

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@jtm-esc.org

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 2,211.00
 - 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.

Episcopal Senior Communities
DEPAR001 DEPARTMENT OF SOCIAL SERVICES

Payment Number Check Date Check Number
00000000000149154 07/30/2015 309695

Invoice Number	PO Number	Invoice Date	Outstanding Amt	Net Paid Amt	Disc Taken	Write Off	Net Check Amt
CCRC PROVIDER FEE	2015	07/30/2015	\$2,211.00	\$2,211.00	\$0.00	\$0.00	\$2,211.00

TOTALS: \$2,211.00 \$2,211.00 \$0.00 \$0.00 \$2,211.00

Episcopal Senior Communities
DEPAR001 DEPARTMENT OF SOCIAL SERVICES

Payment Number Check Date Check Number
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Invoice Number	PO Number	Invoice Date	Outstanding Amt	Net Paid Amt	Disc Taken	Write Off	Net Check Amt
CCRC PROVIDER FEE	2015	07/30/2015	\$2,211.00	\$2,211.00	\$0.00	\$0.00	\$2,211.00

TOTALS: \$2,211.00 \$2,211.00 \$0.00 \$0.00 \$2,211.00

THE FACE OF THIS DOCUMENT HAS A COLORED BACKGROUND ON WHITE PAPER, A VOID PANTOGRAPH AND MICROPRINTING. THE BACK OF THIS DOCUMENT HAS AN ARTIFICIAL WATERMARK - HOLD AT AN ANGLE TO VIEW.

Episcopal Senior Communities

2185 N. California Blvd.
Ste. 575
Walnut Creek, CA 94596

Wells Fargo Bank

309695

11-24/1210

Pay Two Thousand Two Hundred Eleven Dollars and 00 Cents

DATE
Jul 30, 2015

AMOUNT
\$2,211.00

to the Order of:

DEPARTMENT OF SOCIAL SERVICES
744 P STREET, M.S. 10-90

SACRAMENTO, CA 95814

Diana Jamison
Kevin J. Feiber
President/CFO

⑈ 309695⑈

⑆ 121000248⑆ 4103033205⑈

FORM 1-1
RESIDENT POPULATION

<u>Line</u>	Continuing Care Residents	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	39
[2]	Number at end of fiscal year	44
[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
All Residents		
[6]	Number at beginning of fiscal year	39
[7]	Number at end of fiscal year	50
[8]	Total Lines 6 and 7	89
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	44.5
[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).	0.93

FORM 1-2
ANNUAL PROVIDER FEE

<u>Line</u>	<u>TOTAL</u>
[1] Total Operating Expenses (including depreciation and debt service - interest only)	\$2,589,387
[a] Depreciation	\$218,817
[b] Debt Service (Interest Only)	\$0
[2] Subtotal (add Line 1a and 1b)	\$218,817
[3] Subtract Line 2 from Line 1 and enter result.	\$2,370,570
[4] Percentage allocated to continuing care residents (Form 1-1, Line 11)	93%
[5] Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$2,210,756
[6] Total Amount Due (multiply Line 5 by .001)	x .001 \$2,211

PROVIDER Webster House Senior Living LLC
COMMUNITY Webster House



Webster House

July 31, 2015

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER

I have examined the annual reserve reports and any amendments thereto for the year ended March 31, 2015, 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, 2015.

A handwritten signature in blue ink, appearing to read "Kevin J. Gerber", is written over a horizontal line.

Kevin J. Gerber
President/CEO



**ACE Express[®] Not-For-Profit
Health Care Protection Policy
Binder**

3/2/2015

Andrew Silva
WOODRUFF SAWYER & CO
FLOOR 12
SAN FRANCISCO, CA 94111
415-399-6361
asilva@wsandco.com

Belinda Riordan
ACE USA
455 Market Street
San Francisco, CA 94105
415-547-4447
Belinda.Riordan@ACEGroup.com

Account: JTM Communities
2185 N California Blvd Suite 575
Walnut Creek, CA 94596

Line of Coverage: ACE EXPRESS[®] Not-For-Profit Health Care Protection Policy
Insuring Company: Westchester Fire Insurance Company
Effective Date: 02/28/2015
Expiration Date: 02/28/2016
Policy Number: G25773007 001

Dear Andrew,

We are pleased to offer the attached binder for JTM Communities. The commission payable for placement of this business is 15.00%.

The Insurer hereby binds the coverage described below. However, any obligations the Insurer may have under this binder are conditioned upon each of the following conditions having first been met:

1. The Insurer's receipt and acceptance of the following items prior to binding:
 - Not Applicable
2. If Applicant has remitted the premium specified below to the Insurer so that the Insurer receives the premium no later than close of business on the 30th day from the date of the Binder or the Effective Date of this Policy, whichever is later.

Please review this binder for accuracy and contact ACE USA prior to the effective date of Policy coverage in the event of any inaccuracies to this binder. If ACE USA does not hear from you prior to the effective date, it will be assumed that this binder has been accepted as an accurate description of our agreed upon terms of coverage.

Thank you for binding coverage with ACE USA. If you should have any questions, please feel free to contact me.

Sincerely,

Belinda Riordan

415-547-4447
Belinda.Riordan@ACEGroup.com
ACE USA - Professional Risk

Policy Number: DON G25773007 001

Renewal of: DON G24871198 005

COVERAGE INFORMATION

DIRECTORS & OFFICERS AND ORGANIZATION LIABILITY

1. Limit of Liability: a. \$5,000,000 maximum aggregate for all **Loss** under this Coverage Section
- b. Sub-Limits:
- \$ 100,000 sub-limit for all **Derivative Investigation Costs**
 - \$ 1,000,000 sub-limit for all **FCA Regulatory Claims**
 - \$ 1,000,000 sub-limit for all **Antitrust Claims**
 - \$ 250,000 sub-limit for all **EMTALA Claims**
 - \$ 100,000 sub-limit for all **Tax Claims**
 - \$25,000 sub-limit for all **HIPAA Claims**
 - \$25,000 sub-limit for all **Special Event Management Costs**
- 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.
- c. \$0 Additional Limit of Liability for Insuring Clause A
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):
- Employment Practices Liability
 - Fiduciary Liability
3. Retentions:
- \$0 each **Claim** under Insuring Clause A
 - \$50,000 each **Claim** under Insuring Clauses B or C
 - \$ 250,000 each **Antitrust Claim** under Insuring Clauses B or C
 - \$ 50,000 each **Clinical Trial Claim** under Insuring Clauses B or C
 - \$ 1,000,000 each **FCA Regulatory Claim** under Insuring Clause D
4. Co-Insurance*: 50% each **FCA Regulatory Claim**
 *Insureds Responsibility 10% each **Antitrust Claim**
5. Continuity Date: Limit of Liability up to \$5,000,000 : 01/21/1986

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 paragraph 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:
- \$150,000 each **Claim** for an **Employment Practices Wrongful Act**
 - \$150,000 each **Claim** for a **Third Party Wrongful Act**
 - \$250,000 each **Class Action**
4. Continuity Date: each **Claim** for an **Employment Practices Wrongful Act**:
 Limit of Liability up to \$5,000,000: 01/21/1986
 each **Claim** for a **Third Party Wrongful Act**:
 Limit of Liability up to \$5,000,000: 01/21/1986

Policy Number: DON G25773007 001

Renewal of: DON G24871198 005

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 paragraph b above are part of, and not in addition to, the aggregate limit of liability set forth in paragraph a above.

