

ANNUAL REPORT CHECKLIST

PROVIDER(S): American Baptist Homes of the West
and Terraces at San Joaquin Gardens

CCRC(S): Terraces at Los Altos, Grand Lake Gardens, Rosewood,
Piedmont Gardens, Plymouth Village, Valle Verde, Terraces of Los
Altos, Terraces at San Joaquin Gardens

CONTACT PERSON: Kay Lyles

TELEPHONE NO.: (925) 924-7109

EMAIL: KLyles@abhow.com

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

- Annual Report Checklist.
- Annual Provider Fee in the amount of: \$ 82,841
- 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.
- Provider's "Continuing Care Retirement Community Disclosure Statement" and Form 7-1 "Report on CCRC Monthly Service Fees" for *each* community.
- Provider's Refund Reserve Calculation(s) – Form 9-1 and/or Form 9-2, if applicable.

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The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report, but may be submitted at the same time as the annual report.

**FORM 1-1
RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	250
[2]	Number at end of fiscal year	250
[3]	Total Lines 1 and 2	500
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	250
All Residents		
[6]	Number at beginning of fiscal year	315
[7]	Number at end of fiscal year	325
[8]	Total Lines 6 and 7	640
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	320
[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).	0.78

**FORM 1-2
ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service - interest only)	\$20,546,000
[a]	Depreciation	\$2,710,000
[b]	Debt Service (Interest Only)	\$1,146,000
[2]	Subtotal (add Line 1a and 1b)	\$3,856,000
[3]	Subtract Line 2 from Line 1 and enter result.	\$16,690,000
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	78%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	\$13,039,063
[6]	Total Amount Due (multiply Line 5 by .001)	x .001 \$13,039

PROVIDER Terraces at San Joaquin Gardens
COMMUN



National Union Fire Insurance Company of Pittsburgh, Pa.®

A capital stock company

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Employee Benefit Plan Fiduciary Liability Insurance

CONTINUING CARE
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NOTICE: EXCEPT TO SUCH EXTENT AS MAY OTHERWISE BE PROVIDED HEREIN, THE COVERAGE OF THIS POLICY IS GENERALLY LIMITED TO LIABILITY FOR ONLY THOSE CLAIMS THAT ARE FIRST MADE AGAINST THE INSURED DURING THE POLICY PERIOD AND REPORTED IN WRITING TO THE INSURER PURSUANT TO THE TERMS HEREIN. PLEASE READ THE POLICY CAREFULLY AND DISCUSS THE COVERAGE THEREUNDER WITH YOUR INSURANCE AGENT OR BROKER.

NOTICE: EXCEPT AS SET FORTH IN ITEM 3(b) OF THE DECLARATIONS, THE LIMIT OF LIABILITY AVAILABLE TO PAY JUDGMENTS OR SETTLEMENTS SHALL BE REDUCED BY AMOUNTS INCURRED FOR LEGAL DEFENSE. AMOUNTS INCURRED FOR LEGAL DEFENSE SHALL BE APPLIED AGAINST THE RETENTION AMOUNT.

NOTICE: THE INSURER HAS THE DUTY TO DEFEND; HOWEVER, THE INSURED MAY ELECT TO ASSUME THE DUTY TO DEFEND. IN ALL EVENTS, THE INSURER MUST ADVANCE DEFENSE COSTS PAYMENTS PURSUANT TO THE TERMS HEREIN PRIOR TO THE FINAL DISPOSITION OF A CLAIM.

NOTICE: TERMS APPEARING IN BOLD FACE TYPE HAVE SPECIAL MEANING. SEE CLAUSE 3 OF THE POLICY.

POLICY NUMBER: 01-284-39-59

REPLACEMENT OF POLICY NUMBER: 01-181-94-48

DECLARATIONS

ITEMS	
1	NAMED SPONSOR: <i>AMERICAN BAPTIST HOMES OF THE WEST</i> (herein "Named Sponsor")
1(a)	MAILING ADDRESS: <i>6120 STONERIDGE MALL ROAD PLEASANTON, CA 94588</i>
1(b)	SUBSIDIARY COVERAGE: Any past, present or future Subsidiary of the Named Sponsor
1(c)	PLAN COVERAGE: Any past, present or future Plan
2	POLICY PERIOD: From: <i>October 1, 2012</i> To: <i>October 1, 2013</i> 12:01 A.M. standard time at the address stated in Item 1(a) of the Declarations.
3(a)	POLICY AGGREGATE LIMIT OF LIABILITY (herein "Limit of Liability") For all Loss , in the aggregate, under this policy including Defense Costs (other than Defense Costs (if any) set forth in Item 3(b) of the Declarations): \$3,000,000

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ITEMS (Continued)

3(b) **ADDITIONAL LIMIT OF LIABILITY FOR DEFENSE COSTS: \$0**
3(c) **SUBLIMIT OF LIABILITY FOR VOLUNTARY COMPLIANCE LOSS**
For all **Voluntary Compliance Loss**, in the aggregate, See endorsement #5 under this policy including **Defense Expenses** No Coverage

This Sublimit of Liability shall be part of and not in addition to the **Policy Aggregate Limit of Liability** set forth in Item 3(a) of the Declarations.

4 **RETENTION:** Not applicable to: (i) non-Indemnifiable Loss of a Natural Person Insured (ii) judgments and settlements (all Coverages); and (iii) **Voluntary Compliance Loss**
4(a) **Defense Costs:** None

5 **CONTINUITY DATE:** *December 18, 1994*

6 **PREMIUM:** *\$7,610*

*Premium for Certified Acts of Terrorism Coverage under Terrorism Risk Insurance Act 2002: Not applicable, coverage rejected by insured. Any coverage provided for losses caused by an act of terrorism as defined by TRIA (TRIA Losses) may be partially reimbursed by the United States under a formula established by TRIA as follows: 85% of TRIA Losses in excess of the insurer deductible mandated by TRIA, the deductible to be based on a percentage of the insurer's direct earned premiums for the year preceding the act of terrorism.
A copy of the TRIA disclosure sent with the original quote is attached hereto.*

7 **NAME AND ADDRESS OF INSURER (herein "Insurer"):**
*National Union Fire Insurance Company of Pittsburgh, Pa.
175 Water Street
New York, NY 10038-4969*

This policy is issued only by the insurance company indicated in this Item 7.

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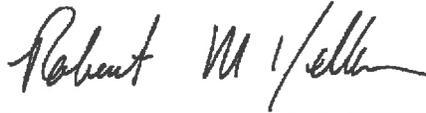
IN WITNESS WHEREOF, the Insurer has caused this Policy to be signed by its President, Secretary and Authorized Representative. This Policy shall not be valid unless signed below at the time of issuance by an authorized representative of the insurer.



PRESIDENT



SECRETARY



AUTHORIZED REPRESENTATIVE

COUNTERSIGNATURE

DATE

COUNTERSIGNED AT

LOCKTON COMPANIES, LLC
725 S FIGUEROA ST 35TH FLOOR
LOS ANGELES, CA 90017-5524

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Report of Independent Auditors and
Financial Statements

**Terraces at San Joaquin Gardens
(a Member of Cornerstone Affiliates)**

As of and for the Years Ended
September 30, 2013 and 2012

MOSS ADAMS L.L.P.

