

MOSSES ADAMS

**JTM COMMUNITIES
AND CONTROLLED AFFILIATES**

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

MARCH 31, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
JTM Communities and Controlled Affiliates

We have audited the accompanying consolidated statements of financial position of JTM Communities ("JTM") and Controlled Affiliates (collectively referred to as the "Corporation"), all of which are under common control and common management, as of March 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Lytton Gardens Senior Communities and Oak Center Towers, whose statements reflect total assets of \$29,803,963 and \$19,561,806, respectively, and total revenues of \$19,969,752 and \$2,323,096, respectively, as of and for the years ended March 31, 2009 and 2008, see Note 12. We did not audit the financial statements of Lytton Gardens I, Lytton Gardens II, Lytton Gardens, Inc., and Lytton IV Housing Corporation, whose statements reflect total assets of \$27,684,193 and total revenues of \$20,660,850 as of and for the year ended March 31, 2008, see Note 12. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for Lytton Gardens Senior Communities and Oak Center Towers in 2009 and Lytton Gardens I, Lytton Gardens II, Lytton Gardens, Inc., and Lytton IV Housing Corporation in 2008 is based solely on the reports of other auditors.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JTM Communities and Controlled Affiliates at March 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 26 - 28 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position or changes in net assets of the individual affiliates, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Corporation's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



San Francisco, California
November 16, 2009

CONSOLIDATED FINANCIAL STATEMENTS

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 10,146,291 | \$ 13,925,322 |
| Assets held by bond indenture trustee for current debt service | 7,793,932 | 7,542,181 |
| Marketable securities | 55,764,545 | 80,115,282 |
| Receivables, net of allowance for doubtful accounts of \$520,419 in 2009 and \$416,827 in 2008 | 13,980,004 | 8,003,181 |
| Prepaid expenses, deposits, and other assets | <u>1,554,775</u> | <u>1,778,313</u> |
| Total current assets | <u>89,239,547</u> | <u>111,364,279</u> |
| ASSETS WHOSE USE IS LIMITED | | |
| Assets held by bond indenture trustee and restricted for construction and debt service | 25,299,765 | 24,033,970 |
| Less portion available to satisfy current debt service | <u>(7,793,932)</u> | <u>(7,542,181)</u> |
| Non-current portion | 17,505,833 | 16,491,789 |
| Funded reserves for replacement and insurance | 4,274,537 | 3,822,923 |
| Restricted investments | <u>13,744,459</u> | <u>18,171,855</u> |
| Total long-term assets whose use is limited | <u>35,524,829</u> | <u>38,486,567</u> |
| PROPERTY AND EQUIPMENT, NET | 253,702,975 | 254,595,341 |
| DEFERRED CHARGES AND OTHER ASSETS | <u>9,207,451</u> | <u>5,962,743</u> |
| Total assets | <u>\$ 387,674,802</u> | <u>\$ 410,408,930</u> |

See accompanying notes.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
March 31, 2009 and 2008

| | 2009 | 2008 |
|---|----------------|----------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 6,879,598 | \$ 5,417,939 |
| Accrued payroll and payroll taxes | 3,354,986 | 2,506,603 |
| Current portion of long-term debt | 7,587,586 | 7,277,774 |
| Accrued interest | 1,216,988 | 1,393,359 |
| Refundable deposits | 274,783 | 287,862 |
| Self-insurance and other liabilities | 4,023,622 | 5,557,882 |
| Total current liabilities | 23,337,563 | 22,441,419 |
| ACCRUED RETIREMENT BENEFITS | 8,932,223 | 2,044,549 |
| LONG-TERM DEBT, NET | 133,657,687 | 138,270,372 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 154,639,567 | 148,927,694 |
| DEFERRED REVENUE FROM INVESTMENT CONTRACT | 2,566,145 | 2,921,519 |
| OTHER LIABILITIES | 4,601,143 | 4,219,355 |
| Total liabilities | 327,734,328 | 318,824,908 |
| NON-CONTROLLING INTEREST | 4,708,737 | 5,005,090 |
| NET ASSETS | | |
| Unrestricted | 46,258,920 | 73,367,292 |
| Temporarily restricted | 8,562,314 | 12,609,035 |
| Permanently restricted | 410,503 | 602,605 |
| Total net assets | 55,231,737 | 86,578,932 |
| Total liabilities and net assets | \$ 387,674,802 | \$ 410,408,930 |

See accompanying notes.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended March 31, 2009 and 2008

| | 2009 | 2008 |
|--|---------------------|--------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Revenues and gains | | |
| Monthly resident fees | \$ 55,684,743 | \$ 52,909,480 |
| Amortization of deferred revenue from entrance fees | 18,866,778 | 20,573,398 |
| Net patient service revenue | 14,205,719 | 13,685,472 |
| Nonresident medical fees | 4,578,207 | 4,025,854 |
| Medical reimbursements | 4,387,982 | 3,961,833 |
| Affordable housing fees and rents | 8,956,400 | 8,193,162 |
| Shared expense/Management fees | - | 778,808 |
| Consulting fees | - | 14,625 |
| Grants and donations | 160,029 | 249,720 |
| Other | 2,915,277 | 3,903,989 |
| Net assets released from restriction for assistance and operations | 1,545,052 | 5,801,683 |
| Total revenues and gains | <u>111,300,187</u> | <u>114,098,024</u> |
| Expenses | | |
| Nursing center | 25,287,042 | 22,742,114 |
| Resident medical and outside hospital costs | 2,698,766 | 4,175,380 |
| Food service | 18,041,640 | 17,146,476 |
| Housekeeping | 4,478,555 | 4,612,056 |
| Maintenance | 8,865,987 | 8,300,542 |
| Utilities and telephone | 5,615,992 | 5,349,746 |
| Marketing | 3,058,767 | 2,724,855 |
| Selling, general, and administrative | 15,601,146 | 15,333,749 |
| Depreciation and amortization | 16,321,022 | 15,556,137 |
| Taxes and insurance | 645,408 | 612,064 |
| Interest | 4,712,365 | 6,569,924 |
| Other | 4,506,532 | 5,102,451 |
| Total expenses | <u>109,833,222</u> | <u>108,225,494</u> |
| OPERATING INCOME | 1,466,965 | 5,872,530 |
| INVESTMENT INCOME | | |
| Investment income | 3,115,224 | 3,804,672 |
| Net realized gains and (losses) on investments | <u>(7,988,594)</u> | <u>9,968,791</u> |
| Total investment income | <u>(4,873,370)</u> | <u>13,773,463</u> |
| NET INCOME (LOSS) | (3,406,405) | 19,645,993 |
| NET UNREALIZED LOSSES ON INVESTMENTS | (16,959,593) | (13,483,295) |
| CHANGE IN MINIMUM PENSION LIABILITY | (6,975,593) | (15,804) |
| EFFECT OF ADOPTION OF FAS 158 | - | (330,596) |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>(27,341,591)</u> | <u>5,816,298</u> |

See accompanying notes.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (continued)
Years Ended March 31, 2009 and 2008

| | 2009 | 2008 |
|--|---------------|---------------|
| ADD BACK NON-CONTROLLING INTEREST | \$ 296,265 | \$ 640,093 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | 1,447,670 | 1,516,402 |
| Investment income | 357,796 | 653,470 |
| Net realized gains and (losses) on investments | (518,585) | 683,701 |
| Net unrealized losses on investments | (3,861,865) | (823,467) |
| Net assets released from restrictions for assistance and operations | (1,532,793) | (5,746,217) |
| Decrease in temporarily restricted net assets | (4,107,777) | (3,716,111) |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS | | |
| Investment income | 17,548 | 19,759 |
| Net realized (losses) gains on investments | (43,888) | 35,707 |
| Net unrealized losses on investments | (167,752) | (6,651) |
| Unrestricted earnings used for assistance | - | (55,466) |
| Decrease in permanently restricted net assets | (194,092) | (6,651) |
| INCREASE (DECREASE) IN NET ASSETS | (31,347,195) | 2,733,629 |
| NET ASSETS, beginning of year | 86,578,932 | 83,845,303 |
| NET ASSETS, end of year | \$ 55,231,737 | \$ 86,578,932 |

