINGTON

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
FORM 5-4 (Item 2-a)
Series 2002 A & B and 2012 Bond Interest

	CB	COV	Total
Series A Interest Paid on 8/1/12			
2/1/2012	15,428.71	204,981.50	220,410.21
3/1/2012	15,428.71	204,981.50	220,410.21
4/1/2012	15,428.71	204,981.50	220,410.21
5/1/2012	15,428.71	204,981.50	220,410.21
6/1/2012	15,428.71	204,981.50	220,410.21
7/1/2012	15,428.71	204,981.49	220,410.20
UBOC#1802 Paid on 8/1/12	92,572.26	1,229,888.99	1,322,461.25
8/1/2012	15,428.71	204,981.50	220,410.21
9/1/2012	15,428.71	204,981.50	220,410.21
10/1/2012	15,428.71	204,981.50	220,410.21
11/1/2012	15,428.71	204,981.50	220,410.21
12/1/2012	1,120.53	14,887.03	16,007.56
UBOC#1802 Paid on 12/11/12	62,835.37	834,813.03	897,648.40
Total Series A Interest Paid FY 12/13	155,407.63	2,064,702.02	2,220,109.65
Series A Interest Expense 7/1/12 to 12/11/12			
7/1/2012	15,428.71	204,981.50	220,410.21
8/1/2012	15,428.71	204,981.50	220,410.21
9/1/2012	15,428.71	204,981.50	220,410.21
10/1/2012	15,428.71	204,981.50	220,410.21
11/1/2012	15,428.71	204,981.50	220,410.21
12/1/2012	1,120.53	14,887.03	16,007.56
Series A Interest Expense 7/1/12 to 12/11/12	78,264.08	1,039,794.53	1,118,058.61
Series B Interest Paid on 8/1/12			
2/1/2012	8,193.21	108,852.62	117,045.83
3/1/2012	8,193.21	108,852.62	117,045.83
4/1/2012	8,193.21	108,852.62	117,045.83
5/1/2012	8,193.21	108,852.62	117,045.83
6/1/2012	8,193.21	108,852.62	117,045.83
7/1/2012	8,193.21	108,852.64	117,045.85
UBOC#1902 Paid on 8/1/12	49,159.26	653,115.74	702,275.00
8/1/2012	8,193.21	108,852.62	117,045.83
9/1/2012	8,193.21	108,852.62	117,045.83
10/1/2012	8,193.21	108,852.62	117,045.83
11/1/2012	8,193.21	108,852.62	117,045.83
UBOC#1902 Paid on 12/11/12	32,772.84	435,410.48	468,183.32
Total Series B Interest Paid FY 12/13	81,932.10	1,088,526.22	1,170,458.32
Series B Interest Expense 7/1/12 to 12/11/12			
7/1/2012	8,193.21	108,852.64	117,045.85
8/1/2012	8,193.21	108,852.64	117,045.85
9/1/2012	8,193.21	108,852.64	117,045.85
10/1/2012	8,193.21	108,852.64	117,045.85
11/1/2012	8,193.21	108,852.64	117,045.85
Series B Interest Expense 7/1/12 to 12/11/12	40,966.05	544,263.20	585,229.25
Series 2012 Interest Paid on 5/15/13			
12/16-12/31/12	9,315.47	123,762.66	133,078.13
1/31/2013	18,630.94	247,525.31	266,156.25
2/28/2013	18,630.94	247,525.31	266,156.25
3/31/2013	18,630.94	247,525.31	266,156.25
4/30/2013	18,630.94	247,525.31	266,156.25
5/15/2013	9,315.47	123,762.65	133,078.12
UBOC#9801 Paid on 5/15/13	93,154.70	1,237,626.55	1,330,781.25
Series 2012 Interest Expense 12/16/12-6/30/13			
12/16-12/31/12	9,315.47	123,762.66	133,078.13
1/31/2013	18,630.94	247,525.31	266,156.25
2/28/2013	18,630.94	247,525.31	266,156.25
3/31/2013	18,630.94	247,525.31	266,156.25
4/30/2013	18,630.94	247,525.31	266,156.25
5/31/2013	18,428.45	244,835.09	263,263.54
6/30/2013	18,225.96	242,144.88	260,370.84
	120,493.64	1,600,843.87	1,721,337.51
Series 2012 Amortized Bond Premium			
12/16-12/31/12	(794.93)	(8,311.83)	(9,106.75)
1/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
2/28/2013	(1,589.87)	(16,623.67)	(18,213.54)
3/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
4/30/2013	(1,589.87)	(16,623.67)	(18,213.54)
5/31/2013	(1,589.87)	(16,623.67)	(18,213.54)
6/30/2013	(1,589.87)	(16,623.67)	(18,213.54)
	(10,334.15)	(108,053.85)	(118,387.99)
Total Interest Paid For FY 2012-13	330,494.43	4,390,854.79	4,721,349.22 Form 5-1
Total Interest Expense For FY 2012-13	229,389.63	3,076,847.76	3,306,237.38

