

**ANNUAL REPORT
CHECKLIST**
for
**FISCAL YEAR ENDED:
03/31/2013**



PROVIDER: Webster House Senior Living LLC

FACILITY(IES): Webster House, Inc.

CONTACT PERSON: Jon Casey, CFO

TELEPHONE NO.:

Your complete annual report must consist of 3 copies of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 2,390
 - ✓ If applicable, late fee in the amount of: N/A
- ✓ Certification by the provider's chief *executive* officer that:
 - ✓ The reports are correct to the best of his/her knowledge.
 - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
 - ✓ The provider is maintaining the required liquid reserve and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon, including Form 1-1 and 1-2 and Form 7-1)
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (4 copies total)

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report. (4 copies total)



Webster House

RECEIVED
AUG 05 2013
CONTINUING CARE
CONTRACTS BRANCH

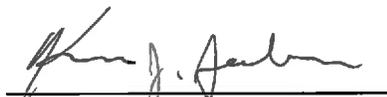
July 30, 2013

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I have examined the annual reserve reports and any amendments thereto for the year ended March 31, 2013, and state that to the best of my knowledge and belief they are correct.

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

The Episcopal Senior Communities is maintaining the required liquid reserve and refund reserve as of July 31, 2013.



Kevin J. Gerber
President/CEO



**COMMERCIAL CRIME POLICY
DECLARATIONS**

RECEIVED
AUG 05 2013

CONTINUING CARE
CONTRACTS BRANCH

In Return For The Payment Of The Premium, And Subject To All The Terms And Conditions Of This Policy, We Agree With You To Provide The Insurance As Stated In This Policy.

Coverage Is Written:

Primary Excess Coindemnity Concurrent

| | |
|----------------------------|--|
| Company Name Area: | Westchester Fire Insurance Company |
| Producer Name Area: | BEECHER CARLSON INSURANCE SERVICES INC 120 West 45 th Street, 35 th Floor New York, NY 10036 |
| Named Insured: | JTM Communities |
| | (Also list any Employee Benefit Plan(s) included as Insureds): |
| Mailing Address: | 2185 N. California Blvd. Suite 575 Walnut Creek, CA 94596 |
| Policy Period | |
| From: | 02/28/2013 |
| To: | 02/28/2014 12:01 A.M. at your mailing address shown above. |

| Insurance Agreements | Limit Of Insurance Per Occurrence | Deductible Amount Per Occurrence |
|---|-----------------------------------|----------------------------------|
| 1. Employee Theft | \$1,000,000 | \$15,000 |
| 2. Forgery Or Alteration | \$1,000,000 | \$15,000 |
| 3. Inside The Premises – Theft Of Money And Securities | \$1,000,000 | \$15,000 |
| 4. Inside The Premises – Robbery Or Safe Burglary Of Other Property | \$1,000,000 | \$15,000 |
| 5. Outside The Premises | \$1,000,000 | \$15,000 |
| 6. Computer Fraud | \$1,000,000 | \$15,000 |
| 7. Funds Transfer Fraud | \$1,000,000 | \$15,000 |
| 8. Money Orders And Counterfeit Money | \$1,000,000 | \$15,000 |

Coverage is provided only if an amount is shown opposite an Insuring Agreement. If the amount is left blank or "Not Covered" is inserted, such Insuring Agreement and any other reference thereto in this policy is deleted.

| If Added By Endorsement: | | |
|--------------------------|-----------------------------------|----------------------------------|
| Insuring Agreement | Limit Of Insurance Per Occurrence | Deductible Amount Per Occurrence |
| | \$ | \$ |

Endorsements Forming Part Of This Policy When Issued:

Signature Page Endorsement CC-1K11g (01/11)
 CA Changes CR0249 (08/07)
 Policy Changes (Loss Sustained Form) CR2002 (10/10)
 Include Specified Non-Compensated Officers as Employees CR2508 (10/10)
 Include Volunteer Workers other than Fund Solicitors as Employees CR2510 (10/10)
 Add Credit, Debit or Charge Card Forgery - \$25,000 Limit / \$1,000 Deductible CR2520 (10/10)
 Cancellation of Policy PF-20699 (11/07)
 Policy Premium PF-20720 (11/07)
 Amend Duties In The Event of Loss PF-27138 (04/09)
 Employee Definition Amended PF-20714 (11/07)
 Termination As To Any Employee PF-20697 (11/07)
 Amend Territorial Limits CR2009 (10/10)
 Clients' Property (\$1,000,000 Limit / \$25,000 Deductible) PF-26351 (07/10)
 Trade and Economic Sanctions Endorsement ALL21101 (11/06)
 U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") Advisory Notice to Policyholders PF-17914 (2/05)
 Producer Compensation Notice ALL-20887 (10/06)

Cancellation Of Prior Insurance Issued By Us:

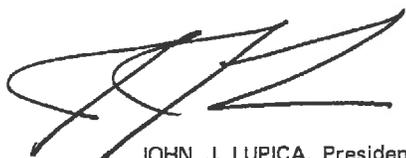
By acceptance of this Policy you give us notice cancelling prior policy Nos. DON M00531753 004;
 the cancellation to be effective at the time this Policy becomes effective.

Countersignature Of Authorized Representative

Name: John J. Lupica

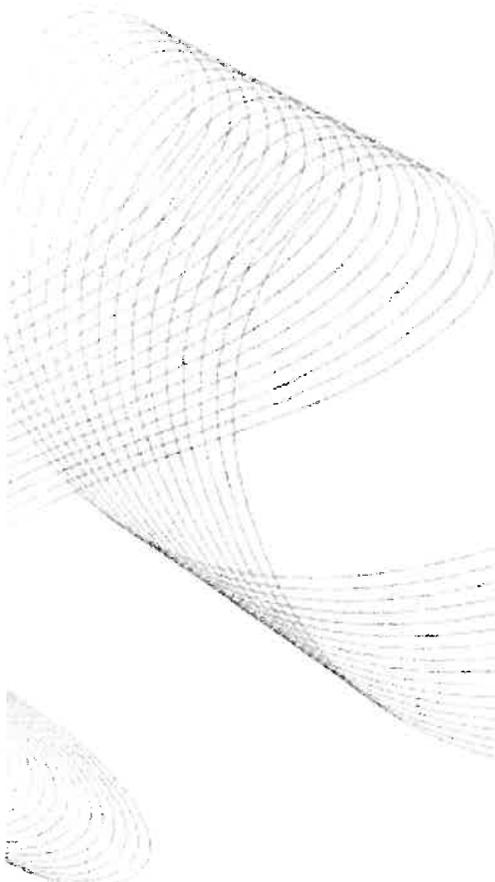
Title: President

Signature:



JOHN J. LUPICA, President

Date: 03/27/2013



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AUG 05 2013

CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Lytton Gardens, Inc.
(a California Nonprofit Public Benefit Corporation)

March 31, 2013 and 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Actumen. Agility. Answers.

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MOSS ADAMS LLP
 Certified Public Accountants | Business | Consultants

RECEIVED
 AUG 05 2013

REPORT OF INDEPENDENT AUDITORS

CONTINUING CARE
 CONTRACTS BRANCH

The Board of Directors
 Lytton Gardens, Inc.
 (a California Nonprofit Public Benefit Corporation)

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Lytton Gardens, Inc. (a California nonprofit public benefit corporation) (the "Organization"), which comprise the consolidated statements of financial position as of March 31, 2013 and 2012, and the related consolidated statements of activities and 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lytton Gardens, Inc. as of March 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities and changes in net assets are presented for additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. 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 applied in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Mess Adamo LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 28, 2013

CONSOLIDATED FINANCIAL STATEMENTS

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 8,330,351 | \$ 7,301,193 |
| Investments | 3,667,732 | 1,524,569 |
| Receivables, net of allowance for doubtful accounts in the amount of \$966,507 in 2013 and \$791,405 in 2012 | 1,997,172 | 2,814,419 |
| Due from affiliates | 965,975 | 1,054,613 |
| Prepaid expenses | 229,455 | 252,753 |
| Supplies inventory | 91,804 | 96,108 |
| Total current assets | <u>15,282,489</u> | <u>13,043,655</u> |
| PROPERTY AND EQUIPMENT | | |
| Land and land improvements | 6,784,717 | 6,781,600 |
| Building and building improvements | 14,103,999 | 12,903,663 |
| Furniture and fixtures | 772,335 | 657,083 |
| Office equipment | 800,941 | 893,062 |
| Vehicles | 106,048 | 106,048 |
| Construction in progress | - | 1,009,464 |
| | <u>22,568,040</u> | <u>22,350,920</u> |
| Accumulated depreciation | <u>(8,740,936)</u> | <u>(8,828,691)</u> |
| Total property and equipment, net | <u>13,827,104</u> | <u>13,522,229</u> |
| OTHER ASSETS | | |
| Beneficial interest in remainder trust | 124,459 | 122,405 |
| Intangible assets, net of accumulated amortization | 1,550,936 | 1,837,262 |
| Other assets | 195,455 | 313,895 |
| Total other assets, net | <u>1,870,850</u> | <u>2,273,562</u> |
| TOTAL ASSETS | <u>\$ 30,980,443</u> | <u>\$ 28,839,446</u> |