2. Shared Limit: If selected, the Limit of Liability set forth in paragraph 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: Limit of Liability up to \$5,000,000 : 01/21/1986

Crime

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

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.

Extended Reporting Period

- | | |
|--------------------|---------------------|
| 1. One (1) Year | 100% of the premium |
| 2. Two (2) Years | 110% of the premium |
| 3. Three (3) Years | 125% of the premium |

Acquisition Threshold: 15 %

Total Amount Due

Premium:	<u>\$115,060</u>
Taxes & Surcharges:	<u>\$0.00</u>
Total Amount Due:	<u>\$115,060.00</u>

Policy Number: DON G25773007 001

Renewal of: DON G24871198 005

Policy Forms

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
PF-39864 (04/13) - ACE EXPRESS Not For-Profit Health Care Protection Policy - Crime Coverage Section
PF-39865 (04/13) - Absolute Bodily Injury and Property Damage Exclusion
PF-39883 (04/13) - Payments Commissions Gratuities and Benefits Exclusion
PF-39888 (04/13) - Specified Matter Exclusion - All Coverage Sections
PF-39893 (04/13) - Amendatory Endorsement - California
PF-44844 (11/14) - Entity v. Insured Exclusion with Debtor-in-Possession Carveout
PF-39873 (04/13) - Clinical Trail Sub-limit - \$1M
ILP 001 01 04 - U.S. Treasury Departments' Office of Foreign Assets Control ("OFAC") Advisory Notice to Policyholders

Addendums
PF-39934 (04/13) - Cap on Losses
TRIA12b (01/08) - Disclosure Pursuant To Terrorism Risk Insurance Act
All-20887 (10-06) - ACE Producer Compensation Practices & Policies
All-21101 (11-06) - Trade or Economic Sanctions Endorsement

This binder is valid for 30 days from the Effective Date.

Please read this binder carefully, as the limits, coverage and other terms and conditions may vary significantly from those requested in your submission and/or from the expiring policy. Terms and conditions that are not specifically mentioned in this binder are not included. The terms and conditions of this binder supersede the submitted insurance specifications and all prior quotes and binders. Actual coverage will be provided by and in accordance with the policy as issued.

The insurer is not bound by any statements made in the submission purporting to bind the insurer unless such statement is reflected in the policy or in an agreement signed by someone authorized to bind the insurer.

When signed by the Insurer, the coverage described above is in effect from 12:01 AM (local time at the address shown above) of the Effective Date listed above to 12:01 AM (local time at the address shown above) of the Expiration Date listed above pursuant to the terms, conditions and exclusions of the policy form listed above and any policy endorsements described above. Unless otherwise indicated, this binder may be canceled by the Insured, or by the Broker on behalf of the Insured, by written notice to the Insurer or by the surrender of this binder stating when such cancellation shall be effective. Unless otherwise indicated, this binder may be canceled by the Insurer prior to the Effective Date by sending written notice to the Insured at the address shown above stating when such cancellation shall be effective. Unless otherwise indicated, this binder may be canceled by the Insurer on or after the Effective Date in the same manner and upon the same terms and conditions applicable to cancellation of the policy form listed above. If cancellation of the binder, by or on behalf of either the Insured or the Insurer, is effective after the Effective Date, then the Insurer shall be entitled to the earned premium, on a pro-rata basis, for the covered period. Issuance by the Insurer and acceptance by or on behalf of the Insured of the policy shall render this binder void except as indicated below.

Policy Number: DON G25773007 001	Renewal of: DON G24871198 005
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Conditions precedent to coverage afforded by this binder are: (1) receipt, review and acceptance of the information required herein within the stated timeframe; and (2) that no material change in the risk occurs and no submission is made to the Insurer of a claim or circumstances that might give rise to a claim between the date of this binder indicated above and the Effective Date. If such required information is not received, reviewed and accepted within the stated timeframe, or such material change in the risk is discovered or submission of a claim or circumstance is made, then the proposed insurance coverage will be void ab initio ("from the beginning").

Please note that the Insured will have access to the EPL Assist™ as part of its Employment Practices Liability coverage, in conjunction with ACE Professional Risk's loss control services. The EPL Assist™ is an interactive loss control service available to ACE Professional Risk policyholders who have Employment Practices Liability as part of their policies. This service is available to policyholders at no additional cost. The purpose of this program is to provide our policyholders with access to general information about sound employment practices before a claim occurs. Loss control is an adjunct to the function of insurance underwriting, and supports that function through risk assessment and improvement. It is not intended to supplant any duty to provide a workplace that is safe and that complies with the law. ACE Professional Risk and the EPL Assist™ cannot and do not guarantee or represent that there will be fewer or less serious claims as a result of using the program. This service may not be available in all states or to all policyholders within a state. For insurance policy terms and conditions, please refer to the actual insurance policy. The above descriptions are neither a complete description nor a complete list of all terms and conditions. Furthermore, please note that communication with the EPL Assist™ is not notice to ACE of a claim or of an act or situation that may give rise to a claim. To be eligible to receive the coverage to which a policyholder may be entitled, the policyholder must give ACE written notice, following the actual policy notice provisions. Policyholders are encouraged to consult their insurance agent or broker for advice on how to file a claim.

Note: If the Insuring Company noted above is either Westchester Surplus Lines Insurance Company or Illinois Union Insurance Company, then this insurance is issued pursuant to the state Surplus Lines laws that the insured is domiciled. Persons insured by Surplus Lines carriers do not have the protection of the above captioned state's Guaranty Act to the extent of any right of recovery for the obligation of an insolvent unlicensed insurer.

Any applicable taxes, surcharges or countersignature fees, etc., are in addition to the above premium. Your office is responsible for making State Surplus Lines Filings and complying with all applicable laws.

Sincerely,



Belinda Riordan

415-547-4447
Belinda.Riordan@ACEGroup.com
ACE USA - Professional Risk



ace usa

Premium Surcharges

If the issuing company indicated on the indication/quotation/binder is either ACE American Insurance Company or Westchester Fire Insurance Company, the following surcharges will apply in addition to the premium. Some exemptions apply. Premium surcharges are subject to change at the anniversary dates of multiyear policies paid in annual installments. Collection and remittance of premium surcharges for surplus lines policies, if applicable, are the responsibility of the surplus lines broker.