See accompanying notes.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2009 and 2008

| | 2009 | 2008 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from residents and third-party payors | \$ 80,387,623 | \$ 79,568,025 |
| Proceeds from entrance fees | 19,874,451 | 24,101,272 |
| Processing fees | 36,250 | 16,300 |
| Reimbursements from residents | 3,387,646 | 3,977,518 |
| Reimbursements from nonresidents | 4,578,207 | 4,025,854 |
| Investment gains and losses | (5,550,282) | 15,016,780 |
| Cash paid to employees and suppliers | (89,093,529) | (86,347,494) |
| Interest paid | (4,644,741) | (6,523,594) |
| Change in controlling company of Oak Center Towers ("OCT") and Oak Centers, L.P. ("OCLP") | (8,431,435) | - |
| Net cash provided by operating activities | <u>544,190</u> | <u>33,834,661</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Property acquisitions and construction in progress | (706,352) | (24,041,907) |
| Non-controlling interest | (5,005,090) | 5,568,000 |
| Increase/decrease in funds held by bonds indenture trustee | (663,659) | 1,464,245 |
| Net deposits to various reserve accounts | (388,028) | (1,019,189) |
| Marketable securities acquired | (17,550,147) | (41,450,733) |
| Marketable securities sold | 29,008,377 | 35,858,100 |
| Net cash used in (provided by) investing activities | <u>4,695,101</u> | <u>(23,621,484)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term debt repayment | (11,842,825) | (14,641,322) |
| Long-term debt borrowing | 2,824,503 | 4,646,542 |
| Net cash used in financing activities | <u>(9,018,322)</u> | <u>(9,994,780)</u> |
| NET INCREASE (DECREASE) IN CASH | <u>(3,779,031)</u> | <u>218,397</u> |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>13,925,322</u> | <u>13,706,925</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 10,146,291</u> | <u>\$ 13,925,322</u> |
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (31,347,195) | \$ 2,733,629 |
| Adjustments to reconcile to net cash from operating activities | | |
| Change in controlling company for OCT & OCLP | (8,431,435) | - |
| Amortization of deferred revenue from entrance fees | (18,866,778) | (20,573,398) |
| Proceeds from entrance fees, net of refunds | 19,874,451 | 24,101,272 |
| Depreciation and amortization | 16,321,022 | 15,556,137 |
| Loss on disposal of fixed assets | - | 43,045 |
| Amortization of debt issuance costs and other | 131,288 | 133,715 |
| Amortization of bond issue discount | 122,460 | 131,447 |
| Amortization of monetized reserve fund | (355,374) | (374,705) |
| Contributions restricted | (1,455,731) | (1,516,402) |
| Change in net unrealized losses on investments | 20,463,757 | 14,313,413 |
| Change in pension intangible asset | 6,975,593 | - |
| Non-controlling interest | (296,265) | (640,093) |
| Effects of changes in | | |
| Receivables, net | (2,629,621) | (53,927) |
| Other assets | (138,494) | 49,307 |
| Accounts payable | 1,462,431 | (1,347,518) |
| Other liabilities | 336,260 | (709,762) |
| Accrued retirement benefits | (87,919) | (11,992) |
| Self-insurance liabilities | (1,534,260) | 2,000,493 |
| Net cash from operating activities | <u>\$ 544,190</u> | <u>\$ 33,834,661</u> |

See accompanying notes.

JTM COMMUNITIES AND CONTROLLED AFFILIATES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Parent Organization – JTM Communities (“JTM”) is a California nonprofit public benefit corporation. JTM is the sole corporate member of Episcopal Senior Communities (“ESC”) and the sole member of Lytton Gardens Senior Communities and Oak Center Towers.

JTM Related Enterprises

Episcopal Senior Communities – Episcopal Senior Communities (“ESC”), a California nonprofit public benefit corporation, operates five life-care retirement communities, Los Gatos Meadows, St. Paul’s Towers, Canterbury Woods, Spring Lake Village and San Francisco Towers, under license from the State of California. Episcopal Senior Communities provides housing, related facilities and services for elderly persons on a nonprofit, religious, and charitable basis. Residents pay an entrance fee and a monthly fee and are provided housing, meals, and medical care for life.

ESC controls Jennings Senior Housing, Inc. (“JSH”), Santa Rosa, California, and Presidio Gate Apartments (“PGA”), San Francisco, California, which were organized under the sponsorship of ESC in 2005 and 1982, respectively, to provide affordable residential complexes for elderly or disabled persons. Jennings Court, JSH’s complex, opened in June 2008. PGA and JSH are included in the consolidated financial statements of ESC.

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

In September 2007 Episcopal Homes Foundation (“EHF”) and John Tenant Memorial Homes (“JTMH”) completed their plan to reorganize the corporate structure and the relationships between the two entities. EHF was renamed Episcopal Senior Communities; JTMH was renamed JTM Communities (“JTM”) and JTM became the sole corporate member and parent corporation of ESC. JTM Communities is not included in the consolidated financial statements of ESC.

Oak Center Towers (“OCT”), Oakland, California, was organized under the sponsorship of ESC in 1971 to operate an affordable residential complex for elderly or disabled persons. OCT, in turn, is the general partner of Oak Centers, L.P. (“OCLP”), a California limited partnership organized as a tax credit vehicle to refinance, rehabilitate, own and operate the property. ESC controlled OCT from inception until June 2008 when control of OCT was transferred to JTM. OCT is included in the consolidated financial statements of ESC for the year ending March 31, 2008 but is not included for the year ending March 31, 2009. OCT is included in the consolidated financial statements of JTM as a direct subsidiary for the year ending March 31, 2009.

In November 2007, JTM affiliated with Lytton Gardens Senior Communities (“LGSC”) by becoming the sole corporate member of LGSC. LGSC is the sole corporate member of Community Housing, Inc. which owns and operates a 220 unit affordable senior residential community (“Lytton P”) and a 100 unit affordable residential care facility for the elderly (“Lytton II”). LGSC is also the sole corporate member of another 55 unit affordable senior residential community (“Lytton IV”), and a 145 unit skilled nursing facility (“Lytton Gardens, Inc.” or “LGI”) (collectively, the “Lytton Entities”). All of the Lytton Entities are California nonprofit public benefit corporations located in Palo Alto, California. The Lytton Entities are not included in the consolidated financial statements of ESC.

Lytton Entities – Lytton Gardens Senior Communities (the “Organization”) is a nonprofit public benefit corporation incorporated in the State of California in 2000. The Organization was formed to provide organizational, fundraising and facilities management services to affiliate nonprofit public benefit corporations that provide healthcare services, supportive services and/or housing to low-income persons, the elderly and others with special needs. The Organization and its affiliates and its facilities operate in Palo Alto, California. Lytton Gardens Senior Communities is the sole corporate member of Community Housing, Inc., Lytton Gardens, Inc. and Lytton IV Housing Corporation and these statements reflect its consolidated operations of the Lytton Entities.

JTM COMMUNITIES AND CONTROLLED AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Community Housing, Inc. (“CHI”) is a California nonprofit corporation formed in 1970 to provide housing and personal care programs for the elderly. In 1975, CHI opened Lytton Gardens I, a 220-unit independent-living apartment facility. The project was financed and is operated under the provisions of Section 236 of the National Housing Act. Lytton Gardens II, a 100-unit facility consisting of 50 residential care units and 50 independent-living units, was opened in 1979. The facility was financed and is operated under the provisions of Section 202 of the National Housing Act.

Lytton IV Housing Corporation (“Lytton Gardens IV”), a California nonprofit corporation, was formed to develop, construct and operate a 54-unit independent living apartment complex in Palo Alto, California. The project was primarily financed by and is operated under the provisions of Section 202 of the National Housing Act, as amended.

Lytton Gardens I, II, and IV are each subject to restrictions contained in the respective Acts and are regulated by the United States Department of Housing and Urban Development (“HUD”) as to rent charges, operating methods, use of assets and other matters. Rents are partially subsidized under Section 8 of the National Housing Act. Lytton Gardens I, II, and IV received \$1,543,900, \$1,118,968 and \$186,565, respectively, as rent subsidies during the year ended March 31, 2009. Lytton Gardens I, II, and IV received \$1,440,114, \$1,121,576 and \$184,367, respectively, as rent subsidies during the year ended March 31, 2008.