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
March 31, 2013 and 2012

| | 2013 | 2012 |
|--|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 716,283 | \$ 1,376,827 |
| Accounts payable - affiliated organizations | 78,236 | 48,309 |
| Accrued wages payable | 480,614 | 430,780 |
| Accrued expenses | 7,600 | 29,311 |
| Current portion of bond payable | 445,000 | 420,000 |
| Total current liabilities | 1,727,733 | 2,305,227 |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | |
| Lease deposit | 45,000 | 16,000 |
| Bond payable | 9,565,000 | 11,010,000 |
| Repayable entrance fees | 8,308,258 | 8,999,258 |
| Deferred entrance fees subject to refund | 5,235,327 | 1,548,817 |
| Total long-term liabilities, net of current portion | 23,153,585 | 21,574,075 |
| Total liabilities | 24,881,318 | 23,879,302 |
| NET ASSETS | | |
| Unrestricted net assets | 5,974,666 | 4,837,739 |
| Temporarily restricted net assets | 124,459 | 122,405 |
| Total net assets | 6,099,125 | 4,960,144 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 30,980,443 | \$ 28,839,446 |

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended March 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| REVENUES AND GAINS | | |
| Net patient service revenue | \$ 16,766,590 | \$ 17,211,788 |
| Amortization of deferred revenue from entrance fees | 235,696 | 32,093 |
| Contribution income | 962 | 600 |
| Interest income | 91,955 | 54,517 |
| Resident fees | 1,750,450 | 932,757 |
| Other | 231,570 | 163,631 |
| Total revenues and gains | <u>19,077,223</u> | <u>18,395,386</u> |
| EXPENSES | | |
| Nursing services | 6,702,959 | 6,008,912 |
| Ancillary services | 2,229,339 | 2,512,275 |
| Dining Services | 2,406,969 | 1,963,851 |
| Administrative | 3,099,446 | 3,312,039 |
| Utilities | 398,833 | 297,607 |
| Operating and maintenance | 1,444,466 | 1,188,641 |
| Taxes and insurance | 28,891 | 16,504 |
| Interest | 361,264 | 551,013 |
| Bad debt expense | 335,188 | 345,000 |
| Depreciation and amortization | 851,005 | 603,285 |
| Total expenses | <u>17,858,360</u> | <u>16,799,127</u> |
| NET INCOME | <u>1,218,863</u> | <u>1,596,259</u> |
| UNREALIZED GAINS (LOSSES) ON INVESTMENTS | <u>(81,936)</u> | <u>121,331</u> |
| CHANGE IN UNRESTRICTED NET ASSETS BEFORE MEMBER CONTRIBUTION | <u>1,136,927</u> | <u>1,717,590</u> |
| MEMBER CONTRIBUTION | <u>-</u> | <u>2,400,000</u> |
| INCREASE IN UNRESTRICTED NET ASSETS | <u>1,136,927</u> | <u>4,117,590</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Beneficial interest in remainder trust | <u>2,054</u> | <u>(5,366)</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | <u>2,054</u> | <u>(5,366)</u> |
| CHANGE IN NET ASSETS | <u>1,138,981</u> | <u>4,112,224</u> |
| NET ASSETS, beginning of year | <u>4,960,144</u> | <u>847,920</u> |
| NET ASSETS, end of year | <u>\$ 6,099,125</u> | <u>\$ 4,960,144</u> |

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2013 and 2012

| | 2013 | 2012 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from residents and third-party payors | \$ 18,596,909 | \$ 18,628,056 |
| Proceeds from entrance fees | 4,921,116 | 582,000 |
| Investment gains | 91,955 | 54,517 |
| Cash paid to employees and suppliers | (17,519,488) | (14,689,668) |
| Interest paid | (290,681) | (517,167) |
| Net cash provided by operating activities | 5,799,811 | 4,057,738 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| Property acquisitions and construction in progress | (869,554) | (1,193,975) |
| Acquisition of Webster House | - | (212,145) |
| Decrease in funds held by bonds indenture trustee | - | 292,711 |
| Purchases of investments | (2,613,401) | (1,940,000) |
| Sales of investments | 388,302 | 3,447,198 |
| Net cash provided by investing activities | (3,094,653) | 393,789 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term debt repayment | (1,420,000) | (420,000) |
| Capital contribution in Webster House Senior Living LLC | 435,000 | 1,345,387 |
| Refunds of deposit and entrance fees | (691,000) | (768,755) |
| Net cash provided by financing activities | (1,676,000) | 156,632 |
| Increase in cash and cash equivalents | 1,029,158 | 4,608,159 |
| Cash and cash equivalents, beginning of period | 7,301,193 | 2,693,034 |
| Cash and cash equivalents, end of period | \$ 8,330,351 | \$ 7,301,193 |
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 1,138,981 | \$ 4,112,224 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Amortization of deferred revenue from entrance fees | (235,696) | (32,093) |
| Proceeds from entrance fees, net of refunds | 4,921,116 | 582,000 |
| Depreciation and amortization | 851,005 | 603,285 |
| Bad debt expense | 335,188 | 345,000 |
| Change in net unrealized gains/losses on investments | 81,936 | (121,331) |
| Change in beneficial interest in remainder trust | (2,054) | 5,366 |
| Capital contribution in Webster House Senior Living LLC | - | (2,400,000) |
| Effects of changes in: | | |
| Receivables | (863,213) | (25,720) |
| Other assets | 146,042 | 205,348 |
| Accounts payable | (630,617) | 958,405 |
| Other liabilities | 57,123 | (174,746) |
| Net cash provided by operating activities | \$ 5,799,811 | \$ 4,057,738 |
| NONCASH DISCLOSURES | | |
| Liabilities assumed for acquisition of Webster House | \$ - | \$ 9,859,646 |

See accompanying notes.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Lytton Gardens, Inc. (the “Organization” or “LGI”) is a nonprofit public benefit corporation incorporated in the State of California. The Organization owns and operates a 145-bed skilled nursing facility, Lytton Gardens Health Care Center (the “Health Care Center”) in Palo Alto, California. During the fiscal year, ongoing programs included Wound Care, Alzheimer’s Program, Extensive Intravenous Therapy Program, and Rehabilitative Therapy Services. In addition, LGI is the managing member of Webster House Senior Living LLC (“WHSL”), a subsidiary that owns and operates an adjacent continuing care retirement community consisting of 36 independent living apartments. In 2012, JTM Communities (“JTM”) replaced Lytton Gardens Senior Communities (“LGSC”) as the sole corporate member of LGI. JTM is also a member of and owns 100% of capital and profits in WHSL.

Basis of presentation – The accompanying consolidated financial statements include the accounts of LGI and WHSL. The entities are under common management and control and share a Board of Directors. All significant inter-company balances and transactions have been eliminated. The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes income in the period earned and expenses when incurred, consistent with accounting principles generally accepted in the United States of America.

Affiliated organizations – The Organization is affiliated with the following entities which are not included in the accompanying consolidated financial statements: Community Housing Inc., which operates Lytton Gardens I & II (affordable senior housing communities), Lytton IV Housing Corporation (an affordable senior housing community), and LGSC, a management and fundraising support organization, JTM, the parent corporation, Episcopal Senior Communities, Oak Center Towers, Presidio Gate Apartments, and Jennings Senior Housing, Inc. which are all California non-profit public benefit corporations. These entities share common officers, directors, and management. At times, these entities provide various support services to each other.

Cash and cash equivalents – Cash and cash equivalents includes cash on hand and cash held in demand deposit, sweep, savings accounts and certain investments in highly liquid instruments with original maturities of three months or less.

Investments – Investments are measured at fair value in the consolidated statement of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from performance measures (Note 3).

Concentration of risk – Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (“FDIC”) limits.

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$2,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 40 years. The Organization periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2013 and 2012.

Intangible assets – See Note 4.

Other assets – Other assets represent the fair value of interest rate cap agreements as of year-end and costs incurred totaling \$335,000 as part of refinancing its Series 1999 bonds. Bond issuance costs are amortized over the life of the related debt using the effective interest method.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. The Organization has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required at March 31, 2013 and 2012. The discount rate used to calculate obligation to provide future services is 5.5%.

Net assets – The Organization classifies net assets as follows:

Unrestricted net assets represent unrestricted resources available to support the Organization’s operations and temporarily restricted resources which have become available for use by the Organization in accordance with the intention of the donor.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets represent contributions that are limited in use by the Organization in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Organization according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets represent net assets subject to donor imposed stipulations that they be maintained by the Organization in perpetuity. At March 31, 2013 and 2012, the Organization had no permanently restricted net assets.

Revenue recognition – Patient service revenue is reported at the estimated net realizable amounts from residents, Medicare, Medi-Cal and others for services rendered. The Organization reviews past due accounts receivable periodically and writes off uncollectible account balances against the reserve for bad debts when it is determined that amounts cannot be recovered through collection efforts. The reserve for bad debts is also periodically reviewed and updated based on the aging of past due accounts.

