



Report of Independent Auditors and  
Financial Statements

**Episcopal Senior Communities  
Foundation**  
(An Affiliate of JTM Communities)

March 31, 2011

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Episcopal Senior Communities Foundation

We have audited the accompanying statement of financial position of Episcopal Senior Communities Foundation (the "Foundation"), (an affiliate of JTM Communities) as of March 31, 2011 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Senior Communities Foundation as of March 31, 2011, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California  
June 30, 2011

## **FINANCIAL STATEMENTS**

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**EPISCOPAL SENIOR COMMUNITIES FOUNDATION**  
**(AN AFFILIATE OF JTM COMMUNITIES)**  
**STATEMENT OF FINANCIAL POSITION**  
**March 31, 2011**

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,858,321
Pledges receivable	17,000
Prepaid expenses	<u>20,000</u>

Total current assets	<u>2,895,321</u>
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ASSETS WHOSE USE IS LIMITED

Investment held in trust	4,936,509
Restricted investments	<u>8,744,056</u>

Total long-term assets whose use is limited	<u>13,680,565</u>
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Total assets	<u><u>\$ 16,575,886</u></u>
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LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 2,475
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DUE TO EPISCOPAL SENIOR COMMUNITIES	998,086
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LIABILITIES FOR PAYMENTS TO TRUST BENEFICIARIES	2,340,671
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LIABILITIES FOR PAYMENTS TO GIFT ANNUITANTS	<u>2,063,939</u>
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Total liabilities	<u>5,405,171</u>
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NET ASSETS

Unrestricted	755,341
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Temporarily restricted	9,760,954
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Permanently restricted	<u>654,420</u>
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Total net assets	<u>11,170,715</u>
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Total liabilities and net assets	<u><u>\$ 16,575,886</u></u>
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*See accompanying notes.*

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION**  
**(AN AFFILIATE OF JTM COMMUNITIES)**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year Ended March 31, 2011**

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and gains	
Contributions from Episcopal Senior Communities	\$ 515,905
Contributions - cash, bequests and other	118,623
Contributions - deferred gifts, net	26,670
Interest and dividends, net	(396)
Net realized losses	(122,994)
Net asset released from restriction	1,253,032
Net asset reclassification	669,890
Total revenues and gains	<u>2,460,730</u>
Program services	
Assistance	1,016,434
Outreach	80,203
Chapel	40,878
Community	36,150
Capital	15,819
Total program expenses	<u>1,189,484</u>
Support services	508,539
Fundraising activities	7,366
	<u>1,705,389</u>
Increase in unrestricted net assets	<u>755,341</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Revenues and gains	
Contributions - cash, bequests and other	348,882
Contributions - deferred gifts, net	249,391
Interest and dividends, net	254,705
Net realized gains	217,369
Net unrealized gains	763,652
Changes in split interest gift agreements	(403,047)
Net asset released from restriction	(1,253,032)
Net asset reclassification	(828,674)
Decrease in temporarily restricted net assets	<u>(650,754)</u>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues and gains	
Net asset reclassification	158,784
Increase in permanently restricted net assets	<u>158,784</u>

INCREASE IN NET ASSETS

NET ASSETS, beginning of year	<u>10,907,344</u>
NET ASSETS, end of year	<u>\$ 11,170,715</u>

*See accompanying notes.*

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION**  
**(AN AFFILIATE OF JTM COMMUNITIES)**  
**STATEMENT OF CASH FLOWS**  
**Years Ended March 31, 2011**

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CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 263,371
Adjustments to reconcile change in net asset to net cash from operating activities:	
Unrealized gains on investments	(763,652)
Change in operating assets and liabilities:	
Pledges receivable, net	(17,000)
Prepaid expenses	(20,000)
Accounts payable and accrued expenses	2,475
Due to Episcopal Senior Communities	(2,830,955)
Liabilities for payments to trust beneficiaries	121,315
Liabilities for payments to gift annuitants	60,862
	<hr/>
Net cash used in operating activities	(3,183,584)
CASH FLOWS FROM INVESTING ACTIVITIES	
Assets whose use is limited sold	17,667,773
Assets whose use is limited acquired	(14,735,833)
	<hr/>
Net cash provided by investing activities	2,931,940
NET DECREASE IN CASH	
	(251,644)
CASH AND CASH EQUIVALENTS, beginning of year	<hr/>
	3,109,965
CASH AND CASH EQUIVALENTS, end of year	<hr/>
	\$ 2,858,321