Lytton Gardens, Inc. is a California nonprofit corporation organized to own and operate Lytton Gardens Health Care Center (the “Health Care Center”), a 145-bed skilled nursing and subacute facility.

Basis of Consolidation – The accompanying consolidated financial statements include the accounts of JTM, ESC, OCT and the Lytton Entities. All significant intercompany balances and transactions have been eliminated.

Net Assets – The Corporation classifies net assets as follows:

Unrestricted net assets represent unrestricted contributions and income earned on unrestricted funds, and amounts for which restrictions have expired.

Temporarily restricted net assets represent contributions that are limited in use in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of the Corporation 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 contributions to be held as investments in perpetuity as directed by the original donor. The income from these investments is available primarily for assistance as designated by the donor.

Cash and Cash Equivalents – Cash and cash equivalents includes cash held in demand deposit, sweep, and savings accounts.

Marketable Securities – Marketable securities, including those held by the bond indenture trustee and 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 included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from performance measures.

Receivables for ESC – In addition to receiving payment from residents and from non-residents for services provided, ESC also receives payment for health services from insurance companies, Medicare, and other third-party payers. ESC regularly reviews its accounts and provides allowances for uncollectible accounts. Also included in receivables, are amounts due to ESC under short-term notes receivable issued as consideration by the residents for all or part of their entrance fees. These notes receivable are generally due in 90 days.

Receivables for the Lytton Entities – Lytton Gardens I, Lytton Gardens II and Lytton IV Housing Corporation use the specific write-off method to provide for doubtful accounts since past experience and management’s estimation indicates an adequate allowance for such accounts is immaterial. Lytton Gardens, Inc. uses an allowance for doubtful accounts.

Receivables for OCT – OCT uses the specific write-off method to provide for doubtful accounts since past experience and management’s estimation indicates an adequate allowance for such accounts is immaterial.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Assets Whose Use Is Limited – Assets whose use is limited include marketable securities restricted by bond indenture for construction and debt service. Such assets consist of government securities carried at market and a Guaranteed Investment Contract ("GIC") which is carried at market value plus accrued interest (Note 2). Amounts required to meet current liabilities have been reclassified in the balance sheet.

Restricted Investments – Restricted investments consist primarily of marketable securities which are restricted by the donor as to use (Note 2).

Property and Equipment – Property and equipment are stated at cost. Maintenance and repair costs are charged to operations when incurred. Depreciation is based upon straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 50 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.

The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2009 and 2008.

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

Deferred Charges and Other Assets – Deferred charges and other assets primarily represent costs incurred in connection with the issuance of debt which are amortized over the life of the related debt using the effective interest method. Included in ESC are predevelopment costs of \$8,150,975 and \$4,022,980 for the years ended March 31, 2009, and 2008, respectively. Other assets also include the fair value of interest rate swaps (Note 4).

Self-Insurance Liabilities – ESC is self-insured for workers' compensation and unemployment. The undiscounted liability includes estimates of the ultimate costs for both known claims and claims incurred but not reported based on actuarial studies. At March 31, 2009 and 2008, ESC had \$3,992,282 and \$4,753,470 accrued related to such claims, respectively. These amounts are included in self-insurance and other liabilities in the consolidated financial statements.

Deferred Revenue from Investment Contract – In 2003, ESC entered into a contract related to certain of its bond reserve funds, which are included in assets whose use is limited, whereby ESC received approximately \$5,115,000 in cash proceeds representing the discounted cash value of the investment earnings over the remaining 16-year life of those reserve funds. This amount was recorded as deferred revenue and is being amortized into revenue using the effective interest method over the term of the arrangement. ESC recognized \$355,374 and \$374,705 as revenue during the years ended March 31, 2009 and 2008, respectively.

Obligations Under Charitable Annuity Agreements – In exchange for an irrevocable deferred gift, ESCF 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 liabilities are included in other liabilities in the accompanying consolidated balance sheets. These types of arrangements are summarized as follows:

Charitable Gift Annuities – As consideration for certain gifts made to ESC, ESC 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 2009 and 2008, 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 ESC with the approval of the California Department of Insurance.

Charitable Remainder Annuity Trusts – Annuity trusts 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.

JTM COMMUNITIES AND CONTROLLED AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Professional Liability Insurance – ESC has secured claims-made policies for malpractice and general liability insurance with self-insured retentions over the past three years of \$35,000 for each claim. No accrual has been made for the estimated costs of known claims incurred prior to March 31, 2009 and 2008, respectively, which are within the retention amount. In addition, no accrual has been made at March 31, 2009 and 2008, respectively, for estimated costs of claims incurred but not yet reported.

Obligation to Provide Future Services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. ESC has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required at March 31, 2009 and 2008. The discount rate used to calculate obligation to provide future services is 6%.

Revenue Recognition – Entrance fees on Type A continuing care contracts are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents. Upon a resident's death or permanent transfer for medical care, ESC can resell the housing unit. A decreasing portion of the entrance fee is refundable by cancellation or termination of the care agreements during the first five years of occupancy. Entrance fees on Type C continuing care contracts are 90% refundable upon termination and reoccupancy of the housing unit and are amortized on a straight-line basis over the life of the building. Entrance fees subject to refund at March 31, 2009 and 2008, were \$61,761,545 and \$61,490,285, respectively, and are shown as a non-current liability. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Monthly resident fees and medical fees are recognized as services are performed.

ESC also provides health care services primarily to residents of its communities. Revenues from the Medicare program accounted for approximately 6.77% and 5.77% of ESC's net revenue for the years ended March 31, 2009 and 2008, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation. ESC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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 Medicare.

Rental income for the Lytton Entities is shown at the maximum gross potential, net of vacancy loss, and the value of rent-free employee units are shown as an expense of operations.

Patient service revenue for the Lytton Entities is reported at net realizable amounts from residents, Medicare, Medi-Cal, and others for services rendered. Lytton Gardens, Inc. reviews past due accounts receivable periodically and writes off uncollectible account balances against the reserve for bad debts when it is determined that amounts cannot be recovered through collection agency efforts. The reserve for bad debts is also periodically reviewed and updated based on the aging of past due accounts.

Revenue under the Medicare agreement is subject to audit and retroactive adjustment. Provision for estimated Medicare settlements is provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported as net patient service revenue in the statement of operations in the year of settlement.

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

Accounting for Derivatives – ESC follows Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments and requires that all derivatives be carried at fair value on the consolidated statements of financial position. Fair value of derivative instruments are reflected in accrued interest on the consolidated statements of financial position, changes in the fair value of derivative instruments are reflected as a change in net unrealized losses on investments in the consolidated statements of activities, and changes in net assets for the year ended March 31, 2009 and 2008, and investment losses for the year ended March 31, 2009 and 2008, following the guidance of Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*, which ESC adopted for the year ended March 31, 2005 (Note 4).

JTM COMMUNITIES AND CONTROLLED AFFILIATES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statutory Reserve Requirements – ESC is subject to statutory reserve requirements. At March 31, 2009 and 2008, ESC’s reserves, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements.

Tax-Exempt Status of JTM and ESC – JTM and ESC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and have been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

Tax-Exempt Status of the Lytton Entities – The Lytton Entities are exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from state franchise tax under Revenue and Taxation Code Section 23701(d). In addition, the Lytton Entities have been determined by the Internal Revenue Service not to be private foundations within the meaning of Section 509(a) of the code.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Major items requiring estimates and assumptions include deferred revenues and amortization of entrance fees, accrued self-insurance liabilities, obligation to provide future services, valuation of derivative instruments, valuation of financial instruments, and valuation of pension and retirement obligations.

New Accounting Pronouncements – In September 2006, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (“GAAP”) that is intended to result in increased consistency and comparability in fair value measurements. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 applies when other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years with early adoption permitted.