Florida Insureds

- | | |
|--|------|
| ➤ FIGA 2012 Regular Assessment (<i>effective 7/1/13</i>) | 0.8% |
| ➤ Florida Hurricane Catastrophe Fund | 1.3% |

Kentucky Insureds

- | | |
|--------------------------------|------------------------|
| ➤ Premium Surcharge | 1.8% |
| ➤ Local Government Premium Tax | Varies by municipality |

New Jersey Insureds

- | | |
|--|------|
| ➤ NJ Property-Liability Insurance Guaranty Association | 0.9% |
|--|------|

West Virginia Insureds

- | | |
|---------------------|-------|
| ➤ Premium Surcharge | 0.55% |
|---------------------|-------|

All Other Insureds

There are currently no premium surcharges in your state for this line of business. This is subject to change at the anniversary dates of multiyear policies paid in annual installments.

TERMS OF TRADE

****PAYMENT DUE 30 DAYS FROM EFFECTIVE DATE****

Payment is due, in full, within 30 days from the date of this Binder or the Effective Date of this policy, whichever is later.

Failure to pay premium will result in cancellation of this policy.

Please make sure to include your ACE Policy Number in any correspondence and on any checks.

Please remit premium payment to:

Genius Payments

Regular Mail
ACE USA
Dept CH 10678
Palatine, IL 60055-0678

Genius Overnight Address

ACE American Insurance Co.
Genius-10678
5505 N. Cumberland Ave Suite 307
Chicago, IL 60656-1471
Attn: Box 10678

Wire Payment

Mellon Bank West, NA
3 Mellon Bank Center
Pittsburgh, PA 15259
ABA# 043000261
Account # 093-8373



ace group

U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA")

The U.S. Foreign Account Tax Compliance Act, commonly known as "FATCA", became the law in the U.S. in March of 2010 and becomes effective July 1, 2014. Pursuant to FATCA, brokers, producers, agents and/or clients may need to obtain withholding certificates from insurance companies. For information on how to obtain the applicable withholding certificate from ACE U.S. insurance companies, please go to the following web site:

<http://www.acegroup.com/us-en/businesses/foreign-account-tax-compliance-act-fatca.aspx>

DISCLOSURE PURSUANT TO TERRORISM RISK INSURANCE ACT

Named Insured JTM Communities			Endorsement Number
Policy Symbol DON	Policy Number G25773007 001	Policy Period 02/28/2015 to 02/28/2016	Effective Date of Endorsement 02/28/2015
Issued By (Name of Insurance Company) Westchester Fire Insurance Company			

Insert the policy number. The remainder of the information is to be completed only when this endorsement is issued subsequent to the preparation of the policy.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

Disclosure Of Premium

In accordance with the federal Terrorism Risk Insurance Act, we are required to provide you with a notice disclosing the portion of your premium, if any, attributable to coverage for terrorist acts certified under the Terrorism Risk Insurance Act. The portion of your premium attributable to such coverage is shown in this endorsement or in the policy Declarations.

Disclosure Of Federal Participation In Payment Of Terrorism Losses

The United States Government, Department of the Treasury, will pay a share of terrorism losses insured under the federal program. The federal share equals 85% of that portion of the amount of such insured losses that exceeds the applicable insurer retention. However, if aggregate insured losses attributable to terrorist acts certified under the Terrorism Risk Insurance Act exceed \$100 billion in a Program Year (January 1 through December 31), the Treasury shall not make any payment for any portion of the amount of such losses that exceeds \$100 billion.

Cap On Insurer Participation In Payment Of Terrorism Losses

If aggregate insured losses attributable to terrorist acts certified under the Terrorism Risk Insurance Act exceed \$100 billion in a Program Year (January 1 through December 31) and we have met our insurer deductible under the Terrorism Risk Insurance Act, we shall not be liable for the payment of any portion of the amount of such losses that exceeds \$100 billion, and in such case insured losses up to that amount are subject to pro rata allocation in accordance with procedures established by the Secretary of the Treasury.

We are providing you with the terrorism coverage required by the Act. We have not established a separate price for this coverage; however the portion of your annual premium that is reasonably attributable to such coverage is: \$0.

Authorized Agent



ACE Producer Compensation Practices & Policies

ACE believes that policyholders should have access to information about ACE's practices and policies related to the payment of compensation to brokers and independent agents. You can obtain that information by accessing our website at <http://www.aceproducercompensation.com> or by calling the following toll-free telephone number: 1-866-512-2862.

TRADE OR ECONOMIC SANCTIONS ENDORSEMENT

Named Insured JTM Communities			Endorsement Number 003
Policy Symbol DON	Policy Number G25773007 001	Policy Period 02/28/2015 to 02/28/2016	Effective Date of Endorsement 02/28/2015
Issued By (Name of Insurance Company) Westchester Fire Insurance Company			

Insert the policy number. The remainder of the information is to be completed only when this endorsement is issued subsequent to the preparation of the policy.

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

This insurance does not apply to the extent that trade or economic sanctions or other laws or regulations prohibit us from providing insurance, including, but not limited to, the payment of claims. All other terms and conditions of policy remain unchanged.

Authorized Agent

**U. S. TREASURY DEPARTMENT'S OFFICE OF FOREIGN
ASSETS CONTROL ("OFAC")
ADVISORY NOTICE TO POLICYHOLDERS**

No coverage is provided by this Policyholder Notice nor can it be construed to replace any provisions of your policy. You should read your policy and review your Declarations page for complete information on the coverages you are provided.

