

FISCAL YEAR ENDED:

03/31/2014

## ANNUAL REPORT CHECKLIST

PROVIDER(S): Webster House Senior Living LLC

CCRC(S): Webster House, Inc.

PROVIDER CONTACT PERSON: Jonathan Casey, CFO

TELEPHONE NO.: (925) 956-7447

EMAIL: jcasey@lyttongardens.org

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CONTRACTS BRANCH

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 2,110.00
- If applicable, late fee in the amount of: \$ \_\_\_\_\_
- 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* reserves and, *when applicable*, the required refund reserve.
- Evidence of the provider's fidelity bond, as required by H&SC section 1789.8.
- Provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- Provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon. (NOTE: Form 5-5 must be signed and have the required disclosures attached (H&SC section 1790(a)(2) and (3)).
- "Continuing Care Retirement Community Disclosure Statement" for **each** community.
- Form 7-1, "Report on CCRC Monthly Service Fees" for **each** community.
- Form 9-1, "Calculation of Refund Reserve Amount", *if applicable*.
- Key Indicators Report (signed by CEO or CFO (or by the authorized person who signed the provider's annual report)). The KIR may be submitted along with the annual report, but is not required until 30 days later.



Webster House

R E C E I V E D

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July 30, 2014

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I have examined the annual reserve reports and any amendments thereto for the year ended March 31, 2014, 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, 2014.

Kevin J. Gerber  
President/CEO



This Policy is issued by the stock insurance company listed above.

THE LIABILITY COVERAGE SECTIONS COVER ONLY CLAIMS FIRST MADE AGAINST THE INSURED DURING THE POLICY PERIOD, OR, IF ELECTED, THE EXTENDED REPORTING PERIOD AND REPORTED TO THE INSURER PURSUANT TO THE TERMS OF THE APPLICABLE COVERAGE SECTION.

THE CRIME COVERAGE SECTION, IF PURCHASED, APPLIES ONLY TO LOSS DISCOVERED DURING THE POLICY PERIOD AND REPORTED TO THE INSURER PURSUANT TO THE TERMS OF THAT SECTION. PLEASE READ THIS POLICY CAREFULLY.

THE LIMITS OF LIABILITY AVAILABLE TO PAY INSURED LOSS SHALL BE REDUCED BY AMOUNTS INCURRED FOR DEFENSE COSTS UNLESS OTHERWISE PROVIDED HEREIN. AMOUNTS INCURRED FOR DEFENSE COSTS AND LOSS SHALL ALSO BE APPLIED, AS APPLICABLE, AGAINST THE RETENTION AND DEDUCTIBLE AMOUNTS.

TERMS THAT APPEAR IN BOLD FACE TYPE HAVE SPECIAL MEANING. PLEASE REFER TO THE APPLICABLE DEFINITIONS OF THIS POLICY.

Policy Number: DON G24871198 006

Renewal of: G24871198 005

Item A.	<b>Parent Organization:</b> <b>Principal Address:</b>	JTM Communities 2185 N. California Boulevard, Suite 575 Walnut Creek, CA 94596
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Item B.	<b>Policy Period:</b>	From: 02/28/2014 To: 02/28/2015 12:01 a.m. local time at the Principal Address shown in Item A.
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Item C.	<b>Coverage Information:</b>	
	<b>DIRECTORS &amp; OFFICERS AND ORGANIZATION LIABILITY</b>	
1.	<b>Limit of Liability:</b>	a. \$5,000,000 maximum aggregate for all <b>Loss</b> under this Coverage Section
	b. <b>Sub-Limits:</b>	<ul style="list-style-type: none"> <li>\$100,000 sub-limit for all <b>Derivative Investigation Costs</b></li> <li>\$1,000,000 sub-limit for all <b>FCA Regulatory Claims</b></li> <li>\$1,000,000 sub-limit for all <b>Antitrust Claims</b></li> <li>\$250,000 sub-limit for all <b>EMTALA Claims</b></li> <li>\$25,000 sub-limit for all <b>Tax Claims</b></li> <li>\$25,000 sub-limit for all <b>HIPAA Claims</b></li> <li>\$25,000 sub-limit for all <b>Special Event Management Costs</b></li> </ul> <p>The sub-limits set forth in subsection b above are part of, and not in addition to, the aggregate limit of liability set forth in subsection a above.</p>
	c.	\$N/A Additional Limit of Liability for <b>Insured Persons</b>
2.	<b>Shared Limit:</b>	If selected, the Limit of Liability set forth in subsection 1.a above shall be shared with the Limits of Liability of the following Coverage Section(s): <input checked="" type="checkbox"/> Employment Practices Liability <input type="checkbox"/> Fiduciary Liability
3.	<b>Retentions:</b>	<ul style="list-style-type: none"> <li>\$0 each <b>Claim</b> under Insuring Clause A</li> <li>\$50,000 each <b>Claim</b> under Insuring Clauses B or C</li> <li>\$250,000 each <b>Antitrust Claim</b> under Insuring Clauses B or C</li> <li>\$250,000 each <b>Clinical Trial Claim</b> under Insuring Clauses B or C</li> <li>\$1,000,000 each <b>FCA Regulatory Claim</b> under Insuring Clause D</li> </ul>
4.	<b>Co-Insurance*:</b>	50 % each <b>FCA Regulatory Claim</b>
	<b>*Insured's Responsibility</b>	0 % each <b>Antitrust Claim</b>
5.	<b>Continuity Date:</b>	01/21/1986

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**EMPLOYMENT PRACTICES LIABILITY**

1. Limit of Liability: \$5,000,000 maximum aggregate for all Loss under this Coverage Section

2. Shared Limit: If selected, the Limit of Liability set forth in subsection 1 above shall be shared with the Limits of Liability of the following Coverage Section(s):  
 Directors & Officers and Organization Liability  
 Fiduciary Liability

3. Retentions: \$100,000 each Claim for an Employment Practices Wrongful Act  
 \$100,000 each Claim for a Third Party Wrongful Act  
 \$150,000 each Class Action

4. Continuity Date: each Claim for an Employment Practices Wrongful Act  
 01/21/1986  
  
 each Claim for a Third Party Wrongful Act  
 01/21/1986

**FIDUCIARY LIABILITY**

1. Limit of Liability: a. \$5,000,000 maximum aggregate for all Loss under this Coverage Section  
 b. Sub-Limits:  
 \$50,000 sub-limit for all Voluntary Compliance Loss and Delinquent Filer Penalties  
 \$50,000 sub-limit for all PPA Penalties  
 \$50,000 sub-limit for all 4975(a) Penalties  
 \$25,000 sub-limit for all HIPAA Penalties  
 \$50,000 sub-limit for all 502(c) Penalties  
 \$50,000 sub-limit for all Health and Patient Care Penalties  
 The sub-limits set forth in subsection b above are part of, and not in addition to, the aggregate limit of liability set forth in subsection a above.