Revenue under the Medicare agreement is subject to audit and retroactive adjustment. Provision for estimated Medicare settlements is provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported as net patient service revenue in the consolidated statement of activities and changes in net assets in the year of settlement.

Entrance fees on Type C continuing care contracts issued after the acquisition of Webster House are 80% repayable upon termination and reoccupancy of the housing unit and are amortized on a straight-line basis over the life of the building. The remainder is amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents.

Entrance fees subject to refund at March 31, 2013 and 2012 were \$13,543,585 and \$10,548,075, respectively, and are shown as a noncurrent liability. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Monthly resident fees and charges for optional services are recognized when the services are performed.

Contributions – Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. The Organization records contributions whose restrictions are met in the same year as unrestricted support.

Interest rate cap agreement – The Organization uses derivatives to hedge against interest rate exposure associated with its variable rate debt. Interest rate caps are recorded at fair value on the balance sheet date as other assets with any change in fair value reflected in the consolidated statement of activities and changes in net assets in the period of change. On March 10, 2011, the Organization purchased an interest cap for \$179,625 as part of the refinance of Series 1999 Bonds. At March 31, 2013 and 2012, the Organization has reflected the interest rate cap at a fair value of \$9,500 and \$29,000, respectively, in other assets in the consolidated statement of financial position.

Property taxes – The Organization and its Affiliates have filed and received exemptions from certain property taxes in accordance with Section 214 of the California Code.

Tax-exempt status – The Organization and its Affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The Organization adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to the Organization. The Organization recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Organization recognizes interest and penalties related to income tax matters in operating expenses.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Statutory reserve requirements – WHSL is subject to statutory reserve requirements. At March 31, 2013 and 2012, WHSL's reserves, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements.

Performance indicator – “Net income” as reflected in the accompanying consolidated statements of activities and changes in net assets is the performance indicator. Net income includes all changes in unrestricted net assets other than primarily noncash changes in unrealized gains on investments and member contributions.

New accounting pronouncements – In May 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04, Fair Value Measurement (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”), which amended ASC Topic 820, Fair Value Measurement (“ASC 820”) to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 is effective for the Organization beginning April 1, 2012. Management believes the impact of the adoption of ASU No. 2011-04 is not material to the Organization's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. The provisions in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The adoption of ASU 2011-08 is effective for the Organization beginning April 1, 2012. Management believes the impact of the adoption of ASU No. 2011-08 is not material to the Organization's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees* (“ASU No. 2012-01”) to clarify that an entity should classify an advance fee as deferred revenue when a continuing care retirement community 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 reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of ASU No. 2012-01 is effective for the Organization beginning April 1, 2013. Management believes the impact of the adoption of ASU No. 2012-01 is not material to the Organization's consolidated financial statements.

NOTE 2 – ACQUISITION OF WEBSTER HOUSE

On September 1, 2011, WHSL acquired the land, improvements, buildings, furniture, fixtures and equipment, resident contracts and other assets of the continuing care retirement community commonly known as Webster House located in Palo Alto, California from Sunrise Webster House, L.P. WHSL is a California limited liability company (“LLC”) newly formed to own and operate Webster House. WHSL is a member managed LLC having two members, JTM and LGI. LGI serves as the managing member of the LLC. JTM provided the initial capital to purchase the assets but no member bears any responsibility for the debts, obligations, and liabilities of WHSL or is obligated to make additional contributions to its capital.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – ACQUISITION OF WEBSTER HOUSE (continued)

The total purchase price has been allocated to the assets based upon a fair value analysis as follows:

| | |
|------------------------|----------------------|
| Assets acquired | |
| Land | \$ 6,103,506 |
| Resident contracts | 2,004,286 |
| Buildings | 1,712,205 |
| Furnishings | 221,580 |
| Site improvements | <u>30,215</u> |
| Total assets acquired | <u>\$ 10,071,792</u> |

As a part of the consideration for the purchase, WHSL assumed the seller's liabilities for the repayment of entrance fees in the amount of \$9,768,013. No amortization is recognized with respect to these continuing care contracts purchased in the acquisition. As of March 31, 2013 and 2012, this liability was \$8,308,258 and \$8,999,258, respectively, and is included in the repayable entrance fees in the consolidated statement of financial position. WHSL also assumed additional liabilities of \$91,633 from the seller as of September 1, 2011.

The total cash consideration paid for Webster House is \$212,145. WHSL is included in the accompanying consolidated financial statements of LGI from the date of acquisition.

NOTE 3 – FAIR VALUE

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investment in the near term.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position at March 31, 2013, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include corporate bonds and money market mutual funds.

Beneficial interest in trusts – Beneficial interest in trusts are classified within Level 3 of the valuation hierarchy. The Organization holds a 51% irrevocable interest in a charitable remainder unitrust. Under this trust agreement, the Organization will receive 51% of the remaining trust property following the death of the last of two lead beneficiaries. The contribution receivable from the remainder trust is recorded at fair value, which is estimated as the present value of the expected future cash flows from the trust account for the irrevocable 51% interest. At March 31, 2013, present value was calculated using the applicable mortality table for the youngest lead beneficiary and a discount rate of 1.4%. Life expectancies range from 17 to 18 years. A decrease in the discount rate and a shorter life expectancy will decrease the fair value of the beneficial interest in trusts. The Organization revalues its beneficial interest each year and reflects changes in its remainder interest in the trust in the consolidated statement of activities and changes in net assets. The Organization is also currently named as the beneficiary of the 49% revocable interest in the charitable remainder unitrust, subject to amendment or revocation at the discretion of the lead beneficiaries.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – FAIR VALUE (continued)

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at March 31:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Balance at March 31, 2013</u> |
|-------------------------------|---------------------|----------------|-------------------|--------------------------------------|
| Investments | | | | |
| Money market mutual funds | \$ 14,839 | \$ - | \$ - | \$ 14,839 |
| Corporate bonds | 3,652,893 | - | - | 3,652,893 |
| Beneficial interest in trusts | - | - | 124,459 | 124,459 |
| Total | <u>\$ 3,667,732</u> | <u>\$ -</u> | <u>\$ 124,459</u> | <u>\$ 3,792,191</u> |

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Balance at March 31, 2012</u> |
|-------------------------------|---------------------|----------------|-------------------|--------------------------------------|
| Investments | | | | |
| Money market mutual funds | \$ 10,714 | \$ - | \$ - | \$ 10,714 |
| Corporate bonds | 1,513,855 | - | - | 1,513,855 |
| Beneficial interest in trusts | - | - | 122,405 | 122,405 |
| Total | <u>\$ 1,524,569</u> | <u>\$ -</u> | <u>\$ 122,405</u> | <u>\$ 1,646,974</u> |

The following table provides a reconciliation of assets in the statement of financial position, measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the period ended March 31:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| Beginning balance | \$ 122,405 | \$ 127,771 |
| New beneficial interests in trusts | - | - |
| Trust maturities | - | - |
| Change in value due to change in actuarial life expectancy | (585) | 1,623 |
| Change in value due to change in estimated fair value of underlying trust assets | 2,639 | (6,989) |
| Ending balance | <u>\$ 124,459</u> | <u>\$ 122,405</u> |

NOTE 4 – INTANGIBLE ASSETS

The Organization acquired intangibles as part of the acquisition of Webster House (see Note 2).

Intangible assets are as follows:

| | <u>Useful Life</u> | <u>March 31, 2013</u> | | <u>March 31, 2012</u> | |
|--------------------|--------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| | | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> |
| Resident contracts | 7 years | \$ 2,004,286 | \$ 453,350 | \$ 2,004,286 | \$ 167,024 |

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – INTANGIBLE ASSETS (continued)

Intangible assets are accounted for in accordance with ASC 350, "Intangibles – Goodwill and Other." Intangible assets are amortized using the straight-line method over the estimated useful lives of the assets. There was no impairment of intangible assets for the years ended March 31, 2013 and 2012. Amortization expense was \$286,326 and \$167,024 for the years ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, the expected future annual amortization of intangible assets is as follows:

| <u>Estimated amortization expense</u> | |
|---------------------------------------|---------------------|
| 2014 | \$ 286,327 |
| 2015 | 286,327 |
| 2016 | 286,327 |
| 2017 | 286,327 |
| 2018 | 286,327 |
| Thereafter | 119,301 |
| | <u>\$ 1,550,936</u> |

NOTE 5 – LINE OF CREDIT

The Organization renewed its secured revolving line of credit agreement with Wells Fargo Bank for a maximum amount of \$4,000,000. The purpose of the line of credit is for operations, including payment and satisfaction of the Organization's bond indebtedness. The interest rate is either the prime rate or 2.5% above the LIBOR rate as selected by the Organization upon a draw from the line. The term is for a 12 month period with the outstanding principal due on December 31, 2013; payments of interest are due monthly. The line of credit had no balance for the fiscal years ended March 31, 2013 and 2012.