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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R E C E I V E D
FEB 03 2014CONTINUING CARE
CONTRACTS BRANCH**REPORT OF INDEPENDENT AUDITORS**

To the Members of the Board of Directors
Terraces at San Joaquin Gardens

Report on Financial Statements

We have audited the accompanying financial statements of Terraces at San Joaquin Gardens ("TSJG") (a member of Cornerstone Affiliates), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and changes in net (deficit) 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Terraces at San Joaquin Gardens as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
January 28, 2014

FINANCIAL STATEMENTS

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
BALANCE SHEETS
AS OF SEPTEMBER 30, 2013 AND 2012
(In Thousands)**

	<u>2013</u>	<u>2012</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 9,039	\$ 3,612
RESTRICTED CASH	2,834	2,115
RESTRICTED INVESTMENTS	29,876	61,044
RESIDENT ACCOUNTS AND OTHER RECEIVABLES, LESS ALLOWANCES FOR DOUBTFUL ACCOUNTS OF \$160 AND \$61, RESPECTIVELY	1,726	1,771
PREPAID EXPENSES AND OTHER DEPOSITS	90	85
OTHER ASSETS	5,951	5,710
LAND, BUILDINGS, AND EQUIPMENT - NET	87,269	54,068
RECEIVABLE FROM AFFILIATES	<u>58</u>	<u>465</u>
TOTAL ASSETS	<u>\$ 136,843</u>	<u>\$ 128,870</u>
LIABILITIES AND NET (DEFICIT) ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES PAYABLE TO AFFILIATES	\$ 3,502	\$ 619
ACCRUED INTEREST	142	-
ACCRUED MANAGEMENT FEES	3,043	-
DEPOSITS	754	-
REBATABLE ENTRANCE FEES DUE	3,020	2,261
ENTRANCE FEES SUBJECT TO REFUND	18,004	15,277
ENTRANCE FEES NON-REFUNDABLE	1,452	1,491
BONDS PAYABLE	7,023	7,649
SUBORDINATED NOTES PAYABLE TO ABHOW	71,572	71,602
OTHER LIABILITIES	29,774	29,774
TOTAL LIABILITIES	<u>333</u>	<u>58</u>
NET (DEFICIT) ASSETS		
UNRESTRICTED	<u>(1,776)</u>	<u>139</u>
TOTAL NET (DEFICIT) ASSETS	<u>(1,776)</u>	<u>139</u>
TOTAL	<u>\$ 136,843</u>	<u>\$ 128,870</u>

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF OPERATIONS AND CHANGES IN NET (DEFICIT) ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)**

UNRESTRICTED NET ASSETS	2013	2012
OPERATING REVENUES		
Residential living	\$ 4,763	\$ 4,599
Assisted living	1,842	1,925
Health center	8,634	8,396
Memory support	1,546	1,208
Other residential services	102	124
Amortization of entrance fees	1,743	1,634
Other operating revenue	405	391
Total operating revenues	19,035	18,277
OPERATING EXPENSES		
Employee costs	8,907	8,694
Supplies	1,635	1,474
Chargeable ancillary services	1,613	1,819
Other purchased services	820	771
Marketing and advertising	544	553
Utilities	953	848
Insurance	249	237
Travel and related	63	43
Leases and rents	160	154
Other operating expenses	1,746	1,762
Total operating expenses	16,690	16,355
INCOME BEFORE OTHER OPERATING INCOME (EXPENSE)	2,345	1,922
OTHER OPERATING INCOME (EXPENSE)		
Investment income - net	-	129
Realized losses on investments - net	-	(94)
Depreciation and amortization	(2,710)	(2,408)
Mortgage interest	(1,146)	(881)
LOSS FROM OPERATIONS	(1,511)	(1,332)
Unrealized (losses) gains on investments	(404)	71
Forgiveness of funds due to TSJG from ABHOW	-	(13,178)
DECREASE IN UNRESTRICTED NET ASSETS	(1,915)	(14,439)
DECREASE IN NET ASSETS	(1,915)	(14,439)
NET ASSETS - Beginning of year (as adjusted)	139	14,578
NET (DEFICIT) ASSETS - End of year	\$ (1,776)	\$ 139

See accompanying notes.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Thousands)**

	2013	2012
OPERATING ACTIVITIES		
Cash received for resident services	\$ 16,323	\$ 16,405
Cash received for entrance fees from reoccupancy	6,176	1,579
Cash received from (paid for) other operating activities	337	(1,135)
Cash earnings realized from investments	-	35
Cash paid for employee salaries	(6,355)	(6,328)
Cash paid for employee benefits	(1,956)	(1,911)
Cash paid for temporary labor	(498)	(390)
Cash paid to vendors	(4,226)	(6,251)
Cash paid for interest net of amounts capitalized	-	(1,073)
Net cash provided by operating activities	<u>9,801</u>	<u>931</u>
INVESTING ACTIVITIES		
Acquisition of land, buildings and equipment	(33,702)	(16,697)
Increase (decrease) in restricted cash	(719)	2,302
Purchase of restricted investments	(36,028)	(60,426)
Cash utilized from restricted investments	66,792	5,647
Net cash used in investing activities	<u>(3,657)</u>	<u>(69,174)</u>
FINANCING ACTIVITIES		
Cash received from initial entrance fees and deposits	468	3,927
Refunds of deposits and refundable fees	(1,119)	(531)
Net proceeds from issuance of bonds payable	-	71,602
Cash paid for deferred debt issuance costs	(66)	(2,052)
Principal payments of bonds payable	-	(4,474)
Change in payable to affiliates	-	3,379
Net cash (used in) provided by financing activities	<u>(717)</u>	<u>71,851</u>
INCREASE IN CASH AND CASH EQUIVALENTS	5,427	3,608
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,612</u>	<u>4</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,039</u>	<u>\$ 3,612</u>
OPERATING ACTIVITIES		
Decrease in net assets	\$ (1,915)	\$ (14,439)
Adjustments to reconcile change in net asset to net cash provided by operating activities		
Amortization of entrance fees	(1,743)	(1,634)
Entrance fees from reoccupancy	6,176	1,579
Depreciation and amortization	2,710	2,408
Change in unrealized losses (gains) on investments - net	404	(71)
Forgiveness of funds due to TSJG from ABHOW	-	13,178
Change in payable to affiliates	549	-
Other changes in operating assets and liabilities, net	3,620	(90)
Net cash provided by operating activities	<u>\$ 9,801</u>	<u>\$ 931</u>
NONCASH DISCLOSURES		
Acquisition of buildings and equipment financed through accounts payable and accrued expenses	<u>\$ 2,093</u>	<u>\$ -</u>

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Business and Organization

Parent Organization – Cornerstone Affiliates (“Parent Organization” or “Cornerstone”) is a California nonprofit public benefit corporation. Cornerstone is the sole member and exercises its direction and control through the appointment of the Board of Directors of Terraces at San Joaquin Gardens (“TSJG” or the “Corporation”), American Baptist Estates, Inc. (“ABE” or d.b.a. Terraces of Phoenix), Las Ventanas Retirement Community (“Las Ventanas”), and Boise Retirement Community (“Boise” or d.b.a. Terraces of Boise) and Cornerstone Affiliates International, Inc. (“CAI”); and appoints the majority of the directors of American Baptist Homes of the West and Affiliates (“ABHOW”).

Cornerstone Related Enterprises

Terraces at San Joaquin Gardens – Terraces at San Joaquin Gardens is a California nonprofit public benefit tax-exempt corporation providing housing, healthcare, and supportive services for the elderly in Fresno, California through its continuing care retirement community. On September 26, 2012, the ownership of TSJG was transferred from ABHOW to Cornerstone (see Note 10).

American Baptist Homes of the West – American Baptist Homes of the West is a California nonprofit public benefit tax-exempt corporation which owns, operates, and manages both continuing care retirement communities and rental housing communities in which housing, health care, and supportive services are provided for the elderly in California and Washington. ABHOW developed the TSJG campus in 1966 and has managed the community since that time.