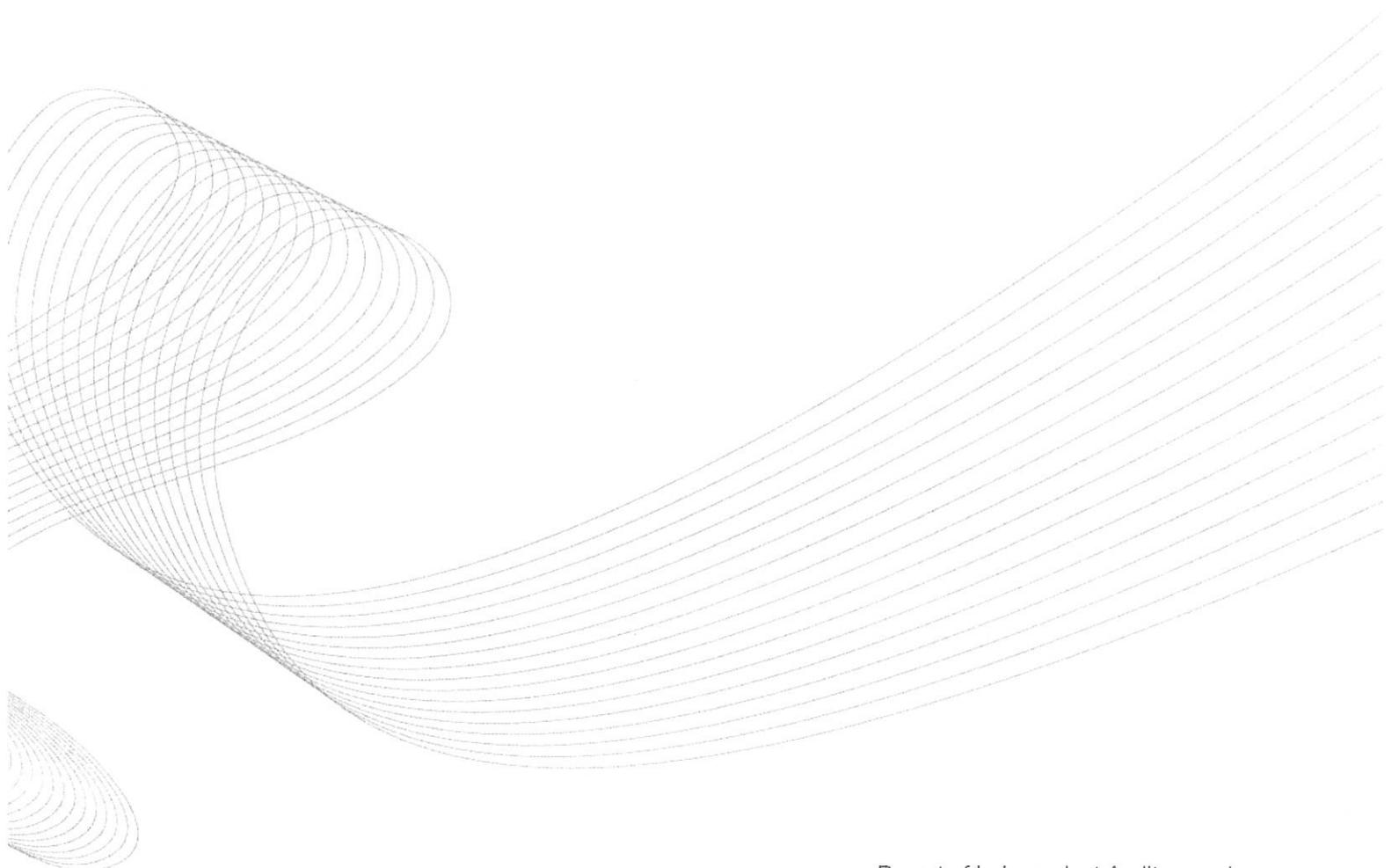
This Notice provides information concerning possible impact on your insurance coverage due to directives issued by OFAC. **Please read this Notice carefully.**

The Office of Foreign Assets Control (OFAC) administers and enforces sanctions policy, based on Presidential declarations of "national emergency". OFAC has identified and listed numerous:

- Foreign agents;
- Front organizations;
- Terrorists;
- Terrorist organizations; and
- Narcotics traffickers;

as "Specially Designated Nationals and Blocked Persons". This list can be located on the United States Treasury's web site – <http://www.treas.gov/ofac>.

In accordance with OFAC regulations, if it is determined that you or any other insured, or any person or entity claiming the benefits of this insurance has violated U.S. sanctions law or is a Specially Designated National and Blocked Person, as identified by OFAC, this insurance will be considered a blocked or frozen contract and all provisions of this insurance are immediately subject to OFAC. When an insurance policy is considered to be such a blocked or frozen contract, no payments nor premium refunds may be made without authorization from OFAC. Other limitations on the premiums and payments also apply.



Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

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

March 31, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

Report on the 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, 2015 and 2014, 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lytton Gardens, Inc. as of March 31, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, the Organization entered into an agreement to sell Webster House Senior Living LLC to Episcopal Senior Communities subsequent to March 31, 2015. Our opinion is not modified with respect to this matter.

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 as of and for the year ended March 31, 2015 and 2014, are presented for purposes of 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 audits 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 "Moss Adams LLP".

San Francisco, California
June 26, 2015

CONSOLIDATED FINANCIAL STATEMENTS

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,993,856	\$ 8,933,958
Investments	1,858,614	3,243,509
Receivables, net of allowance for doubtful accounts in the amount of \$853,641 in 2015 and \$1,147,908 in 2014	3,855,835	3,549,084
Accounts receivable - affiliated organizations	1,513,073	1,645,724
Prepaid expenses	16,283	229,448
Supplies inventory	97,123	87,856
Total current assets	<u>18,334,784</u>	<u>17,689,579</u>
PROPERTY AND EQUIPMENT		
Land and land improvements	6,784,717	6,784,717
Building and building improvements	15,107,696	14,671,111
Furniture and fixtures	868,608	805,545
Office equipment	1,177,522	1,011,379
Vehicles	106,048	106,048
Construction in progress	935,987	362,715
	24,980,578	23,741,515
Accumulated depreciation	<u>(10,231,321)</u>	<u>(9,438,698)</u>
Total property and equipment, net	<u>14,749,257</u>	<u>14,302,817</u>
OTHER ASSETS		
Beneficial interest in remainder trust	-	128,893
Intangible assets, net of accumulated amortization	978,282	1,264,609
Other assets	37,508	121,321
Total other assets, net	<u>1,015,790</u>	<u>1,514,823</u>
TOTAL ASSETS	<u>\$ 34,099,831</u>	<u>\$ 33,507,219</u>

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
March 31, 2015 and 2014

	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 1,643,907	\$ 669,807
Accounts payable - affiliated organizations	47,850	99,329
Accrued wages payable	312,537	284,650
Accrued expenses	42,447	11,798
Current portion of bond payable	480,000	480,000
Total current liabilities	2,526,741	1,545,584
LONG-TERM LIABILITIES		
Lease deposit	68,000	55,000
Bond payable, net of current portion	8,095,000	9,075,000
Repayable entrance fees	5,360,576	6,080,575
Refundable entrance fees	8,739,784	8,178,624
Deferred entrance fees	1,763,032	1,810,496
Total long-term liabilities	24,026,392	25,199,695
Total liabilities	26,553,133	26,745,279
NET ASSETS		
Unrestricted net assets	7,546,698	6,633,047
Temporarily restricted net assets	-	128,893
Total net assets	7,546,698	6,761,940
TOTAL LIABILITIES AND NET ASSETS	\$ 34,099,831	\$ 33,507,219