In early 2008, the FASB issued Staff Position (“FSP”) FAS-157-2, *Effective Date of FASB Statement No. 157*, which delayed by one year the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to the following:

- Nonfinancial assets and non-financial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods
- Goodwill and indefinite-lived intangible assets measured at fair value for impairment assessment under SFAS No. 142, *Goodwill and Other Intangible Assets*
- Nonfinancial assets (such as real estate or donations in kind) recorded at fair value at the time of donation
- Nonfinancial long-lived assets measured at fair value for impairment assessment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
- Asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*
- Nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*

The Corporation has adopted the portion of SFAS No. 157 (see Note 2) that has not been delayed by FSP FAS-157-2 as of April 1, 2008, and plans to adopt the balance of its provisions as of April 1, 2009. The Corporation is continuing to evaluate the impact SFAS No. 157 will have on the determination of fair value related to nonfinancial assets and nonfinancial liabilities beginning April 1, 2009.

JTM COMMUNITIES AND CONTROLLED AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why the Corporation uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect financial position, financial performance, and cash flows. SFAS 161 is effective for the Corporation beginning April 1, 2009.

In September of 2008, the FASB issued FASB Staff Position (“FSP”) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations, including ESC, that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. This position was adopted in 2009, and it did not have a significant impact on ESC’s consolidated position or results of operations.

Reclassifications - Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

NOTE 2 – FAIR VALUE OF ASSETS

FAS 157 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. FAS 157 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 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.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet at March 31, 2009, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Trading and Available-for-sale Securities – 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, cash equivalents included in money market funds and corporate bonds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Interest Rate Swap Agreement and Guaranteed Investment Contract – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at March 31, 2009:

| Description | Level 1 | Level 2 | Level 3 | Balance at March 31, 2009 |
|--------------------------------|---------------|-----------|---------|---------------------------------|
| Cash equivalents | \$ 30,765,804 | \$ - | \$ - | \$ 30,765,804 |
| Guaranteed investment contract | - | 6,015,660 | - | 6,015,660 |
| Equities | 56,045,942 | - | - | 56,045,942 |
| Government securities | 5,782,370 | - | - | 5,782,370 |
| Corporate bonds | 473,530 | - | - | 473,530 |
| Interest rate swaps | - | (603,023) | - | (603,023) |

Marketable securities and money market funds at fair value consisted of the following at March 31:

| | 2009 | 2008 |
|---|----------------------|----------------------|
| Cash equivalents | \$ 30,765,804 | \$ 19,587,059 |
| Guaranteed Investment Contract | 6,015,660 | 5,115,000 |
| Private debt obligation | - | 2,400,000 |
| Government securities | 5,782,370 | 9,485,723 |
| Corporate bonds | 473,530 | 588,382 |
| Stocks | 16,517,727 | 35,221,336 |
| Mutual funds | 39,528,215 | 53,825,677 |
| Total | 99,083,306 | 126,223,177 |
| Less assets held by bond indenture trustee and restricted for construction and debt service | (25,299,765) | (24,033,970) |
| Less assets held as funded reserves for replacement and insurance | (4,274,537) | (3,822,923) |
| Less marketable securities included in restricted investments (Note 5) | (13,744,459) | (18,251,002) |
| Total marketable securities | \$ 55,764,545 | \$ 80,115,282 |

Included within unrestricted total securities are the following Board of Directors-designated funds at March 31:

| | 2009 | 2008 |
|------------------------|----------------------|----------------------|
| Plant replacement fund | \$ 20,219,117 | \$ 26,622,095 |
| Income fund | 14,615,457 | 20,345,232 |
| Self-insurance fund | 10,137,759 | 15,952,267 |
| Dr. Darby Betts Funds | 693,966 | 1,232,852 |
| Total | \$ 45,666,299 | \$ 64,152,446 |

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Although not restricted in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," Board of Directors-designated funds represent the current intentions of the Board of Directors.

According to the trust agreements for the Series 1998 Certificates and the Series 2000 Certificates, certain funds are to be maintained and held by a trustee, primarily for debt service. Such funds, at fair value of \$23,016,956 and \$21,907,814, were classified as assets whose use is limited and were invested in government securities at March 31, 2009 and 2008, respectively. The portion of these assets available to satisfy current debt service is shown as a current asset in the accompanying statements of financial position.

The following table shows the gross unrealized losses and fair value of investments and assets limited as to use with unrealized losses that are not deemed to be other-than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2009:

| | Less than 12 months | | 12 months or greater | | Total | |
|---------------------------------------|----------------------|-----------------------|----------------------|------------------------|----------------------|------------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Bonds | \$ 3,411,627 | \$ (73,549) | \$ 133,363 | \$ (149,105) | \$ 3,544,990 | \$ (222,654) |
| Equity | 13,141,608 | (5,502,860) | 34,435,144 | (19,669,006) | 47,576,752 | (25,171,866) |
| Total temporarily impaired securities | <u>\$ 16,553,235</u> | <u>\$ (5,576,409)</u> | <u>\$ 34,568,507</u> | <u>\$ (19,818,111)</u> | <u>\$ 51,121,742</u> | <u>\$ (25,394,520)</u> |

The fair-market value of these investments has declined significantly due to a number of reasons, including recent disruption in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other-than-temporary impairment under management's policy. The Corporation follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended March 31, 2009 and 2008, no securities were determined to be other-than-temporarily impaired.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- The carrying amount of cash approximates fair value.
- The fair values of marketable securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.
- The fair values of interest rate swaps are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.
- The fair values of health facilities revenue bonds, revenue refunding bonds and trust deed notes are based on interest rates that are currently available to ESC for issuance of debt with similar terms and remaining maturities.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following summarizes the carrying amount and estimated fair value of various financial instruments at March 31, 2009 and 2008:

| | 2009 | | 2008 | |
|--------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets - marketable securities | \$ 88,700,000 | \$ 88,700,000 | \$ 120,900,000 | \$ 120,900,000 |
| Liabilities - refunding | | | | |
| Refunding revenue certificates | \$ 73,100,000 | \$ 69,000,000 | \$ 77,880,190 | \$ 77,955,894 |
| Variable rate certificates | \$ 25,000,000 | \$ 25,000,000 | \$ 26,000,000 | \$ 26,000,000 |

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that the Corporation could 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 March 31, 2009 and 2008. Current estimates of fair value may differ significantly from the amounts presented.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

| | 2009 | 2008 |
|------------------------------------|-----------------------|-----------------------|
| Building and building improvements | \$ 349,554,313 | \$ 324,847,155 |
| Furniture and equipment | 40,429,598 | 36,800,639 |
| Motor vehicles | 170,290 | 170,290 |
| Total | 390,154,201 | 361,818,084 |
| Less accumulated depreciation | (173,631,341) | (157,661,315) |
| Total | 216,522,860 | 204,156,769 |
| Land and land improvements | 36,779,823 | 35,503,973 |
| Construction in progress | 400,292 | 14,934,599 |
| Total | <u>\$ 253,702,975</u> | <u>\$ 254,595,341</u> |

Depreciation expense included in operations was \$16,287,183 and \$15,527,324 for the years ended March 31, 2009 and 2008, respectively.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at March 31:

| | 2009 | 2008 |
|---|---------------|---------------|
| ESC | | |
| ABAG Finance Authority for Nonprofit Corporations, Variable Rate Certificates of Participation, Series 2000, dated February 17, 2000, in the original amount of \$33,250,000; variable interest rate of .3% at March 31, 2009 paid semiannually; principal paid annually at February 1; maturing on February 1, 2025. | \$ 24,855,000 | \$ 25,940,000 |
| ABAG Finance Authority for Nonprofit Corporations, Refunding Revenue Certificates of Participation, Series 1998, dated June 1, 1998, in the original amount of \$116,706,000; interest from 5% to 5.35% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2010, July 1, 2013, and July 1, 2018. | 71,362,265 | 76,699,804 |
| Mortgage payable to and insured by Department of Housing and Urban Development ("HUD") collateralized by deed of trust on Presidio Gate Apartments; payable in monthly installments of \$28,093 including interest at 9.25%; due in full December 1, 2025. | 2,866,377 | 2,934,392 |
| California Statewide Communities Development Authority (CSCDA) Variable Rate Demand Multifamily Housing Revenue Bonds 2005 Series L dated June 1, 2005, in the original amount of \$11,450,000 which was reduced to \$3,820,000 in November 15, 2007. Bonds bear variable rate of interest and mature on December 15, 2037, secured by borrower's leasehold interest in land and ownership of improvements. | 3,820,000 | 3,820,000 |
| Citibank, N.A. Multifamily Note dated November 15, 2007, in the original amount of \$794,000, payable in monthly installments of \$12,716, including interest at 5.985%, with a term of 75 months maturing on February 14, 2014, secured by interest reduction payments to be received from HUD; for the year ended December 31, 2008, the interest reduction payments of \$155,038 is netted against interest expense of \$47,036 resulting in revenue of \$108,002. | 685,998 | 794,000 |
| Mortgage Note, of \$6,870,900, non-interest bearing collateralized by deed of trust on Jennings Court and repayment not required if Jennings Court remains available for very low income elderly persons in accordance with section 202 of the Housing Act of 1959. Provided that the property has remained available to eligible persons for occupancy until June 2048, the Mortgage Note shall be deemed to be paid and discharged. | 6,870,900 | 4,396,164 |
| Mortgage payable, of \$4,985,230, \$4,928,063 used to date, to The Housing Authority of the City of Santa Rosa (SRHA) collateralized by deed of trust on Jennings Court with a 3% simple interest rate per annum; principal and accrued interest payable in full in the year 2048. | 4,928,063 | 4,578,295 |
| Subsidy repayment payable to Sonoma National Bank (SNB) through the AHP Loan program, non-interest bearing, secured by a deed of trust on Jennings Court. Principal amount will be forgiven in full 15 years after project notice of completion, as long as the property has maintained the affordability limits as required by the AHP Program. | 216,000 | 216,000 |