*See accompanying notes.*

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION  
(AN AFFILIATE OF JTM COMMUNITIES)  
NOTES TO FINANCIAL STATEMENTS**

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

**Nature of operations** – Episcopal Senior Communities Foundation (“ESCF”) or (the “Foundation”), formerly EHF Fund, Inc., is a California nonprofit public benefit corporation. The primary purpose of ESCF is to raise funds on behalf of Episcopal Senior Communities (“ESC”) and to administer those funds for the needs of ESC and its residents. ESC is the sole corporate member of ESCF, and it is included in the financial statements of ESC.

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

**Investments** – Investments in marketable securities, including those held in restricted investments, are measured at fair value in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is reported in the statement of activities. Investment income is reported as an increase in unrestricted net assets, depending on donor-imposed restrictions on the use of the income.

**Contributions and pledges received** – Contributions and pledges received are measured at their fair value and reported as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction is satisfied, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no donation pledges in excess of one year subject to discounting as of March 31, 2011.

**Concentration of risk** – Financial instruments potentially subjecting the Foundation to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

**Obligations under charitable annuity agreements** – In exchange for an irrevocable deferred gift, the Foundation is required to pay a certain sum of money to the donor(s), and, consequently, a liability is reflected in obligations under annuity agreements. These types of arrangements are summarized as follows:

*Charitable gift annuities* – As consideration for certain gifts made to the Foundation, the Foundation enters into agreements to pay fixed annual payments to the donors for the life of the contract. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. In 2011, the annual computation of the temporarily restricted amount of the gift is based upon a 2005 Group Annuity Mortality Table, with an interest assumption at approximately 6% per annum. Assets in excess of liabilities, if any, related to these annuities are available for the use of ESCF with the approval of the California Department of Insurance.

*Charitable remainder unitrusts* – Unitrusts are trust agreements that provide for a fixed annual payment of not less than 5% of the market value as of the first business day of the calendar year of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor’s intent.

*Charitable remainder annuity trusts* – Annuity trusts are trust agreements that provide for a fixed annual payment with an irrevocable remainder interest contributed pursuant to the donor’s intent.

**Net assets** – The Foundation’s net assets are classified as follows:

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

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

*Permanently restricted net assets* represent net assets subject to donor imposed stipulations that they be maintained by the Foundation in perpetuity.

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION  
(AN AFFILIATE OF JTM COMMUNITIES)  
NOTES TO FINANCIAL STATEMENTS**

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**Contribution income** – Contributions are recognized as revenue when received or unconditionally promised.

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

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

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

**Fair value of financial instruments** – The carrying amounts reported in the statement of financial position for cash and cash equivalents, receivables, accounts payable, and accrued liabilities approximate fair value. The Foundation’s policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 as of the end of the reporting period.

**Reclassifications** – Temporarily restricted net assets of \$878,674 from the prior year were reclassified to unrestricted net assets and permanently restricted net assets of \$669,890 and \$158,784, respectively, to conform to the current year presentation related to its community fund.

**NOTE 2 – ASSETS WHOSE USE IS LIMITED**

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. 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. ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position at March 31, 2011, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Assets whose use is limited** – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities and cash equivalents included in money market funds.

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS**

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

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance at March 31, 2011</u>
Cash equivalents	\$ 1,235,886	\$ 157,999	\$ -	\$ 1,393,885
Available for sale				
Fixed income Securities				
Government securities	1,833,284	-	-	1,833,284
Corporate bonds	684,310	-	-	684,310
Equity securities				-
US equities	4,064,004	-	-	4,064,004
Non US equities	800,798	-	-	800,798
Mutual funds	4,904,284	-	-	4,904,284
<b>Total</b>	<b>\$ 13,522,566</b>	<b>\$ 157,999</b>	<b>\$ -</b>	<b>\$ 13,680,565</b>

There were no significant transfers in or out of Level 1 and Level 2 fair value measurements.