ABHOW provides financial support and management services including financial budgeting, accounting and tax services; negotiation of capital and financing services; regulatory and compliance oversight and legal support; a pooled program for employee benefits including pensions and workers compensation and a pooled program for property and liability insurance as well as other services through ABHOW affiliates. TSJG pays ABHOW for employee benefits based on a benefit burden rate of budgeted employee benefit costs applied to TSJG’s wages.

ABHOW continues to manage TSJG under a multi-year management agreement. The current agreement began on September 26, 2012 and continues for 10 years. Under the management agreement, a base management fee equal to 8.5% of TSJG’s total budgeted revenues. Half of this fee is payable to ABHOW on the tenth of each month, with the remaining half subordinated to TSJG’s debt service and payable annually if certain occupancy, debt service coverage and days cash on hand requirements are met.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Business and Organization (continued)

American Baptist Estates, Inc. – American Baptist Estates, Inc., is an Arizona nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Phoenix, Arizona, through its continuing care retirement community (“CCRC”), the Terraces of Phoenix.

Las Ventanas Retirement Community – Las Ventanas Retirement Community is a California nonprofit public benefit tax-exempt corporation providing housing, health care, and supportive services for the elderly in Las Vegas, Nevada through its continuing care retirement community.

Boise Retirement Community – Boise Retirement Community is a California nonprofit public benefit tax-exempt corporation formed for the purpose of constructing, owning, and operating a continuing care retirement community in Boise, Idaho, to provide housing, health care and other related services to residents in Boise, Idaho.

Cornerstone Affiliates International, Inc. – Cornerstone Affiliates International, Inc. is a California for-profit corporation wholly owned by Cornerstone. CAI is the holding company for the activities surrounding the development of international senior housing consulting and management business opportunities.

Note 2 – Accounting Policies

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Significant items subject to such estimates and assumptions include the allowances for contractual and uncollectible accounts receivable; fair values of investments; future service benefit obligations; rebatable entrance fees due; entrance fees subject to refund; entrance fees non-refundable; and liabilities for self-insured workers’ compensation. Actual results could differ from those estimates.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

New Accounting Pronouncements – In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU No. 2011-04”), which amended Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurement*, to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. TSJG implemented this guidance in 2013. The adoption did not have a material impact on the financial statements.

In October 2012, the FASB issued ASU No. 2012-05, *Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (“ASU No. 2012-05”) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity’s imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the not-for-profit entity. TSJG implemented this guidance in 2013. The adoption did not have a material impact on the financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Services Received from Personnel of an Affiliate* (“ASU No. 2013-06”) to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service. The adoption of ASU No. 2013-06 is effective for TSJG beginning October 1, 2014. The adoption of ASU 2013-06 is not expected to have a material impact on TSJG’s financial statements.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

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

	September 30, 2012		
	As previously Reported	Adjustment	As Adjusted
Unrestricted net assets, beginning of year	\$ 15,045	\$ (467)	\$ 14,578
Unrestricted net assets, end of year	\$ 889	\$ (750)	\$ 139
Total net assets, beginning of year	\$ 15,045	\$ (467)	\$ 14,578
Total net assets, end of year	\$ 889	\$ (750)	\$ 139
Rebatable advance fees due	\$ -	\$ 15,277	\$ 15,277
Entrance fees subject to refund	\$ 9,140	\$ (7,649)	\$ 1,491
Entrance fees non-refundable	\$ 14,527	\$ (6,878)	\$ 7,649
Total operating revenues	\$ 18,560	\$ (283)	\$ 18,277
Decrease in net assets	\$ (14,156)	\$ (283)	\$ (14,439)

Cash and Cash Equivalents – Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and overnight investments considered to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (“FDIC”) and Securities Investor Protection Corporation (“SIPC”). TSJG has cash balances in financial institutions that are in excess of FDIC limits. Management monitors the financial condition of these institutions on an ongoing basis and does not believe significant credit risk exists at this time.

Restricted Cash – Restricted cash is defined as cash which is restricted in its use by regulatory or other agreements. These amounts consist of escrowed resident entry fee deposits for the second phase of TSJG’s redevelopment.

Restricted Investments – Investments include certain cash equivalents held by investment managers, equity securities, corporate debt, and U.S. government securities, held by trustees for capital project expenditures and debt service, and are stated at fair value.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the accompanying statements of operations and changes in net (deficit) assets according to donor restrictions. Historical cost, on the specific identification method, is utilized to compute the realized gains and losses for all other securities. Upon determination that the cost of securities is other-than-temporarily impaired, adjustments are made to revalue the securities to current value. Any adjustments required by this policy for unrestricted assets are charged to investment loss and restricted assets are charged to the appropriate net assets category. Unrealized gains and losses are recorded in other changes in net assets (see Note 4).

Resident Accounts Receivable – TSJG provides services to residents even though they may lack adequate funds or may participate in programs that do not pay full charges. TSJG receives payment for health services from residents, insurance companies, Medicare, Medi-Cal, HMOs, and other third-party payors. As a result, TSJG is exposed to certain credit risks. TSJG manages its risk by regularly reviewing its accounts, by providing appropriate allowances for uncollectible accounts, and by having secured the accounts through the Care and Residence Agreements with the residents of continuing care retirement community.

Land, Building, and Equipment – Land, building, and equipment are recorded at cost, or fair value when received, if donated. The cost basis includes any interest, finance charges, and other related costs capitalized during construction. Real estate predevelopment costs, such as architectural and entitlement costs, costs of model units, furnishings, etc., are capitalized as part of the building cost and depreciated over the useful life of the related building. Maintenance and repair costs are charged to operations when incurred.

Depreciation of buildings and equipment is computed on the straight-line method using estimated useful lives of 3 to 40 years. When assets are retired or otherwise disposed of, the cost of the asset and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. Depreciation expenses were \$2,564,000 and \$2,261,000 for the years ended September 30, 2013 and 2012, respectively.

Asset Impairment – TSJG periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment was recognized for the years ended September 30, 2013 and 2012.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

Fair Value of Financial Instruments – Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values. TSJG's policy is to recognize transfers in and transfers out of Level 1 and Level 2 as of the end of the reporting period. Please see Note 3 for fair value hierarchy disclosures.

Deferred Debt Issuance Costs – Expenses incurred in connection with the issuance of debt are deferred and are amortized over the term of the related financing agreements using the interest method. Unamortized deferred debt issuance cost amounted to \$2,008,000 and \$2,052,000 at September 30, 2013 and 2012, respectively, and is included in other assets in the accompanying balance sheets. Accumulated amortization of deferred debt issuance cost was \$110,000 and \$0 at September 30, 2013 and 2012, respectively.

Deferred Marketing Costs – Expenses incurred in connection with marketing of newly constructed apartments are deferred and amortized over the estimated average life of the first generation of residents. Unamortized deferred marketing costs amounted to \$3,942,000 and \$3,657,000 at September 30, 2013 and 2012, respectively, and are included in other assets in the accompanying balance sheets. Accumulated amortization of deferred marketing costs was \$338,000 and \$192,000 at September 30, 2013 and 2012, respectively.

Obligation to Provide Future Services – If the present value of future outflows to provide future services, adjusted for certain noncash items, exceeds the present value of future cash in-flows, a liability is recognized. An evaluation of the future service benefit obligation for residents indicated a liability was not considered to be necessary at September 30, 2013 and 2012.