2. Shared Limit: If selected, the Limit of Liability set forth in subsection 1.a above shall be shared with the Limits of Liability of the following Coverage Section(s):  
 Directors & Officers and Organization Liability  
 Employment Practices Liability

3. Retentions: \$0 each Claim

4. Continuity Date: 01/21/1986

**CRIME**

Insuring Clauses	Limit of Insurance Per Occurrence	Deductible Amount Per Occurrence
A(1) Employee Theft	\$1,000,000	\$25,000
A(2) Employee Benefit Plan Coverage	\$1,000,000	\$0
A(3) Clients' Property	\$1,000,000	\$25,000
B. Forgery Or Alteration	\$1,000,000	\$25,000
C. Inside the Premesis – Theft of Money and Securities	\$1,000,000	\$25,000
D. Inside the Premesis – Robbery or Safe Burglary of Other Property	\$1,000,000	\$25,000
E. Outside the Premesis	\$1,000,000	\$25,000
F. Computer Fraud	\$1,000,000	\$25,000
G. Funds Transfer Fraud	\$1,000,000	\$25,000
H. Money Orders and Counterfeit Money	\$1,000,000	\$25,000
I. Claims Investigation Expense	\$25,000	\$5,000

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

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 AUG 05 2014

Item D.	Premium: \$111,117.00 [Itemized Taxes] Taxes & Surcharges: \$0 Total Amount Due: \$111,117.00	CONTINUING CARE CONTRACTS BRANCH
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Item E.	<b>Extended Reporting Period</b> 1. One (1) Year      100 % of the premium set forth in Item D of the Declarations 2. Two (2) Years    125 % of the premium set forth in Item D of the Declarations 3. Three (3) Years   150 % of the premium set forth in Item D of the Declarations  As provided in subsection VIII of the General Terms and Conditions, only one of the above <b>Extended Reporting Period</b> options may be elected and purchased.
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Item F.	<b>A. Notice of Claim or Wrongful Act, or with respect to the Crime Coverage Section, if purchased, any loss</b>  ACE USA P.O. Box 5105 Scranton, PA 18505-0518 Fax: 888-844-9073 Email address for submitting Claims, <a href="mailto:ACEClaimsFirstNotice@acegroup.com">ACEClaimsFirstNotice@acegroup.com</a> Email address for all other correspondence, <a href="mailto:ApolloProRskACEIncoming@acegroup.com">ApolloProRskACEIncoming@acegroup.com</a>  <b>B. All Other Notices:</b>  ACE USA – Professional Risk Attn: Chief Underwriting Officer 1133 Avenue of the Americas, 32 <sup>nd</sup> Floor New York, New York 10036
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Item G.	Acquisition Threshold:      15%
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POLICY FORMS	
EPLA-P (01/13)	EPL Assist
PF-39859 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – Declarations
PF-39860 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – General Terms and Conditions
PF-39861 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – Directors, Officers and Organization Liability Coverage Section
PF-39862 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – Employment Practices Liability Coverage Section
PF-39863 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – Fiduciary Liability Coverage Section
PF-39864 (04/13)	ACE EXPRESS Not-For-Profit Health Care Protection Policy – Crime Coverage Section

ENDORSEMENTS	
CC-1K11g (01/11)	Signature Page
PF-39893 (04/13)	California Amendatory
PF-39883 (04/13)	Payments, Commissions, Gratuities and Benefits Exclusion
PF-39888 (04/13)	Specified Matter Exclusion – All Coverage Sections
PF-39865 (04/13)	Absolute Bodily Injury, Property Damage Exclusion-D&O/EPL



ADDENDUMS	
TRIA12b(01/08)	Disclosure Pursuant to Terrorism Risk Insurance Act
PF-39934 (05/13)	Cap On Losses from Certified Acts Of Terrorism
ALL-21101 (11/06)	Trade or Economic Sanctions Endorsement
PF-17914 (02.05)	U.S. Department's Office of Foreign Assets Control ("OFAC") Advisory Notice to Policyholders
ALL-20887 (10/06)	ACE Producer Compensation Practices & Policies

IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its President and Secretary, and countersigned by a duly authorized representative of the Insurer.

JOHN J. LUPICA, President  
Authorized Representative

DATE: 02/28/2014

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Report of Independent Auditors and  
Consolidated Financial Statements with  
Supplementary Information

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

March 31, 2014 and 2013

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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CONTINUING CARE  
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## REPORT OF INDEPENDENT AUDITORS

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, 2014 and 2013, 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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 cursive script that reads "Mess Adams LLP".

San Francisco, California  
June 27, 2014

**CONSOLIDATED FINANCIAL STATEMENTS**

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**LYTTON GARDENS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,933,958	\$ 8,330,351
Investments	3,243,509	3,667,732
Receivables, net of allowance for doubtful accounts in the amount of \$1,147,908 in 2014 and \$966,507 in 2013	3,549,084	1,997,172
Due from affiliates	1,645,724	965,975
Prepaid expenses	229,448	229,455
Supplies inventory	87,856	91,804
Total current assets	<u>17,689,579</u>	<u>15,282,489</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and land improvements	6,784,717	6,784,717
Building and building improvements	14,671,111	14,103,999
Furniture and fixtures	805,545	772,335
Office equipment	1,011,379	800,941
Vehicles	106,048	106,048
Construction in progress	362,715	-
	23,741,515	22,568,040
Accumulated depreciation	<u>(9,438,698)</u>	<u>(8,740,936)</u>
Total property and equipment, net	<u>14,302,817</u>	<u>13,827,104</u>
<b>OTHER ASSETS</b>		
Beneficial interest in remainder trust	128,893	124,459
Intangible assets, net of accumulated amortization	1,264,609	1,550,936
Other assets	121,321	195,455
Total other assets, net	<u>1,514,823</u>	<u>1,870,850</u>
<b>TOTAL ASSETS</b>	<u>\$ 33,507,219</u>	<u>\$ 30,980,443</u>