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | 2009 | 2008 |
|--|----------------|----------------|
| Lytton I | | |
| GMAC note secured by first deed of trust on the real property of the Project bearing 7% simple interest. The note is insured by the FHA under the interest reduction provisions of Section 236 of the National Housing Act. Monthly payment of principal and interest in the amount of \$30,251. Interest subsidies paid by HUD reduce the required monthly payment and reduce the effective interest rate on the mortgage to 1%. For the year ended March 31, 2008, the interest subsidy of \$225,362 has been netted against interest expense resulting in revenue of \$68,280. Balance due October 1, 2015. | 1,910,474 | 2,131,292 |
| Lytton II | | |
| HUD note secured by first deed of trust on the real property of the Project bearing 6.875% simple interest. This note is insured under the provisions of Section 202 of the National Housing Act. Monthly payment of principal and interest in the amount of \$22,045. Balance due May 1, 2019. | 1,931,293 | 2,058,283 |
| LGI | | |
| In December 1999, LGI refinanced its indebtedness through the issuance of \$16,355,000 in Insured Revenue Bonds Series 1999 and secured by Lytton Gardens Health Care Center in Palo Alto, California (Note 5). Balance due December 15, 2030. | 15,624,077 | 15,775,090 |
| Lytton IV | | |
| U.S. Department of Housing and Urban Development ("HUD") Section 202 Capital Advance, dated November 26, 1993, secured by first deed of trust on the real property of the Project, bearing no interest. The advance shall be repayable only if the Project does not remain available to very low income households as approved by HUD through June 1, 2035. | 5,700,000 | 5,700,000 |
| City of Palo Alto Residual Receipts note, dated November 30, 1993, bearing 5% simple interest per annum beginning December 1, 1995. Payments may only be made from residual receipts with the approval of HUD. Balance of principal and interest is due at maturity date of the advance referred to above. Accrued interest as of March 31, 2009 totals \$308,225. Other than an initial \$5,000, none of this accrued interest is reported in these financial statements since neither Lytton IV Housing Corporation nor the City of Palo Alto expect payment to be made on the accrued interest balance. At the maturity date of the HUD capital advance, the City has an option to acquire the Project in exchange for cancellation of the principal and accrued interest outstanding at that date. The option must be exercised within 6 months of the maturity date. The current balance reflects \$499,826 of principal and \$5,000 of accrued interest. | 504,826 | 504,826 |
| Total | 141,275,273 | 145,548,146 |
| Less current portion | (7,617,586) | (7,277,774) |
| Long-term debt | \$ 133,657,687 | \$ 138,270,372 |

The Series 1998 and Series 2000 Certificates are collateralized by an unsecured pledge of gross revenues from the continuing care retirement communities.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 3, 2002, ESC entered into an interest rate swap agreement whereby, effective July 1, 2005, approximately \$41 million notional of the 5.125% ABAG Finance Authority Series 1998 Revenue Certificates of Participation due July 1, 2018 was swapped for a variable interest rate based on the Bond Market Association (“BMA”) minus .50%-.57%. On April 3, 2002, ESC entered into a second swap agreement whereby, effective July 1, 2005 ESC will receive a fixed rate of .20% on a notional amount of approximately \$41 million and pay the counterparty the absolute value of the excess of BMA over 72% of the 1 month LIBOR, if any. At March 31, 2009 and 2008, ESC has reflected the interest rate swaps at a fair value of \$(603,023) in accrued interest and \$74,809 in deferred charges and other assets, respectively, and a corresponding unrealized loss in the consolidated statements of activities and changes in net assets of \$(677,833) and \$(1,605,756) for the years ended March 31, 2009 and 2008, respectively.

ESC is subject to certain financial covenants related to its 1998 and 2000 series debt. ESC met the liquidity portion of said covenants but failed to meet the debt service coverage portion of the covenants as of March 31, 2009 which are 1.20x and 1.25x coverage, respectively. ESC has received a one-time waiver under the reimbursement agreement from Wells Fargo Bank which issued their letter of credit in support of the variable rate 2000 series. Since ESC’s actual debt service coverage for the year ended March 31, 2009 is greater than 1.00x (1.17x), then under the terms of the bond documents, ESC was required to engage a Management Consultant for the purpose of obtaining a report containing recommendations as to changes in ESC’s operating policies designed to maintain such required ratios and to file such report not later than ninety days after the issuance of its audit report. The report of the Management Consultant, which contained no mandatory recommendations, was timely filed on September 23, 2009 with the Trustees, the Authority, the Underwriters, and posted on EMMA.

Annual maturities of long-term debt consist of the following:

| <u>Year Ending March 31,</u> | |
|---|-----------------------|
| 2010 | \$ 7,617,586 |
| 2011 | 8,078,313 |
| 2012 | 8,529,997 |
| 2013 | 8,985,086 |
| 2014 | 9,478,854 |
| Thereafter | <u>99,904,095</u> |
| Total | 142,593,931 |
| Less amount representing unamortized discount | <u>(1,318,658)</u> |
| Net | <u>\$ 141,275,273</u> |

ESC had an unsecured, unused and available line of credit of \$5,000,000, with an interest rate of prime with an option to convert to LIBOR – based rate, which expired on October 1, 2008.

LGI entered into a secured line of credit agreement with Wells Fargo Bank on September 26, 2007, for a maximum amount of \$4,000,000. All costs associated with the establishment of the line of credit were paid for by JTM. The purpose of the line of credit is for operations, including payment and satisfaction of the Organization’s bond indebtedness. The interest rate is selected from either 1% below the prime rate or 2% above the LIBOR rate as selected by the Organization upon a draw from the line. The term is 24 months, principal due on maturity, and payments of interest only are due monthly. As of March 31, 2009 and 2008 the line of credit had no balance due.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – RESTRICTED DEPOSITS AND FUNDED RESERVES FOR THE LYTTON ENTITIES

Replacement Reserves – In accordance with the Regulatory Agreements with the Housing and Urban Government (“HUD”), Lytton Gardens I, Lytton Gardens II and Lytton IV Housing Corporation are required to make monthly payments in the amounts of \$34,367, \$20,312 and \$2,750, respectively to the replacement reserves. The funds for Lytton Gardens II and IV are held by the mortgagee in trust, in interest bearing accounts and can be used for replacement of property and equipment with the approval of HUD. Funds for Lytton Gardens I are held by the mortgagor, GMAC, in an interest bearing account and also require approval of HUD to be used for replacement or property and equipment.

Insurance and Tax Impounds – The Project is required to make monthly impound payments to the mortgagee for mortgage insurance, property insurance and real estate taxes to be used for those purposes.

Bond Reserve Funds – Per the terms of the bond agreement, funds are held by BNY Western Trust Co. (“Trustee”) for bond principal, interest and reserve payments. As of March 31, 2009 and 2008, the balance was \$2,221,815 and \$2,126,156, respectively.