Types of Entrance Fees – The Care and Residence Agreements between TSJG and the residents provide for the payment of an entrance fee. Entrance fees received by TSJG are categorized into two types: initial entrance fees and entrance fees from reoccupancy are recorded as rebatable entrance fees due, entrance fees subject to refund, and entrance fees non-refundable. Initial entrance fees, which are the initial fees on new or expanded facilities, are used to provide funds for acquisition and construction of physical facilities, debt retirement, and to defray anticipated deficits in the operations of new homes for a period of time. Entrance fees from reoccupancy in existing homes are used for general purposes, including capital expenditures, support of operations (including benevolence), new development, and funding of reserves.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

Refund Policy on Entrance Fees – The Care and Residence Agreement provides the resident with the right to a refund of the entrance fee, less 1.5% for 67 months or 2% for each month of residency for 44 months after an initial reduction of 12% of the original fee, under certain circumstances. For a majority of contracts, upon the move out of a resident, the unamortized balance of the entrance fee becomes the property of TSJG and is included in income. Amounts amortized to income relating to these types of contracts were \$1,743,000 and \$1,634,000 for the years ended September 30, 2013 and 2012, respectively.

At September 30, 2013 and 2012, TSJG had nonrefundable entrance fees of \$7,023,000 and \$7,649,000, respectively, related to entrance fees received that will be recognized as revenue in future years. Additionally, at September 30, 2013 and 2012, TSJG had entrance fees subject to refund of \$1,452,000 and \$1,491,000, respectively, that will be recognized as revenue in future years unless refunded. Actual refunds of entrance fees from this type of contract were \$1,119,000 and \$531,000, for the years ended September 30, 2013 and 2012, respectively. Based on historical experience, management expects refunds in future years to approximate \$1,000,000 per year and has classified that amount as a component of entrance fees subject to refund in the accompanying balance sheets.

Beginning in 2009, TSJG began offering contract rebate options ranging from 70% to 95%, whereby the entrance fee is rebated to the resident or their estate upon reoccupancy of the apartment. TSJG Phase 1 apartments were sold offering primarily rebatable entrance fee contracts. At September 30, 2013 and 2012, \$18,004,000 and \$15,277,000, respectively, of the entrance fees related to these types of contracts are contractually rebatable, and reflected as rebatable entrance fees due in the accompanying balance sheets.

Revenue Recognition – Non-refundable entrance fees are initially recorded as entrance fees non-refundable and are amortized to income using the straight-line method over the remaining life expectancy of the resident. The life expectancy of each resident is updated annually based upon the 2000 Group Annuity Mortality Table.

Monthly service fees, ancillary, and other service fees are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Accounts receivable over 150 days past their contractual due date are fully reserved.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

TSJG provides health care services primarily to its residents. Revenues from the Medicare program accounted for approximately 34% and 32% of TSJG's total operating revenue less amortization of entrance fees for the years ended September 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. TSJG believes that it is in compliance with all applicable laws and regulations. Certain reimbursements from Medicare have been subjected to regulatory audit resulting in questioned costs. TSJG is appealing the findings and has established loss reserves of \$33,000 pending appeal as of September 30, 2013. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Net Assets – TSJG reports three classifications of net assets. A description of each classification of net assets is as follows:

Unrestricted Net Assets – Unrestricted net assets include unrestricted contributions and income earned on unrestricted funds, and amounts for which restrictions have expired.

Temporarily Restricted Net Assets – Temporarily restricted net assets include net assets subject to donor imposed stipulations that may, or will be met, either by actions of TSJG and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions. At September 30, 2013 and 2012, TSJG had no temporarily restricted net assets.

Permanently Restricted Net Assets – Permanently restricted net assets include net assets subject to donor imposed stipulations that they be maintained permanently by TSJG. At September 30, 2013 and 2012, TSJG had no permanently restricted net assets.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

Benevolence – TSJG provides services to residents who meet certain criteria under its benevolence policy without charge or at amounts less than its established rates. Partial payments to which TSJG is entitled from public assistance programs on behalf of residents that meet TSJG’s benevolence criteria are reported as revenues. Because TSJG does not normally pursue collection of amounts determined to qualify as benevolence, they are not reported as revenue for the years ended (in thousands):

	<u>2013</u>	<u>2012</u>
Benevolence, at cost	<u>\$ 256</u>	<u>\$ 444</u>

Contractual Allowances – A portion of TSJG’s revenues is subject to discounts under contracts with third-party payors. These discounts are reported as contractual allowances for the years ended (in thousands):

	<u>2013</u>	<u>2012</u>
Contractual allowances	<u>\$ 2,783</u>	<u>\$ 3,038</u>

Performance Indicator – “Loss from operations” as reflected in the accompanying statements of operations and changes in net (deficit) assets is a performance indicator. Loss from operations includes all changes in unrestricted net (deficit) assets other than noncash changes in unrealized gains and losses on investments and the forgiveness of funds due to TSJG from ABHOW.

Workers’ Compensation Plan – TSJG participates in ABHOW’s partially self-insured workers’ compensation program for workers’ compensation claims up to \$200,000 per year under an occurrence form insurance policy for 2013 and 2012. Claims are accrued under the plan as the incidents that give rise to them occur. The estimate of incurred but not reported claims is based on actuarial projections of the ultimate cost of settlement, including claim settlement expenses, using ABHOW’s historical claim payment experience. The estimated liability is continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments of self-insured workers’ compensation claims are dependent upon future developments, management is of the opinion that the recorded reserve is adequate. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 2 – Accounting Policies (continued)

Professional Liability Insurance – TSJG has professional liability insurance through a pooled program provided by ABHOW. ABHOW has secured claims-made policies for malpractice and general liability insurance with a self-insured retention of \$150,000 for the years ended September 30, 2013 and 2012. Management of TSJG is not aware of any claims outstanding which are in excess of policy limits, and any liability would be included in accounts payable and accrued expenses in the accompanying balance sheets. Any related insurance recovery receivables are recorded under resident accounts and other receivables in the accompanying balance sheets.

Tax-Exempt Status – TSJG is a California 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.

TSJG assesses uncertain tax positions in accordance with the provisions of the FASB ASC Topic 740-10, *Income Taxes*. TSJG recognizes the tax benefit from uncertain tax positions only if it is more than 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. TSJG recognizes interest and penalties related to income tax matters in operating expenses. At September 30, 2013 and 2012, there were no such uncertain tax positions.

Reclassifications – Certain financial statement reclassifications were made to the 2012 amounts to conform to the 2013 presentation.

Note 3 – Fair Values

FASB ASC Topic 820 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. FASB ASC Topic 820 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. The standard 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 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 investments in the near term.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Fair Value (continued)

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 financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Restricted 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 cash and cash equivalents held for investment, equity securities, corporate debt securities, and U.S. government securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, discounted cash flows, or net asset value as described below.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets 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 September 30, 2013 and 2012 (in thousands):

	Level 1	Level 2	Level 3	Fair value at September 30, 2013
Restricted Investments				
Cash and cash equivalents	\$ 10,384	\$ -	\$ -	\$ 10,384
Domestic corporate debt	15,099	-	-	15,099
Foreign corporate debt	1,306	-	-	1,306
U.S. government securities	3,087	-	-	3,087
Total	<u>\$ 29,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,876</u>
				Fair value at September 30, 2012
Restricted Investments				
Cash and cash equivalents	\$ 61,044	\$ -	\$ -	\$ 61,044
Total	<u>\$ 61,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,044</u>

The following methods were used to estimate the fair value of all other financial instruments.

Cash and Cash Equivalents – The carrying amount approximates fair value.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Fair Value (continued)

Bonds Payable – The fair value of bonds payable is estimated based on discounted cash flow analyses, based on TSJG’s current incremental borrowing rates for similar types of borrowing arrangements.