*See accompanying notes.*

**LYTTON GARDENS, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)**  
**March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 669,807	\$ 716,283
Accounts payable - affiliated organizations	99,329	78,236
Accrued wages payable	284,650	480,614
Accrued expenses	11,798	7,600
Current portion of bond payable	480,000	445,000
Total current liabilities	1,545,584	1,727,733
<b>LONG-TERM LIABILITIES</b>		
Lease deposit	55,000	45,000
Bond payable, net of current portion	9,075,000	9,565,000
Repayable entrance fees	6,080,575	8,308,258
Refundable entrance fees	8,178,624	4,402,493
Deferred entrance fees	1,810,496	1,026,651
Total long-term liabilities	25,199,695	23,347,402
Total liabilities	26,745,279	25,075,135
<b>NET ASSETS</b>		
Unrestricted net assets	6,633,047	5,780,849
Temporarily restricted net assets	128,893	124,459
Total net assets	6,761,940	5,905,308
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 33,507,219</b>	<b>\$ 30,980,443</b>

*See accompanying notes.*

**LYTTON GARDENS, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Years ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>REVENUES AND GAINS</b>		
Net patient service revenue	\$ 16,293,604	\$ 16,766,590
Amortization of deferred entrance fees	160,188	64,665
Contribution income	-	962
Interest income	144,873	91,955
Resident fees	2,052,664	1,750,450
Other	209,282	231,570
Total revenues and gains	<u>18,860,611</u>	<u>18,906,192</u>
<b>EXPENSES</b>		
Nursing services	6,758,860	6,702,959
Ancillary services	2,368,787	2,229,339
Dining services	2,362,323	2,406,969
Administrative	2,954,879	3,099,446
Utilities	394,491	398,833
Operating and maintenance	1,306,188	1,444,466
Taxes and insurance	62,221	28,891
Interest	321,545	361,264
Bad debt expense	325,142	335,188
Depreciation and amortization	984,091	851,005
Other	116,397	-
Total expenses	<u>17,954,924</u>	<u>17,858,360</u>
<b>NET INCOME</b>	905,687	1,047,832
<b>UNREALIZED LOSSES ON INVESTMENTS</b>	<u>(53,489)</u>	<u>(81,936)</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>852,198</u>	<u>965,896</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Change in beneficial interest in remainder trust	4,434	2,054
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>4,434</u>	<u>2,054</u>
<b>CHANGE IN NET ASSETS</b>	<u>856,632</u>	<u>967,950</u>
<b>NET ASSETS, beginning of year</b>	<u>5,905,308</u>	<u>4,937,358</u>
<b>NET ASSETS, end of year</b>	<u>\$ 6,761,940</u>	<u>\$ 5,905,308</u>

*See accompanying notes.*

**LYTTON GARDENS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended March 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from residents and third-party payors	\$ 16,948,367	\$ 18,596,909
Proceeds from entrance fees	4,105,686	4,921,116
Investment gains	144,873	91,955
Cash paid to employees and suppliers	(16,814,625)	(17,519,488)
Interest paid	(295,268)	(290,681)
	<u>4,089,033</u>	<u>5,799,811</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Property acquisitions and construction in progress	(1,173,477)	(869,554)
Purchases of investments	(46,586)	(2,613,401)
Sales of investments	417,320	388,302
	<u>(802,743)</u>	<u>(3,094,653)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt repayment	(455,000)	(1,420,000)
Capital contribution in Webster House Senior Living LLC	-	435,000
Refunds of deposit and entrance fees	(2,227,683)	(691,000)
	<u>(2,682,683)</u>	<u>(1,676,000)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	603,607	1,029,158
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>8,330,351</u>	<u>7,301,193</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$ 8,933,958</u>	<u>\$ 8,330,351</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CHANGE IN NET ASSETS</b>	\$ 856,632	\$ 967,950
<b>ADJUSTMENTS TO RECONCILE TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Amortization of deferred entrance fees	(160,188)	(64,665)
Proceeds from entrance fees, net of refunds	4,105,686	4,921,116
Depreciation and amortization	984,091	851,005
Provisions for bad debt	325,142	335,188
Change in net unrealized losses on investments	53,489	81,936
Change in beneficial interest in remainder trust	(4,434)	(2,054)
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		
Receivables	(1,942,325)	(863,213)
Other assets	78,089	146,042
Accounts payable	(25,383)	(630,617)
Other liabilities	(181,766)	57,123
	<u>\$ 4,089,033</u>	<u>\$ 5,799,811</u>

*See accompanying notes.*

**LYTTON GARDENS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Nature of operations** – Lytton Gardens, Inc. (the “Organization”) is a California nonprofit public benefit corporation formed in 1981. JTM Communities (“JTM”), a nonprofit public benefit corporation is the sole corporate member of LGI. The Organization owns and operates a 145-bed skilled nursing facility, Lytton Gardens Health Care Center (the “Health Care Center”) in Palo Alto, California. The Health Care Center’s ongoing programs included Wound Care, Alzheimer’s Program, Extensive Intravenous Therapy Program, and Rehabilitative Therapy Services. In addition, the Organization 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 37 independent living apartments. 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, through its common member, JTM Communities, a management, and fundraising support organization is affiliated with Lytton Gardens Senior Communities (“LGSC”) which is the sole member of Community Housing, Inc. which operates Lytton Gardens I and II; Lytton IV Housing Corporation; Oak Center Towers (“OCT”); Presidio Gate Apartments (“PGA”); and Jennings Senior Housing, Inc. (“JSH”), all of which are affordable senior housing communities; Episcopal Senior Communities (“ESC”) which operates five continuing care retirement communities; Episcopal Senior Communities Foundation (“ESCF”), a fundraising and supporting organization to ESC; and Senior Resources@Home LLC, a provider of unlicensed home care in Sonoma and Marin counties (collectively, the “Affiliates”). Except for SR@H, all of the Affiliates are California nonprofit public benefit corporations. JTM is the sole member of SR@H. Some of the Affiliates share common officers, directors, and management and, at times, provide various support services to one another. The Affiliates’ financial statements are not included in the accompanying consolidated financial statements of the Organization.

**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, 2014 and 2013.

**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, 2014 and 2013. The discount rate used to calculate the 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.