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended March 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES AND GAINS		
Net patient service revenue	\$ 16,872,169	\$ 16,293,604
Amortization of deferred entrance fees	187,753	160,188
Interest income	107,310	144,873
Resident fees	2,228,083	2,052,664
Other	268,944	209,282
Total revenues and gains	<u>19,664,259</u>	<u>18,860,611</u>
EXPENSES		
Nursing services	6,742,877	6,758,860
Ancillary services	2,639,353	2,368,787
Dining services	2,692,364	2,362,323
Administrative	3,268,510	2,954,879
Utilities	397,763	394,491
Operating and maintenance	1,338,828	1,306,188
Taxes and insurance	62,107	62,221
Interest	299,873	321,545
Bad debt expense	168,727	325,142
Depreciation and amortization	1,078,951	984,091
Other	-	116,397
Total expenses	<u>18,689,353</u>	<u>17,954,924</u>
NET INCOME	974,906	905,687
UNREALIZED LOSSES ON INVESTMENTS	<u>(61,255)</u>	<u>(53,489)</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>913,651</u>	<u>852,198</u>
TEMPORARILY RESTRICTED NET ASSETS		
Change in beneficial interest in remainder trust	<u>(128,893)</u>	<u>4,434</u>
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(128,893)</u>	<u>4,434</u>
CHANGE IN NET ASSETS	<u>784,758</u>	<u>856,632</u>
NET ASSETS, beginning of year	<u>6,761,940</u>	<u>5,905,308</u>
NET ASSETS, end of year	<u>\$ 7,546,698</u>	<u>\$ 6,761,940</u>

See accompanying notes.

LYTTON GARDENS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	\$ 19,822,574	\$ 16,948,367
Proceeds from entrance fees	86,971	4,105,686
Investment gains	107,310	144,873
Cash paid to employees and suppliers	(16,077,617)	(16,814,625)
Interest paid	(263,917)	(295,268)
Net cash provided by operating activities	3,675,321	4,089,033
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Property acquisitions and construction in progress	(1,239,064)	(1,173,477)
Purchases of investments	(145,804)	(46,586)
Sales of investments	1,469,444	417,320
Net cash provided by (used in) investing activities	84,576	(802,743)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repayment	(980,000)	(455,000)
Refunds of deposit and entrance fees	(719,999)	(2,227,683)
Net cash used in financing activities	(1,699,999)	(2,682,683)
INCREASE IN CASH AND CASH EQUIVALENTS	2,059,898	603,607
CASH AND CASH EQUIVALENTS, beginning of year	8,933,958	8,330,351
CASH AND CASH EQUIVALENTS, end of year	\$ 10,993,856	\$ 8,933,958
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 784,758	\$ 856,632
ADJUSTMENTS TO RECONCILE TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Amortization of deferred entrance fees	(187,753)	(160,188)
Proceeds from entrance fees, net of refunds	86,971	4,105,686
Depreciation and amortization	1,078,951	984,091
Provisions for bad debt	168,727	325,142
Change in net unrealized losses on investments	61,255	53,489
Change in beneficial interest in remainder trust	128,893	(4,434)
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Receivables	271,651	(1,942,325)
Other assets	287,711	78,089
Accounts payable	922,621	(25,383)
Other liabilities	71,536	(181,766)
Net cash provided by operating activities	\$ 3,675,321	\$ 4,089,033

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 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 (“SR@H”), 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 statements 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, 2015 and 2014.

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, 2015 and 2014. 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, 2015 and 2014, temporarily restricted net assets were \$0 and \$128,893, 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, 2015 and 2014, 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 \$187,753 and \$160,188 for the years ended March 31, 2015 and 2014, 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, 2015 and 2014, the Organization had deferred entrance fees of \$ 1,763,032 and \$1,810,496, 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, 2015 and 2014, were \$8,739,784 and \$8,178,624, 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, 2015 and 2014.

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 statements 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, 2015 and 2014, the Organization has reflected the interest rate cap at a fair value of \$600 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 nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

The 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

With few exceptions, as of March 31, 2015, the Organization is no longer subject to income tax examinations by the Internal Revenue Service for the tax years ended 2010 and before, and by the California Franchise Tax Board for the tax year ended 2011 and before.

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, 2015 and 2014, 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.

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, 2015 and 2014, this liability was \$5,360,576 and \$6,080,575, 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, 2015 and 2014, 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.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Bond payable – The fair value of bond payable approximates its carrying value.

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 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 contribution receivable from the remainder trust was previously recorded on the Organizations accounts. The Organization is going through a purchase and sale transaction (see Note 12 – Subsequent Events). Lytton Gardens Senior Communities is the Trustee of the corpus of the fund. To keep the remainder trust value separate from the buyers funds, the remainder value was transferred to the trustees accounts. The contribution receivable from the remainder trust is recorded at fair value on LGSCs accounts, 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, 2015, present value was calculated using the applicable mortality table for the youngest lead beneficiary and a discount rate of 2.0%. 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. LGSC revalues its beneficial interest each year and reflects changes in its remainder interest in the trust in the consolidated statements of activities and changes in net assets. LGSC maintains separate accounts for the corpus and the remainder of the trust value.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements 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, 2015</u>
Investments				
Corporate bonds	\$ 1,858,614	\$ -	\$ -	\$ 1,858,614
Total	<u>\$ 1,858,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,858,614</u>
	<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>

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

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 128,893	\$ 124,459
Change in value due to change in actuarial life expectancy	-	(1,835)
Change in value due to change in estimated fair value of underlying trust assets	-	6,269
Distribution	<u>(128,893)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>\$ 128,893</u>

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2015</u>		<u>March 31, 2014</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	\$ 1,026,004	\$ 2,004,286	\$ 739,677

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, 2015 and 2014. Amortization expense was \$286,327 and \$286,327 for the years ended March 31, 2015 and 2014, respectively.

As of March 31, 2015, the expected future annual amortization of intangible assets is as follows:

Estimated Amortization Expense

2016	\$	286,327
2017		286,327
2018		286,327
2019		119,301
	\$	<u>978,282</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, 2015; payments of interest are due monthly. The line of credit had no balance for the fiscal years ended March 31, 2015 and 2014.

LYTTON GARDENS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – BOND PAYABLE

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

	2015	2014
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 ABAG 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, 2015 and 2014, was 0.173% and 0.155%, respectively.	\$ 8,575,000	\$ 9,555,000
Less current portion	(480,000)	(480,000)
Bonds payable	\$ 8,095,000	\$ 9,075,000

Schedule maturities for the above bond payable are as follows:

2016	\$ 480,000
2017	520,000
2018	540,000
2019	540,000
2020	600,000
Thereafter	5,895,000
Total	\$ 8,575,000

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, 2015 and 2014.