The following table presents estimated fair values of TSJG’s financial instruments in accordance with FASB ASC Topic 825, *Financial Instruments*, at September 30, 2013 and 2012 (in thousands):

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents - unrestricted	\$ 9,039	\$ 9,039	\$ 3,612	\$ 3,612
Restricted cash	\$ 2,834	\$ 2,834	\$ 2,115	\$ 2,115
Bonds payable	\$ 71,572	\$ 70,677	\$ 71,602	\$ 73,074

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that TSJG would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of September 30, 2013 and 2012. Current estimates of fair value may differ significantly from the amounts presented.

Note 4 – Restricted Investments

Restricted investments are held at September 30, 2013 and 2012, for the following purpose (at fair value) (in thousands):

	2013	2012
Restricted investments		
Principal, interest, and other reserves held in trust under bond indenture or mortgage agreements	\$ 29,876	\$ 61,044

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 4 – Restricted Investments (continued)

Investment income (loss) for the years ended September 30, 2013 and 2012, is as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Dividend, interest, and other investment income	\$ -	\$ 129
Net realized loss on investments	-	(94)
Total investment income - net	<u>\$ -</u>	<u>\$ 35</u>
Unrealized (loss) gain on investments	\$ (404)	\$ 71

Investment income is net of investment expenses of \$0 and \$18,000 for the years ended September 30, 2013 and 2012.

Note 5 – Land, Buildings, and Equipment

Land, buildings, and equipment at cost as of September 30, 2013 and 2012, consists of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 2,858	\$ 2,858
Buildings and improvements	48,453	48,141
Furnishings and equipment	6,364	6,138
Automotive equipment	171	161
Total	57,846	57,298
Accumulated depreciation	<u>(29,759)</u>	<u>(27,195)</u>
Total	28,087	30,103
Construction in progress	59,182	23,965
Total	<u>\$ 87,269</u>	<u>\$ 54,068</u>

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Notes and Bonds Payable

A summary of TSJG's bonds payable at September 30, 2013 and 2012 is as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Secured		
Series 2012 tax-exempt Revenue Bonds issued by the California Statewide Communities Development Authority (dated September 26, 2012), Serial certificates, to fund redevelopment spending at Terraces at San Joaquin Gardens, with annual principal payable commencing on April 1, 2014, in varying amounts ranging from \$2,090 to \$5,650 through 2015 and amounts ranging from \$610 to \$3,200 through 2047; interest at fixed rates ranging from 4.00% to 6.00%, payable annually on October 1.	\$ 71,035	\$ 71,035
Subordinated		
Series A Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 2.47% per annum until October 1, 2012, 3.22% per annum until October 1, 2013, 4.22% until October 1, 2014, 4.00% per annum until October 1, 2018, and thereafter bears interest at the average rate per annum on the ABHOW Series 2006 bonds or any bonds refunding those bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any.	23,336	23,336
Series B Subordinated Promissory Note, payable to ABHOW, with principal and interest payments contingent upon the Corporation meeting certain liquidity requirements and coverage ratios. The note bears interest at the rate of 6.20% per annum, or if the ABHOW Series 2010 bonds are refunded, the average interest rate per annum on any such refunding bonds, plus, in any case, credit enhancement and remarketing fees applicable thereto, if any.	<u>6,438</u>	<u>6,438</u>
Total secured and subordinated notes and bonds payable	100,809	100,809
Add: unamortized bond premium	<u>537</u>	<u>567</u>
Total bonds and subordinated notes payable	<u>\$ 101,346</u>	<u>\$ 101,376</u>

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 6 – Notes and Bonds Payable (continued)

Capitalized interest expense for the year ended September 30, 2013 was \$3,699,000, comprised of \$3,873,000 of interest expense and \$174,000 of net interest income, inclusive of capitalized investment expense. Capitalized interest expense for the year ended September 30, 2012, was \$206,000, comprised of \$190,000 of interest expense and \$16,000 of negative net interest income, inclusive of capitalized investment expense.

The TSJG Series 2012 bonds were sold at a premium of \$567,000 in order to affect a market rate of interest. The premium is being amortized under the effective interest method. At September 30, 2013 and 2012, the accumulated amortized premium was \$30,000 and \$0, respectively. Amortization expense for fiscal year 2013 and 2012 were \$30,000 and \$0, respectively. The proceeds from the issuance will be used to finance redevelopment projects at TSJG, and the bonds have a coupon rate of interest ranging from 4.0% to 6.0%.

Scheduled maturities of notes and bonds payable are as follows (in thousands):

<u>Year Ending September 30,</u>	
2014	\$ 10,337
2015	11,110
2016	2,142
2017	319
2018	947
Thereafter	<u>75,954</u>
	<u>\$ 100,809</u>

Note 7 – Compliance with Financial Covenants

TSJG is subject to financial covenants on its debt which include a debt service coverage ratio and minimum days of cash-on-hand requirement. Management believes that TSJG was in compliance with each of these debt covenants as of and for the year ended September 30, 2013.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 8 – Functional Expenses

Management of TSJG presents operating expenses in its accompanying statements of operations and changes in net (deficit) assets by natural class categories. Operating expenses classified by functional categories for the years ended September 30, 2013 and 2012, were as follows (in thousands):

	<u>2013</u>	<u>2012</u>
Direct resident care	\$ 6,801	\$ 6,816
Dietary services	2,728	2,638
Housekeeping and laundry services	675	658
Property	2,319	2,250
Resident services and activities	725	655
Marketing	544	553
Administrative and general	<u>2,898</u>	<u>2,785</u>
Total expense	<u>\$ 16,690</u>	<u>\$ 16,355</u>

Note 9 – Commitments and Contingencies

TSJG is party to various claims and legal actions in the normal course of business. In the opinion of management, 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 TSJG.

Note 10 – Transfer of TSJG from ABHOW to Cornerstone

Prior to September 26, 2012, TSJG was one of the eight continuing care retirement communities constituting ABHOW's California Obligated Group. Effective September 26, 2012, by vote of the ABHOW Board of Directors, and consistent with the rights and abilities granted in ABHOW's Master Trust Indenture, sole corporate membership and control of TSJG was transferred from ABHOW to Cornerstone.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 10 – Transfer of TSJG from ABHOW to Cornerstone (continued)

Concurrent with the change in legal structure, the repayment of funds previously provided from TSJG to ABHOW for corporate purposes were forgiven. As part of the spin out, at closing, \$4,807,000 of the proceeds of the financing discussed below were transferred from TSJG to ABHOW to reimburse for construction costs advanced by ABHOW in anticipation of the financing. Additionally, the portion of ABHOW's Series 2006 bonds previously allocated to TSJG were replaced with a \$23,336,000 variable rate subordinate note, and the portion of ABHOW's Series 2010 bonds previously allocated to TSJG were replaced with a \$6,438,000 fixed rate subordinate note. Debt service payments on these subordinate notes are contingent upon TSJG being compliant with certain performance metrics. ABHOW will continue to act as manager for TSJG with the payment of 50% of management fees subordinate to the new bonds and contingent upon being compliant with certain performance metrics. At September 30, 2013, \$1,151,000 of interest expense related to these notes were accrued but not paid, pending achievement of certain TSJG operating performance criteria required to allow payment. Total management fees for fiscal year 2013 were \$1,507,000, of which \$754,000 was accrued but not paid and is included in accrued management fees in the accompanying balance sheets at September 30, 2013.

TSJG has undertaken a plan to redevelop portions of its campus (the "Project"). To finance the Project, TSJG issued \$71,035,000 of tax exempt bonds in September 2012 (the "TSJG Debt"). ABHOW has no obligation for and does not guarantee the TSJG Debt.