*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. Temporarily restricted net assets are available primarily for assistance and capital projects as designated by the donors. At March 31, 2013 and 2014, temporarily restricted net assets were \$128,893 and \$124,459, respectively.

*Permanently restricted net assets* represent net assets subject to donor imposed stipulations that they be maintained by the Organization in perpetuity. At March 31, 2014 and 2013, 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 statements 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. The nonrefundable portion is recorded as deferred revenue and is amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents. Amounts amortized to income relating to these contracts were \$160,188 and \$64,665 for the years ended March 31, 2014 and 2013, respectively, as included in amortization of deferred revenue from entrance fees in the consolidated statements of activities and changes in net assets. At March 31, 2014 and 2013, the Organization had deferred entrance fees of \$1,810,496 and \$1,026,651, respectively, related to entrance fees received that will be recognized as revenue in future years. The refundable portion of entrance fees as of March 31, 2014 and 2013, were \$8,178,624 and \$4,402,493, respectively, as included in refundable entrance fees in the consolidated statements of financial position. There were no actual refunds of such entrance fees for the years ended March 31, 2014 and 2013.

**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 the Series 1999 Bonds. At March 31, 2014 and 2013, the Organization has reflected the interest rate cap at a fair value of \$9,000 and \$9,500, respectively, in other assets in the consolidated statements of financial position.

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

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

The 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**

**Use of estimates** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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 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, 2014 and 2013, 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 losses on investments and member contributions.

**New accounting pronouncements** – Effective April 1, 2013, the Organization adopted Accounting Standards Update (ASU) No. 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees* which has resulted in the establishment of a liability for the refundable portion of advance fees which were previously included in deferred revenue and amortized into revenue over the life of the facility. In accordance with Financial Accounting Standards Board (FASB) ASC Topic 250, *Accounting Changes and Error Corrections*, these consolidated financial statements present the adoption of ASU No. 2012-01 as a change in accounting principle, and accordingly, the 2013 financial statements presented herein have been adjusted to apply the new accounting method retrospectively as follows:

	<b>March 31, 2013</b>		
	<b>As Previously Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
Unrestricted net assets, beginning of year	\$ 4,837,739	\$ (22,786)	\$ 4,814,953
Unrestricted net assets, end of year	\$ 5,974,666	\$ (193,817)	\$ 5,780,849
Net assets, beginning of year	\$ 4,960,144	\$ (22,786)	\$ 4,937,358
Net assets, end of year	\$ 6,099,125	\$ (193,817)	\$ 5,905,308
Refundable entrance fees	\$ -	\$ 4,402,493	\$ 4,402,493
Deferred entrance fees	\$ 5,235,327	\$ (4,208,676)	\$ 1,026,651
Amortization of deferred entrance fees	\$ 235,696	\$ (171,031)	\$ 64,665
Total revenues and gains	\$ 19,077,223	\$ (171,031)	\$ 18,906,192
Change in net assets	\$ 1,138,981	\$ (171,031)	\$ 967,950

**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.

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, 2014 and 2013, this liability was \$6,080,575 and \$8,308,258, 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.

**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, 2014 and 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 trust** – Beneficial interest in trusts is 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, 2014, present value was calculated using the applicable mortality table for the youngest lead beneficiary and a discount rate of 2.2%. Life expectancies range from 16 to 17 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.

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, 2014</u>
Investments				
Money market mutual funds	\$ 481,425	\$ -	\$ -	\$ 481,425
Corporate bonds	2,762,084	-	-	2,762,084
Beneficial interest in trust	-	-	128,893	128,893
Total	<u>\$ 3,243,509</u>	<u>\$ -</u>	<u>\$ 128,893</u>	<u>\$ 3,372,402</u>
	<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 trust	-	-	124,459	124,459
Total	<u>\$ 3,667,732</u>	<u>\$ -</u>	<u>\$ 124,459</u>	<u>\$ 3,792,191</u>

**LYTTON GARDENS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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>2014</u>	<u>2013</u>
Beginning balance	\$ 124,459	\$ 122,405
New beneficial interests in trust	-	-
Trust maturities	-	-
Change in value due to change in actuarial life expectancy	(1,835)	(585)
Change in value due to change in estimated fair value of underlying trust assets	6,269	2,639
Ending balance	<u>\$ 128,893</u>	<u>\$ 124,459</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, 2014</u>		<u>March 31, 2013</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	\$ 739,677	\$ 2,004,286	\$ 453,350

Intangible assets are accounted for in accordance with FASB ASC Topic 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, 2014 and 2013. Amortization expense was \$286,327 and \$286,326 for the years ended March 31, 2014 and 2013, respectively.

As of March 31, 2014, the expected future annual amortization of intangible assets is as follows:

<u>Estimated amortization expense</u>	
2015	\$ 286,327
2016	286,327
2017	286,327
2018	286,327
2019	119,301
	<u>\$ 1,264,609</u>

**NOTE 5 – LINE OF CREDIT**

As part of the affiliation between JTM and ESC, the Organization is guaranteed the availability either through bank funding or another source a revolving line of credit 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, 2014; payments of interest are due monthly. The line of credit had no balance for the fiscal years ended March 31, 2014 and 2013.

**NOTE 6 – BOND PAYABLE**

The Organization’s bond payable consisted of the following at March 31:

	<b>2014</b>	<b>2013</b>
<p>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 Bank 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, 2014 and 2013, was 0.155% and 0.204%, respectively.</p>	\$ 9,555,000	\$ 10,010,000
<p>Less current portion</p>	(480,000)	(445,000)
<p>Bonds payable</p>	\$ 9,075,000	\$ 9,565,000

Schedule maturities for the above bond payable are as follows:

2015	\$ 480,000
2016	480,000
2017	520,000
2018	540,000
2019	540,000
Thereafter	6,995,000
Total	\$ 9,555,000

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. Management believes the Organization was in compliance with these financial covenants as of March 31, 2014 and 2013.

**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:

	<b>2014</b>	<b>2013</b>
Medicare	6,757	6,868
Medi-Cal	26,832	27,076
	33,589	33,944

Total patient days were 47,449 and 47,344 as of March 31, 2014 and 2013, 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.