NOTE 6 – BOND PAYABLE

The Organization's bond payable consisted of the following as March 31:

| | 2013 | 2012 |
|---|---------------|---------------|
| Series 2011 bonds - In March 2011, LGI secured a nonbank qualified direct placement with BBVA-Compass Bank. Series 2011 bonds in the amount of \$11,885,000 to replace the Series 1999 bonds in the amount of \$13,590,000. The bonds are issued under the AEAG and are uninsured. LGI did not obtain any additional funds and used the Series 1999 bond reserve to reduce the overall amount of debt and pay costs associated with the refinancing. The term of the bonds is 19 years, due December 2030. This matches the existing maturity of the Series 1999 bonds. BBVA-Compass has a commitment to hold the bonds for 7 years. The initial 7-year term of the Series 2011 bonds carries a variable interest rate of 65.1% of 30-day LIBOR plus 230 basis points with a floor of 250 basis points. The 30-day LIBOR rate as of March 31, 2013 and 2012, was 0.204% and 0.241%, respectively. | \$ 10,010,000 | \$ 11,430,000 |
| Less current portion | (445,000) | (420,000) |
| Long-term debt | \$ 9,565,000 | \$ 11,010,000 |

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – BOND PAYABLE (continued)

Schedule maturities for the above bond payable are as follows:

| | | |
|------------|----|--------------------------|
| 2014 | \$ | 445,000 |
| 2015 | | 480,000 |
| 2016 | | 480,000 |
| 2017 | | 520,000 |
| 2018 | | 540,000 |
| Thereafter | | <u>7,545,000</u> |
| Total | \$ | <u><u>10,010,000</u></u> |

The bond is secured by a deed of trust and revenue pledge. The Organization is subject to financial covenants on its bond which include a debt service coverage ratio and a minimum tangible net worth requirement. The Organization was in compliance with these financial covenants as of March 31, 2013 and 2012.

NOTE 7 – MEDICARE AND MEDI-CAL PROGRAMS

The Organization renders services to patients through contractual arrangements with the Medicare and Medi-Cal programs. The number of patient days related to these providers was:

| | <u>2013</u> | <u>2012</u> |
|----------|----------------------|----------------------|
| Medicare | 6,868 | 7,682 |
| Medi-Cal | <u>27,076</u> | <u>26,728</u> |
| | <u><u>33,944</u></u> | <u><u>34,410</u></u> |

Total patient days were 47,344 and 47,653 as of March 31, 2013 and 2012, respectively.

Revenue under the Medicare agreement is subject to audit and retroactive adjustment. Any difference between this estimate and the actual final costs report amounts will be accounted for in the year of settlement as described in the accounting policy for patient service revenue in Note 1.

As of March 31, 2013 and 2012, the percentage of accounts receivable from Health Care Maintenance Insurers (HMO), Medi-Cal, Medicare and Inpatient Private Pay are due as follows:

| | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Health Care maintenance insurers (HMO) | 32% | 33% |
| Medi-Cal | 26% | 27% |
| Medicare | 27% | 34% |
| Inpatient private pay | 15% | 6% |

NOTE 8 – VOLUNTEER SERVICES

The Organization receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. During the years ended March 31, 2013 and 2012, 435 volunteers donated 14,424 hours of time valued at \$319,347 and 535 volunteers donated 22,706 hours of time valued at \$494,772 to the Organization, respectively. The value of these services is not reflected in the consolidated financial statements.

NOTE 9 – RELATED PARTY TRANSACTIONS

Shared costs – The Organization together with its affiliated organizations (Note 1) entered into a Memo of Understanding with Episcopal Senior Communities (“ESC”), April 1, 2008 whereas ESC assigned Lytton Gardens Senior Communities to provide certain administrative, accounting, fundraising, and other general management services and the employment of personnel on a shared basis. The Organization incurred approximately \$796,332 and \$688,552 of shared costs during the years ended March 31, 2013 and 2012, respectively. The net balance of accounts payable to affiliates at March 31, 2013 and 2012 was \$78,236 and \$48,309, respectively.

The Operating Agreement provides that JTM will contribute \$2,400,000 to the capital of WHSL. As of March 31, 2013 and 2012, JTM owed \$619,613 and \$1,054,613, respectively, which will be paid by JTM as capital as required by WHSL.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation – The Organization is party to various claims and legal actions in the normal course of business. In the opinion of management, the Organization has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Organization.

Employee benefit plan – The Organization has implemented a 403(b) tax deferred annuity plan (the “Plan”). Eligible employees who have satisfied the age and service requirements are allowed to make salary reduction contributions with a maximum contribution of up to the statutory limit. The Plan participants pay for all the administrative expenses to operate the Plan.

Outside billing service – The Organization signed an agreement for two years with an outside billing service company effective September 1, 2011, to perform the billing and collection functions for the Organization. The contract is automatically renewed for one year. The annual fee for the services is \$99,000.

NOTE 11 – HEALTH AND SAFETY CODE SECTION 1790(A)(3) DISCLOSURE

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

NOTE 12 – SUBSEQUENT EVENTS

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

The Organization has evaluated subsequent events through June 28, 2013, which is the date the consolidated financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

—

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2013

| | LGI | WHSL | Eliminations | Consolidated LGI |
|---|----------------------|----------------------|-----------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash | \$ 4,282,146 | \$ 4,048,205 | - | \$ 8,330,351 |
| Investments | 3,667,732 | - | - | 3,667,732 |
| Receivables, net of allowance for doubtful accounts in the amount of \$966,507 | 1,665,892 | 331,280 | - | 1,997,172 |
| Due from affiliates | 423,782 | 616,826 | (74,633) | 965,975 |
| Prepaid expenses | 198,719 | 30,736 | - | 229,455 |
| Supplies inventory | 91,804 | - | - | 91,804 |
| Total current assets | 10,330,075 | 5,027,047 | (74,633) | 15,282,489 |
| PROPERTY AND EQUIPMENT | | | | |
| Land and land improvements | 681,212 | 6,103,505 | - | 6,784,717 |
| Building and building improvements | 11,576,143 | 2,527,856 | - | 14,103,999 |
| Furniture and fixtures | 515,783 | 256,552 | - | 772,335 |
| Office equipment | 740,642 | 60,299 | - | 800,941 |
| Vehicles | 106,048 | - | - | 106,048 |
| Construction in progress | - | - | - | - |
| Accumulated depreciation | 13,619,828 | 8,948,212 | - | 22,568,040 |
| | (8,602,079) | (138,857) | - | (8,740,936) |
| Total property and equipment, net | 5,017,749 | 8,809,355 | - | 13,827,104 |
| OTHER ASSETS | | | | |
| Beneficial interest in remainder trust | 124,459 | - | - | 124,459 |
| Intangible assets, net of accumulated amortization | - | 1,550,936 | - | 1,550,936 |
| Other assets | 193,715 | 1,740 | - | 195,455 |
| Total other assets, net | 318,174 | 1,552,676 | - | 1,870,850 |
| TOTAL ASSETS | \$ 15,665,998 | \$ 15,389,078 | (74,633) | \$ 30,980,443 |

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
March 31, 2013

| | LGI | WHSL | Eliminations | Consolidated LGI |
|--|----------------------|----------------------|--------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 654,551 | \$ 61,732 | - | \$ 716,283 |
| Accounts payable - affiliated organizations | 30,865 | 122,004 | (74,633) | 78,236 |
| Accrued wages payable | 446,411 | 34,203 | - | 480,614 |
| Accrued expenses | 7,600 | - | - | 7,600 |
| Current portion of bond payable | 445,000 | - | - | 445,000 |
| Total current liabilities | <u>1,584,427</u> | <u>217,939</u> | <u>(74,633)</u> | <u>1,727,733</u> |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | | | |
| Lease deposit | 16,000 | 29,000 | - | 45,000 |
| Bond payable | 9,565,000 | - | - | 9,565,000 |
| Repayable entrance fees | - | 8,308,258 | - | 8,308,258 |
| Deferred entrance fees subject to refund | - | 5,235,327 | - | 5,235,327 |
| Total long-term liabilities, net of current portion | <u>9,581,000</u> | <u>13,572,585</u> | <u>-</u> | <u>23,153,585</u> |
| Total liabilities | <u>11,165,427</u> | <u>13,790,524</u> | <u>(74,633)</u> | <u>24,881,318</u> |
| NET ASSETS | | | | |
| Unrestricted net assets | 4,376,112 | 1,598,554 | - | 5,974,666 |
| Temporarily restricted net assets | 124,459 | - | - | 124,459 |
| Total net assets | <u>4,500,571</u> | <u>1,598,554</u> | <u>-</u> | <u>6,099,125</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 15,665,998</u> | <u>\$ 15,389,078</u> | <u>\$ (74,633)</u> | <u>\$ 30,980,443</u> |

