

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

The Terraces at San Joaquin Gardens

As of and for the year ended December 31, 2016

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors
The Terraces at San Joaquin Gardens
(a member of California Life Plan Communities)

Report on the Financial Statements

We have audited the accompanying financial statements of The Terraces at San Joaquin Gardens (a Member of California Life Plan Communities), which comprise the continuing care liquid reserve schedules, Forms 5-1 through Form 5-5, as of and for the year ended December 31, 2016.

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 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 The Terraces at San Joaquin Gardens as of and for the year ended December 31, 2016, 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 The 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 5-1: Interest Paid During Fiscal Year, Attachment II to Form 5-4: Deductions From Operating Expenses, Attachment III to Form 5-4: Operating Expenses From Financial Statements, Attachment IV 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 The 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.

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

San Francisco, California
April 28, 2017

CONTINUING CARE LIQUID RESERVE SCHEDULES

THE TERRACES AT SAN JOAQUIN GARDENS
FORM 5-1
LONG-TERM DEBT INCURRED IN A PRIOR FISCAL YEAR
(INCLUDING BALLOON DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2016

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	\$2,787,828		\$2,787,828
2	10/1/2012 SubA	\$0			\$0
3	10/1/2012 SubB	\$0			\$0
4					\$0
5					\$0
6					\$0
7					\$0
8					\$0
TOTAL:			\$2,787,828	\$0	\$2,787,828

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

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

THE TERRACES AT SAN JOAQUIN GARDENS
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
(INCLUDING BALLOON DEBT)
FOR THE YEAR ENDED DECEMBER 31, 2016

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.

THE TERRACES AT SAN JOAQUIN GARDENS
FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	<u>\$2,787,828</u>
2	Total from Form 5-2 bottom of Column (e)	<u>\$0</u>
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	<u>\$200,000</u>
4	TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:	<u><u>\$2,987,828</u></u>

THE TERRACES AT SAN JOAQUIN GARDENS
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

FORM 5-4
CALCULATION OF NET OPERATING EXPENSES

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		<u>\$29,843,000</u>
2	Deductions:		
a.	Interest paid on long-term debt (see instructions)	<u>\$2,787,828</u>	
b.	Credit enhancement premiums paid for long-term debt (see instructions)	<u>\$0</u>	
c.	Depreciation	<u>\$5,204,388</u>	
d.	Amortization	<u>\$1,012,612</u>	
e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	<u>\$1,952,370</u>	
f.	Extraordinary expenses approved by the Department	<u>\$0</u>	
3	Total Deductions		<u>\$10,957,198</u>
4	Net Operating Expenses		<u>\$18,885,802</u>
5	Divide Line 4 by 365 and enter the result.		<u>\$51,742</u>
6	Multiply Line 5 by 75 and enter the result. This is the provider's operating expense reserve amount.		<u><u>\$4,013,475</u></u>

PROVIDER: The Terraces at San Joaquin Gardens

COMMUNITY

THE TERRACES AT SAN JOAQUIN GARDENS
FORM 5-5
ANNUAL RESERVE CERTIFICATION
DECEMBER 31, 2016

FORM 5-5

Provider Name: The Terraces at San Joaquin Gardens
Fiscal Year Ended: 12/31/2016

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2016 and are in compliance with those requirements.

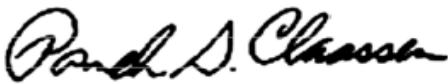
Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

	<u>Amount</u>
[1] Debt Service Reserve Amount	<u>\$2,987,828</u>
[2] Operating Expense Reserve Amount	<u>\$4,013,475</u>
[3] Total Liquid Reserve Amount:	<u>\$7,001,303</u>

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

<u>Qualifying Asset Description</u>	<u>Debt Service Reserve</u>	<u>Operating Reserve</u>
[4] Cash and Cash Equivalents	<u>\$0</u>	<u>\$17,152,000</u>
[5] Investment Securities	<u>\$0</u>	<u>\$0</u>
[6] Equity Securities	<u>\$0</u>	<u>\$0</u>
[7] Unused/Available Lines of Credit	<u>\$0</u>	<u>\$0</u>
[8] Unused/Available Letters of Credit	<u>\$0</u>	<u>\$0</u>
[9] Debt Service Reserve	<u>\$4,327,852</u>	(not applicable)
[10] Other:	<u></u>	<u></u>
<u>(describe qualifying asset)</u>		
Listed for Reserve Obligation: [11]	<u>\$4,327,852</u>	[12] <u>\$17,152,000</u>
Reserve Obligation Amount: [13]	<u>\$2,987,828</u>	[14] <u>\$4,013,475</u>
Surplus/(Deficiency): [15]	<u>\$1,340,024</u>	[16] <u>\$13,138,525</u>

Signature:



(Authorized Representative)

Date: April 27, 2017

SVP Finance/Chief Financial Officer
(Title)

SUPPLEMENTARY SCHEDULES

**THE TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT I TO FORM 5-1
INTEREST PAID DURING FISCAL YEAR
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2016**

INTEREST PAID DURING FISCAL YEAR:

77125	Interest expense - TSJG Series 2012	\$	2,787,828	\$	2,787,828
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TOTAL AMOUNT OF INTEREST PAID DURING FISCAL YEAR					2,787,828
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INTEREST EXPENSE RECONCILIATION:

77140	Amortization of loan costs	60,456	
13511	Prepaid finance fees	(14,284)	46,172

TOTAL INTEREST FROM FINANCIAL STATEMENTS AS REPORTED			\$	2,834,000
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THE TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT II TO FORM 5-4
DEDUCTIONS FROM OPERATING EXPENSES
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2016

Line	Description	The Terraces at San Joaquin Gardens	
2e	Total Revenues received during the fiscal year for services to residents who did not have continuing care contracts Monthly Fees – Private (Non-Contract) Physical Therapy – Private (Non-Contract) Occupational Therapy – Private (Non-Contract) Speech Therapy – Private (Non-Contract) Chargeable Supplies – Private (Non-Contract)	\$ 1,906,250 29,181 380 16,000 559	sum of {A} {B} {C} {D} sum of {E}
	Total for Line 2e	\$ 1,952,370	
	Residential Living Fees Reconciliations		
	Total (Non-Contract)	\$ 23,059	{A}
	Contract	8,851,538	
	Total Residential Fees	\$ 8,874,597	
	Assisted Living Fees Reconciliation		
	Total (Non-Contract)	\$ 670,277	{A}
	Chargeable Supplies – Private (Non-Contract)	10	{E}
	Contract	2,257,207	
	Total Assisted Living Fees	\$ 2,927,494	
	Health Center Fees Reconciliation		
	Monthly Fees – Private (Non-Contract)	\$ 995,335	{A}
	Physical Therapy – Private (Non-Contract)	29,181	{B}
	Occupational Therapy – Private (Non-Contract)	380	{C}
	Speech Therapy – Private (Non-Contract)	16,000	{D}
	Chargeable Supplies – Private (Non-Contract)	480	{E}
	Total (Non-Contract)	1,041,376	
	Contract	6,356,618	
	Total Health Center Fees	\$ 7,397,994	
	Memory Support Fees Reconciliation		
	Monthly Fees – Private (Non-Contract)	\$ 217,579	{A}
	Chargeable Supplies – Private (Non-Contract)	69	{E}
	Total (Non-Contract)	217,648	
	Contract	1,577,981	
	Total Memory Support Fees	\$ 1,795,629	
	Other Resident Svc. Reconciliation		
	Total (Non-Contract)	\$ -	
	Contract	421,379	
	Total Other Resident Svc. Fees	\$ 421,379	

THE TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT III TO FORM 5-4
OPERATING EXPENSES FROM FINANCIAL STATEMENTS
STATE OF CALIFORNIA – DEPARTMENT OF SOCIAL SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2016

		The Terraces at San Joaquin Gardens	
Line	Description		
1	Total operating expenses from financial statements		
	Total operating expenses from financial statements as reported	\$	19,468,000
	Add:		
	Depreciation	5,204,388	
	Amortization	1,012,612	6,217,000
	Mortgage interest		4,158,000
	Total for Line 1	\$	29,843,000

THE TERRACES AT SAN JOAQUIN GARDENS
ATTACHMENT IV 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 DECEMBER 31, 2016

DEBT SERVICE RESERVE

US Bank #200523009	Cash & cash equivalents	\$	155,733	
	Domestic corporate debt		1,287,260	
	Foreign corporate debt		429,481	
	U.S. government securities		<u>1,607,437</u>	\$ 3,479,911
US Bank #200523002	Cash & cash equivalents		<u>847,941</u>	<u>847,941</u>
TOTAL AMOUNT OF QUALIFYING ASSETS FOR DEBT SERVICE RESERVE				<u><u>\$ 4,327,852</u></u>

RESTRICTED INVESTMENTS RECONCILIATION:

14000	DSR funds 2012 A series - USB # 200523009	\$	3,479,911	
14004	Project funds - 2012 Bonds USB #200523016		24,011	
14006	2012 -A SERIES - #200523002		847,941	
14186-14199	Other 2012 SERIES Fund Accounts		<u>137</u>	\$ 4,352,000
TOTAL RESTRICTED INVESTMENTS FROM FINANCIAL STATEMENTS AS REPORTED				<u><u>\$ 4,352,000</u></u>

THE TERRACES AT SAN JOAQUIN GARDENS
SUPPLEMENTAL SCHEDULE – DESCRIPTION OF RESERVES UNDER SB 1212
FOR THE YEAR ENDED DECEMBER 31, 2016

Total Qualifying Assets as Filed:

Comments in Consistency with Tax Exempt Status Under AB 1169

Cash and Cash Equivalents	\$ 17,152,000
Unrestricted Investment Securities	<u>-</u>
Subtotal Cash and Unrestricted Investment Securities	17,152,000
Reserved for Workers' Compensation	<u>-</u>
Total Qualifying Assets as Filed:	<u>17,152,000</u>

Reservations and Designations:

Total Reservations and Designations

13,274,000

Remaining Liquid Reserves

\$ 3,878,000

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 Gardens.

THE TERRACES AT SAN JOAQUIN GARDENS
SUPPLEMENTAL SCHEDULE – PER CAPITA COST OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

Per Capita Cost of Operations

Operating Expenses (Form 5-4 line 1)	\$ 29,843,000
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Mean Number of CCRC Residents (Form 1-1 line 10)	<u>351</u>
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Per Capita Cost of Operations	<u><u>\$ 85,144</u></u>
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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 The Terraces at San Joaquin Gardens assets, liabilities, revenues, and expenses.