**LYTTON GARDENS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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As of March 31, 2014 and 2013, the percentage of accounts receivable from Health Care Maintenance Insurers (HMO), Medi-Cal, Medicare and Inpatient Private Pay are due as follows:

	<u>2014</u>	<u>2013</u>
Health care maintenance insurers (HMO)	25%	32%
Medi-Cal	22%	26%
Medicare	35%	27%
Inpatient private pay	18%	15%

**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, 2014 and 2013, 411 volunteers donated 24,541 hours of time valued at \$553,400 and 435 volunteers donated 14,424 hours of time valued at \$319,347 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 \$729,504 and \$796,332 of shared costs during the years ended March 31, 2014 and 2013, respectively. The net balance of accounts payable to affiliates at March 31, 2014 and 2013, was \$99,329 and \$78,236, respectively.

The Operating Agreement provides that JTM will contribute \$2,400,000 to the capital of WHSL. As of March 31, 2014 and 2013, JTM owed \$619,613 and \$619,613, 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 \$103,170.

**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 27, 2014, 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, 2014

	LGI	WHSL	Eliminations	Consolidated LGI
<b>CURRENT ASSETS</b>				
Cash	\$ 3,766,546	\$ 5,167,412	-	\$ 8,933,958
Investments	3,243,509	-	-	3,243,509
Receivables, net of allowance for doubtful accounts in the amount of \$1,147,908	2,412,641	1,136,443	-	3,549,084
Due from affiliates	1,134,841	618,571	(107,688)	1,645,724
Prepaid expenses	195,900	33,548	-	229,448
Supplies inventory	87,856	-	-	87,856
Total current assets	10,841,293	6,955,974	(107,688)	17,689,579
<b>PROPERTY AND EQUIPMENT</b>				
Land and land improvements	681,212	6,103,505	-	6,784,717
Building and building improvements	11,646,229	3,024,882	-	14,671,111
Furniture and fixtures	515,783	289,762	-	805,545
Office equipment	874,036	137,343	-	1,011,379
Vehicles	106,048	-	-	106,048
Construction in progress	197,518	165,197	-	362,715
Accumulated depreciation	14,020,826	9,720,689	-	23,741,515
	(9,132,895)	(305,803)	-	(9,438,698)
Total property and equipment, net	4,887,931	9,414,886	-	14,302,817
<b>OTHER ASSETS</b>				
Beneficial interest in remainder trust	128,893	-	-	128,893
Intangible assets, net of accumulated amortization	-	1,264,609	-	1,264,609
Other assets	119,581	1,740	-	121,321
Total other assets, net	248,474	1,266,349	-	1,514,823
<b>TOTAL ASSETS</b>	\$ 15,977,698	\$ 17,637,209	\$ (107,688)	\$ 33,507,219

**LYTTON GARDENS, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
 March 31, 2014

	LGI	WHSL	Eliminations	Consolidated LGI
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 642,868	\$ 26,939	-	\$ 669,807
Accounts payable - affiliated organizations	41,748	165,269	(107,688)	99,329
Accrued wages payable	261,772	22,878	-	284,650
Accrued expenses	11,798	-	-	11,798
Current portion of bond payable	480,000	-	-	480,000
Total current liabilities	1,438,186	215,086	(107,688)	1,545,584
<b>LONG-TERM LIABILITIES</b>				
Lease deposit	16,000	39,000	-	55,000
Bond payable, net of current portion	9,075,000	-	-	9,075,000
Repayable entrance fees	-	6,080,575	-	6,080,575
Refundable entrance fees	-	8,178,624	-	8,178,624
Deferred entrance fees	-	1,810,496	-	1,810,496
Total long-term liabilities, net of current portion	9,091,000	16,108,695	-	25,199,695
Total liabilities	10,529,186	16,323,781	(107,688)	26,745,279
<b>NET ASSETS</b>				
Unrestricted net assets	5,319,619	1,313,428	-	6,633,047
Temporarily restricted net assets	128,893	-	-	128,893
Total net assets	5,448,512	1,313,428	-	6,761,940
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,977,698</b>	<b>\$ 17,637,209</b>	<b>\$ (107,688)</b>	<b>\$ 33,507,219</b>

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

	LGI	WHSL	Eliminations	Consolidated LGI
<b>CURRENT ASSETS</b>				
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
<b>PROPERTY AND EQUIPMENT</b>				
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
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
<b>OTHER ASSETS</b>				
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
<b>TOTAL ASSETS</b>	<b>\$ 15,665,998</b>	<b>\$ 15,389,078</b>	<b>\$ (74,633)</b>	<b>\$ 30,980,443</b>

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

	LGI	WHSL	Eliminations	Consolidated LGI
<b>CURRENT LIABILITIES</b>				
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	1,584,427	217,939	(74,633)	1,727,733
<b>LONG-TERM LIABILITIES</b>				
Lease deposit	16,000	29,000	-	45,000
Bond payable, net of current portion	9,565,000	-	-	9,565,000
Repayable entrance fees	-	8,308,258	-	8,308,258
Refundable entrance fees	-	4,402,493	-	4,402,493
Deferred entrance fees subject to refund	-	1,026,651	-	1,026,651
Total long-term liabilities, net of current portion	9,581,000	13,766,402	-	23,347,402
Total liabilities	11,165,427	13,984,341	(74,633)	25,075,135
<b>NET ASSETS</b>				
Unrestricted net assets	4,376,112	1,404,737	-	5,780,849
Temporarily restricted net assets	124,459	-	-	124,459
Total net assets	4,500,571	1,404,737	-	5,905,308
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,665,998</b>	<b>\$ 15,389,078</b>	<b>\$ (74,633)</b>	<b>\$ 30,980,443</b>