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2012

| | LGI | WHSL | Eliminations | Consolidated LGI |
|---|----------------------|----------------------|---------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash | \$ 7,014,274 | \$ 286,919 | - | \$ 7,301,193 |
| Investments | 1,524,569 | - | - | 1,524,569 |
| Receivables, net of allowance for doubtful accounts in the amount of \$791,405 | 1,641,427 | 1,172,992 | - | 2,814,419 |
| Due from affiliates | 186,859 | 1,054,613 | (186,859) | 1,054,613 |
| Prepaid expenses | 225,741 | 27,012 | - | 252,753 |
| Supplies inventory | 96,108 | - | - | 96,108 |
| Total current assets | <u>10,688,978</u> | <u>2,541,536</u> | <u>(186,859)</u> | <u>13,043,655</u> |
| PROPERTY AND EQUIPMENT | | | | |
| Land and land improvements | 678,094 | 6,103,506 | - | 6,781,600 |
| Building and building improvements | 11,145,039 | 1,758,624 | - | 12,903,663 |
| Furniture and fixtures | 435,503 | 221,580 | - | 657,083 |
| Office equipment | 848,066 | 44,996 | - | 893,062 |
| Vehicles | 106,048 | - | - | 106,048 |
| Construction in progress | 648,635 | 360,829 | - | 1,009,464 |
| Accumulated depreciation | 13,861,385 | 8,489,535 | - | 22,350,920 |
| | <u>(8,792,936)</u> | <u>(35,755)</u> | <u>-</u> | <u>(8,828,691)</u> |
| Total property and equipment, net | <u>5,068,449</u> | <u>8,453,780</u> | <u>-</u> | <u>13,522,229</u> |
| OTHER ASSETS | | | | |
| Beneficial interest in remainder trust | 122,405 | - | - | 122,405 |
| Intangible assets, net of accumulated amortization | - | 1,837,262 | - | 1,837,262 |
| Other assets | 312,155 | 1,740 | - | 313,895 |
| Total other assets, net | <u>434,560</u> | <u>1,839,002</u> | <u>-</u> | <u>2,273,562</u> |
| TOTAL ASSETS | <u>\$ 16,191,987</u> | <u>\$ 12,834,318</u> | <u>\$ (186,859)</u> | <u>\$ 28,839,446</u> |

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
March 31, 2012

| | LGI | WHSL | Eliminations | Consolidated LGI |
|--|----------------------|----------------------|---------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 1,347,234 | \$ 29,593 | - | \$ 1,376,827 |
| Accounts payable - affiliated organizations | 17,927 | 217,241 | (186,859) | 48,309 |
| Accrued wages payable | 400,721 | 30,059 | - | 430,780 |
| Accrued expenses | 400 | 28,911 | - | 29,311 |
| Current portion of bond payable | 420,000 | - | - | 420,000 |
| Total current liabilities | <u>2,186,282</u> | <u>305,804</u> | <u>(186,859)</u> | <u>2,305,227</u> |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | | | |
| Lease deposit | 16,000 | - | - | 16,000 |
| Bond payable | 11,010,000 | - | - | 11,010,000 |
| Repayable entrance fees | - | 8,999,258 | - | 8,999,258 |
| Deferred entrance fees subject to refund | - | 1,548,817 | - | 1,548,817 |
| Total long-term liabilities, net of current portion | <u>11,026,000</u> | <u>10,548,075</u> | <u>-</u> | <u>21,574,075</u> |
| Total liabilities | <u>13,212,282</u> | <u>10,853,879</u> | <u>(186,859)</u> | <u>23,879,302</u> |
| NET ASSETS | | | | |
| Unrestricted net assets | 2,857,300 | 1,980,439 | - | 4,837,739 |
| Temporarily restricted net assets | 122,405 | - | - | 122,405 |
| Total net assets | <u>2,979,705</u> | <u>1,980,439</u> | <u>-</u> | <u>4,960,144</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 16,191,987</u> | <u>\$ 12,834,318</u> | <u>\$ (186,859)</u> | <u>\$ 28,839,446</u> |

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended March 31, 2013

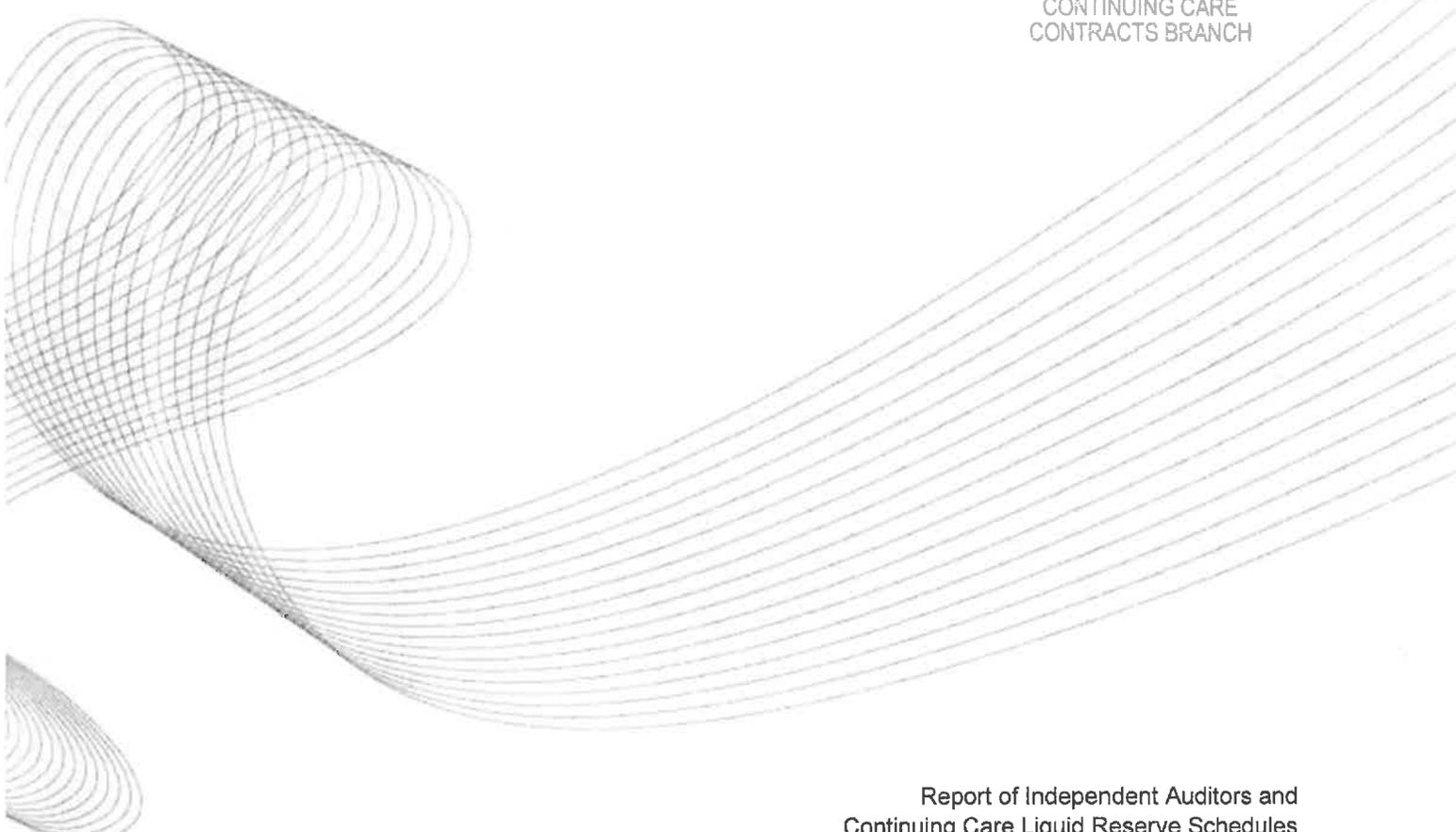
| | LGI | WHSL | Eliminations | Consolidated LGI |
|---|---------------|--------------|--------------|---------------------|
| REVENUES AND GAINS | | | | |
| Net patient service revenue | \$ 16,766,590 | - | - | \$ 16,766,590 |
| Amortization of deferred revenue from entrance fees | - | 235,696 | - | 235,696 |
| Contribution income | 962 | - | - | 962 |
| Interest income | 91,955 | - | - | 91,955 |
| Resident fees | - | 1,750,450 | - | 1,750,450 |
| Other | 121,787 | 109,783 | - | 231,570 |
| Total revenues and gains | 16,981,294 | 2,095,929 | - | 19,077,223 |
| EXPENSES | | | | |
| Nursing services | 6,320,049 | 382,910 | - | 6,702,959 |
| Ancillary services | 2,229,339 | - | - | 2,229,339 |
| Dining services | 2,114,681 | 292,288 | - | 2,406,969 |
| Administrative | 2,098,837 | 1,000,609 | - | 3,099,446 |
| Utilities | 214,712 | 184,121 | - | 398,833 |
| Operating and maintenance | 1,244,899 | 199,567 | - | 1,444,466 |
| Taxes and insurance | - | 28,891 | - | 28,891 |
| Interest | 361,264 | - | - | 361,264 |
| Bad debt expense | 335,188 | - | - | 335,188 |
| Depreciation and amortization | 461,577 | 389,428 | - | 851,005 |
| Total expenses | 15,380,546 | 2,477,814 | - | 17,858,360 |
| NET INCOME / (LOSS) | 1,600,748 | (381,885) | - | 1,218,863 |
| UNREALIZED LOSSES ON INVESTMENTS | (81,936) | - | - | (81,936) |
| Increase (Decrease) in unrestricted net assets | 1,518,812 | (381,885) | - | 1,136,927 |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Beneficial interest in remainder trust | 2,054 | - | - | 2,054 |
| Increase in temporarily restricted net assets | 2,054 | - | - | 2,054 |
| CHANGE IN NET ASSETS | 1,520,866 | (381,885) | - | 1,138,981 |
| NET ASSETS, beginning of year | 2,979,705 | 1,980,439 | - | 4,960,144 |
| NET ASSETS, end of year | \$ 4,500,571 | \$ 1,598,554 | - | \$ 6,099,125 |