NOTE 6 – VOLUNTEER SERVICES

LGI receives donated services that do not require specific expertise but which are nonetheless central to the Organization’s operations. During the years ended March 31, 2009 and 2008, 1,590 volunteers donated 18,310 hours of time valued at \$445,089 to the Organization. In accordance with Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, the value of these services is not reflected in the financial statements.

NOTE 7 – RESTRICTED NET ASSETS

Restricted net assets in the consolidated financial statements at March 31, 2009 and 2008 are available for the following:

| | 2009 | | |
|---|---------------------------|---------------------------|----------------------|
| | Permanently Restricted | Temporarily Restricted | Total |
| Assistance and other | \$ 410,503 | \$ 8,411,314 | \$ 8,821,817 |
| Deferred contribution to pooled annuities | - | 151,000 | 151,000 |
| Total restricted net assets | <u>\$ 410,503</u> | <u>\$ 8,562,314</u> | <u>\$ 8,972,817</u> |
| | 2008 | | |
| | Permanently Restricted | Temporarily Restricted | Total |
| Assistance and other | \$ 602,605 | \$ 12,570,035 | \$ 13,172,640 |
| Deferred contribution to pooled annuities | - | 39,000 | 39,000 |
| Total restricted net assets | <u>\$ 602,605</u> | <u>\$ 12,609,035</u> | <u>\$ 13,211,640</u> |

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 \$652,844 and \$805,673 for 2009 and 2008, respectively.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – OPERATING LEASES

ESC is obligated under various equipment and building operating leases. Rental expense included in operations was \$438,197 and \$272,349 for 2009 and 2008. Future minimum rental payments required under noncancelable leases as of March 31, 2009 consist of the following:

| <u>Year Ending March 31,</u> | | |
|------------------------------|----|-------------------------|
| 2010 | \$ | 461,395 |
| 2011 | | 475,198 |
| 2012 | | 489,459 |
| 2013 | | 504,159 |
| 2014 | | 300,266 |
| Thereafter | | <u>-</u> |
| Total | \$ | <u><u>2,230,477</u></u> |

NOTE 9 – RETIREMENT PLAN

ESC has a defined benefit pension plan which provides benefits under retirement annuity contracts. Full-time salaried and hourly employees are eligible to participate in the plan upon completion of one year continuous employment. Benefits are based on years of service and compensation prior to retirement. ESC makes all contributions, which are funded based on actuarially determined amounts. Amortization is based on the average remaining lives of active employees.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of the plan's benefit obligations, fair value of assets, funded status, and amounts recognized in ESC's combined balance sheets is as follows as of March 31:

| | 2009 | 2008 |
|---|----------------|----------------|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of year | \$ 19,714,378 | \$ 19,685,373 |
| Service cost | 911,438 | 916,968 |
| Interest cost | 1,306,294 | 1,210,573 |
| Actuarial (gain) loss | (109,504) | 502,765 |
| Assumption changes | (868,545) | (1,835,358) |
| Benefits paid | (799,761) | (765,943) |
| Benefit obligation at measurement date | 20,154,300 | 19,714,378 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 18,499,575 | 18,002,220 |
| Actual return on plan assets | (6,344,392) | 53,898 |
| Employer contribution | 942,232 | 1,209,400 |
| Expenses | (22,761) | - |
| Benefits paid | (799,761) | (765,943) |
| Fair value of plan assets at measurement date | \$ 12,274,893 | \$ 18,499,575 |
| Funded status at measurement date | \$ (7,879,407) | \$ (1,214,803) |
| Amounts recognized in the statement of financial position consist of: | | |
| Noncurrent liabilities | \$ (7,879,407) | \$ (1,214,803) |
| Amounts recognized in unrestricted net assets consist of: | | |
| Unrecognized net actuarial loss | \$ 8,705,857 | \$ 1,830,707 |
| Unrecognized prior service cost | (886,136) | (970,450) |
| Amounts recognized in unrestricted net assets at measurement date | \$ 7,819,721 | \$ 860,257 |
| Accumulated benefit obligation | \$ 19,849,775 | \$ 19,383,782 |

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were \$20,154,300, \$19,849,775 and \$12,274,893 as of March 31, 2009 and \$19,714,378, \$19,383,782 and \$18,499,575 as of March 31, 2008, for a net funded deficit of \$7,879,407 and \$1,214,803, respectively.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of net periodic benefit cost included as part of employee costs in ESC's consolidated statement of operations and changes in net assets are as follows for the years ended March 31:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|-------------------|
| Service cost | \$ 911,438 | \$ 916,968 |
| Interest cost | 1,306,294 | 1,210,573 |
| Expected return on plan assets | (1,486,046) | (1,460,954) |
| Amortization of prior service cost | (84,314) | (84,314) |
| Recognized net actuarial loss | <u>-</u> | <u>21,031</u> |
| Net periodic benefit cost | <u>647,372</u> | <u>603,304</u> |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets: | | |
| Net actuarial loss | 6,875,150 | 53,432 |
| Prior service cost | <u>84,314</u> | <u>84,314</u> |
| Amounts recognized in unrestricted net assets at measurement date | <u>6,959,464</u> | <u>137,746</u> |
| Total recognized in net periodic benefit cost and unrestricted net assets at measurement date | <u>\$ 7,606,836</u> | <u>\$ 741,050</u> |

The expected rate of return on plan assets of 8% at March 31, 2009 is based on a long-term investment portfolio of 62% equities, 34% fixed income securities and 4% real estate investments. Real rates of return (before inflation) for these categories are assumed to be 9%, 5.75% and 7%, respectively.

The following assumptions were used for the March 31 measurement date:

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| Actuarial present value of the benefit obligation | | |
| Weighted-average discount rate | 7.30% | 6.80% |
| Rate of increase in future compensation levels | 3.50% | 3.50% |
| Long-term rate of return on plan assets | 8.00% | 8.00% |
| Net periodic benefit cost | | |
| Weighted-average discount rate | 6.80% | 6.10% |
| Rate of increase in future compensation levels | 3.50% | 3.50% |
| Long-term rate of return on plan assets | 8.00% | 8.00% |

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension plan assets are as follows at March 31:

| | 2009 | 2008 |
|-------------------------|------|------|
| Equity securities | 62% | 70% |
| Fixed income securities | 34% | 30% |
| Real estate | 4% | 0% |
| Total | 100% | 100% |

Explanation of Investment Strategies and Policies – ESC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across US and non-US stocks as well as growth, value, small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

ESC expects to contribute \$3,100,000 to its pension plan in the fiscal year beginning April 1, 2009 and ending March 31, 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | | |
|-----------|----|-----------|
| 2009 | \$ | 910,000 |
| 2010 | | 970,000 |
| 2011 | | 1,050,000 |
| 2012 | | 1,110,000 |
| 2013 | | 1,160,000 |
| 2014-2018 | | 6,720,000 |

ESC also maintains for certain employees a Supplemental Deferred Compensation Plan (“Supplemental Plan”) which is a non-qualified, deferred compensation plan which provides a defined contribution benefit pursuant to 409A and 457(f) of the Internal Revenue Code. Some participants were awarded a Discretionary Retention Benefit in 2007 as an opening balance in the Supplemental Plan, and all participants will be awarded an Annual Retention Benefit award in each subsequent year. Participants will vest in the opening balance and all subsequent awards on the earlier of their death or disability, reaching the age of 65, or five years after the award of the Discretionary Retention Benefit. The accrued liability for fiscal years 2009 and 2008 was \$963,946 and \$700,990, respectively and is included in accrued retirement benefits in the consolidated statements of financial position.

Employee Benefit Plan – Lytton Gardens Senior Communities and its affiliates have implemented a 403(b) tax deferred annuity plan (the “Plan”). Eligible employees who have satisfied the age and service requirements are allowed to make salary reduction contributions with a maximum contribution of up to the statutory limit. The Plan pays for all the administrative expenses to operate the Plan.

NOTE 10 – RELATED PARTIES

During fiscal years 2009 and 2008, ESC purchased general and professional liability insurance for \$504,055 and \$474,601, respectively, from an insurance company in which ESC is a shareholder. At March 31, 2009 and 2008, ESC’s investment was \$301,104. This investment is recorded at cost because it represents less than 5% of the shares of the insurance company.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation – The Corporation is a party to various claims and legal actions in the normal course of business. In the opinion of management, the Corporation has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of the Corporation.