**LYTTON GARDENS, INC.**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
Year ended March 31, 2014

	LGI	WHSL	Eliminations	Consolidated LGI
<b>REVENUES AND GAINS</b>				
Net patient service revenue	\$ 16,293,604	-	\$ -	\$ 16,293,604
Amortization of deferred entrance fees	-	160,188	-	160,188
Interest income	144,873	-	-	144,873
Resident fees	-	2,052,664	-	2,052,664
Other	115,059	94,223	-	209,282
Total revenues and gains	<u>16,553,536</u>	<u>2,307,075</u>	<u>-</u>	<u>18,860,611</u>
<b>EXPENSES</b>				
Nursing services	6,496,292	262,568	-	6,758,860
Ancillary services	2,368,787	-	-	2,368,787
Dining services	2,096,090	266,233	-	2,362,323
Administrative	2,083,247	871,632	-	2,954,879
Utilities	210,735	183,756	-	394,491
Operating and maintenance	1,123,885	182,303	-	1,306,188
Taxes and insurance	-	62,221	-	62,221
Interest	321,545	-	-	321,545
Bad debt expense	325,142	-	-	325,142
Depreciation and amortization	530,817	453,274	-	984,091
Other	-	116,397	-	116,397
Total expenses	<u>15,556,540</u>	<u>2,398,384</u>	<u>-</u>	<u>17,954,924</u>
<b>NET INCOME / (LOSS)</b>	996,996	(91,309)	-	905,687
<b>UNREALIZED LOSSES ON INVESTMENTS</b>	<u>(53,489)</u>	<u>-</u>	<u>-</u>	<u>(53,489)</u>
Increase (decrease) in unrestricted net assets	943,507	(91,309)	-	852,198
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Change in beneficial interest in remainder trust	4,434	-	-	4,434
Increase in temporarily restricted net assets	4,434	-	-	4,434
<b>CHANGE IN NET ASSETS</b>	<u>947,941</u>	<u>(91,309)</u>	<u>-</u>	<u>856,632</u>
<b>NET ASSETS, beginning of year, as adjusted</b>	4,500,571	1,404,737	-	5,905,308
<b>NET ASSETS, end of year</b>	<u>\$ 5,448,512</u>	<u>\$ 1,313,428</u>	<u>\$ -</u>	<u>\$ 6,761,940</u>

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

	LGI	WHSL	Eliminations	Consolidated LGI
<b>REVENUES AND GAINS</b>				
Net patient service revenue	\$ 16,766,590	-	-	\$ 16,766,590
Amortization of deferred entrance fees	-	64,665	-	64,665
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	1,924,898	-	18,906,192
<b>EXPENSES</b>				
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
<b>NET INCOME / (LOSS)</b>	1,600,748	(552,916)	-	1,047,832
<b>UNREALIZED LOSSES ON INVESTMENTS</b>	(81,936)	-	-	(81,936)
Increase (decrease) in unrestricted net assets	1,518,812	(552,916)	-	965,896
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Change in beneficial interest in remainder trust	2,054	-	-	2,054
Increase in temporarily restricted net assets	2,054	-	-	2,054
<b>CHANGE IN NET ASSETS</b>	1,520,866	(552,916)	-	967,950
<b>NET ASSETS, beginning of year</b>	2,979,705	1,957,653	-	4,937,358
<b>NET ASSETS, end of year</b>	\$ 4,500,571	\$ 1,404,737	-	\$ 5,905,308



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CONTINUING CARE  
CONTRACTS BRANCH

Report of Independent Auditors and  
Continuing Care Liquid Reserve Schedules

**Lytton Gardens, Inc.**

As of and for the Year Ended March 31, 2014

**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, 2014.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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, 2014, 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 "Mess Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California  
July 23, 2014

**CONTINUING CARE LIQUID RESERVE SCHEDULES**



**LYTTON GARDENS, INC.**  
**FORM 5-1**  
**LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR**  
**(INCLUDING BALLOON DEBT)**  
**Year Ended March 31, 2014**

**FORM 5-1**  
**LONG-TERM DEBT INCURRED**  
**IN A PRIOR FISCAL YEAR**  
**(INCLUDING BALLOON DEBT)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1		\$0	\$0	\$0	\$0
2					
3					
4					
5					
6					
7					
8					
<b>TOTAL:</b>			\$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, 2014**

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

Long-Term Deb: 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					
		<b>TOTAL:</b>	<b>\$0</b>	<b>0</b>	<b>\$0</b>

*(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 5-3**  
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**  
**Year Ended March 31, 2014**

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

<b>Line</b>		<b>TOTAL</b>
1	Total from 5-1 bottom of Column (e)	\$0
2	Total from 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by the provider during fiscal year (including related payments such as lease insurance)	\$0
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE</b>	<b>\$0</b>

**LYTTON GARDENS, INC.**  
**FORM 5-4**  
**CALCULATION OF NET OPERATING EXPENSES**  
**Year Ended March 31, 2014**

**FORM 5-4**  
**CALCULATION OF NET OPERATING EXPENSES**

Line		Amounts	Total
1	Total operating expenses from financial statements		\$2,391,784
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	\$166,947	
	d. Amortization	\$286,327	
	e. Revenues received during the fiscal year for services for persons who did not have a continuing care contract	\$46,502	
	f. Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$499,776
4	Net Operating Expenses		\$1,892,008
5	Divide Line 4 by 365 and enter the result.		\$5,184
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$388,769

**LYTTON GARDENS, INC.**  
**ATTACHMENT I TO FORM 5-4**  
**DEDUCTIONS FROM OPERATING EXPENSES**  
**STATE OF CALIFORNIA - DEPARTMENT OF SOCIAL SERVICES**  
**Year Ended March 31, 2014**

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**ATTACHMENT I TO FORM 5-4**  
**DEDUCTIONS FROM OPERATING EXPENSES**

<u>Line</u>		<u>Amounts</u>
1	Total expenses from financial statements	\$ 2,398,384
	Less: Income tax	<u>(6,600)</u>
	<b>Total operating expenses from financial statements</b>	<b><u>\$ 2,391,784</u></b>

**LYTTON GARDENS, INC.**  
**FORM 5-5**  
**ANNUAL RESERVE CERTIFICATION**  
**Year Ended March 31, 2014**

**FORM 5-5**  
**ANNUAL RESERVE CERTIFICATION**

Provider Name: Webster House Senior Living LLC  
 Fiscal Year Ended: 03/31/2014

We have reviewed our Debt Service Reserve and Operating requirements as of, and for the period ended: 03/31/2014 and are in compliance with those requirements.