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. TSJG has identified certain corporate initiatives and contingencies listed below to which unrestricted assets may be exposed; and, therefore, have designated reserves as a safeguard against such contingencies. Although not restricted in accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, an amount of \$1,904,000 is designated for commitments due to ABHOW at September 30, 2013.

**TERRACES AT SAN JOAQUIN GARDENS
(A MEMBER OF CORNERSTONE AFFILIATES)
NOTES TO FINANCIAL STATEMENTS**

Note 12 – Subsequent Events

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

TSJG has evaluated subsequent events through January 28, 2014, which is the date the financial statements are issued.

R E C E I V E D
FEB 03 2013

**CONTINUING CARE
CONTRACTS BRANCH**

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Terraces at San Joaquin Gardens

As of and for the year ended September 30, 2013

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

CONTINUING CARE
 CONTRACTS BRANCH

To the Members of the Board of Directors
 Terraces at San Joaquin Gardens

Report on the Financial Statements

We have audited the accompanying financial statements of Terraces at San Joaquin Gardens (a member of Cornerstone Affiliates), which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5, as of and for the year ended September 30, 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 reserves of Terraces at San Joaquin Gardens as of and for the year ended September 30, 2013, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Terraces at San Joaquin Gardens 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 schedules of Attachment I to Form 5-4: Deductions From Operating Expenses, Attachment I to Form 5-5: Schedule of Qualifying Assets - Debt Service Reserve, Description of Reserves Under SB 1212, and Per Capita Cost of Operations, presented as supplementary schedules, are presented for the purpose of additional analysis and are 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 management and the board of directors of Terraces at San Joaquin Gardens 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.



San Francisco, California
January 28, 2014

CONTINUING CARE LIQUID RESERVE SCHEDULES

TERRACES AT SAN JOAQUIN GARDENS
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

FORM 5-1
LONG-TERM DEBT INCURRED
IN A PRIOR FISCAL YEAR
(Including Balloon Debt)

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	09/26/12	\$0	\$3,873,000		\$3,873,000
2	9/1/2012 SubA	\$0			\$0
3	9/1/2012 SubB	\$0			\$0
4	Certs. Of Part	\$0			\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$3,873,000	\$0	\$3,873,000

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

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

TERRACES AT SAN JOAQUIN GARDENS
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

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

TERRACES AT SAN JOAQUIN GARDENS
 FORM 5-3
 CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$3,873,000
2	Total from Form 5-2 bottom of Column (e)	\$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	\$160,000
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	\$4,033,000

TERRACES AT SAN JOAQUIN GARDENS
 FORM 5-4
 CALCULATION OF NET OPERATING EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

FORM 5-4
 CALCULATION OF NET OPERATING EXPENSES

Line	Amounts	TOTAL
1	Total operating expenses from financial statements	\$20,546,000
2	Deductions:	
a.	Interest paid on long-term debt (see instructions)	\$1,146,000
b.	Credit enhancement premiums paid for long-term debt (see instructions)	\$0
c.	Depreciation	\$2,710,000
d.	Amortization	\$0
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	\$906,151
f.	Extraordinary expenses approved by the Department	\$0
3	Total Deductions	\$4,762,151
4	Net Operating Expenses	\$15,783,849
5	Divide Line 4 by 365 and enter the result.	\$43,243
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.	\$3,243,225

PROVIDER: Terraces at San Joaquin Gardens
 COMMUNITY

SUPPLEMENTAL SCHEDULES

**TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT I TO FORM 5-4
DEDUCTIONS FROM OPERATING EXPENSES
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<u>Line</u>	<u>Description</u>	<u>Terraces at San Joaquin Gardens</u>
2e	Total Revenues received during the fiscal year for services to resident who did not have a continuing care contract	
40201	Monthly Fees – Private (Non-Contract)	\$ 859,456
41001	Monthly Fees - Wellness - Private (Non-Contract)	33,595
43101	Laboratory – Private (Non-Contract)	664
43201	Physical Therapy – Private (Non-Contract)	7,105
43211	Occupational Therapy – Private (Non-Contract)	1,687
43301	Chargeable Supplies – Private (Non-Contract)	2,257
43321	Drugs – Private (Non-Contract)	1,387
	Total for Line 2e	<u>906,151</u>
	Residential Living Fees Reconciliations	
	Total (Non-Contract)	-
	Contract	4,763,012
	Total Resident Fees	<u>4,763,012</u>
	Assisted Living Fees Reconciliation	
40201	Monthly Fees – Private (Non-Contract)	89,551
43301	Chargeable Supplies - Private (Non-Contract)	8
	Total (Non-Contract)	89,559
	Contract	1,752,937
	Total Assisted Living Fees	<u>1,842,496</u>
	Health Center Fees Reconciliation	
40201	Monthly Fees – Private (Non-Contract)	617,517
43101	Laboratory – Private (Non-Contract)	664
43201	Physical Therapy – Private (Non-Contract)	7,105
43211	Occupational Therapy – Private (Non-Contract)	1,687
43301	Chargeable Supplies – Private (Non-Contract)	2,210
43321	Drugs – Private (Non-Contract)	1,387
	Total (Non-Contract)	630,570
	Contract	8,003,343
	Total Health Center Fees Reconciliation	<u>8,633,913</u>
	Other Resident Svc. Reconciliation	
40201	Monthly Fees – Private (Non-Contract)	152,387
43301	Chargeable Supplies – Private (Non-Contract)	38
41001	Monthly Fees - Wellness - Private (Non-Contract)	33,595
	Total (Non-Contract)	186,020
	Contract	1,462,390
	Total Other Revenue	<u>\$ 1,648,410</u>

**TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT I TO FORM 5-5 (QUARTERLY RESERVE CERTIFICATION)
SCHEDULE OF QUALIFYING ASSETS – DEBT SERVICE RESERVE
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

DEBT SERVICE RESERVE

US Bank #200523009	Cash & cash equivalents	\$	28,113	
	Domestic corporate debt	\$	1,601,123	
	Foreign corporate debt	\$	333,787	
	U.S. government securities	\$	1,464,436	3,427,459
US Bank #200523011	U.S. government securities	\$	451,778	451,778
US Bank #200523012	U.S. government securities	\$	566,239	566,239
TOTAL AMOUNT OF QUALIFYING ASSETS FOR DEBT SERVICE RESERVE			\$	4,445,476

TERRACES AT SAN JOAQUIN GARDENS
FORM 5-5
SUPPLEMENTAL SCHEDULE – DESCRIPTION OF RESERVES UNDER SB 1212

		Comments in Consistency with Tax Exempt Status Under AB 1169
Total Qualifying Assets as Filed:		
Cash and Cash Equivalents	\$ 9,039,000	
Unrestricted Investment Securities	-	
Subtotal Cash and Unrestricted Investment Securities	9,039,000	
Reserved for Workers Compensation	-	
Total Qualifying Assets as Filed:	9,039,000	
Reservations and Designations:		
Total Reservations and Designations	9,039,000	All liquid investments are designated for working capital during the completion of construction and fill process for the major redevelopment underway at the Terraces at San Joaquin
Remaining Liquid Reserves	\$ -	

TERRACES AT SAN JOAQUIN GARDENS
FORM 5-5
SUPPLEMENTAL SCHEDULE – PER CAPITA COST OF OPERATIONS

Per Capita Cost of Operations	
Operating Expenses (Form 5-4 line 1)	\$ 20,546,000
Mean Number of CCRC Residents (Form 1-1 line 10)	320
Per Capita Cost of Operations	\$ 64,206

NOTE 1 – BASIS OF ACCOUNTING

The accompanying reserve reports have been prepared in accordance with the provisions of Health and Safety Code Section 1792 administered by the State of California Department of Social Services and are not intended to be a complete presentation of Terraces at San Joaquin Gardens assets, liabilities, revenues, and expenses.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

	RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1] Monthly Service Fees at beginning of reporting period: 2 nd person fee	<u>\$2,046 - \$3,771</u> <u>\$801</u>	<u>\$3,580 - \$7,220</u>	<u>\$247 - \$288</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	4.00%	4.00%	4.00%

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.)