Asbestos – ESC is aware of the existence of asbestos in certain of its buildings. ESC has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, ESC will record an estimate of the costs of the required asbestos abatement.

Affiliation with LGSC – As a part of the affiliation between JTM and LGSC, ESC made arrangements to put in place and to guarantee a \$4,000,000 line of credit from Wells Fargo Bank to LGI. In the event that it becomes necessary for LGI to draw on the line of credit and is unable to make principal or interest payments, ESC and JTM are jointly and severally liable to make the payments on LGI's behalf. Any such payments would be repayable to the guarantors by LGI under the terms of the affiliation agreement. LGI has not made any draws on the line of credit.

Operating Deficit Guarantee – With respect to OCT's obligations as the General Partner of OCLP, ESC has guaranteed that it will advance funds to OCT in an amount necessary for OCT to make the required Operating Deficit Contribution when such Operating Deficit cannot be satisfied from Partnership funds including OCLP's Operating Reserve and OCT does not have sufficient funds to make an Operating Deficit Contribution to OCLP. The advances shall be interest free and payable out of Capital proceeds. The operating deficit period begins after the completion date and ends on the date that the following have occurred: (1) the Project has operated at Break-even for at least three consecutive calendar years following the stabilization date of the Project; and (2) the balance in the Operating Reserve equals or exceeds the Operating Reserve amount. As of December 31, 2008, no advances have been made under the agreement.

Credit Adjuster and Additional Advance Guaranty – With respect to OCT's obligations as the general partner of OCLP, ESC has guaranteed to advance funds to OCT in the amount necessary for OCT to make the required Credit Adjuster Advance or Additional Advance. The Credit Adjuster Advance is limited to \$835,799.

City of Palo Alto Repurchase Rights – The City of Palo Alto has the right to repurchase the Lytton Gardens I land and building currently held by Community Housing, Inc. ("CHI") for \$1 in the following situations: (1) CHI's federal government insured loan is repaid; (2) 45 years pass from the October 26, 1971 original purchase date by CHI; (3) there is a default under the original purchase agreement with the City; or (4) there is a foreclosure by the holder of any secured lien. If the City gains the right to repurchase but fails to exercise that right within one year, then CHI must pay the City of Palo Alto a forbearance fee of \$300,000, payable \$100,000 per year over three years.

City of Palo Alto Repurchase Rights – The City of Palo Alto has the right to repurchase the Lytton Gardens II land and building currently held by Community Housing, Inc. ("CHI") for \$1 in the following situations: (1) CHI's federal government insured loan is repaid; (2) 45 years pass from the 1977 original purchase date by CHI; (3) there is a default under the original purchase agreement with the City; or (4) there is a foreclosure by the holder of any secured lien. If the City gains the right to repurchase but fails to exercise that right within one year, then CHI must pay the City of Palo Alto a forbearance fee of \$400,000, payable \$100,000 per year over four years.

City of Palo Alto Repurchase Rights – Upon expiration of the 40 year term of HUD's Regulatory Agreement, the City of Palo Alto (the "City") may, at its sole option, require the Organization to transfer ownership of the Project (all improvements and land) to the City. The City must exercise said option within six months of the termination of HUD's Regulatory Agreement. In consideration of the exercise of said option, the City shall cancel any remaining balance then owing by Lytton IV Housing Corporation on the Note.

JTM COMMUNITIES AND CONTROLLED AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – SUMMARY OF FINANCIAL STATEMENTS AUDITED BY OTHER AUDITORS

| | 2009 | |
|-----------------------------------|----------------------|----------------------|
| | Total Assets | Total Revenues |
| Lytton Gardens Senior Communities | \$ 29,803,963 | \$ 19,969,752 |
| Oak Center Towers | 19,561,806 | 2,323,096 |
| | <u>\$ 49,365,769</u> | <u>\$ 22,292,848</u> |
| | 2008 | |
| | Total Assets | Total Revenues |
| Lytton Gardens I | \$ 5,165,010 | \$ 2,571,095 |
| Lytton Gardens II | 3,976,284 | 2,197,446 |
| Lytton Gardens, Inc, | 12,595,112 | 15,554,707 |
| Lytton IV Housing Corporation | 5,947,787 | 337,602 |
| | <u>\$ 27,684,193</u> | <u>\$ 20,660,850</u> |

SUPPLEMENTAL INFORMATION



JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2009

| | Consolidated Episcopal Senior Communities | JTM | Eliminations ESC and JTM | Subtotal ESC and JTM | OCT | Consolidated Lytton Gardens | Eliminations ESC, JTM, OCT and Lytton | Consolidated JTM Communities |
|--|--|---------------------|-----------------------------|-------------------------|----------------------|-----------------------------------|--|------------------------------------|
| ASSETS | | | | | | | | |
| CURRENT ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 1,444,850 | \$ 206,014 | \$ - | \$ 1,650,864 | \$ 3,628,900 | \$ 4,866,527 | \$ - | \$ 10,146,291 |
| Assets held by bond indenture trustee for current debt service | 7,793,932 | - | - | 7,793,932 | - | - | - | 7,793,932 |
| Marketable securities | 50,630,525 | 5,134,020 | - | 55,764,545 | - | - | - | 55,764,545 |
| Receivables, net of allowance for doubtful accounts of \$520,419 in 2009 and \$416,827 in 2008 | 11,649,567 | - | - | 11,649,567 | 312,568 | 2,017,869 | - | 13,980,004 |
| Receivables from affiliates | 1,876,607 | - | (416,607) | 1,460,000 | - | 104,271 | (1,564,271) | - |
| Prepaid expenses, deposits, and other assets | 1,036,810 | - | - | 1,036,810 | 58,853 | 459,112 | - | 1,554,775 |
| Total current assets | <u>74,432,291</u> | <u>5,340,034</u> | <u>(416,607)</u> | <u>79,355,718</u> | <u>4,000,321</u> | <u>7,447,779</u> | <u>(1,564,271)</u> | <u>89,239,547</u> |
| ASSETS WHOSE USE IS LIMITED | | | | | | | | |
| Assets held by bond indenture trustee and restricted for debt service | 23,016,956 | - | - | 23,016,956 | 60,994 | 2,221,815 | - | 25,299,765 |
| Less portion available to satisfy current debt service | (7,793,932) | - | - | (7,793,932) | - | - | - | (7,793,932) |
| Non-current portion | 15,223,024 | - | - | 15,223,024 | 60,994 | 2,221,815 | - | 17,505,833 |
| Funded reserves for replacement and insurance | 357,472 | - | - | 357,472 | 826,099 | 3,090,966 | - | 4,274,537 |
| Restricted investments | 13,696,528 | - | - | 13,696,528 | - | 47,931 | - | 13,744,459 |
| Total long-term assets whose use is limited | <u>29,277,024</u> | <u>-</u> | <u>-</u> | <u>29,277,024</u> | <u>887,093</u> | <u>5,360,712</u> | <u>-</u> | <u>35,524,829</u> |
| PROPERTY AND EQUIPMENT, net | 222,913,168 | - | - | 222,913,168 | 14,093,205 | 16,696,602 | - | 253,702,975 |
| DEFERRED CHARGES AND OTHER ASSETS | 8,327,394 | - | - | 8,327,394 | 581,187 | 298,870 | - | 9,207,451 |
| INVESTMENTS IN AFFILIATES | - | 2,000,000 | - | 2,000,000 | - | - | (2,000,000) | - |
| NOTE RECEIVABLE FROM JTM | 10,000,000 | - | (10,000,000) | - | - | - | - | - |
| Total assets | <u>\$ 344,949,877</u> | <u>\$ 7,340,034</u> | <u>\$ (10,416,607)</u> | <u>\$ 341,873,304</u> | <u>\$ 19,561,806</u> | <u>\$ 29,803,963</u> | <u>\$ (3,564,271)</u> | <u>\$ 387,674,802</u> |