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended March 31, 2012

| | LGI | WHSL | Eliminations | Consolidated LGI |
|---|---------------------|---------------------|--------------|---------------------|
| REVENUES AND GAINS | | | | |
| Net patient service revenue | \$ 17,211,788 | - | - | \$ 17,211,788 |
| Amortization of deferred revenue from entrance fees | - | 32,093 | - | 32,093 |
| Contribution income | 600 | - | - | 600 |
| Interest income | 54,517 | - | - | 54,517 |
| Resident fees | - | 932,757 | - | 932,757 |
| Other | 118,999 | 44,632 | - | 163,631 |
| Total revenues and gains | <u>17,385,904</u> | <u>1,009,482</u> | <u>-</u> | <u>18,395,386</u> |
| EXPENSES | | | | |
| Nursing services | 5,744,375 | 264,537 | - | 6,008,912 |
| Ancillary services | 2,512,275 | - | - | 2,512,275 |
| Dining services | 1,803,875 | 159,976 | - | 1,963,851 |
| Administrative | 2,725,807 | 586,232 | - | 3,312,039 |
| Utilities | 207,910 | 89,697 | - | 297,607 |
| Operating and maintenance | 1,079,323 | 109,318 | - | 1,188,641 |
| Taxes and insurance | - | 16,504 | - | 16,504 |
| Interest | 551,013 | - | - | 551,013 |
| Bad debt expense | 345,000 | - | - | 345,000 |
| Depreciation and amortization | 400,506 | 202,779 | - | 603,285 |
| Total expenses | <u>15,370,084</u> | <u>1,429,043</u> | <u>-</u> | <u>16,799,127</u> |
| NET INCOME / (LOSS) | <u>2,015,820</u> | <u>(419,561)</u> | <u>-</u> | <u>1,596,259</u> |
| UNREALIZED GAINS ON INVESTMENTS | <u>121,331</u> | <u>-</u> | <u>-</u> | <u>121,331</u> |
| CHANGE IN UNRESTRICTED NET ASSETS BEFORE MEMBER CONTRIBUTION | <u>2,137,151</u> | <u>(419,561)</u> | <u>-</u> | <u>1,717,590</u> |
| MEMBER CONTRIBUTION | <u>-</u> | <u>2,400,000</u> | <u>-</u> | <u>2,400,000</u> |
| Increase in unrestricted net assets | <u>2,137,151</u> | <u>1,980,439</u> | <u>-</u> | <u>4,117,590</u> |
| TEMPORARILY RESTRICTED NET ASSETS | <u>(5,366)</u> | <u>-</u> | <u>-</u> | <u>(5,366)</u> |
| Beneficial interest in remainder trust | <u>(5,366)</u> | <u>-</u> | <u>-</u> | <u>(5,366)</u> |
| Decrease in temporarily restricted net assets | <u>2,131,785</u> | <u>1,980,439</u> | <u>-</u> | <u>4,112,224</u> |
| CHANGE IN NET ASSETS | <u>847,920</u> | <u>-</u> | <u>-</u> | <u>847,920</u> |
| NET ASSETS, beginning of year | <u>2,979,705</u> | <u>1,980,439</u> | <u>-</u> | <u>4,960,144</u> |
| NET ASSETS, end of year | <u>\$ 2,979,705</u> | <u>\$ 1,980,439</u> | <u>\$ -</u> | <u>\$ 4,960,144</u> |

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Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Lytton Gardens, Inc.

As of and for the Year Ended March 31, 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Lytton Gardens, Inc.
Palo Alto, California

Report on the Financial Statements

We have audited the accompanying financial statements of Lytton Gardens, Inc., which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended March 31, 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care liquid reserves of Lytton Gardens, Inc., as of and for the year ended March 31, 2013, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

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

Restriction on Use

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 28, 2013

LYTTON GARDENS, INC.
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)
Year Ended March 31, 2013

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 | | \$0 | \$0 | \$0 | \$0 |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| TOTAL: | | | \$0 | \$0 | \$0 |

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

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

Note 1: In accordance with the Certificate of Authority application, Lytton Gardens, Inc. debt incurred on March 10, 2011 and the related debt service payments are not included as Webster House Senior Living LLC assets are not subject to repayment of that debt.

LYTTON GARDENS, INC.
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)
Year Ended March 31, 2013

FORM 5-2
LONG-TERM DEBT INCURRED
DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)

| Long-Term Debt Obligation | (a) Date Incurred | (b) Total Interest Paid During Fiscal Year | (c) Amount of Most Recent Payment on the Debt | (d) Number of Payments over Next 12 Months | (e) Reserve Requirement (See Instruction 5) (Columns (c) x (d)) |
|---------------------------|----------------------|---|--|---|--|
| 1 | | \$0 | \$0 | 0 | \$0 |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| TOTAL: | | | \$0 | 0 | \$0 |

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

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

Note 1: In accordance with the Certificate of Authority application, Lytton Gardens, Inc. debt incurred on March 10, 2011 and the related debt service payments are not included as Webster House Senior Living LLC assets are not subject to repayment of that debt.

LYTTON GARDENS, INC.
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
Year Ended March 31, 2013

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

| <u>Line</u> | <u>Amounts</u> | <u>Total</u> |
|-------------|---|--------------|
| 1 | Total operating expenses from financial statements | \$2,493,186 |
| 2 | Deductions: | |
| a. | Interest paid on long-term debt (see instructions) | \$0 |
| b. | Credit enhancement premiums paid for long-term debt (see instructions) | \$0 |
| c. | Depreciation | \$103,101 |
| d. | Amortization | \$286,327 |
| e. | Revenues received during the fiscal year for services for persons who did not have a continuing care contract | \$48,267 |
| f. | Extraordinary expenses approved by the Department | \$0 |
| 3 | Total Deductions | \$437,695 |
| 4 | Net Operating Expenses | \$2,055,491 |
| 5 | Divide Line 4 by 365 and enter the result. | \$5,631 |
| 6 | Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount. | \$422,361 |

LYTTON GARDENS, INC.
ATTACHMENT I TO FORM 5-4
DEDUCTIONS FROM OPERATING EXPENSES
STATE OF CALIFORNIA - DEPARTMENT OF SOCIAL SERVICES
Year Ended March 31, 2013

ATTACHMENT I TO FORM 5-4
DEDUCTIONS FROM OPERATING EXPENSES

| Line | | Amounts |
|-------------|---|---------------------|
| 1 | Total expenses from financial statements | \$ 2,477,814 |
| | Add: Property tax refund | 28,911 |
| | Less: Income tax | <u>(13,539)</u> |
| | Total operating expenses from financial statements | \$ 2,493,186 |

LYTTON GARDENS, INC.
FORM 5-5
ANNUAL RESERVE CERTIFICATION
Year Ended March 31, 2013

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Webster House Senior Living LLC
 Fiscal Year Ended: 03/31/2013

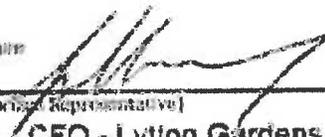
We have reviewed our Debt Service Reserve and Operating requirements as of, and for the period ended: 03/31/2013, and are in compliance with those requirements.

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

| | | Amount |
|-----|------------------------------------|------------------|
| [1] | Debt Service Reserve Amount | \$0 |
| [2] | Operating Expense Reserve Amount | \$422,361 |
| [3] | Total Liquid Reserve Amount | \$422,361 |

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

| | Amount (market value at end of quarter) | |
|---|--|----------------------|
| | Debt Service Reserve | Operating Reserve |
| [4] Cash and Cash Equivalents | \$0 | \$4,048,205 |
| [5] Investment Securities | \$0 | \$0 |
| [6] Equity Securities | \$0 | \$0 |
| [7] Unused/Available Lines of Credit | \$0 | \$0 |
| [8] Unused/Available Letters of Credit | \$0 | \$0 |
| [9] Debt Service Reserve | \$0 | (Not Applicable) |
| [10] Other: | \$0 | \$619,613 |
| Due from JTM Communities - Note 1 | | |
| (describe qualifying asset) | | |
| Total Amount of Qualifying Assets Listed for Reserve Obligation: [11] | \$0 [12] | \$4,667,818 |
| Reserve Obligation Amount: [13] | \$0 [14] | \$422,361 |
| Surplus/(Deficiency): [15] | \$0 [16] | \$4,245,457 |

Signature: 
 (Authorized Representative)
CFO - Lytton Gardens Inc
 (Title)

Date: 06/28/2013

Note 1: Includes capital contribution due from JTM Communities which can be transferred to Webster House Senior Living LLC on demand and pursuant to its instructions.