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

		Amount
[1]	Debt Service Reserve Amount	\$0
[2]	Operating Expense Reserve Amount	\$388,769
[3]	<b>Total Liquid Reserve Amount</b>	<b>\$388,769</b>

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

		Amount (market value at end of quarter)	
	Qualifying Asset Description	Debt Service Reserve	Operating Reserve
[4]	Cash and Cash Equivalents	\$0	\$5,167,412
[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]	\$5,787,025
	Reserve Obligation Amount: [13]	\$0 [14]	\$388,769
	Surplus/(Deficiency): [15]	\$0 [16]	\$5,398,256

Signature

(Authorized Representative)

(Title)

Date: 7-23-2014

**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	44
[2]	Number at end of fiscal year	39
[3]	Total Lines 1 and 2	83
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	41.5
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	44
[7]	Number at end of fiscal year	39
[8]	Total Lines 6 and 7	83
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	41.5
[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).	1.00

**FORM 1-2  
ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$2,276,597
[a]	Depreciation	\$166,947
[b]	Debt Service (Interest Only)	\$0
[2]	Subtotal (add Line 1a and 1b)	\$166,947
[3]	Subtract Line 2 from Line 1 and enter result.	\$2,109,650
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	100%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$2,109,650
[6]	Total Amount Due (multiply Line 5 by .001)	\$2,110

**PROVIDER** Webster House Senior Living LLC  
**COMMUN** Webster House

**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 \$1,740,818 and projected operating expenses were \$2,101,517 for net operating deficit of <\$360,699> and a net operating margin (NOM) of <20.7%>. This compared to budgeted NOM of <4.6%>; and to the prior year operating revenue of \$977,389, operating expenses of \$1,137,367, net operating deficit of <\$159,978> and a NOM of <16.4%>.

**Occupancy/Census Budget**

IL occupancy is budgeted at 88.8% which compared to current year average of 80.0% and the prior year end of 80.0%. Total contract resident census is budgeted at 38 compared to the September year-to-date average of 36 and to 35 at the end of the prior year.

**Principal Projected Increases in Expenses**

Salaries and wages are projected to increase by \$161,588 (31.0%) over the projected current year end. Professional fees are projected to increase by \$41,673 (34.8%) over the projected current year. Supply costs are projected to increase by \$19,039 (64.6%) over the projected current year. In addition, vendor repair costs are projected to increase by \$5,232 (21.9%) over the projected current year end.

**Rationale for Monthly Fee Increase**

Budgeted total cash operating expenses are \$2,010,896 which is a decrease of <\$90,621> or <4.3%> over the projected current year end. Without an increase in monthly fees, the budgeted cash operating revenue would be \$2,003,556, which would result in a net operating income of \$76,460 and a NOM of 3.7%. The targeted NOM in the budget is 7.6% which is more than the projected year end NOM of <20.7%>. For reference purposes, the 2013 CARF-CCAC reported NOM for accredited multi-site providers ranges from 6.77% at the median to 12.08% at the 75<sup>th</sup> percentile. In order to achieve the targeted NOM of 7.6%, a 4.0%-7.0% monthly fee increase in monthly fees at Webster House was approved by the Board of Directors.

**PROVIDER: Episcopal Senior Communities  
COMMUNITY: Webster House**

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	<b>RESIDENTIAL LIVING</b>	<b>ASSISTED LIVING</b>	<b>SKILLED NURSING</b>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<b>See Attachment 1-F</b>	<b>N/A</b>	<b>N/A</b>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<b>4% - 7%</b>	<b>N/A</b>	<b>N/A</b>

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: 05/03/14, 06/03/14  
(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, 2014**

**Webster House**

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

Type	Apartment	Residential	Assisted	Skilled
		Living	Living	Nursing
1 bed/1 bath - Single	# 103	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 103	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 104	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 104	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 106	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 106	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 107	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 107	\$1,248	N/A	N/A
1 bed/1 bath - Single	# 203	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 203	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 206	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 206	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 207	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 207	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 208	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 208	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 303	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 303	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 306	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 306	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 307	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 307	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 308	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 308	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 403	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 403	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 406	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 406	\$5,304	N/A	N/A

1 bed/1 bath - Single	# 407	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 407	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 408	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 408	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 502	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 502	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 509	\$4,056	N/A	N/A
1 bed/1 bath - Couple	# 509	\$5,304	N/A	N/A
1 bed/1 bath - Single	# 105	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 105	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 204	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 204	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 205	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 205	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 209	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 209	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 302	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 302	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 304	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 304	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 305	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 305	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 402	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 402	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 404	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 404	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 405	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 405	\$5,616	N/A	N/A
1 bed/1 bath - Single	# 504	\$4,368	N/A	N/A
1 bed/1 bath - Couple	# 504	\$5,616	N/A	N/A
2 bed/2 bath - Single	# 301	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 301	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 309	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 309	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 401	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 401	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 409	\$4,888	N/A	N/A

2 bed/2 bath - Couple	# 409	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 501	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 501	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 505	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 505	\$6,136	N/A	N/A
2 bed/2 bath - Single	# 507	\$4,888	N/A	N/A
2 bed/2 bath - Couple	# 507	\$6,136	N/A	N/A

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

Date Prepared: 7/28/14



FACILITY NAME: Webster House  
 ADDRESS: 401 Webster St. Palo Alto CA 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 # OF ACRES: 1  SINGLE STORY  MULTI-STORY  OTHER: \_\_\_\_\_  
 MILES TO SHOPPING CTR: 1  
 MILES TO HOSPITAL: 2

**NUMBER OF UNITS:**

<b>RESIDENTIAL LIVING</b>	<b>HEALTH CARE</b>
APARTMENTS — STUDIO: <u>0</u>	ASSISTED LIVING: <u>0</u>
APARTMENTS — 1 BDRM: <u>30</u>	SKILLED NURSING: <u>0</u>
APARTMENTS — 2 BDRM: <u>7</u>	SPECIAL CARE: <u>0</u>
COTTAGES/HOUSES: <u>0</u>	DESCRIPTION: > _____
RLU OCCUPANCY (%) AT YEAR END: <u>100%</u>	> _____

TYPE OF OWNERSHIP:  NOT-FOR-PROFIT  FOR-PROFIT ACCREDITED?:  YES  NO BY: \_\_\_\_\_

FORM OF CONTRACT:  CONTINUING CARE  LIFE CARE  ENTRANCE FEE  FEE FOR SERVICE  
 (Check all that apply)  ASSIGNMENT OF ASSETS  EQUITY  MEMBERSHIP  RENTAL

REFUND PROVISIONS: (Check all that apply)  90%  75%  50%  FULLY AMORTIZED  OTHER: 80%

RANGE OF ENTRANCE FEES: \$ 393,600 - \$ 910,000 LONG-TERM CARE INSURANCE REQUIRED?  YES  NO

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

ENTRY REQUIREMENTS: MIN. AGE: 62 PRIOR PROFESSION: \_\_\_\_\_ OTHER: \_\_\_\_\_

RESIDENT REPRESENTATIVE(S) TO THE BOARD (briefly describe their involvement): > \_\_\_\_\_  
 >