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:

	2015	2014
Medicare	7,020	6,757
Medi-Cal	24,976	26,832
	31,996	33,589

Total patient days were 46,800 and 47,449 as of March 31, 2015 and 2014, 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

As of March 31, 2015 and 2014, the percentage of accounts receivable from Health Care Maintenance Insurers (HMO), Medi-Cal, Medicare and Inpatient Private Pay are due as follows:

	<u>2015</u>	<u>2014</u>
Health care maintenance insurers (HMO)	31%	25%
Medi-Cal	22%	22%
Medicare	31%	35%
Inpatient private pay	<u>16%</u>	<u>18%</u>
	<u>100%</u>	<u>100%</u>

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, 2015 and 2014, 333 volunteers donated 14,154 hours of time valued at \$326,521 and 411 volunteers donated 24,541 hours of time valued at \$553,400 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 \$469,227 and \$729,504 of shared costs during the years ended March 31, 2015 and 2014, respectively. The net balance of accounts payable to affiliates at March 31, 2015 and 2014, was \$47,850 and \$99,329, respectively.

The Operating Agreement provides that JTM will contribute \$2,400,000 to the capital of WHSL. JTM owed \$619,613 at both March 31, 2015 and 2014, 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 statements 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 statements 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 statements of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued.

In February 2015, the Organization accepted an offer of sale of Webster House Senior Living LLC to Episcopal Senior Communities. The sale price is \$34.2 million dollars. The purchase and sale is expected to complete in June 2015.

The Organization has evaluated subsequent events through June 26, 2015, 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, 2015

	LGI	WHSL	Eliminations	Consolidated LGI
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,468,303	\$ 5,525,553	\$ -	\$ 10,993,856
Investments	1,858,614	-	-	1,858,614
Receivables, net of allowance for doubtful accounts in the amount of \$853,641	3,269,644	586,191	-	3,855,835
Accounts receivable - affiliated organizations	955,094	619,613	(61,634)	1,513,073
Prepaid expenses	16,283	-	-	16,283
Supplies inventory	97,123	-	-	97,123
Total current assets	<u>11,665,061</u>	<u>6,731,357</u>	<u>(61,634)</u>	<u>18,334,784</u>
PROPERTY AND EQUIPMENT				
Land and land improvements	681,212	6,103,505	-	6,784,717
Building and building improvements	11,945,582	3,162,114	-	15,107,696
Furniture and fixtures	527,947	340,661	-	868,608
Office equipment	980,426	197,096	-	1,177,522
Vehicles	106,048	-	-	106,048
Construction in progress	579,195	356,792	-	935,987
Accumulated depreciation	14,820,410	10,160,168	-	24,980,578
Total property and equipment, net	<u>(9,706,701)</u>	<u>(524,620)</u>	<u>-</u>	<u>(10,231,321)</u>
	5,113,709	9,635,548	-	14,749,257
OTHER ASSETS				
Intangible assets, net of accumulated amortization	-	978,282	-	978,282
Other assets	37,508	-	-	37,508
Total other assets, net	<u>37,508</u>	<u>978,282</u>	<u>-</u>	<u>1,015,790</u>
TOTAL ASSETS	<u>\$ 16,816,278</u>	<u>\$ 17,345,187</u>	<u>\$ (61,634)</u>	<u>\$ 34,099,831</u>

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
March 31, 2015

	LGI	WHSL	Eliminations	Consolidated LGI
CURRENT LIABILITIES				
Accounts payable	\$ 1,559,602	\$ 84,305	\$ -	\$ 1,643,907
Accounts payable - affiliated organizations	41,580	67,904	(61,634)	47,850
Accrued wages payable	282,798	29,739	-	312,537
Accrued expenses	42,447	-	-	42,447
Current portion of bond payable	480,000	-	-	480,000
Total current liabilities	2,406,427	181,948	(61,634)	2,526,741
LONG-TERM LIABILITIES				
Lease deposit	16,000	52,000	-	68,000
Bond payable, net of current portion	8,095,000	-	-	8,095,000
Repayable entrance fees	-	5,360,576	-	5,360,576
Refundable entrance fees	-	8,739,784	-	8,739,784
Deferred entrance fees	-	1,763,032	-	1,763,032
Total long-term liabilities	8,111,000	15,915,392	-	24,026,392
Total liabilities	10,517,427	16,097,340	(61,634)	26,553,133
NET ASSETS				
Unrestricted net assets	6,298,851	1,247,847	-	7,546,698
Total net assets	6,298,851	1,247,847	-	7,546,698
TOTAL LIABILITIES AND NET ASSETS	\$ 16,816,278	\$ 17,345,187	\$ (61,634)	\$ 34,099,831

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2014

	LGI	WHSL	Eliminations	Consolidated LGI
CURRENT ASSETS				
Cash and cash equivalents	\$ 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
Accounts receivable - affiliated organizations	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	<u>10,841,293</u>	<u>6,955,974</u>	<u>(107,688)</u>	<u>17,689,579</u>
PROPERTY AND EQUIPMENT				
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
	<u>(9,132,895)</u>	<u>(305,803)</u>	<u>-</u>	<u>(9,438,698)</u>
Total property and equipment, net	<u>4,887,931</u>	<u>9,414,886</u>	<u>-</u>	<u>14,302,817</u>
OTHER ASSETS				
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	<u>248,474</u>	<u>1,266,349</u>	<u>-</u>	<u>1,514,823</u>
TOTAL ASSETS	<u>\$ 15,977,698</u>	<u>\$ 17,637,209</u>	<u>\$ (107,688)</u>	<u>\$ 33,507,219</u>