		CB	COV	Total
Interest expense per audited fianacial statements(wtb)		229,390	3,076,848	3,306,237
Net Interest expense (accrued) (Form 1-2 Line 1b)		229,390	3,076,848	3,306,237
Less:	Series A Accrued Interest FY12-13	(78,264)	(1,039,795)	(1,118,059)
	Series B Accrued Interest FY12-13	(40,966)	(544,263)	(585,229)
	Series 2012 Accrued Interest FY 12-13	(110,159)	(1,492,790)	(1,602,950)
Add:	Series A Interest Paid FY 12-13	155,408	2,064,702	2,220,110
	Series B Interest Paid FY 12-13	81,932	1,088,526	1,170,458
	Series 2012 Interest Paid FY 12-13	93,155	1,237,627	1,330,781
Interest Paid for FY 12-13 (Form 5-4 Item 2a)		330,494	4,390,855	4,721,349

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS (ECS)
SCRIPPS KENSINGTON
Footnote To Form 5-4

		WTB Group
Outsourced Facilities:		6002.18
ATHERTON	202,837	
CLAREMONT	89,154	
DESERT COVE	20,500	
GLEN TERRA	36,000	
REGENTS POINT	31,902	
ROYAL OAKS MANOR	57,661	
SCHOONER ESTATES	13,612	
SOLHEIM LUTHERAN HOME	365,931	
TOWN AND COUNTRY MANOR	112,055	
WESTMINSTER GARDENS	51,484	
WINDSOR MANOR	712,625	
Total Outsourced Facilities	1,693,761	
Ancillary	101,114	6002.12
Resident Allowance	67,851	6002.07
Resident Relations*	70,394	6002.11
Total Operating Expenses (Form 5-4 Line 1)	1,933,120 (a)	

*Resident Relations costs represent payroll and benefits for one full time employee who visits the residents at the outsourced facilities and coordinates services for the residents.

Extraordinary Deduction: 6002

ECS receives and deposits residents' monthly payments from social security and pension. This income pays for part of the outsourced facility costs. However, ECS is responsible to pay the total outsourced facility monthly fees and ancillary. As of June 30, 2013, there is one resident who receives his income directly and ECS only pays the difference of the outsourced facility fees.

Lifecare Outside Facility Gross Revenue	1,710,761	02-0X-00-50051
Lifecare Outside Facility -Benevolence	(964,608)	02-0X-00-50052
Total Extraordinary Deduction (Form 5-4 Line 2f)	746,153 (b)	
Net Operating Expenses (Form 5-4 Line 4)	1,186,967 (a)-(b)	