**FORM 1-1
RESIDENT POPULATION**

| <u>Line</u> | <u>Continuing Care Residents</u> | <u>TOTAL</u> |
|----------------------|---|--------------|
| [1] | Number at beginning of fiscal year | 35 |
| [2] | Number at end of fiscal year | 44 |
| [3] | Total Lines 1 and 2 | <u>79</u> |
| [4] | Multiply Line 3 by ".50" and enter result on Line 5. | x .50 |
| [5] | Mean number of continuing care residents | <u>39.5</u> |
| All Residents | | |
| [6] | Number at beginning of fiscal year | 35 |
| [7] | Number at end of fiscal year | 44 |
| [8] | Total Lines 6 and 7 | <u>79</u> |
| [9] | Multiply Line 8 by ".50" and enter result on Line 10. | x .50 |
| [10] | Mean number of <i>all</i> residents | <u>39.5</u> |
| [11] | Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places). | <u>1.00</u> |

**FORM 1-2
ANNUAL PROVIDER FEE**

| <u>Line</u> | <u>TOTAL</u> |
|-------------|---|
| [1] | Total Operating Expenses (including depreciation and debt service - interest only) <u>\$2,493,186</u> |
| [a] | Depreciation <u>\$103,101</u> |
| [b] | Debt Service (Interest Only) <u>\$0</u> |
| [2] | Subtotal (add Line 1a and 1b) <u>\$103,101</u> |
| [3] | Subtract Line 2 from Line 1 and enter result. <u>\$2,390,085</u> |
| [4] | Percentage allocated to continuing care residents (Form 1-1, Line 11) <u>100%</u> |
| [5] | Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4) <u>\$2,390,085</u> |
| [6] | Total Amount Due (multiply Line 5 by .001) <u>\$2,390</u> |

PROVIDER Webster House Senior Living LLC
COMMUNITY Webster House

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) | See Attachment 1-F | N/A | N/A |
| [2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable) | 4%-7% | N/A | N/A |

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: 04/01/13, 05/01/13
(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: Webster House Senior Living LLC
COMMUNITY: Webster House

Webster House Senior Living, LLC
Attachment 1-F to Form 7-1
Report on CCRC Monthly Service Fees
March 31, 2013

Webster House

[1] Monthly Service Fee at beginning of reporting period:

| Type | Apartment | Residential | Assisted | Skilled |
|-----------------------|-----------|-------------|----------|---------|
| | | Living | Living | Nursing |
| 1 bed/1 bath - Single | # 104 | \$4,183 | N/A | N/A |
| 1 bed/1 bath - Couple | # 104 | \$5,743 | N/A | N/A |
| 1 bed/1 bath - Single | # 105 | \$4,819 | N/A | N/A |
| 1 bed/1 bath - Couple | # 105 | \$6,379 | N/A | N/A |
| 1 bed/1 bath - Single | # 106 | \$3,150 | N/A | N/A |
| 1 bed/1 bath - Couple | # 106 | \$4,710 | N/A | N/A |
| 1 bed/1 bath - Single | # 203 | \$4,183 | N/A | N/A |
| 1 bed/1 bath - Couple | # 203 | \$5,743 | N/A | N/A |
| 1 bed/1 bath - Single | # 204 | \$4,180 | N/A | N/A |
| 1 bed/1 bath - Couple | # 204 | \$5,740 | N/A | N/A |
| 1 bed/1 bath - Single | # 205 | \$4,183 | N/A | N/A |
| 1 bed/1 bath - Couple | # 205 | \$5,743 | N/A | N/A |
| 1 bed/1 bath - Single | # 206 | \$4,620 | N/A | N/A |
| 1 bed/1 bath - Couple | # 206 | \$6,180 | N/A | N/A |
| 1 bed/1 bath - Single | # 207 | \$4,200 | N/A | N/A |
| 1 bed/1 bath - Couple | # 207 | \$6,195 | N/A | N/A |
| 1 bed/1 bath - Single | # 208 | \$3,536 | N/A | N/A |
| 1 bed/1 bath - Couple | # 208 | \$5,096 | N/A | N/A |
| 1 bed/1 bath - Single | # 303 | \$4,620 | N/A | N/A |
| 1 bed/1 bath - Couple | # 303 | \$6,180 | N/A | N/A |
| 1 bed/1 bath - Single | # 305 | \$4,542 | N/A | N/A |
| 1 bed/1 bath - Couple | # 305 | \$6,102 | N/A | N/A |
| 1 bed/1 bath - Single | # 306 | \$4,056 | N/A | N/A |
| 1 bed/1 bath - Couple | # 306 | \$5,616 | N/A | N/A |
| 1 bed/1 bath - Single | # 307 | \$3,536 | N/A | N/A |
| 1 bed/1 bath - Couple | # 307 | \$5,096 | N/A | N/A |
| 1 bed/1 bath - Single | # 403 | \$4,542 | N/A | N/A |
| 1 bed/1 bath - Couple | # 403 | \$6,102 | N/A | N/A |

| | | | | |
|-----------------------|-------|---------|-----|-----|
| 1 bed/1 bath - Single | # 404 | \$4,620 | N/A | N/A |
| 1 bed/1 bath - Couple | # 404 | \$6,180 | N/A | N/A |
| 1 bed/1 bath - Single | # 405 | \$4,620 | N/A | N/A |
| 1 bed/1 bath - Couple | # 405 | \$6,180 | N/A | N/A |
| 1 bed/1 bath - Single | # 406 | \$3,715 | N/A | N/A |
| 1 bed/1 bath - Couple | # 406 | \$5,275 | N/A | N/A |
| 1 bed/1 bath - Single | # 407 | \$3,380 | N/A | N/A |
| 1 bed/1 bath - Couple | # 407 | \$4,940 | N/A | N/A |
| 1 bed/1 bath - Single | # 408 | \$4,252 | N/A | N/A |
| 1 bed/1 bath - Couple | # 408 | \$5,812 | N/A | N/A |
| 1 bed/1 bath - Single | # 502 | \$4,620 | N/A | N/A |
| 1 bed/1 bath - Couple | # 502 | \$6,180 | N/A | N/A |
| 1 bed/1 bath - Single | # 504 | \$4,700 | N/A | N/A |
| 1 bed/1 bath - Couple | # 504 | \$6,260 | N/A | N/A |
| 1 bed/1 bath - Single | # 509 | \$3,224 | N/A | N/A |
| 1 bed/1 bath - Couple | # 509 | \$4,784 | N/A | N/A |
| 2 bed/2 bath - Single | # 301 | \$4,368 | N/A | N/A |
| 2 bed/2 bath - Couple | # 301 | \$6,457 | N/A | N/A |
| 2 bed/2 bath - Single | # 309 | \$4,620 | N/A | N/A |
| 2 bed/2 bath - Couple | # 309 | \$6,709 | N/A | N/A |
| 2 bed/2 bath - Single | # 401 | \$4,620 | N/A | N/A |
| 2 bed/2 bath - Couple | # 401 | \$6,709 | N/A | N/A |
| 2 bed/2 bath - Single | # 501 | \$4,620 | N/A | N/A |
| 2 bed/2 bath - Couple | # 501 | \$6,709 | N/A | N/A |
| 2 bed/2 bath - Single | # 505 | \$4,620 | N/A | N/A |
| 2 bed/2 bath - Couple | # 505 | \$6,709 | N/A | N/A |
| 2 bed/2 bath - Single | # 507 | \$4,888 | N/A | N/A |
| 2 bed/2 bath - Couple | # 507 | \$6,977 | N/A | N/A |

Attachment to Form 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

Current Operations

Projected cash operating revenue for the current fiscal year ending March 31, 2013 was \$1,619,444 and projected operating expenses were \$1,965,498 for net operating deficit of <\$346,054> and a net operating margin (NOM) of <21.4%>.

Occupancy/Census Budget

IL occupancy is budgeted at 91.7% which compared to current year average of 83.3%. Total contract resident census is budgeted at 39 compared to the September year-to-date average of 36.

Principal Projected Increases in Expenses

Salaries and wages are projected to increase by \$59,758 (11.2%) over the projected current year end. Marketing costs are projected to increase by \$56,616 (37.4%) over the projected current year end. In addition, purchased services costs are projected to increase by \$153,893 (39.5%) over the projected current year end.

Rationale for Monthly Fee Increase

Budgeted total cash operating expenses are \$1,944,371 which is a decrease of <\$21,127> or <1.1%> over the projected current year end. Without an increase in monthly fees, the budgeted cash operating revenue would be \$1,692,326, which would result in net operating income of <\$252,045> and a NOM of <14.9%>. The targeted NOM in the budget is <4.6%> which is more than the projected year end NOM of <21.4%>. For reference purposes, the CARF-CCAC reported NOM for accredited multi-site providers ranges from 6.9% at the median to 12.5% at the 75th percentile. In order to achieve the targeted NOM of <4.6%>, a 4.0% to 7% monthly fee increase in monthly fees at Webster House was approved by the Board of Directors.