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

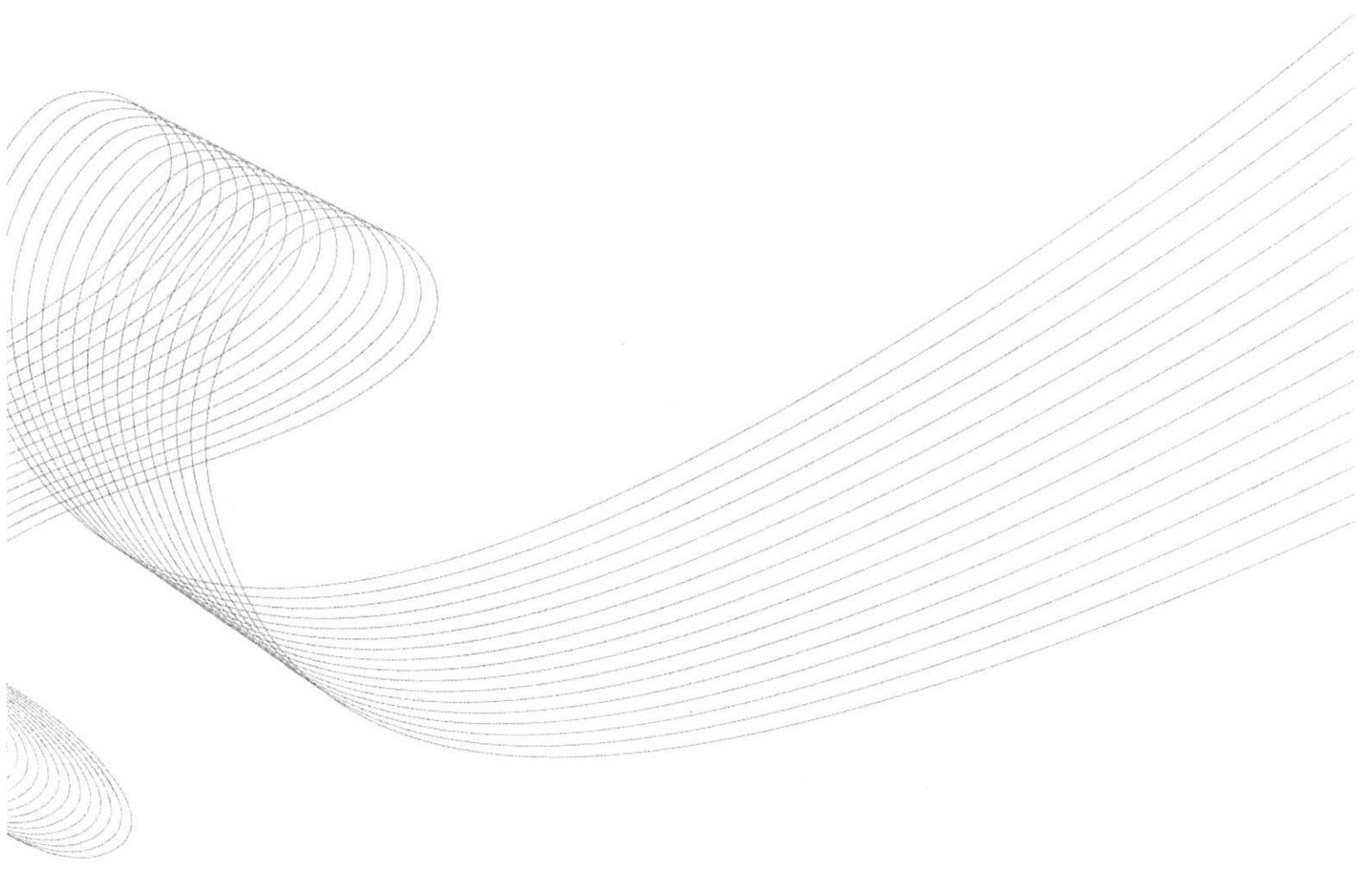
	LGI	WHSL	Eliminations	Consolidated LGI
CURRENT LIABILITIES				
Accounts payable	\$ 642,868	\$ 26,939	\$ -	\$ 669,807
Accounts payable - affiliated organizations	41,748	165,269	(107,688)	99,329
Accrued wages payable	261,772	22,878	-	284,650
Accrued expenses	11,798	-	-	11,798
Current portion of bond payable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

LYTTON GARDENS, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended March 31, 2015

	LGI	WHSL	Eliminations	Consolidated LGI
REVENUES AND GAINS				
Net patient service revenue	\$ 16,872,169	-	\$ -	\$ 16,872,169
Amortization of deferred entrance fees	-	187,753	-	187,753
Interest income	107,310	-	-	107,310
Resident fees	-	2,228,083	-	2,228,083
Other	154,126	114,818	-	268,944
Total revenues and gains	<u>17,133,605</u>	<u>2,530,654</u>	<u>-</u>	<u>19,664,259</u>
EXPENSES				
Nursing services	6,451,308	291,569	-	6,742,877
Ancillary services	2,639,353	-	-	2,639,353
Dining services	2,399,373	292,991	-	2,692,364
Administrative	2,193,866	1,074,644	-	3,268,510
Utilities	211,052	186,711	-	397,763
Operating and maintenance	1,155,759	183,069	-	1,338,828
Taxes and insurance	-	62,107	-	62,107
Interest	299,873	-	-	299,873
Bad debt expense	168,727	-	-	168,727
Depreciation and amortization	573,807	505,144	-	1,078,951
Total expenses	<u>16,093,118</u>	<u>2,596,235</u>	<u>-</u>	<u>18,689,353</u>
NET INCOME / (LOSS)	<u>1,040,487</u>	<u>(65,581)</u>	<u>-</u>	<u>974,906</u>
UNREALIZED LOSSES ON INVESTMENTS	<u>(61,255)</u>	<u>-</u>	<u>-</u>	<u>(61,255)</u>
Increase (decrease) in unrestricted net assets	<u>979,232</u>	<u>(65,581)</u>	<u>-</u>	<u>913,651</u>
TEMPORARILY RESTRICTED NET ASSETS				
Change in beneficial interest in remainder trust	<u>(128,893)</u>	<u>-</u>	<u>-</u>	<u>(128,893)</u>
Decrease in temporarily restricted net assets	<u>(128,893)</u>	<u>-</u>	<u>-</u>	<u>(128,893)</u>
CHANGE IN NET ASSETS	<u>850,339</u>	<u>(65,581)</u>	<u>-</u>	<u>784,758</u>
NET ASSETS, beginning of year	<u>5,448,512</u>	<u>1,313,428</u>	<u>-</u>	<u>6,761,940</u>
NET ASSETS, end of year	<u>\$ 6,298,851</u>	<u>\$ 1,247,847</u>	<u>\$ -</u>	<u>\$ 7,546,698</u>

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

	LGI	WHSL	Eliminations	Consolidated LGI
REVENUES AND GAINS				
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>
EXPENSES				
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>
NET INCOME / (LOSS)	996,996	(91,309)	-	905,687
UNREALIZED LOSSES ON INVESTMENTS	(53,489)	-	-	(53,489)
Increase (decrease) in unrestricted net assets	943,507	(91,309)	-	852,198
TEMPORARILY RESTRICTED NET ASSETS				
Change in beneficial interest in remainder trust	4,434	-	-	4,434
Increase in temporarily restricted net assets	4,434	-	-	4,434
CHANGE IN NET ASSETS	947,941	(91,309)	-	856,632
NET ASSETS, beginning of year, as adjusted	4,500,571	1,404,737	-	5,905,308
NET ASSETS, end of year	<u>\$ 5,448,512</u>	<u>\$ 1,313,428</u>	<u>\$ -</u>	<u>\$ 6,761,940</u>



Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Lytton Gardens, Inc.

As of and for the Year Ended March 31, 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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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, 2015.

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, 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements, as a whole. The accompanying supplementary schedule of Form 5-4, reconciliation presented as a supplementary schedule, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements, taken as a whole.