	2010	(Restated) 2011	2012	2013
LONG-TERM DEBT TO TOTAL ASSETS RATIO				
Long Term Debt less Current Portion	77,150	75,000	72,855	70,196
Total Assets	229,912	246,301	241,784	229,251
Long-Term Debt to Total Assets Ratio	33.56%	30.45%	30.13%	30.62%
OPERATING RATIO				
Operating Expenses from Ongoing Operatings	28,576	32,876	32,833	31,018
Operating Expenses from Discontinued Operatings		11,082 R	0	0
Operating Expenses from Discontinued Operating	14,677	9,639	1,834	1,932
Total Operating Expenses	43,253	53,597	34,667	32,950
Less: Depreciation Exp.-Ongoing Operating:	3,921	4,071	4,211	4,550
Depreciation Exp.-Discontinued Opera	854	77	0	0
Amortization Exp.	791	763	763	520
	37,687	48,686	29,693	27,880
Less: Extraordinary Items-Ongoing Operatings				
Project Development Exp	26	32	0	0
Merger-related Expense	88	33	54	0
Loss on Bond Coversion	1,011			
Adjusted Operating Expenses	36,562	48,621	29,639	27,880
{DIVIDED BY}				
Operating Revenue from Ongoing Operatings	29,692 R	34,841	35,419	32,640
Operating Revenue from Discontinued Operating	0	11,087 R		
Operating Revenue from Discontinued Operating	13,293	6,337 R	762	746
Total Operating Revenues	42,985 R	52,265 R	36,181	33,386
Less: Amort.of Deferred Revenue-Ongoing	3,376	3,632	3,505	3,491
Less: Amort.of Deferred Revenue-Discontin	471	0 R	0	0
	3,847	3,632	3,505	3,491
Adj Operating Rev. Ongoing Operatings & Discon	39,138 R	48,633 R	32,676	29,895
Operating Ratio-Ongoing & Discontiued Operatings	93.42% R	99.98% R	90.71%	93.26%
Operating Ratio-Ongoing Operatings Only	86.41% R	89.64% R	87.12%	89.02%
DEBT SERVICE COVERAGE RATIO				
Total Excess of Revenue over Expenses	2,492	4,558	2,585	4,475
Plus: Net Realized Losses	0	0	0	0
Plus: Project Development Exp	26	32	0	0
Plus: Merger-related Expense	88	33	54	0
Plus: Loss on Bond Coversion	1,011	0	0	0
Plus: Interest Exp.	4,123	4,210	4,110	3,306
Plus: Depreciation Exp.	4,775	4,148	4,211	4,550
Plus: Amortization Exp.	791	763	763	520
Less: Amortization of Deferred Revenue	3,847	3,632 R	3,505	3,491
Less: Amortization of Deferred Interest Inc	60	60	60	25
Plus: Net Proceeds from Entrance Fees	2,015	3,208	7,177	8,878
Adjusted Excess Revenue over Expenses	11,414	13,260	15,335	18,213
{DIVIDED BY}				
Annual Debt Service	5,613	6,170	6,260	3,646
Debt Service Coverage Ratio	2.03	2.15	2.45	5.00
DAYS CASH ON HAND RATIO				
Unrestricted Current Cash	2,353	5,567	5,645	7,667
Plus: Current Investments	10,514	15,054	14,441	19,985
Plus: Unrestricted Non-Current Cash	0	0	0	0
Plus: Non-Current Investments	79,503	90,725	95,829	84,015
Total Cash and Equivalents	92,370	111,346	115,915	111,667
{DIVIDED BY}				
Operating Expenses	43,253	53,597	34,667	32,950
Less: Depreciation Expense	4,775	4,148	4,211	4,550
Less: Amortization Expense	791	763	763	520
Less: Provision for doubtful accounts	92	-1	86	20
	37,595	48,687	29,607	27,860
Less: Extraordinary Items				
Project Development Exp	26	32	0	0
Merger-related Expense	88	33	54	0
Loss on Bond Coversion	1,011			
Adjusted Operating Expenses	36,470	48,622	29,553	27,860
Divided by 365	99.91781	133.211	80.96712	76.32877
s Cash on Hand Ratio	924.46	835.86	1,431.63	1,462.97

Continuing Care Retirement Community
Disclosure Statement
General Information

10/31/2013

RECEIVED
NOV 08 2013
CONTINUING CARE
CONTRACTS BRANCH

FACILITY NAME: THE COVINGTON
ADDRESS: 3 PURSUIT, ALISO VIEJO, CA ZIP CODE: 92626 PHONE: 949-380-8500
PROVIDER NAME: EPISCOPAL COMMUNITIES & FACILITY OPERATOR: EPISCOPAL COMMUNITIES & SERVICES
RELATED FACILITIES: CANTERBURY RELIGIOUS AFFILIATION: EPISCOPAL
YEAR OPENED: 2004 NO. OF ACRES: 12 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑
MILES TO SHOPPING CTR: 2.00 MILES TO HOSPITAL: 5.00