PROVIDER: Webster House

COMMUNITY: Webster House

Continuing Care Retirement Community

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Date Prepared: 7/30/13
AUG 05 2013
CONTINUING CARE
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Disclosure Statement
General Information

FACILITY NAME: WEBSTER HOUSE
 ADDRESS: 401 WEBSTER ST, PALO ALTO ZIP CODE: 94301 PHONE: (650)327-4333
 PROVIDER NAME: WEBSTER HOUSE FACILITY OPERATOR: LINDA HIBBS
 RELATED FACILITIES: SEE ATTACHED RELIGIOUS AFFILIATION: NONE
 YEAR OPENED: 1989 NO. OF ACRES: <1 MULTI-STORY: X SINGLE STORY: BOTH:
 MILES TO SHOPPING CTR: <1 MILES TO HOSPITAL: 2

| | | | |
|-------------------------|---------------------------|------------------------|---------|
| NUMBER OF UNITS: | INDEPENDENT LIVING | HEALTH CARE | |
| APARTMENTS - STUDIO | 0 | ASSISTED LIVING | 0 |
| APARTMENTS - 1 BDRM | 29 | SKILLED NURSING | 0 |
| APARTMENTS - 2 BDRM | 7 | SPECIAL CARE | 5 |
| COTTAGES/HOUSES | 0 | DESCRIBE SPECIAL CARE: | RESPIRE |
| % OCCUPANCY AT YEAR END | 97.30% | | |

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: 80%
 REPAYMENT _____

RANGE OF ENTRANCE FEES: \$393,600 TO \$910,000 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: PHYSICIAN HOSPITAL, APARTMENT OR FEE FOR SERVICE BY CONTRACT TYPE _____

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: OTHER: _____

FACILITY SERVICES AND AMENITIES

| COMMON AREA AMENITIES | AVAILABLE | FEE FOR SERVICE | SERVICES AVAILABLE | INCLUDED IN FEE | FOR EXTRA CHARGE |
|--------------------------|-------------------------------------|-------------------------------------|----------------------------|-------------------------------------|-------------------------------------|
| BEAUTY/BARBER SHOP | <input type="checkbox"/> | <input checked="" type="checkbox"/> | HOUSEKEEPING TIMES/MONTH | 4 | |
| BILLIARD ROOM | <input type="checkbox"/> | <input type="checkbox"/> | NUMBER OF MEALS/DAY | 1 | 2 |
| BOWLING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | SPECIAL DIETS AVAILABLE | YES | |
| CARD ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| CHAPEL | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 24-HOUR EMERGENCY RESPONSE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| COFFEE SHOP | <input type="checkbox"/> | <input type="checkbox"/> | ACTIVITIES PROGRAM | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| CRAFT ROOMS | <input checked="" type="checkbox"/> | <input type="checkbox"/> | ALL UTILITIES EXCEPT PHONE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| EXERCISE ROOM | <input checked="" type="checkbox"/> | <input type="checkbox"/> | APARTMENT MAINTENANCE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| GOLF COURSE ACCESS | <input type="checkbox"/> | <input type="checkbox"/> | CABLE TV | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| LIBRARY | <input checked="" type="checkbox"/> | <input type="checkbox"/> | LINENS FURNISHED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| PUTTING GREEN | <input type="checkbox"/> | <input type="checkbox"/> | LINENS LAUNDERED | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SHUFFLEBOARD | <input type="checkbox"/> | <input type="checkbox"/> | MEDICATION MANAGEMENT | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| SPA | <input type="checkbox"/> | <input type="checkbox"/> | NURSING/WELLNESS CLINIC | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| SWIMMING POOL-INDOOR | <input type="checkbox"/> | <input type="checkbox"/> | PERSONAL NURSING/HOME CARE | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| SWIMMING POOL-OUTDOOR | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PERSONAL | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| TENNIS COURT | <input type="checkbox"/> | <input type="checkbox"/> | TRANSPORTATION-PREARRANGED | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| WORKSHOP | <input type="checkbox"/> | <input type="checkbox"/> | OTHER _____ | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| OTHER ___ MOVIE ROOM ___ | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> |
| PARKING | <input type="checkbox"/> | <input checked="" type="checkbox"/> | | | |

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many

communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: WEBSTER HOUSE

| CCRCs | LOCATION (City, State) | PHONE (with area code) |
|-----------------------------|---|------------------------|
| <u>Canterbury Woods</u> | <u>651 Sinex Ave., Pacific Grove, CA 93950</u> | <u>(831)373-3111</u> |
| <u>St. Paul's Towers</u> | <u>100 Bay Place Oakland, CA 94610</u> | <u>(510)835-4700</u> |
| <u>Los Gatos Meadows</u> | <u>110 Wood Road Los Gatos, CA 95030</u> | <u>(408)354-0211</u> |
| <u>Spring Lake Village</u> | <u>5555 Montgomery Drive Santa Rosa, CA 95409</u> | <u>(707)538-8400</u> |
| <u>San Francisco Towers</u> | <u>1661 Pine Street San Francisco, CA 94109</u> | <u>(415)776-0500</u> |

ALL CCRC's HAVE RESIDENTS WITH
LIFECARE CONTRACTS AND THEY OFFER
LIFECARE AND CONTINUING CARE
CONTRACTS WITH THE EXCEPTION OF
LOS GATOS MEADOWS

MULTI-LEVEL RETIREMENT COMMUNITIES

| | | |
|--|---|----------------------|
| <u>Lytton Gardens Senior Communities</u> | <u>437 Webster Street Palo Alto, CA 94301</u> | <u>(650)328-3300</u> |
|--|---|----------------------|

FREE-STANDING SKILLED NURSING

| | | |
|----------------------------|---|----------------------|
| <u>Lytton Gardens Inc.</u> | <u>437 Webster Street Palo Alto, CA 94301</u> | <u>(650)328-3300</u> |
|----------------------------|---|----------------------|

SUBSIDIZED SENIOR HOUSING

| | | |
|--|--|----------------------|
| <u>Presidio Gate Apartments</u> | <u>2770 Lombard Street San Francisco, CA 94123</u> | <u>(415)567-1050</u> |
| <u>Oak Center Towers</u> | <u>1515 Market Street Oakland, CA 94607</u> | <u>(510)465-1166</u> |
| <u>Jennings Senior Housing, Inc.</u> | <u>1080 Jennings Avenue Santa Rosa, Ca 95401</u> | <u>(707)527-5421</u> |
| <u>Lytton Gardens I</u> | <u>656 Lytton Avenue Palo Alto, CA 94301</u> | <u>(650)328-3300</u> |
| <u>Lytton Gardens II</u> | <u>649 University Avenue Palo Alto, CA 94301</u> | <u>(650)328-3300</u> |
| <u>Lytton Gardens IV Housing Corporation</u> | <u>330 Everett Street Palo Alto, CA 94301</u> | <u>(650)328-3300</u> |

* PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

PROVIDER NAME: WEBSTER HOUSE

| | 2010 | 2011 | 2012 | 2013 |
|--|------|------|------------------|------------------|
| INCOME FROM ONGOING OPERATIONS | | | | |
| OPERATING INCOME (excluding amortization of entrance fee income) | | | 977,000 | 1,860,000 |
| LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest) | | | 1,226,000 | 2,088,000 |
| NET INCOME FROM OPERATIONS | | | <u>-249,000</u> | <u>-228,000</u> |
| LESS INTEREST EXPENSE | | | 0 | 0 |
| PLUS CONTRIBUTIONS | | | | |
| PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items) | | | | |
| NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION | | | <u>-249,000</u> | <u>-228,000</u> |
| NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds) | | | <u>(187,000)</u> | <u>4,230,000</u> |

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

| LENDER | OUTSTANDING BALANCE | INTEREST RATE | DATE OF ORIGINATION | DATE OF MATURITY | AMORTIZATION PERIOD |
|--------|---------------------|---------------|---------------------|------------------|---------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

FINANCIAL RATIOS (see next page for ratio formulas)

| | 2011 CCAC Medians 50 th Percentile (optional) | 2011 | 2012 | 2013 |
|-----------------------------|--|------|--------|--------|
| DEBT TO ASSET RATIO | | | N/A | N/A |
| OPERATING RATIO | | | 125.5% | 112.3% |
| DEBT SERVICE COVERAGE RATIO | | | N/A | N/A |
| DAYS CASH-ON-HAND RATIO | | | 85 | 708 |

**HISTORICAL MONTHLY SERVICE FEES
AVERAGE FEE AND PERCENT CHANGE**

| | 2010 | % | 2011 | % | 2012 | % | 2013 |
|-----------------|------|---|-------|----|-------|----|-------|
| STUDIO | | | | | | | |
| ONE BEDROOM | | | 3,882 | 3% | 4,003 | 5% | 4,084 |
| TWO BEDROOM | | | 4,526 | 4% | 4,700 | 5% | 4,623 |
| COTTAGE/HOUSE | | | | | | | |
| ASSISTED LIVING | | | | | | | |
| SKILLED NURSING | | | | | | | |
| SPECIAL CARE | | | | | | | |

COMMENTS FROM PROVIDER: _____

PROVIDER NAME: _____

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

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.