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 ( <u>4</u> TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS ( <u>1</u> /DAY)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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 HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input type="checkbox"/>	<input type="checkbox"/>	OTHER <u>Parking</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
OTHER <u>Movie Room</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

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

PROVIDER NAME: Webster House

**OTHER CCRCs**

Canterbury Woods

**LOCATION (City, State)**

651 Sinex Ave., Pacific Grove, CA 93950

**PHONE (with area code)**

(831)373-3111

St. Paul's Towers

100 Bay Place Oakland, CA 94610

(510)835-4700

Los Gatos Meadows

110 Wood Road Los Gatos, CA 95030

(408)354-0211

Spring Lake Village

5555 Montgomery Drive Santa Rosa, CA 95409

(707)538-8400

San Francisco Towers

1661 Pine Street San Francisco, CA 94109

(415)776-0500

**MULTI-LEVEL RETIREMENT COMMUNITIES**

Lytton Gardens Senior Communities

**LOCATION (City, State)**

437 Webster Street Palo Alto, CA 94301

**PHONE (with area code)**

(650)328-3300

**FREE-STANDING SKILLED NURSING**

Lytton Gardens Inc.

**LOCATION (City, State)**

437 Webster Street Palo Alto, CA 94301

**PHONE (with area code)**

(650)328-3300

**SUBSIDIZED SENIOR HOUSING**

(see Attachment #2)

**LOCATION (City, State)**

**PHONE (with area code)**

NOTE: PLEASE INDICATE IF THE FACILITY IS A LIFE CARE FACILITY.

PROVIDER NAME: Webster House

	2011	2012	2013	2014
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (Excluding amortization of entrance fee income)		977,000	1,860,000	2,147,000
<b>LESS OPERATING EXPENSES</b> (Excluding depreciation, amortization, and interest)		1,226,000	2,088,000	1,945,000
<b>NET INCOME FROM OPERATIONS</b>		-249,000	-228,000	202,000
<b>LESS INTEREST EXPENSE</b>		0	0	0
<b>PLUS CONTRIBUTIONS</b>				
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)				
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>		-249,000	-228,000	202,000
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)		(187,200)	4,230,000	1,878,000

**DESCRIPTION OF SECURED DEBT** (as of most recent fiscal year end)

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGATION	DATE OF MATURITY	AMORTIZATION PERIOD

**FINANCIAL RATIOS** (see next page for ratio formulas)

	2013 CCAC Medians 50 <sup>th</sup> Percentile (optional)	2012	2013	2014
<b>DEBT TO ASSET RATIO</b>		N/A	N/A	N/A
<b>OPERATING RATIO</b>		125.5%	112.3%	90.6%
<b>DEBT SERVICE COVERAGE RATIO</b>		N/A	N/A	N/A
<b>DAYS CASH ON HAND RATIO</b>		85	708	970

**HISTORICAL MONTHLY SERVICE FEES** (Average Fee and Change Percentage)

	2011	%	2012	%	2013	%	2014
STUDIO							
ONE BEDROOM	3882	3%	4003	5%	4084	3%	4207
TWO BEDROOM	4526	4%	4700	5%	4623	3%	4762
COTTAGE/HOUSE							
ASSISTED LIVING							
SKILLED NURSING							
SPECIAL CARE							

**COMMENTS FROM PROVIDER:** >

> \_\_\_\_\_  
 > \_\_\_\_\_  
 > \_\_\_\_\_

**FINANCIAL RATIO FORMULAS**

**LONG-TERM DEBT TO TOTAL ASSETS RATIO**

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

**OPERATING RATIO**

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

**DEBT SERVICE COVERAGE RATIO**

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

**DAYS CASH ON HAND RATIO**

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

**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.

## ATTACHMENT #2

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

# KEY INDICATORS REPORT

Webster House

Date Prepared: 8/28/2014

Please attach an explanatory memo that summarizes significant trends or variances in the key operational indicators.

*Diana Jamison*

Diana Jamison, Chief Financial Officer

RECEIVED  
 AUG 29 2014  
 CONTRACTS BRANCH

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Preferred Trend Indicator
<b>OPERATIONAL STATISTICS</b>												
1. Average Annual Occupancy by Site (%)	N/A	N/A	N/A	78.00%	97.30%	100.00%	97.30%	97.30%	97.30%	97.30%	97.30%	N/A
<b>MARGIN (PROFITABILITY) INDICATORS</b>												
2. Net Operating Margin (%)	N/A	N/A	N/A	-28.46%	-12.26%	9.40%	7.56%	8.21%	10.10%	12.29%	14.42%	↑
3. Net Operating Margin - Adjusted (%)	N/A	N/A	N/A	-59.70%	59.17%	51.67%	18.50%	23.32%	24.32%	25.61%	26.90%	↓
<b>LIQUIDITY INDICATORS</b>												
4. Unrestricted Cash and Investments (\$000)	N/A	N/A	N/A	\$264	\$4,048	\$5,167	\$5,310	\$4,938	\$4,787	\$4,823	\$4,928	↑
5. Days Cash on Hand (Unrestricted)	N/A	N/A	N/A	79	708	970	964	860	812	799	797	↑
<b>CAPITAL STRUCTURE INDICATORS</b>												
6. Deferred Revenue from Entrance Fees (\$000)	N/A	N/A	N/A	\$10,548	\$1,027	\$1,810	\$1,953	\$2,122	\$2,286	\$2,444	\$2,580	N/A
7. Net Annual E/F proceeds (\$000)	N/A	N/A	N/A	-\$187	\$3,254	\$1,878	\$292	\$450	\$450	\$450	\$450	N/A
8. Unrestricted Net Assets (\$000)	N/A	N/A	N/A	\$1,958	\$1,405	\$1,313	\$1,190	\$930	\$824	\$838	\$858	N/A
9. Annual Capital Asset Expenditure (\$000)	N/A	N/A	N/A	\$465	\$459	\$772	\$1,237	\$1,000	\$1,000	\$1,000	\$1,000	N/A
10. Annual Debt Service Coverage Revenue Basis (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
11. Annual Debt Service Coverage (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
12. Annual Debt Service/Revenue (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↓
13. Average Annual Effective Interest Rate (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↓
14. Unrestricted Cash & Investments/ Long-Term Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	↑
15. Average Age of Facility (years)	N/A	N/A	N/A	1.00	1.35	1.83	4.58	2.72	5.56	9.58	9.02	↓