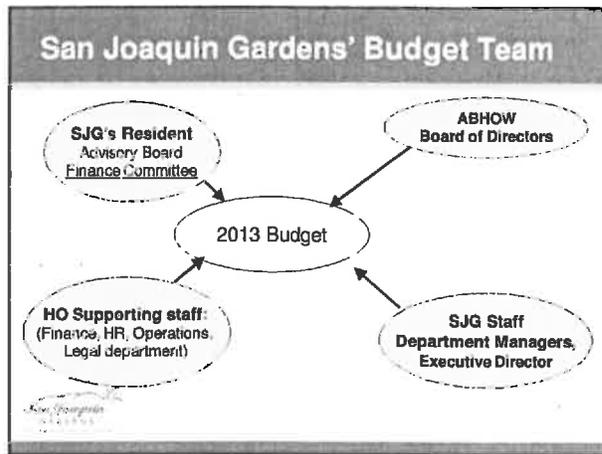
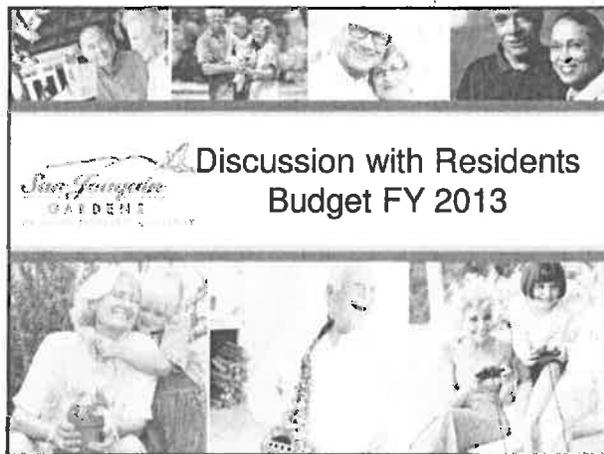
[3] Indicate the date the fee increase was implemented: December 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

[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: American Baptist Homes of the West
COMMUNITY: San Joaquin Gardens

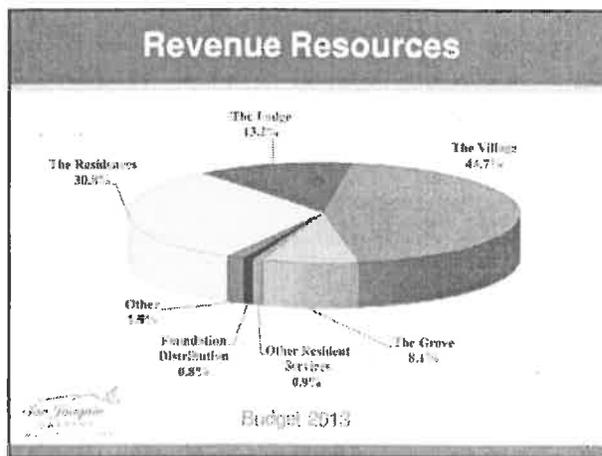


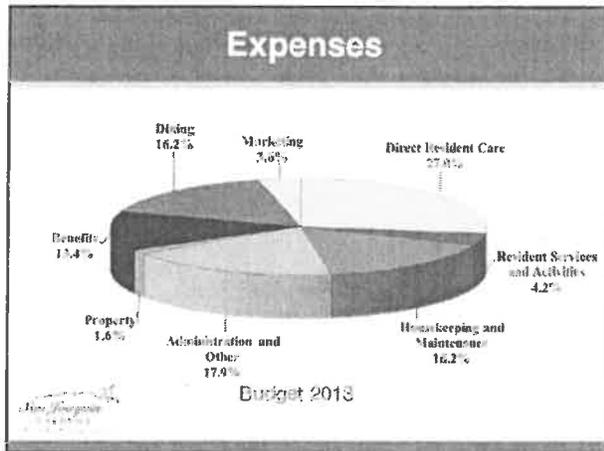
Assumptions

Budgeted Occupancy Assumptions

The Residences	= 90.1 %
The Lodge	= 92.9 %
The Village	= 83.3 %
The Grove	= 85.7 %

*San Joaquin
GARDENS*





Operating Revenue

	2013 Budget	2012 Budget	Change
The Residences	\$ 4,868	\$ 4,511	\$ 357
The Lodge	2,088	2,067	21
The Village	7,057	7,752	-695
The Grove	1,277	1,283	-6
Other Resident Services	137	157	-20
Other Operating Revenue	234	246	-12
Foundation Distributions	121	116	5
Operating Revenue	\$ 15,782	\$ 16,132	-\$ 350

Operating Expenses

	2013 Budget	2012 Budget	Change
Direct Resident Care	\$ 4,054	\$ 4,064	-\$ 10
Dining Services	2,435	2,327	108
Resident Services & Activities	626	555	71
Housekeeping & Maintenance	2,432	2,462	-30
Sales & Marketing	535	400	135
Administration & Other	2,681	2,677	4
Property	240	241	-1
Employee Benefits	2,009	1,992	17
Operating Expenses	\$ 15,012	\$ 14,718	\$ 294

Operating Margins

	2013 Budget	2012 Budget	Change
Operating Revenues	\$ 15,782	\$ 16,132	-\$ 350
Operating Expenses	15,012	14,718	294
Operating Margin	770	1,414	-644
<i>Less interest on debt:</i>			
Interest Expense	1,151	1,025	126
Cash Operating Margin	-381	389	-770

Factors Affecting Cost Increase

- **Revenue**
 - Occupancy drop in The Village from 75 to 72
- **Expenses**
 - Employee Costs - \$146,000 increase
 - Wage increases budgeted at 3%
 - Benefit burden rate = 30.1% an decrease from 30.8%
 - Worker's Compensation ↓ 4.8%
 - Health Insurance ↑ 10.7%
 - Retirement ↓ 1.4%
 - Food cost increasing by 5.4% due in part to higher gas and commodity prices.

Rate Increase

Effective December 1, 2012

- The Residences: 4.00 %
- The Lodge: 4.00 %
- The Village: 4.00 %
- The Grove: 4.00%

San Joaquin Gardens Recent Fee Increase History (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Res.	3.80	4.80	4.50	4.90	3.75	2.80	3.00	4.90	4.00
Lodge	2.70	4.20	4.00	4.90	3.75	2.80	3.00	7.60	4.00
Village	2.70	3.00	5.00	5.75	3.75	3.50	3.00	3.50	4.00
Grove	2.70	4.20	4.00	4.90	3.75	2.80	4.00	4.50	4.00

Nine Year Average Rate Increase The Residences	Five Year Average Rate Increase The Residences
4.05 %	3.69 %

This budget is achievable and San Joaquin Gardens expects to meet or exceed its budget for 2013. The fee increases for FY 2013 are prudent and congruent with its financial goals. The increases cover the expected increases in cost and provide for operating margin increases consistent with the redevelopment plan.