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
March 31, 2009

| | Consolidated Episcopal Senior Communities | JTM | Eliminations ESC and JTM | Subtotal ESC and JTM | OCT | Consolidated Lytton Gardens | Eliminations ESC, JTM, OCT and Lytton | Consolidated JTM Communities |
|--|--|--------------|-----------------------------|-------------------------|---------------|-----------------------------------|--|------------------------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | |
| Accounts payable | \$ 6,073,176 | \$ 368,538 | \$ (368,538) | \$ 6,073,176 | \$ 178,335 | \$ 732,358 | \$ (104,271) | \$ 6,879,598 |
| Accrued payroll and payroll taxes | 2,760,259 | - | - | 2,760,259 | - | 594,727 | - | 3,354,986 |
| Current portion of long-term debt | 6,940,157 | - | - | 6,940,157 | 546,644 | 562,784 | (461,999) | 7,587,586 |
| Accrued interest | 1,087,862 | 48,069 | (48,069) | 1,087,862 | - | 129,126 | - | 1,216,988 |
| Refundable deposits | 220,158 | - | - | 220,158 | 54,625 | - | - | 274,783 |
| Self-insurance liabilities and other liabilities | 4,023,622 | - | - | 4,023,622 | - | - | - | 4,023,622 |
| Total current liabilities | 21,105,234 | 416,607 | (416,607) | 21,105,234 | 779,604 | 2,018,995 | (566,270) | 23,337,563 |
| ACCRUED RETIREMENT BENEFITS | 8,932,223 | - | - | 8,932,223 | - | - | - | 8,932,223 |
| LONG-TERM DEBT, NET | 104,158,448 | - | - | 104,158,448 | 4,391,353 | 25,107,886 | - | 133,657,687 |
| DEFERRED REVENUE FROM ENTRANCE FEES | 154,639,567 | - | - | 154,639,567 | - | - | - | 154,639,567 |
| DEFERRED REVENUE FROM INVESTMENT CONTRACT | 2,566,145 | - | - | 2,566,145 | - | - | - | 2,566,145 |
| OTHER LIABILITIES | 4,454,233 | - | - | 4,454,233 | 998,001 | 146,910 | (998,001) | 4,601,143 |
| NOTE PAYABLE TO ESC | - | 10,000,000 | (10,000,000) | - | - | - | - | - |
| Total liabilities | 295,855,850 | 10,416,607 | (10,416,607) | 295,855,850 | 6,168,958 | 27,273,791 | (1,564,271) | 327,734,328 |
| NON-CONTROLLING INTEREST | - | - | - | - | 4,708,737 | - | - | 4,708,737 |
| NET ASSETS | | | | | | | | |
| Unrestricted | 40,273,192 | (3,076,573) | - | 37,196,619 | 8,580,060 | 2,482,241 | (2,000,000) | 46,258,920 |
| Temporarily restricted | 8,410,332 | - | - | 8,410,332 | 104,051 | 47,931 | - | 8,562,314 |
| Permanently restricted | 410,503 | - | - | 410,503 | - | - | - | 410,503 |
| Total net assets | 49,094,027 | (3,076,573) | - | 46,017,454 | 8,684,111 | 2,530,172 | (2,000,000) | 55,231,737 |
| Total liabilities and net assets | \$ 344,949,877 | \$ 7,340,034 | \$ (10,416,607) | \$ 341,873,304 | \$ 19,561,806 | \$ 29,803,963 | \$ (3,564,271) | \$ 387,674,802 |

JTM COMMUNITIES AND CONTROLLED AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2009

| | Consolidated Episcopal Senior Communities | JTM | Eliminations ESC and JTM | Subtotal ESC and JTM | OCT | Consolidated Lytton Gardens | Eliminations ESC, JTM, OCT and Lytton | Consolidated JTM Communities |
|--|--|-----------------------|-----------------------------|-------------------------|--------------------|-----------------------------------|--|------------------------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | | | | | | | |
| Revenues and gains | | | | | | | | |
| Monthly resident fees | \$ 55,684,743 | \$ - | \$ - | \$ 55,684,743 | \$ - | \$ - | \$ - | \$ 55,684,743 |
| Amortization of deferred revenue from entrance fees | 18,866,778 | - | - | 18,866,778 | - | - | - | 18,866,778 |
| Net patient service revenue | - | - | - | - | - | 14,205,719 | - | 14,205,719 |
| Nonresident medical fees | 4,578,207 | - | - | 4,578,207 | - | - | - | 4,578,207 |
| Medical reimbursements | 4,387,982 | - | - | 4,387,982 | - | - | - | 4,387,982 |
| Affordable housing fees and rents | 1,350,839 | - | - | 1,350,839 | 2,185,850 | 5,419,711 | - | 8,956,400 |
| Shared expense / Management fees | - | - | - | - | - | - | - | - |
| Consulting fees | - | - | - | - | - | - | - | - |
| Grants and donations | - | - | - | - | 23,760 | 136,269 | - | 160,029 |
| Other | 3,423,896 | - | (817,899) | 2,605,997 | 113,486 | 195,794 | - | 2,915,277 |
| Net assets released from restriction for assistance and operations | 1,532,793 | - | - | 1,532,793 | - | 12,259 | - | 1,545,052 |
| | <u>89,825,238</u> | <u>-</u> | <u>(817,899)</u> | <u>89,007,339</u> | <u>2,323,096</u> | <u>19,969,752</u> | <u>-</u> | <u>111,300,187</u> |
| Total revenues and gains | | | | | | | | |
| Expenses | | | | | | | | |
| Nursing center | 17,666,453 | - | - | 17,666,453 | - | 7,620,589 | - | 25,287,042 |
| Resident medical and outside hospital costs | 2,698,766 | - | - | 2,698,766 | - | - | - | 2,698,766 |
| Food service | 15,325,646 | - | - | 15,325,646 | - | 2,715,994 | - | 18,041,640 |
| Housekeeping | 4,478,555 | - | - | 4,478,555 | - | - | - | 4,478,555 |
| Maintenance | 6,227,827 | - | - | 6,227,827 | 887,905 | 1,750,255 | - | 8,865,987 |
| Utilities and telephone | 5,008,844 | - | - | 5,008,844 | - | 607,148 | - | 5,615,992 |
| Marketing | 3,058,767 | - | - | 3,058,767 | - | - | - | 3,058,767 |
| Selling, general, and administrative | 12,437,664 | 365,902 | (365,902) | 12,437,664 | 534,514 | 2,628,968 | - | 15,601,146 |
| Depreciation and amortization | 14,546,818 | - | - | 14,546,818 | 668,791 | 1,105,413 | - | 16,321,022 |
| Taxes and insurance | - | - | - | - | - | 645,408 | - | 645,408 |
| Interest | 3,273,410 | 185,110 | (185,110) | 3,273,410 | 341,307 | 1,097,648 | - | 4,712,365 |
| Other | 4,204,109 | - | - | 4,204,109 | 213,183 | 89,240 | - | 4,506,532 |
| | <u>88,926,859</u> | <u>551,012</u> | <u>(551,012)</u> | <u>88,926,859</u> | <u>2,645,700</u> | <u>18,260,663</u> | <u>-</u> | <u>109,833,222</u> |
| Total expenses | | | | | | | | |
| OPERATING INCOME | 898,379 | (551,012) | (266,887) | 80,480 | (322,604) | 1,709,089 | - | 1,466,965 |
| INVESTMENT INCOME | 2,613,631 | 226,529 | - | 2,840,160 | 275,064 | - | - | 3,115,224 |
| NET REALIZED GAINS ON INVESTMENTS | (7,988,347) | - | - | (7,988,347) | (247) | - | - | (7,988,594) |
| NET INCOME (LOSS) | (4,476,337) | (324,483) | (266,887) | (5,067,707) | (47,787) | 1,709,089 | - | (3,406,405) |
| NET UNREALIZED LOSS ON INVESTMENTS | (14,900,189) | (2,059,404) | - | (16,959,593) | - | - | - | (16,959,593) |
| CHANGE IN MINIMUM PENSION LIABILITY | (6,975,593) | - | - | (6,975,593) | - | - | - | (6,975,593) |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>\$ (26,352,119)</u> | <u>\$ (2,383,887)</u> | <u>\$ (266,887)</u> | <u>\$ (29,002,893)</u> | <u>\$ (47,787)</u> | <u>\$ 1,709,089</u> | <u>\$ -</u> | <u>\$ (27,341,591)</u> |