Restriction on Use

Our report is intended solely for the information and use of 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
July 27, 2015

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, 2015

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, 2015

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 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT
Year Ended March 31, 2015

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

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

LYTTON GARDENS, INC.
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
Year Ended March 31, 2015

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	Total
1	Total operating expenses from financial statements		\$2,589,389
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	\$218,817	
	d. Amortization	\$286,327	
	e. Revenues received during the fiscal year for services for persons who did not have a continuing care contract	\$48,379	
	f. Extraordinary expenses approved by the Department	\$0	
3	Total Deductions		\$553,523
4	Net Operating Expenses		\$2,035,866
5	Divide Line 4 by 365 and enter the result.		\$5,578
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		\$418,329

LYTTON GARDENS, INC.
FORM 5-5
ANNUAL RESERVE CERTIFICATION
Year Ended March 31, 2015

FORM 5-5
ANNUAL RESERVE CERTIFICATION

Provider Name: Webster House Senior Living LLC
 Fiscal Year Ended 03/31/2015

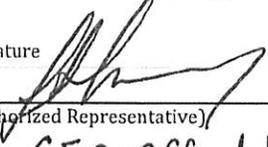
We have reviewed our Debt Service Reserve and Operating requirements as of, and for the period ended: 03/31/2015 and are in compliance with those requirements.

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	\$418,329
[3] Total Liquid Reserve Amount	\$418,329

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

Qualifying Asset Description	Amount (market value at end of quarter)	
	Debt Service Reserve	Operating Reserve
[4] Cash and Cash Equivalents	\$0	\$5,525,553
[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: Due from JTM Communities - Note 1	\$0	\$619,613
(describe qualifying asset)		
Total Amount of Qualifying Assets Listed for Reserve Obligation: [11]	\$0 [12]	\$6,145,166
Reserve Obligation Amount: [13]	\$0 [14]	\$418,329
Surplus/(Deficiency): [15]	\$0 [16]	\$5,726,837

Signature 
 (Authorized Representative)
 CFO - Affordable Housing
 (Title)

Date: July 27, 2015

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.

SUPPLEMENTARY SCHEDULE

LYTTON GARDENS, INC.
FORM 5-4
RECONCILIATION
Year Ended March 31, 2015

DEDUCTIONS FROM OPERATING EXPENSES

<u>Line</u>		<u>Amounts</u>
1	Total expenses from financial statements	\$ 2,596,235
	Less: Income tax	<u>(6,846)</u>
	Total operating expenses from financial statements	<u>\$ 2,589,389</u>

NON CCRC REVENUE

<u>Line</u>		<u>Amounts</u>
2e	Other revenues from financial statements	\$ 114,818
	Less: CCRC contract revenues for other services	<u>(66,439)</u>
	Revenues received during the fiscal year for services for persons who did not have a continuing care contract	<u>\$ 48,379</u>

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

Date Prepared: _____

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:

RESIDENTIAL LIVING	HEALTH CARE
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 (____ TIMES/MONTH)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	MEALS (____/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 _____	<input type="checkbox"/>	<input type="checkbox"/>			

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

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 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 St., San Francisco, CA 94109

(415) 776-0500

MULTI-LEVEL RETIREMENT COMMUNITIES

Lytton Garden Senior Communities

LOCATION (City, State)

437 Webster St., Palo Alto, CA 94301

PHONE (with area code)

(650) 328-3300

FREE-STANDING SKILLED NURSING

Lytton Gardens Inc.

LOCATION (City, State)

437 Webster St., 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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (Excluding amortization of entrance fee income)	977,000	1,860,000	2,147,000	2,343,000
LESS OPERATING EXPENSES (Excluding depreciation, amortization, and interest)	1,226,000	2,088,000	1,945,000	2,091,000
NET INCOME FROM OPERATIONS	-249,000	-228,000	202,000	252,000
LESS INTEREST EXPENSE	0	0	0	0
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-249,000	-228,000	202,000	252,000
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	-187,200	4,230,000	1,878,000	-18,550

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

<u>LENDER</u>	<u>OUTSTANDING BALANCE</u>	<u>INTEREST RATE</u>	<u>DATE OF ORIGATION</u>	<u>DATE OF MATURITY</u>	<u>AMORTIZATION PERIOD</u>

FINANCIAL RATIOS (see next page for ratio formulas)

	2013 CCAC Medians 50th Percentile <i>(optional)</i>	<u>2013</u>	<u>2014</u>	<u>2015</u>
DEBT TO ASSET RATIO		N/A	N/A	N/A
OPERATING RATIO		112.3%	90.6%	89.25%
DEBT SERVICE COVERAGE RATIO		N/A	N/A	N/A
DAYS CASH ON HAND RATIO		708	970	964

HISTORICAL MONTHLY SERVICE FEES (Average Fee and Change Percentage)

	<u>2012</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>2015</u>
STUDIO							
ONE BEDROOM	4200	0	4200	4%	4368	3%	4499
TWO BEDROOM	4700	0	4700	4%	4888	3%	5035
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

SUBSIDIZED SENIOR HOUSING	LOCATION (City, State)	PHONE (with area code)
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

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)	\$4,178 to \$5,035	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: _04/01/15, 05/01/15_____
(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_____

**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, 2014 was \$2,099,188 and projected operating expenses were \$1,799,874 for net operating income of \$299,314 and a net operating margin (NOM) of 14.3%. This compared to budgeted NOM of 7.6%; and to the prior year operating revenue of \$1,859,947, operating expenses of \$2,102,552, net operating deficit of <\$242,605> and a NOM of <13.0%>.

Occupancy/Census Budget

IL occupancy is budgeted at 97.3% which compared to current year average of 97.3% and the prior year end of 97.2%. Total contract resident census is budgeted at 43 compared to the August year-to-date average of 46 and to 45 at the end of the prior year.

Principal Projected Increases in Expenses

Salaries and wages are projected to increase by \$135,949 (23.2%) over the projected current year end. Benefits are projected to increase by \$18,868 (11.3%) over the projected current year end. Supplies expenses are projected to increase by \$8,696 (17.3%) over the projected current year. In addition, contracted services fees are projected to increase by \$66,947 (19.8%) over the projected current year end.

Rationale for Monthly Fee Increase

Budgeted total cash operating expenses are \$2,052,501, which is an increase of \$252,627 (14.0%) over the projected current year end. Without an increase in monthly fees, the budgeted cash operating revenue would be \$2,041,177, which would result in a net operating deficit of <\$11,324> and a NOM of <0.6%>. The targeted NOM in the budget is 8.4% which is less than the projected year end NOM of 14.3%. For reference purposes, the 2014 CARF-CCAC reported NOM for accredited multi-site providers ranges from 5.36% at the median to 11.05% at the 75th percentile. In order to achieve the targeted NOM of 8.4%, 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**