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO		ASSISTED LIVING	22
APARTMENTS – 1 BDRM	60	SKILLED NURSING	24
APARTMENTS – 2 BDRM	71	SPECIAL CARE	10
COTTAGES/HOUSES	24	DESCRIBE SPECIAL CARE:	ALZHEIMIERS
% OCCUPANCY AT YEAR END	96%		

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: $ 295,645 TO $ 956,306 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: 10 DAYS OF SNF CARE PER YEAR TO A MAXIMUM OF 30 D.

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

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☐	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☑	☐
SHUFFLEBOARD	☐	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☑	☐
OTHER Cocktail Lounge	☐	☑

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

CCRCs	LOCATION (City, State)	PHONE (with area code)
THE CANTERBURY	RANCHO PALOS VERDES	310-541-2410

MULTI-LEVEL RETIREMENT COMMUNITIES

FREE-STANDING SKILLED NURSING

SUBSIDIZED SENIOR HOUSING

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

PROVIDER NAME: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS OPERATING INCOME (excluding amortization of entrance fee income)	$23,166	$27,192	$26,820	$25,785
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$18,617	$23,767	$23,695	$22,642
NET INCOME FROM OPERATIONS	$4,549	$3,425	$3,125	$3,143
LESS INTEREST EXPENSE	-$4,123	-$4,210	-$4,110	-$3,306
PLUS CONTRIBUTIONS	$120	$209	$650	$187
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	$546	-$576	-$335	$24
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$2,015	$3,208	$7,177	$8,878

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
CSCDA	$63,820,000	3.42	12/12/12	05/15/47	34.42 YRS
(refer to footnote 5-1, 5-2)					

FINANCIAL RATIOS (see next page for ratio formulas)

	2011 CCAC Medians 50th Percentile *(optional)*	2011	2012	2013
DEBT TO ASSET RATIO		30.45%	30.13%	30.62%
OPERATING RATIO		99.98%	90.71%	93.26%
DEBT SERVICE COVERAGE RATIO		2.15	2.45	5.00
DAYS CASH-ON-HAND RATIO		835.86	1,431.63	1,462.97

HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE

	2010	%	2011	%	2012	%	2013
STUDIO		0.0%		0.0%		0.0%	
ONE BEDROOM	$3,384	3.0%	$3,480	4.0%	$3,612	4.0%	$3,753
TWO BEDROOM	$3,634	3.0%	$3,738	4.0%	$3,880	4.0%	$4,302
COTTAGE/HOUSE		0.0%		0.0%		0.0%	
ASSISTED LIVING	$6,644	3.0%	$6,834	4.0%	$7,093	4.0%	$7,359
SKILLED NURSING	$7,381	3.0%	$7,625	8.0%	$8,205	4.0%	$8,510
SPECIAL CARE		0.0%		0.0%		0.0%	

COMMENTS FROM PROVIDER:

PROVIDER NAME: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS

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.

EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
(formerly know as THE EPISCOPAL HOME COMMUNITIES)
Disclosure Statement page 3 of 4 attachment
2013 Operating Expenses Adjustments

Operating expenses from on going operations	31,018
Less:	
Depreciation	(4,550)
Amortization	(520)
Interest	(3,306)
Extraordinary items:	
Merger-related expense	0
Project development expense	0
Net operating expenses	22,642

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	3,197 - 6,065	4,865 – 10,576	10,828
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.9%	3.5%	4.1%

☐ Check here if monthly service fees at this community were <u>not</u> 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: <u>7/1/2012</u>
(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: <u>EPISCOPA COMMUNITIES & SERVICES FOR SENIORS</u>

COMMUNITY: <u>THE COVINGTON</u>

FORM 7-1 ATTACHMENT

5. The increase was based upon the increase in projected operating and capital costs in consideration of the volume of expenditures and economic indicators.

PROVIDER: EPISCOPAL COMMUNITIES & SERVICES FOR SENIORS
COMMUNITY: COVINGTON