**NOTE 3 - RESTRICTED NET ASSETS**

Restricted net assets in the financial statements at March 31, 2011 are available for the following:

	<u>2011</u>		
	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Assistance fund	\$ 654,420	\$ 4,633,430	\$ 5,287,850
Community fund and other	-	1,996,912	1,996,912
Deferred contribution to pooled annuities	-	3,130,612	3,130,612
<b>Total restricted net assets</b>	<b>\$ 654,420</b>	<b>\$ 9,760,954</b>	<b>\$ 10,415,374</b>

Assistance funds have been established from donations and bequests. Management defines assistance provided to residents as the difference between prevailing entry and monthly maintenance fees and the fees charged assisted residents, which amounted to approximately \$1,016,434 for 2011.

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION  
(AN AFFILIATE OF JTM COMMUNITIES)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – ENDOWMENT DISCLOSURES**

**Interpretation of Relevant Law** – The Board of Directors of the Foundation has interpreted the California Prudent Management of Institutional Funds Act (“CPMIFA”) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation Board of Directors in a manner consistent with the standard prudence prescribed by CPMIFA. In accordance with CPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Foundation and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Foundation
- g. The investment policies of the Foundation

**Spending Policy and How the Investment Objectives Relate to Spending Policy** – The spending policy for the endowment assets of the Foundation is to payout the earnings on the endowment assets provided the payout does not exceed 7% of the fair market value of the assets calculated on the basis of market values determined quarterly and averaged over a period of three years immediately preceding the appropriation for expenditure. The investment objectives provide for a targeted compounded annual return of 7.0%. The spending policy and return objective is supported by maintaining a strategic asset allocation of 50% equity securities and 50% fixed income securities and further enhanced by allowing up to half of the fixed income allocation to be invested in securities with greater risk and potential return such as high yield, global, and emerging market debt.

The Foundation does not have any endowments which have been restricted by board designation. The changes in endowment net assets which have been permanently restricted by donors for the year ended March 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, April 1, 2010	\$ -	\$ -	\$ 495,636	\$ 495,636
Investment return:				
Investment Income	-	16,004	-	16,004
Realized and unrealized gains (losses)	-	44,669	-	44,669
Total investment return	-	60,673	-	60,673
Contributions and reclassifications	-	-	158,784	158,784
Appropriation of endowment assets for expenditures	-	(60,673)	-	(60,673)
Endowment net assets, March 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 654,420</u>	<u>\$ 654,420</u>

**EPISCOPAL SENIOR COMMUNITIES FOUNDATION  
(AN AFFILIATE OF JTM COMMUNITIES)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5 - RELATED PARTIES**

In 2004, ESCF conducted a fund raising campaign dedicated to making major capital improvements to the St. Paul's Towers Resident Center. The entire project costs were \$2 million of which ESC funded 20% and the remaining funds came from cash donations, Charitable Gift Annuities ("CGAs"), and Charitable Remainder Trusts ("CRTs"). Due to the deferred nature of CGAs and CRTs, ESC advanced the funds necessary to complete the project creating a liability due to ESC. As the CGAs and the CRTs mature, funds are transferred to ESC to relieve the intercompany liability. As of March 31, 2011, the outstanding balance related to the project is \$864,160 and is included in the Due to ESC balance in the statement of financial position.

Additionally, Episcopal Senior Communities provides financial support to the Foundation by paying for certain general and administrative expenses. These amounts are recorded as a contribution and an equivalent amount is recorded as an expense. For the year ended March 31, 2011 such support included the following:

	<b>2011</b>
Administrative support	\$ 508,539
Fundraising activities	7,366
Total	\$ 515,905

**NOTE 6 - FUNCTIONAL EXPENSES**

The Foundation's expenses have been summarized on a functional basis below:

	<b>Program Services</b>	<b>Administrative Support</b>	<b>Fundraising Activities</b>	<b>Total</b>
Assistance for resident fees	\$ 1,016,434	\$ -	\$ -	\$ 1,016,434
Salaries	-	478,955	-	478,955
Other operating expenses	173,050	29,584	6,837	209,471
Direct mail	-	-	529	529
	\$ 1,189,484	\$ 508,539	\$ 7,366	\$ 1,705,389

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

The Foundation is currently not a party to any claims or legal actions arising in the normal course of business.

**NOTE 8 - SUBSEQUENT EVENTS**

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

The Foundation has evaluated subsequent events through June 30, 2011 which is the date the financial statements are available to be issued.