Thank you for your time and attention

Questions and Answers



Statement of Cash Flow
2013 Total
In Thousands

**Terraces at San
Joaquin Gardens**

Cash Flows from Operating Activities

Cash Received from Non-Contract Resident Services	906
Cash Received from Contract Resident Services	15,417
Cash received for entrance fees from reoccupancy	6,176
Cash received from other operating activities	337
Cash earnings realized from investments	-
Cash paid for employee salaries	(6,355)
Cash paid for employee benefits	(1,956)
Cash paid for temporary labor	(498)
Cash paid to vendors	(4,226)
Cash paid for interest and finance fees	-

Net cash provided by operating activities

9,801

Cash Flows from Investing Activities

Acquisition of land, buildings and equipment	(33,702)
Increase in restricted cash	(719)
Purchase of restricted investments	(36,028)
Cash utilized from restricted investments	66,792

Net cash used in investing activities

(3,657)

Cash Flows from Financing Activities

Cash received from initial entrance fees and deposits	468
Refunds of deposits and refundable fees	(1,119)
Net proceeds from issuance of notes and bonds payable	-
Cash paid for deferred debt issuance costs	(66)
Principal payments of notes and bonds payable	-
Change in payable to affiliate	-

Net cash provided by financing activities

(717)

INCREASE IN CASH AND CASH EQUIVALENTS

5,427

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

3,612

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 9,039

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

Date Prepared: 01/31/14

FACILITY NAME: The Terraces at San Joaquin Gardens Retirement Community
 ADDRESS: 5555 N Fresno St. Fresno, CA ZIP CODE: 93710 PHONE: 559-439-4770
 PROVIDER NAME: ABHOW FACILITY OPERATOR: ABHOW
 RELATED FACILITIES: ABHOW RELIGIOUS AFFILIATION: Baptist
 YEAR OPENED: 1966 NO. OF ACRES: 25 MULTI-STORY: SINGLE STORY: BOTH: X
 MILES TO SHOPPING CTR: 1 MILES TO HOSPITAL: 2



NUMBER OF UNITS:	INDEPENDENT LIVING	HEALTH CARE
APARTMENTS - STUDIO	<u>0</u>	ASSISTED LIVING <u>46</u>
APARTMENTS - 1 BDRM	<u>68</u>	SKILLED NURSING <u>79</u>
APARTMENTS - 2 BDRM	<u>108</u>	SPECIAL CARE <u>24</u>
COTTAGES/HOUSES	<u> </u>	DESCRIBE SPECIAL CARE: <u>Memory Support</u>
% OCCUPANCY AT YEAR END	<u>87.8%</u>	

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

FORM OF CONTRACT: LIFE CARE CONTINUING CARE FEE FOR SERVICE
 ASSIGN ASSETS EQUITY ENTRY FEE RENTAL

REFUND PROVISIONS (Check all that apply): 90% 75% 50% PRORATED TO 0% OTHER: 70%

RANGE OF ENTRANCE FEES: \$85,000 TO \$500,000 LONG-TERM CARE INSURANCE REQUIRED? Y N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: Various transfer credits dependent upon contract.

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

FACILITY SERVICES AND AMENITIES

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

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

PROVIDER NAME: _____ Terraces at San Joaquin Gardens _____

CCRCs	LOCATION (City, State)	PHONE (with area code)
Terraces at San Joaquin Gardens	Fresno, CA	559-439-4770

MULTI-LEVEL RETIREMENT COMMUNITIES		

FREE-STANDING SKILLED NURSING		

SUBSIDIZED SENIOR HOUSING		

* PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

PROVIDER NAME: _____

	2010	2011	2012	2013
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)				\$17,292,000
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)				<u>16,690,000</u>
NET INCOME FROM OPERATIONS				602,000
LESS INTEREST EXPENSE				1,146,000
PLUS CONTRIBUTIONS				
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)				<u>-544,000</u>
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION				
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)				<u>6,176,000</u>

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
Series 2012	\$71,035,000		09/26/12		
Series A Subnote 2006	\$23,336,000		09/01/12		
Series B Subnote 2010	\$6,438,000		09/01/12		

FINANCIAL RATIOS (see next page for ratio formulas)

	2001 CCAC Medians 50 th Percentile (optional)	2011	2012	2013
DEBT TO ASSET RATIO				74.06%
OPERATING RATIO				103.15%
DEBT SERVICE COVERAGE RATIO				1.74
DAYS CASH-ON-HAND RATIO				184.98

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

	2010		2011		2012		2013	
STUDIO								
ONE BEDROOM	1,870	3.00%	2,052	4.90%	2,177	4.00%	2,253	
TWO BEDROOM	2,501	3.00%	2,688	4.90%	2,847	4.00%	3,090	
COTTAGE/HOUSE								
ASSISTED LIVING	4,084	3.00%	4,233	6.50%	4,567	4.00%	4,927	
SKILLED NURSING	234/day	3.00%	242/day	3.50%	252/day	4.00%	262/day	
SPECIAL CARE	5,609	4.00%	5,873	3.50%	6,390	4.00%	6,414	

COMMENTS FROM PROVIDER: _____

The financial information is taken from the OFI section of the audited financial statements.

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

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

OPERATING RATIO

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

DEBT SERVICE COVERAGE RATIO

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

DAYS CASH ON HAND RATIO

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

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

RECEIVED

FEB 26 2014

KEY INDICATORS REPORT

Terraces at San Joaquin Gardens

Chief Executive Officer Signature
 CONTINUING CARE
 CONTRACTS BRANCH

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

	Projected					Forecast			Reviewed Trend Indicator		
	2009	2010	2011	2012	2013	2014	2015	2016		2017	2018
OPERATIONAL STATISTICS											
1. Average Annual Occupancy by Site (%)					86.82%	76.33%	80.57%	91.73%	93.89%	93.05%	N/A
MARGIN (PROFITABILITY) INDICATORS											
2. Net Operating Margin (%)					2.36%	2.16%	10.05%	13.36%	15.33%	14.93%	↑
3. Net Operating Margin - Adjusted (%)					21.22%	17.44%	22.73%	24.90%	25.33%	30.03%	↓
LIQUIDITY INDICATORS											
4. Unrestricted Cash and Investments (\$000)					\$7,216	\$7,429	\$9,916	\$15,860	\$18,567	\$18,567	↑
5. Days Cash on Hand (Unrestricted)					145.13	133.54	168.50	247.55	256.47	275.12	↑
CAPITAL STRUCTURE INDICATORS											
6. Deferred Revenue from Entrance Fees (\$000)					25,091	42,246	51,249	54,963	55,123	55,298	N/A
7. Net Annual E/F proceeds (\$000)					\$4,169	\$3,230	\$3,306	\$3,356	\$3,382	\$5,080	N/A
8. Unrestricted Net Assets (\$000)					\$1,310	\$1,949	\$8,940	\$11,071	\$13,077	\$14,056	N/A
9. Annual Capital Asset Expenditure (\$000)					\$1,025	\$600	\$600	\$600	\$600	\$600	N/A
10. Annual Debt Service Coverage Revenue Ends (x)					0.12	0.12	0.50	0.78	0.83	0.78	↑
11. Annual Debt Service Coverage (x)					0.22	0.72	1.21	1.54	1.51	1.74	↑
12. Annual Debt Service/Revenue (%)											↓
13. Average Annual Effective Interest Rate (%)					5.02%	5.83%	5.73%	5.43%	5.50%	5.28%	↓
14. Unrestricted Cash & Investments/Long-Term Debt (%)					6.92%	7.82%	12.01%	19.54%	23.28%	23.25%	↑
15. Average Age of Facility (years)					11.46	6.55	7.35	8.35	9.27	9.19	↓

